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JETRO

2008 JETRO WHITE PAPER

ON

"INTERNATIONAL TRADE AND FOREIGN DIRECT INVESTMENT"

Japanese Economy Headed for Further Globalization both Domestically and Abroad

Japan External Trade Organization (JETRO)

Overseas Research Department

Preface

In 2007, the world economy posted a high growth rate by rising 4.9%. However, the subprime mortgage problem that occurred in 2007 had a significant impact on developed economies, such as European countries and the United States, and in 2008, there has been a growing downward risk on the economy. Furthermore, since the beginning of 2008, surging food and resource prices have caused inflationary pressure, causing deeper concerns over an economic recession.

As a result, the world export volume in 2007 rose 5.6% yoy (year-on-year), with the growth rate almost halved, and in 2008, there has been additional pressure to slow the economy even further. In 2007, the global cross-border M&A value amounted to US$1.5559 trillion, posting the highest-ever record, but in the first half of 2008, it fell significantly from the previous year and is considered to unavoidably post a substantial decline on the full-year basis.

On the other hand, the amount of Japan's outward M&A value fell in the second half of 2007 from the first half, but returned to an increase in the first half of 2008. Japanese companies are facing a favorable phase for outward M&A, due in part to the improvement of balance sheet, such as less dependence on interest-bearing debts. As well, investments in Japan are expected to increase, which will contribute to creating employment and enhancing productivity of the domestic economy and lead to an economic revitalization.

The FTAs in effect in the Asia-Pacific region (ASEAN+6) reached 17 cases. What deserves special mention is the fact that the so-called "ASEAN+1," i.e., the FTAs between ASEAN and Japan, China, South Korea, India, and Australia and New Zealand, respectively, are near completion. The ASEAN+China FTA and ASEAN+South Korea FTA have already come into force. The roadmap has also been in sight for the FTAs between ASEAN and Japan, or between ASEAN and India, and Australia and New Zealand, respectively. In 2010, tariffs on most of items will be eliminated in 2010 under several ASEAN+1 FTAs, mainly those that have already come into force, and FTAs are therefore expected to be highly utilized.

Many Japanese companies, including those catering to domestic demand, are aiming to expand their sales in overseas markets. The focus in this White Paper is placed on

emerging resource rich countries as new potential overseas markets for Japanese companies. Not limited only to Asia, such emerging countries cover many regions such as Central and South America, the Middle East, Central and Eastern Europe, and Africa. The White Paper also points out the necessity of a sales strategy that focuses on young generations in emerging countries and takes account of their consumption behavior and influence.

In this “General Overview” of the White Paper, Chapter I deals with “The World Economy, Trade and Direct Investment,” Chapter II with “Global FTA Trends and Use of FTAs for Gaining Momentum in the Business Arena,” and Chapter III with “Consumer Markets Expanding World.”

As the trade and direct investment statistics of the world and Japan are updated as needed on the JETRO website (www.jetro.go.jp), it is also highly recommended to visit the site.

Japan External Trade Organization (JETRO)

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Explanatory Notes

1. Abbreviations of publications and publishing organizations

(1) IFS: International Financial Statistics (IMF)
(2) DOTS: Direction of Trade Statistics (IMF)
(3) WEO (D): World Economic Outlook (Database) (IMF)
(4) BOP: Balance of Payments Statistics (IMF)

2. Figures (As follows, unless otherwise indicated.)

(1) In text, figures and tables, "year" indicates the period January-December, and "fiscal year" indicates the period April-March.
(2) In tables, figures for "foreign currency reserves" and "outstanding outward debt" are year-end figures.
(3) Figures for "rate of growth" are year-on-year figures. In figures and tables, "-" indicates lack of results, "0" indicates figures of less than a unit, and "n.a." indicates that figures are unclear or unavailable.
(4) Because figures are rounded, there may be discrepancies in total.

3. Country and region classifications (As follows, unless otherwise indicated.)

(1) ASEAN (Association of Southeast Asian Nations): Indonesia, Singapore, Thailand, Philippines, Malaysia, Brunei, Vietnam, Laos, Myanmar, Cambodia
(2) ASEAN 4: Indonesia, Thailand, Philippines, Malaysia
(3) Hong Kong and Taiwan are treated as independent economies
(4) EU27: The EU15 (Austria, Belgium, Denmark, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden, Netherlands, UK), plus 12 new member countries (10 countries which acceded in 2004 (Cyprus, Czechoslovakia, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia) and 2 countries which acceded in 2007 (Romania, Bulgaria))
(5) EU member candidates: Croatia, Macedonia, Turkey
(6) EFTA (European Free Trade Association): Liechtenstein, Norway, Switzerland, Iceland
(7) NAFTA (North American Free Trade Agreement): US, Canada, Mexico
(8) BRICs: Brazil, Russia, India, China

4. Base point in time

As a rule, the base point in time is at the end of July 2008 for the General Overview.

5. Trade statistics

World trade figures in the General Overview are as a rule based on the World Trade Atlas, while figures in the studies by country and region, also originally a part of this White paper published by JETRO, are in general based on locally published trade statistics. Variations in the methods used by some countries and regions to convert figures to dollars, etc., may result in discrepancies between figures in the General Overview and figures in the studies by country and region.

I. The World Economy, Trade and Direct Investment

1. Current State of the World Economy and Issues to Be Solved

(1) Development accompanied by mounting downside risks

In 2007, the world's real GDP growth rate (IMF, Purchasing Power Parity [PPP] basis) stood at 4.9%, continuing its high growth from 2006. The developing economies are what led the world's economic growth, with the growth rate standing at 7.9%, exceeding 7% for the fourth consecutive year and posting the highest growth rate since 1980. Contribution to the overall world GDP growth rate by these economies amounted to 67.8%. Major emerging countries such as Brazil, Russia, India, China and South Africa all posted growth rates comparable to or higher than the previous year's, and these five countries made increasing contributions to world economic growth, pushing up approximately 40% of the world economic growth rate.

On the other hand, the growth rate of developed economies was 2.7%, slowing down from 3% in the previous year. The economy of the United States, which accounted for approximately 20% of the world economy on the PPP basis, grew only 2.2%, a low growth level for the first time in five years; its contribution to the world economic growth stood at 9.7%, falling below 10% for the first time since 2002 (Table I-1).

The subprime mortgage (housing loans for individuals with low credit scores in the United States) problem, which triggered the decline in housing prices in the United States, came to the surface first in the form of falling stock prices and turmoil in financial markets, but it also brought about an adverse impact on the real economy of the United State such as through the booking of huge losses by the major financial institutions, job losses in the related industries and the negative wealth effect accompanying the prolonged sluggish stock market. The location and magnitude of risks were unclear as subprime loans had spread to financial markets through the process of securitization and re-securitization, which led to a further growing sense of insecurity in financial markets. This problem turned out to be a prolonged issue as it started to affect the credibility of insurance companies (monoline insurers) and government-affiliated housing loan financial institutions, which provide credit insurance for securitized commodities. Regarding the loss related to this problem, FRB (The Federal Reserve Board) Chairman Bernanke showed a forecast loss of approximately US$50-100 billion in the congressional testimony in July 2007 but the figure was revised upward to approximately US$100-500 billion in his testimony in January 2008, and after that, international institutions and private institutions showed a forecast loss of

US$800 billion – 1 trillion. The seriousness of the problem thus came to be recognized with time.

In the meantime, the growth rate of the economy of the United States has continued to move at an annualized rate of 2% or lower since the fourth quarter of 2007. Housing prices fell approximately 20% from their peak and the unemployment rate rose from 4.4% in March 2007 to 5.7% in July 2008, its highest level in four years and four months. With the combination of such factors as deteriorating employment and income and contracting consumer sentiment, a dark sign began to also be seen in personal consumption, which accounts for approximately 70% of the GDP.

Developed economies other than the United States grew relatively solidly; the EU's growth rate stood at 3.1% in 2007 (IMF's estimate in April, and 2.9% according to local statistics), and the United Kingdom also posted a growth rate of 3.1%, higher than that of the United States. However, the subprime mortgage problem also inflicted damage on the real estate market, due to the declining credit worthiness of European financial institutions, which held a large number of related financial products, and the tightening of the investment and financing stance. As a result, housing and real estate prices fell significantly in countries such as the United Kingdom, Spain and Ireland.

In order to deal with the worldwide impact of the subprime mortgage problem, the U.S. government took measures such as freezing interest rates for part of the loan borrowers and the measure to expand the mortgage guarantee system by the government-sponsored housing financial institutions. In addition to lowering the policy interest rate for the seventh time since September 2007, the FRB also took measures such as providing funds amounting to a maximum of US$30 billion in March 2008, when the major commercial bank JP Morgan Chase & Co. bailed out Bear Stearns, which had fund-raising difficulties. The central banks of European countries and the EU zone also took measures accordingly: In December 2007, the Bank of England switched over to monetary easing for the first time in two years and four months, and in the same month, the five central banks of the United States, Canada, the United Kingdom, the EU and Switzerland set out to cope with the situation by taking measures to ensure liquidity in short-term financial markets.

As for developing countries, there was only a limited impact partly due to the limited amount of the subprime mortgage-related financial products held by financial institutions. However, in some of the emerging countries, financing became difficult because of the reduction of investment and loans along with a declining risk tolerance of financial institutions in the major countries, and increased fund-raising costs in international financial markets. In countries like Kazakhstan and Latvia, amid domestic

credit contraction, the impact of falling stock and real estate prices became evident. However, as of the second quarter of 2008, the situation was not so serious as to lead to any currency and economic crisis triggered by the withdrawal of short-term funds.

(2) Surging commodity prices and changes in balance of payments

■ Expanding disparities among countries and regions brought about by surging commodity prices

The turmoil in financial markets triggered by the subprime mortgage problem not only incurred the dollar depreciation but also contributed to surging prices of resources and energy such as crude oil and commodities such as cereals.

In the European foreign exchange market on March 13, the value of the yen briefly rose to 99.77 yen/dollar, marking the first time in twelve years and five months (since October 1995) that the dollar has fallen below 100 yen. Dollars were sold heavily against the euro, too, and in late April, the euro-dollar rate reached 1.602 dollars/euro, posting a record high since the introduction of the currency in 1999. The dollar's nominal effective exchange rate released by the FRB significantly devaluated against the currencies of major trading partner countries and also depreciated against other currencies on the whole.

Along with the dollar depreciation, investment funds, which averted dollar-dominated assets, flowed into commodity markets such as crude oil, precious metals and cereals, thereby causing commodity prices to surge along with expectations of expanding demand in emerging countries. Crude oil prices were on a consistently rising trend from early 2007 and rose above 100 dollars per barrel for the first time at the New York Mercantile Exchange in February 2008 and continued to move at high ranges thereafter as well. This movement spilled over to precious metals such as platinum and base metals such as aluminum, nickel and tin, and from 2007 onward, prices of cereals such as wheat, soybeans, corn and rice also rose significantly. In July 2008, the Reuters/Jefferies CRB Index, which indicates the overall movement of international commodities, rose more than 50% from the level of early 2007 (Fig. I-1).

Rising commodity markets have led to mounting inflationary pressure, and the degree of the impact varies by country or region. In terms of the impact on people's livelihood, the increase in food prices causes particular concern. In addition to the temporary factor of poor harvest in the major food-producing countries, the inflow of investment funds, increasing transport costs due to surging crude oil prices, and the structural factor of growing demand for cereals as a result of the popularization of biofuels were raised as the reasons behind this, and the impact has become serious in developing countries. In

cases where the floating exchange rate regime is adopted as the currency system, the impact of increasing commodity prices on domestic prices is partially offset through the dollar depreciation (or the appreciation of the currency of respective country or region), but more than a few developing countries have fixed the exchange rate of their own currency against dollars in a certain range based on the fixed exchange rate system or intermediary exchange rate system. (1) In such countries, food price hikes under the dollar depreciation have a larger impact on domestic prices than under the floating exchange rate regime. On top of that, as the ratio of food (Engel's coefficient) is relatively high among consumption expenditure in developing countries, the damage to consumer prices, and consequently people's living, is of major proportions (Fig. I-2). In particular, such impact is very serious in low and middle income countries and has even developed into social problems, as was seen in countries like Haiti, Yemen and Egypt where protest movements and civil commotions actually happened due to rising food prices.

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1. According to the survey conducted by the IMF in July 2006, 36 countries adopted the fixed exchange rate system (such as currency board and dollarization) and 63 countries adopted the intermediary exchange rate system (such as soft peg, band, and crawling peg).

Surging food prices have also had an impact on individual countries' trade policy, and part of the cereal-exporting countries, such as India, Vietnam, China, Cambodia, Indonesia, Argentina, Egypt, Russia, Ukraine and Kazakhstan, decided to introduce export regulations like controlling the export volume and raising export taxes regarding commodities such as wheat, rice and corn, for the purpose of putting top priority on domestic supply. On the other hand, among the importing countries, in addition to Mexico, which abolished import duties on commodities such as wheat, rice and fertilizers, Saudi Arabia is moving to ensure food supply by taking measures like reducing the import duty on wheat from 25% to 0%. Regarding biofuels, there are also conflicts of interests among individual countries. While the impact on surging food prices is limited in cereal-producing countries, such as the United States and Brazil, which are promoting the popularization of biofuels as a measure to cope with global warming, the EU, Japan and other developing countries have moved to request that an international guideline be introduced for the utilization of cereals for biofuels, which causes the tightening of market supplies.

In the declaration of the "High-Level Conference on World Food Security" (Food Summit) held under the auspice of the Food and Agriculture Organization of the United

Nations (FAO) in June 2008, regarding export regulations, the conference merely reaffirmed the need to minimize the use of restrictive measures that could increase volatility of international prices. In the same way, regarding biofuels, the conclusion was postponed, with no specific measures, such as the introduction of a guideline, being mentioned in the declaration.

The Leaders Declaration of the G8 Hokkaido Toyako Summit held in early July contains the common policy to address the issues, such as releasing individual countries' stockpiles for assistance, expanding long-term producing capacity of farm crops and expanding the stockpiling system. In addition to that, regarding biofuels, the declaration also made way toward developing and popularizing new fuels that will not have an adverse impact on food supply. The declaration also clearly pointed out that export regulations should be abolished, marking a step forward from the declaration of the Food Summit.

■ **Impact of deteriorating terms of trade varying by country or region**

Rising commodity prices not only incur inflation but also impact the economies of individual countries and regions along with the change in the terms of trade (the quantity of imported products that can be exchanged for one unit of exported product). For countries importing resources and energy, the terms of trade deteriorate due to rising import prices, with part of the real national income flowing out to foreign countries (trading losses). At the same time, for exporting countries, the improvement in the terms of trade boosts their income (trading gains) (Fig. I-3). While trading gains are sharply increasing for countries that export primary commodities such as oil and cereals, trading losses are expanding for developed countries and developing countries in Asia. As a result, in consuming countries, personal consumption and capital investments are adversely influenced due to declining national income on the real basis, while in exporting countries, investments and consumption become very active. In other words, disparities in economic growth come into being due to transfers of income from primary product-consuming countries to exporting countries.

Regarding the major countries and regions for which the terms of trade have deteriorated, especially European and Asian industrial countries and regions, judged by the conditions of income from abroad (employees' compensation accompanying the transfer of labor and investment income accompanying the transfer of capital), countries such as South Korea and Thailand have covered their trading losses mainly by expanding net export, while advanced industrial countries, such as Japan and Germany, and Taiwan have made up for the income outflow to foreign countries by expanding

both net export and income from abroad. In this way, the structure to cover the deteriorating terms of trade varies by country or region (Table I-2). Japan has seen steady increases in both net export and net income from abroad since the 1990s. As a result, with the income outflow caused by the deteriorating terms of trade being made up for by both trade and income generated from investments (interest revenue and dividends), Japan still has a surplus, and compared to other countries, it has a balanced structure.

In contrast, for countries such as South Korea and Thailand, which depend solely on net export, the impact when exports are apparently hurt due to the dollar depreciation (the appreciation of the local currency) in the future also causes concern, in addition to the deteriorating terms of trade.

■ Surging commodity prices resulting in changes in structure of balance of payments

Surging commodity prices not only brought about changes in the structure of the balance of payments but also significantly changed the capital and financial balance, i.e., the fund flow, in individual countries or regions. According to the IMF, developing countries' current account in 2007 resulted in a surplus amounting to US$630.9 billion, rising by 8.2 times over the past five years from the level in 2002, when crude oil prices started to rise. Not only did the magnitude of the surplus significantly expand for Asian developing countries headed by China, as well as oil-exporting countries, but the current account of countries exporting primary products other than oil turned to a surplus, with the magnitude of the surplus sharply expanding from US$44 million in 2004 to US$9.2 billion in 2007. In particular, oil-exporting countries' current surplus (US$423.5 billion) reached a scale nearly comparable to developed countries' overall current deficit (US$463.3 billion). In contrast to this, the current deficit of developing countries other than those in Asia, which do not export oil or primary products, has been rising, and among them, Central and Eastern European countries showed an expanding magnitude of deficit (Fig. I-4).

In terms of the balance of payments, the current account corresponds to the capital and financial balance (investment balance and other capital balance) and the changes in foreign exchange reserves. Foreign exchanges obtained by oil-exporting countries have not only been accumulated as a cash equivalent (other investments in the investment balance, in countries such as Nigeria, Kuwait and Venezuela) or foreign exchange reserves (in countries such as Angola, Nigeria and Russia), but have also been invested overseas as funds for securities investment (in countries such as Bahrain, Ecuador,

Kuwait, Saudi Arabia and Venezuela). Some of these countries have also allotted such funds to purchase developed countries' stocks and other financial assets via the government-affiliated funds (Sovereign Wealth Fund, hereinafter referred to as SWF) that they hold (SWF will be explained in detail in Column I-3). Regarding direct investment, the oil-exporting countries as a whole showed a net inflow in general, partly due to active plant construction by foreign capital (Fig. I-5 and Table I-3).

Active outward investments by developing countries, mainly by oil-exporting countries, have had an impact on the worldwide movement of funds as well. Much of the funds from oil-producing countries seem to flow into international financial markets via financial centers such as London and tax havens represented by the Caribbean Islands, and their presence is steadily growing. In fact, in terms of the investment trends in long-term US securities from 2002 to 2007, the total value of transactions by foreign investors (the sum of the purchase and sale values) increased to approximately 2.3 times, from US$25.5 trillion to US$58.5 trillion. Among this increase, 44.4% of it were transactions with the United Kingdom and 33.0% with the Caribbean Islands, accounting for 36.9% and 34.2%, respectively, in 2007, with the total of the two accounting for more than 70% (Fig. I-6). These funds are considered to be flowing not only into financial markets but also into commodity markets, being one of the contributing factors of surging markets.

(3) Risks and issues faced by the world economy

■ Worrying impact of the economic slowdown in the United States and China

According to the forecast made by the IMF in July 2008, the world economy in 2008 was expected to grow 4.1%, which would be the lowest growth rate since 2004. All of the major developed economies would grow at a rate lower than in 2007, such as at 1.3% in the United States; on the other hand, in developing countries, though it is lower than in the previous year, a growth rate of 6.9% is expected to continue to serve as an engine to lead the world's economic growth.

The pattern of growth led by developing countries is expected to lead to stable growth of the world economy through the multi-polarization of growth centers. However, if the U.S. economy slides into a prolonged stagnation, damage will be unavoidable for developing economies as well, which have so far played the role of an engine for the world economy over the past few years. In particular, if the dollar depreciation, which has been one of the factors in surging commodity prices, is prolonged, it will possibly incur a slowdown or decline in exports to the United States after a time lag, thereby leading to mounting downward pressure on the economy of

trading partner countries or regions. What calls for attention from this point of view is the trend of the Chinese economy. Since the beginning of 2000, the Chinese economy had maintained a high growth rate of around 10% with the total fixed capital formation and net export as its core. However, as the ratio of exports to the United States (value of exports to United States/net export value) rose from the 5-9% range in the 1980s to 19.5% (on the DOTS basis) in 2007, China has become easily affected by the economy of the United States. Mounting inflationary pressure may also become a restraining factor for the fixed capital formation and personal consumption, and the Chinese economy is facing uncertainties regarding both domestic and foreign demands. If the Chinese economy shifts from slowdown to stagnation, that may hurt other Asian countries which have raised their degree of dependence on exports to China (Fig. I-7).

Regarding developed countries, there has been growing concern about stagflation, i.e., heightening cost-push inflationary pressure under growing uncertainties over the economic prospects, and it is assumed that individual countries and regions may come to have more difficulties in enacting any fiscal and monetary policy. Furthermore, from the viewpoint of inflation-checking, the governments and central banks of individual countries have deepened their concern about the depreciation of their own currencies, and the conflict of interests surrounding the exchange policy is gradually deepening. At the G8 meeting (meeting of financial ministers of the eight major countries) held in June, some member countries expressed their concern about the trend in the foreign exchange market, but no well-defined agreement was reached.

Developing countries might be expected to continue to serve as the engine in the growth of the world economy, but they are facing the issue of overcoming inflation, which is more serious than in developed countries. In countries that export primary products, high growth has been brought about largely not by the autonomous factors resulting from active personal consumption and capital investments but by the surging commodity prices. The fact that they have not completely overcome the fragility of the basis for growth can also become a risk factor.

■ Movements of speculative funds becoming a destabilizing factor

Moreover, one cause for concern is that financial markets, which are originally expected to better facilitate the resource allocation of the economy, on the contrary may become a destabilizing factor for the real economy. In particular, it continues to be a major cause of concern that the inflow of a large amount of speculative money into the commodity market prevents the formation of reasonable commodity prices, and this is hurting the real economy. In fact, at the point of the third and fourth quarters of 2007,

reasonable crude oil prices were considered to be approximately US$50-60/barrel if viewed from the supply–and-demand factor, and actual prices are pointed out to have substantially deviated from that level. (2) Because of the difficulties in grasping the movement of funds flowing from financial markets to the commodity market, the joint statement of the G8 meeting required the IMF to analyze and report the factors of the price increase for crude oil and primary products in terms of both actual demand and financial factors. The statement of the emergency meeting between oil-producing and oil-consuming countries held in late June also stated that it is necessary to analyze the impact of financial markets on crude oil prices. These approaches won support at the G8 Hokkaido Toyako Summit and are expected to eventually enhance market efficiency and transparency and to stabilize prices.

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2. "FY2007 Annual Energy Report" by Agency for Natural Resources and Energy (May 27, 2008)

■ Issues for the revitalization of the Japanese economy

Under the circumstances where the world economy has faced issues such as turmoil in financial markets and surging commodity prices, the Japanese economy in 2007 continued to be solid despite destabilizing factors. However, since the beginning of 2008, concern about an economic recession has surfaced, and in fact, the GDP growth rate for the April-June quarter posted minus growth by falling 2.4% yoy.

From a long-term point of view, Japan has entered a society with a dwindling population ahead of other developed countries, and how to revitalize the economy and realize sustainable growth amid ongoing maturation has become an issue. Judged from the balance of payments, the current Japanese economy is trying to form a structure under which it can withstand the sharply deteriorating terms of trade with efforts to diversify not only exports but also income from abroad. However, how to absorb emerging countries' vitality both in trade and investment might become increasingly important to the overall economy as well.

On the other hand, there is concern as well that overseas expansion by companies amid the ongoing population decrease and market maturation may possibly lead to the hollowing out of Japan's industry. From this point of view, in order to revitalize the economy, enhancing productivity while ensuring and expanding employment opportunities by accelerating foreign companies' investment in Japan will also be an effective approach in addition to outward investment. That is, revitalizing both the internal and external flows is considered to be an important issue for establishing the mid- and long-term basis for growth.

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

(%)

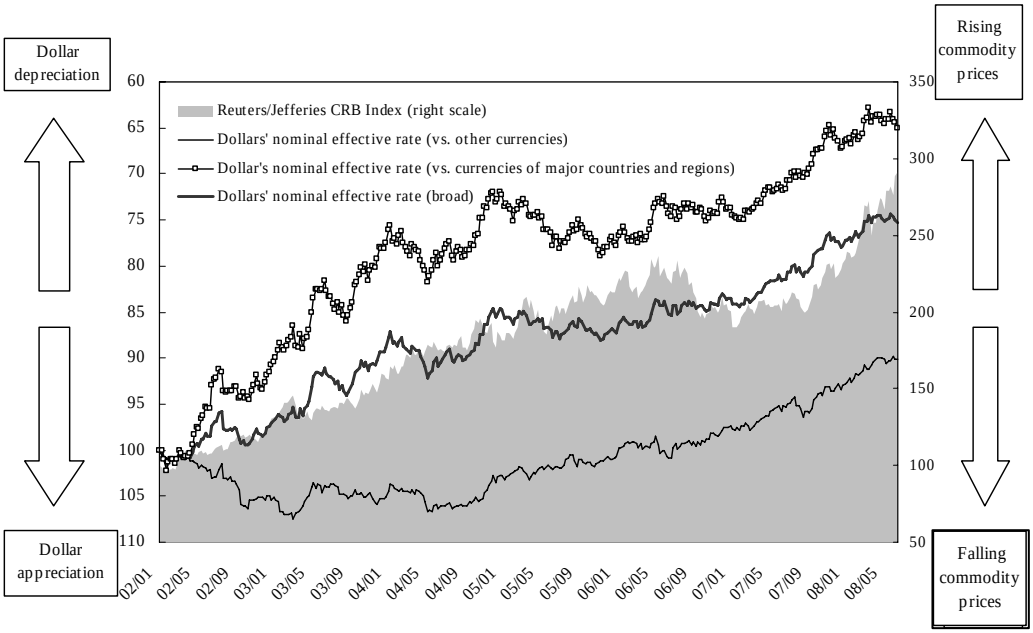
	2004		2005		2006		2007	
	Growth rate	Contribution	Growth rate	Contribution	Growth rate	Contribution	Growth rate	Contribution
U.S.	3.6	16.9	3.1	15.7	2.9	12.8	2.2	9.7
EU27	2.7	13.5	2.1	11.3	3.3	15.3	3.1	14.4
Japan	2.7	4.0	1.9	3.1	2.4	3.4	2.1	2.9
East Asia	8.3	26.2	8.1	29.5	8.8	29.3	9.1	32.0
China	10.1	17.7	10.4	21.3	11.1	21.2	11.4	23.4
South Korea	4.7	1.8	4.2	1.8	5.1	1.9	5.0	1.9
ASEAN10	6.3	4.7	5.6	4.8	6.0	4.5	6.4	5.0
Vietnam	7.8	0.5	8.4	0.6	8.2	0.5	8.5	0.6
India	7.9	6.3	9.1	8.4	9.7	8.2	9.2	8.3
Central and South America	6.2	10.1	4.6	8.5	5.5	8.9	5.6	9.4
Brazil	5.7	3.3	3.2	2.1	3.8	2.1	5.4	3.1
Central and Eastern Europe	6.9	5.4	6.1	5.3	6.6	5.2	5.8	4.7
Russia	7.2	4.3	6.4	4.3	7.4	4.5	8.1	5.1
Middle East	5.9	4.3	5.7	4.8	5.8	4.3	5.8	4.4
Africa	6.5	3.8	5.7	3.8	5.9	3.5	6.3	3.8
World	4.9	100.0	4.4	100.0	5.0	100.0	4.9	100.0
Reference								
Developed countries	3.2	39.3	2.6	34.7	3.0	35.0	2.7	31.1
Developing countries	7.5	60.0	7.1	64.5	7.8	64.2	7.9	67.8
BRICS (incl. South Africa)	8.3	32.3	8.3	36.8	9.0	36.8	9.5	40.6
BRICs (excl. South Africa)	8.5	31.6	8.4	36.0	9.2	36.1	9.6	39.9

(Notes)

(1) The world GDP growth rate is calculated with IMF's weighted purchasing power parity (PPP).
(2) Contribution by each country and each region is calculated with weighted PPP for 2007.
(3) East Asia includes 10 ASEAN countries, China, South Korea, Hong Kong and Taiwan.
(4) The figures may differ from other parts due to the revision of and difference in the original statistics.
(5) The definition of the developing country follows WEO (IMF).

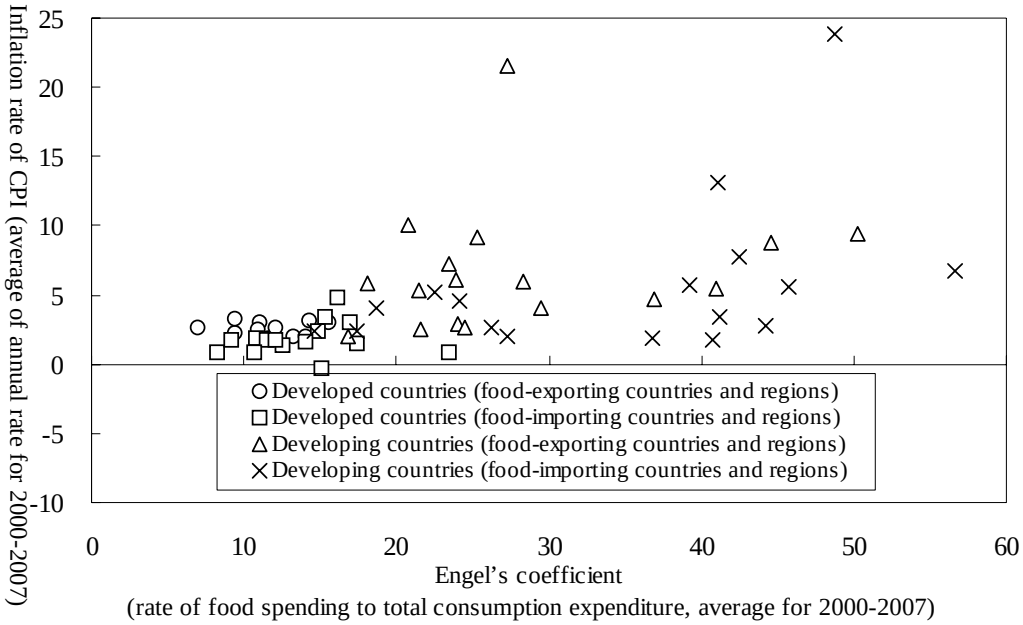
(Sources) Prepared based on WEO (IMF)

Fig. I-1 Commodity price indictor and nominal effective yen-dollar exchange rate



(Source) Prepared based on data of Thomson Reuters, and FRB.

Fig. I-2 Correlation between Engel's coefficient and inflation rate of consumer prices



(rate of food spending to total consumption expenditure, average for 2000-2007)

(Notes)

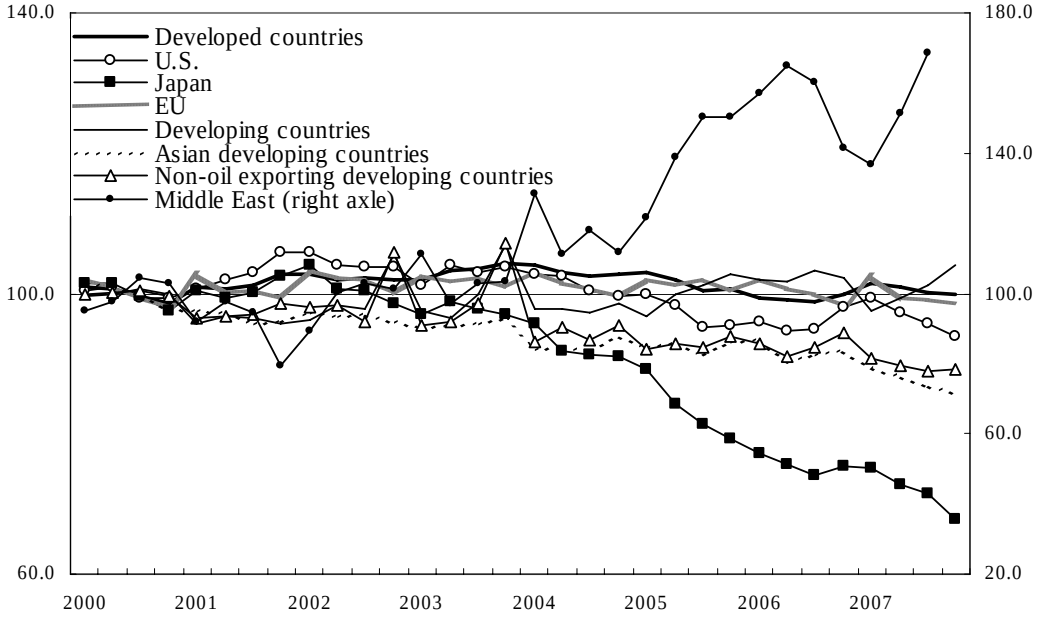
(1) The classification of developed and developing countries is based on WEO.

(2) The classification of food-exporting countries and regions, and food-importing countries and regions are based on the annual net export and import of food from 2000 to 2005 in the statistics of FAO and individual countries.

(sources) Prepared based on WEO (IMF), Euromonitor International and individual countries

Fig. I-3 Terms of trade by major country and region

(Benchmark 2000 = 100)



(Note)

(1) Terms of trade (simplified)= Exports divided by Imports

(2) Courtries /regions are based on IFS.

(Source) prepared based on IFS (IMF)

Table I-2 Trade gain and structure of income from abroad for major countries (2000 as a benchmark, ratio to GDP)

(%)

	U.S.				UK			
	Trading gains/losses	Net income from abroad	Net export	Sum	Trading gains/losses	Net income from abroad	Net export	Sum
1980s	-0.5	0.8	-1.3	-1.0	-1.1	-0.9	2.6	0.6
1990s	-0.2	0.4	-1.1	-0.9	-0.5	-0.4	0.9	0.0
2000s	0.2	0.5	-4.9	-4.2	0.3	1.6	-4.1	-2.1
(Recent year)	-0.2	0.5	-5.5	-5.3	0.2	2.3	-5.7	-3.3
	Germany				Japan			
1980s	-1.3	0.6	-0.1	-0.8	-0.6	0.3	2.3	1.9
1990s	1.1	-0.2	-0.3	0.5	0.7	1.0	0.8	2.5
2000s	0.1	-0.1	4.0	4.1	-1.1	2.1	2.4	3.4
(Recent year)	-0.3	0.9	7.3	8.0	-3.4	3.2	4.7	4.6
	South Korea				Malaysia			
1980s	3.2	-1.8	-2.8	-1.3	-0.1	-5.4	8.2	2.7
1990s	6.0	-0.5	-5.2	0.3	5.0	-6.6	-0.7	-2.4
2000s	-4.3	0.0	6.7	2.4	2.8	-6.6	19.3	15.4
(Recent year)	-9.8	0.1	10.8	1.2	8.9	-4.5	16.9	21.2
	(Reference) Thailand [1988 basis]				(Reference) Taiwan [2001 basis]			
1980s	-0.5	-1.4	-1.5	-3.5	-0.7	1.2	6.8	7.3
1990s	-1.9	-1.8	0.4	-3.3	1.7	1.7	0.3	3.7
2000s	-9.2	-1.2	13.9	3.5	-3.3	2.4	8.5	7.7
(Recent year)	-11.1	-1.3	14.5	2.1	-8.5	2.5	15.6	9.6

(Notes)

(1) The profit gain (loss) shows the relative change in income from abroad accompanying the change in terms of trade from the benchmark year, and it is therefore necessary to note that it is improper to make simple comparisons between different points of time or between countries or regions with a different benchmark year.

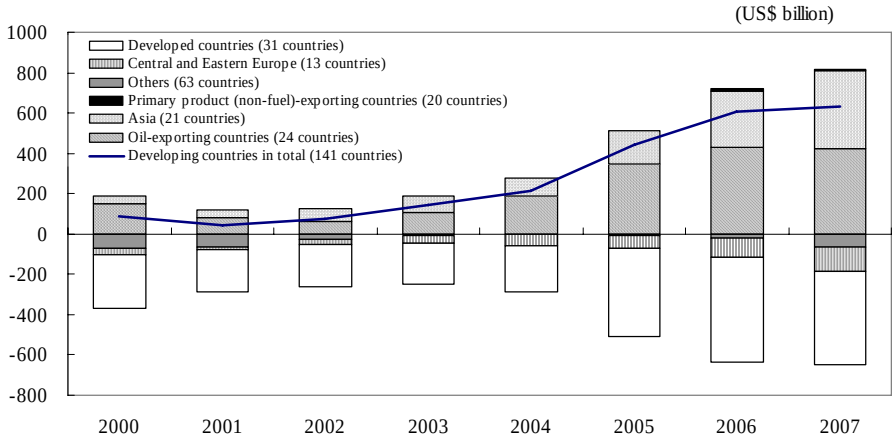
(2) The figures for the 1980s, 1990s and 2000s are the average figures for the period covered.

(3) 2006 was the latest year for the United States, Thailand and Malaysia, 2005 for the UK and 2007 for the others.

(4) For Thailand and Malaysia, the 1980s covers the period from 1988 to1989.

(Sources) Prepared based on data from the OECD, Asia Development Bank and statistics of individual countries and regions

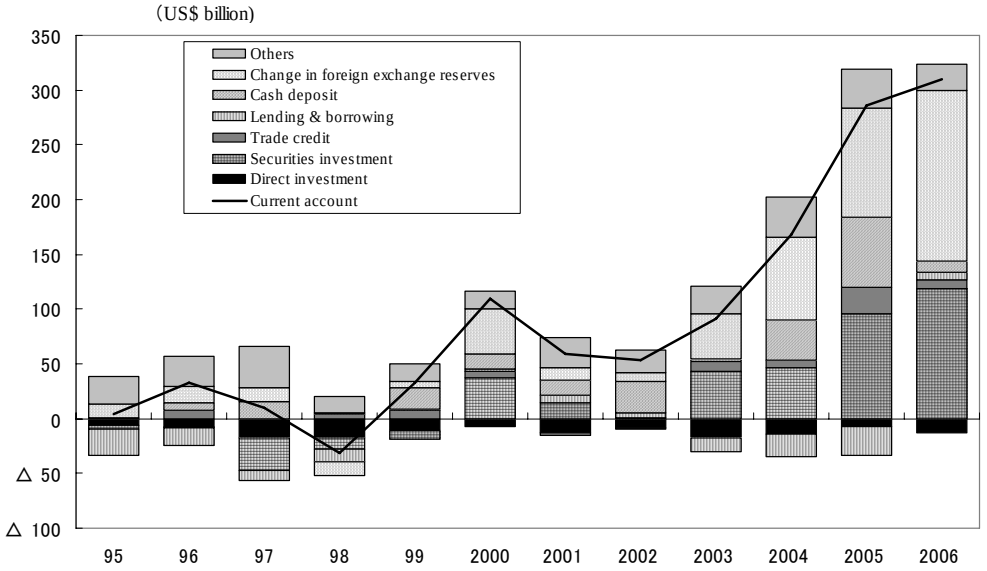
Fig. I-4 Current account of major countries



(Note) Countries and Regions are based on the definition of the WEO (IMF), with an exception that Papua New Guinea and Solomon Islands are excluded.

(Source) Prepared based on WEO (IMF)

Fig. I-5 Oil-Exporting Countries' Structure of Balance of Payments



(Notes)

(1) 16 out of the 20 oil-exporting countries defined by the IMF (countries with fuel exports accounting for more than 50% of the total exports) from which data is available: Angola, Azerbaijan, Bahrain, Republic of Congo, Ecuador Kuwait, Libya, Nigeria, Oman, Russia, Saudi Arabia, Sudan, Syria, Trinidad and Tobago, and Venezuela.

(2) For 2006, 13 countries, with Republic of Congo, Nigeria, and Trinidad and Tobago excluded.

(Sources) Prepared based on BOP (IMF)

Table I-3 Major Oil-Exporting Countries' Structure of Balance of Payments

(Unit: US$ billion)

	Saudi Arabia				Russia			
	1980s	1990s	2000s	(2006)	1980s	1990s	2000s	(2006)
Current account	2.1	△ 94.1	304.6	99.1	-	50.4	383.5	94.3
Capital and financial account	△ 4.6	94.2	△ 294.6	△ 98.2	-	△ 1.5	△ 64.1	5.8
Financial account	△ 4.6	94.2	△ 294.6	△ 98.2	-	△ 1.6	△ 38.2	5.6
Direct investment	23.5	7.2	△ 2.3	0.7	-	7.8	8.9	9.2
Portfolio investment	△ 26.1	9.0	△ 196.0	△ 78.6	-	55.4	△ 8.1	15.4
Other investment	△ 2.1	78.0	△ 96.3	△ 20.3	-	△ 64.9	△ 39.2	△ 18.9
Capital account	-	-	-	-	-	0.1	△ 26.0	0.2
Change in foreign exchange reserves	2.5	△ 0.1	△ 10.0	△ 0.9	-	△ 4.0	△ 276.1	△ 107.5
Error and omission	△ 0.0	△ 0.0	△ 0.0	△ 0.0	-	△ 44.9	△ 43.2	7.4
	Kuwait				Venezuela			
Current account	74.4	10.0	140.1	51.0	9.6	19.2	101.0	27.1
Capital and financial account	△ 61.0	31.5	△ 122.0	△ 47.1	△ 13.2	△ 1.0	△ 65.3	△ 19.2
Financial account	△ 61.0	31.7	△ 132.4	△ 48.0	△ 13.2	△ 1.0	△ 65.3	△ 19.2
Direct investment	△ 3.3	2.2	△ 8.1	△ 7.8	0.2	16.4	7.8	△ 2.7
Portfolio investment	△ 2.1	△ 18.4	△ 87.9	△ 25.4	2.6	20.3	△ 15.8	△ 9.4
Other investment	△ 55.7	47.8	△ 36.4	△ 14.8	△ 16.1	△ 37.7	△ 57.2	△ 7.2
Capital account	0.0	△ 0.1	10.4	0.9	-	-	-	-
Change in foreign exchange reserves	△ 2.4	△ 1.8	△ 7.2	△ 3.6	8.2	△ 8.6	△ 17.1	△ 5.1
Error and omission	△ 11.0	△ 39.7	△ 10.9	△ 0.3	△ 4.6	△ 9.5	△ 18.6	△ 2.8

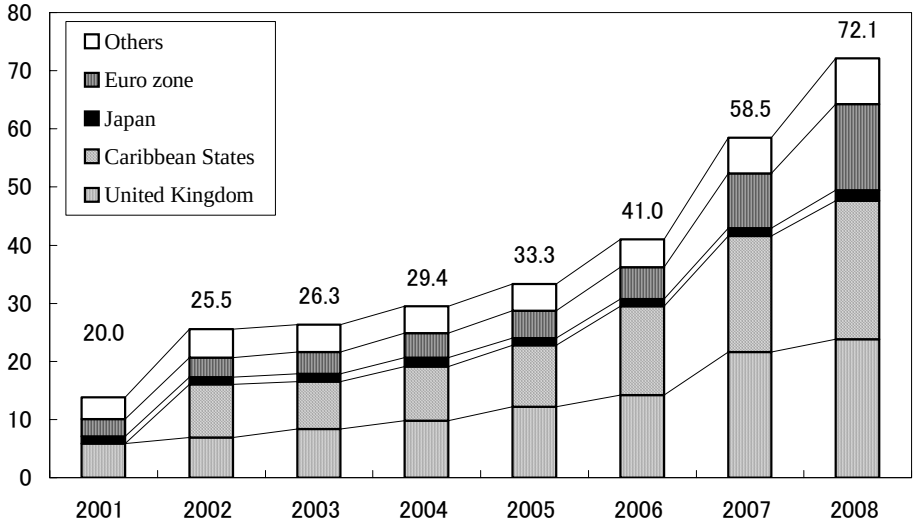
(Notes)

(1) The value is the sum obtained by adding up each year's value for a decade.

(2) A positive number stands for the fund inflow and a negative number for the fund outflow, and the change in foreign exchange reserves indicates an increase in assets of foreign exchange reserves if it is negative.

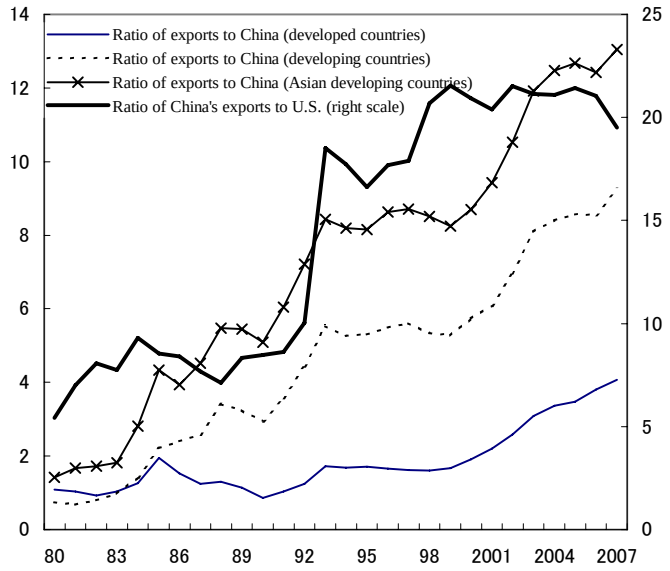
(Sources) Prepared based on BOP (IMF)

Fig. I-6 Transaction Value of Long-Term Securities of United States by Major Country and Region



(Note) For 2008, the sum for the January-March quarter was converted to the annual rate.
(Sources) Prepared based on "Treasury International Capital System" (Department of the Treasury of the United States)

Fig. I-7 Ratios of Major Regions' Exports to China and Ratio of China's Exports to U.S.



(Note) The classifications of developed country, developing country and Asian develo country are based on DOTS (IMF).
(Sources) Prepared based on DOTS (IMF)

2. World trade

(1) World trade increased by 15% in 2007 but showed a slowing trend in real terms

World trade in 2007 (merchandise trade, nominal export basis) rose 15.0% yoy to reach US$13.76 trillion, posting a double-digit increase for the fifth consecutive year (Table I-4).

However, the real export growth rate, excluding price changes and the impact of foreign exchanges, slowed to 5.6% from 10.5% in 2006, posting the lowest growth since 2003.

The growth rate of world trade is broken down into two parts, the price factor (export price index) and the volume factor (export volume index, real exports), and in 2007, the export price growth rate rose 9.4% (dollar-based, IMF), with the price factor significantly outpacing the volume factor. Primary product prices also rose 14.0% in 2007, continuing to post an increase following 2006 (up 23.2%). In particular, metal and food prices (headed by cereals) surged and boosted the nominal export value. Crude oil prices posted a double-digit increase (up 10.7% in 2007), following the previous year. Industrial products also showed an increase of 9.7%, up from 3.8% in 2006.

The exchange fluctuations also had an impact on the trade expansion in 2007. As major currencies other than the yen and Hong Kong dollars rose against the US dollars, the dollar based world trade boosted.

■ China's exports ranked second in the world

World trade (nominal export basis) in 2007 expanded in almost all countries and regions partly due to the impact of the dollar depreciation. Exports by industrial countries increased by 13.7% to US$7.6 trillion, while those by developing countries rose 16.8% to US$6.159 trillion (Table I-6). The underpinning of world trade by developing countries has been a feature in the recent years and, also in 2007, developing countries' growth rates of both exports and imports were higher than those of developed countries. The developing countries' share in world exports reached 44.8%. By region, exports by EU27 (hereinafter referred to as EU) and East Asia were strong, and they contributed to 40.8% and 24.7%, respectively, of the world trade expansion.

Exports from the EU, which accounted for 38.7% of world trade, rose 16.0% to US$5.32 trillion. As for exports to countries outside EU, exports to Russia rose 34.5% to US$121.3 billion thanks to an increase in passenger car exports. However, the increase in the dollar-based trade value was largely attributed to a value-boosting effect of the euro appreciation, and on a euro basis, EU's export value rose merely 5.8%,

slowing from 12.8% in the previous year. Among EU member countries, exports from the three Central and Eastern European countries were strong, rising 26.7% to US$356.6 billion, thanks to expanding exports of precision machinery and chemicals. On the other hand, exports from the UK fell 0.8% to US$443.7 billion, turning to a decline for the first time in six years. In particular, exports to EU member countries fell. The trade value in 2006 was significantly overstated for some products due to the impact of the VAT frauds [3] mainly in the UK, and in 2007, the trade value is considered to have fallen in reaction to that.

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3. In the EU, there are rampant frauds abusing the mechanism of Value Added Tax (VAT). The swindlers buy in tax-free commodities from other EU member countries, while evading taxes when selling them., and that has become a problem. In the UK in particular, as trade statistics are retrospectively revised by taking the fraud-related amount into account, statistical figures may change substantially in some cases.

Exports from the US, which accounted for 8.4% of total world exports, rose 12.1% to US$1.16 trillion, expanding at a rate comparable to 2006 (up 14.4%). Exports to the Middle East and Africa were very active. On the other hand, imports rose 5.6% to US$1.96 trillion, which was a growth rate notably lower than for other major countries. The economic slowdown in the US contributed to slowing imports from Japan and other Asian countries. As a result, US trade deficit contracted for the first time in six years, falling 2.8% to US$794.5 billion.

Australian exports rose 14.5% to US$141.3 billion. As a result of surging primary product prices, exports expanded for products such as iron ore (up 26.3% to US$13.7 billion) and gold (up 35.4% to US$9.5 billion). Exports to China posted a significant increase by rising 30.3% to US$20 billion.

Exports from Russia rose 23.5% to US$279.7 billion due to surging resource prices. Exports of oil and oil products, the major export items, expanded by 17.2% to reach US$161.4 billion, which accounted for 57.7% of the overall exports. Imports also expanded by rising 48.0% to US$189.6 billion due to brisk domestic demand. Imports of transport equipment, machinery/equipment, electric machinery and plastics all posted an increase of more than 30%. In particular, passenger cars showed a sharp increase of 67.6% to US$21.3 billion, of which those imported from Japan accounted for 37.3%.

Exports from Brazil recorded an increase of 16.9% to reach US$160.6 billion. Crude oil (up 29.2% to US$8.9 billion) and corn (quadruple to US$1.9 billion) exports rose due to the surging prices. Imports also significantly expanded by 32.0% to US$120.6 billion due to the Real appreciation. Imports from China showed a striking increase, and

products such as electric machinery (up 36.8% to US$4.3 billion) and general machinery (up 70.1% to US$2.4 billion) took the lead, with the overall imports expanding 57.9% to US$12.6 billion.

Exports from the Middle East had expanded at a rate of more than 20% each year since 2003 but the growth slowed to 12.5% in 2007. This was attributed to the slowing growth rate of crude oil prices. The Middle East's share in world exports contracted for the first time in five years, falling 0.1 points yoy to 4.7%. Exports by Turkey rose 25.3% to US$107.2 billion, growing at a rate higher than 16.6% in 2006. Imports were also strong, rising 21.8%, and imports from China and Russia in particular rose 36.9% and 32.0%, respectively. Imports from the US also posted a sharp increase of 30.4% due to the dollar depreciation.

Exports from East Asia rose 17.2% to US$3.03 trillion. In particular, exports from China expanded noticeably by 25.7% to reach US$1.22 trillion. The country's export value posted an increase of more than 20% for the sixth consecutive year, exceeding the US$1 trillion mark for the first time. As a result, China's share in world exports rose from 8.1% in 2006 to 8.9% in 2007, and China, overtaking the US, became the second largest exporter after Germany. While the US accounted for a significant proportion (19.1%) of the export destination, expanding exports to Russia (up 79.9%), India (up 64.8%) and Vietnam (up 59.4%) in particular draw attention. By products, electric machinery rose 32.0% to US$300.3 billion and transport equipment rose 43.1% to US$55 billion. These two accounted for approximately 30% of the total export value. Exports from the ASEAN (Singapore, Thailand, Malaysia, Indonesia, the Philippines and Vietnam), led by Thailand (up 25.2% to US$163.5 billion), rose 13.5% to US$852.2 billion. Exports from Thailand to member countries such as Indonesia (up 53.5%) and Vietnam (up 32.1%), and to China (up 35.1%) increased. Exports of general machinery (up 28.8% to US$30.9 billion) and transport equipment (up 35.9% to US$15.7 billion) were very active. Cereals rose sharply 45.1% to US$3.9 billion due to surging rice prices, though accounting for a small percentage of 2.4%. Exports from Vietnam rose 21.9% to US$48.6 billion, achieving high growth exceeding 20% for the fifth consecutive year. Imports were also strong, rising 39.6% to US$62.7 billion.

India's exports rose 21.7% to US$147.6 billion while imports rose 25.8% to US$217.5 billion, both expanding at approximately the same rate as in the previous year. Exports of oil and oil products rose 35.6% to US$23.9 billion, and imports of products such as chemicals (up 30.4% to US$23.4 billion) and electric machinery (up 32.9% to US$18.6 billion) were strong.

■ **Machinery/equipment and base metals played the leading role in world trade but mineral fuels slowed down**

The majority of products posted a double-digit increase in 2007 (Table I-7).

Exports of machinery equipment, which accounted for 40.7% of world trade, rose 13.0% to US$5.6 trillion, contributing to 35.9% of the world trade expansion. China (11.1% of total exports) overtook the US (10.8% of the total) for the first time to become the second largest exporter after Germany. In terms of electric machinery, China had become the largest exporting country in the world in 2004 (16.6% of the total).

Transport equipment rose 16.9% to US$1.55 trillion. Automobiles rose 17.0% to US$753.8 billion, and exports from the US (up 26.2% to US$60.7 billion) were particularly strong. Along with the shift of production bases to overseas by major automobile manufacturers, exports from developing countries, such as Thailand (up 32.4%), China (to 2.1 times), Russia (up 54.1%), Turkey (up 29.8%) and Eastern European countries expanded as well. The share of automobile exports accounted for by developing countries rose from 19.9% in 2006 to 20.9%, and the growth rate posted a yoy increase for the second consecutive year (up 23.1% in 2007).

Chemicals rose 17.3% to US$1.77 trillion, contributing to 14.5% of the world trade expansion. Exports of pharmaceuticals, which accounted for approximately 20% of the chemicals, expanded by rising 19.3% to US$345 billion, and among them, exports by EU member countries such as Germany (up 29.3% to US$56.2 billion) and the Netherlands (up 31.7% to US$17.3 billion) contributed to 72.0% of the world pharmaceutical export expansion.

Mineral fuel exports had expanded at a rate of more than 20% from 2003 onward, but the growth diminished in 2007 to 11.4%. Exports of oil and oil products, which accounted for 84.6% of the mineral fuels, slowed down from an increase of 25.3% in 2006 to 12.0% (US$1.45 trillion). The growth rate in crude oil prices slowed down from 20.5% in 2006 to 10.7%, which led to a declining growth of the export value. The growth rate of exports fell for the Middle East, which accounted for 27.7% of total exports, from an increase of 30.6% in 2006 to an increase of 9.3%, and also for Africa, which accounted for 14.3% of total exports, from an increase of 31.4% to an increase of 14.5%. However, during the period between January and May 2008, crude oil prices rose 71.7% over the corresponding period of 2007, and the trade value (import basis) of the major countries (20 countries from which data was available) increased by 69.0% in the first quarter. If this trend continues, the export value on the full-year basis may be boosted once again.

Liquefied natural gas (LNG) exports rose 12.4% to US$57.7 billion, with growth significantly slowing down from an increase of 33.3% in the previous year. Exports of LNG from Indonesia, which used to have the largest export value, turned to a decline for the first time in five years, down 2.2% to US$9.8 billion. As a result, the share accounted for by Indonesia fell from 19.5% in 2006 to 16.9%, and Qatar rose to the top in terms of export value (17.6% of total exports). In Indonesia, exports are on a declining trend due to factors such as production losses resulting from the deterioration in the existing gas fields.

Textile exports rose 9.9% yoy to US$609.4 billion. Exports by China, which accounted for 27.2% of the total, rose 20.1% to US$165.8 billion, but the growth rate slowed for the first time in three years. However, exports from Vietnam were strong, rising 21.4% to US$7.9 billion, albeit a small share of 1.3%. Vietnam's exports to the US seem to have risen due to the abolishment of regulations on textile exports to the country along with Vietnam's accession to the WTO in 2007. The US' textile imports from Vietnam rose 35.7% to US$4.4 billion.

Base metals and base metal products rose 22.5% to US$1.19 trillion, contributing to 12.2% of world trade expansion. In particular, steel rose 26.0% to US$672.4 billion, and China (with a share of 11.4%), became the largest exporting country, overtaking Germany (with a share of 10.6%). In terms of primary products of steel, China rose from the third to the first by surpassing Germany and Japan (in terms of steel products, China also rose from the second to the first, Fig. I-8). Steel exports from China rose at an annual growth rate of more than 30% from 2003 onward, and its share of world exports ballooned to approximately three times the 2000 level. In terms of the export destination, there were noticeable increases in exports to South Korea (up 57.1%), Vietnam (up 73.1%) and India (up 99.5%).

Regarding other base metals, nickel rose 57.3% to US$24 billion due to the impact of price surges. Exports by Russia (with a share of 36.0%), the largest exporting country, and Canada (with a share of 19.1%), the second largest, were strong, rising 47.0% and 73.8%, respectively.

Exports of IT products (finished IT products, such as computers and video equipment, and IT parts such as semiconductors) amounted to US$1.98 trillion, accounting for 14.4% of world trade (Table I-8). From 2004, China had consistently been the largest exporting country (US$378.8 billion in 2007), with its share of world IT exports rising from 16.5% in 2006 to 19.2%. On the other hand, the share of the US (US$189.9 billion), the second largest exporting country, gradually fell from 2000 (16.0%) onward, to 9.6% in 2007, with the gap widening from China.

(2) Cereal trade rapidly increased due to surging prices

The expansion of food trade, especially cereal trade, was one of the features in 2007's world merchandise trade. The cereal exports continued to grow at a one-digit rate from 2001 onward, but from 2004 onward, they were practically on a consistently rising trend along with rising international commodity prices and sharply rose 44.4% to US$68.6 billion in 2007. The trade value rose 45.1% to US$29 billion for wheat, 54.8% to US$20.2 billion for corn, and 24.0% to US$11.1 billion for rice.

Column I-1

◎ World rare metal and rare earth trade

Rare metals generally mean nonmetal resources with limited reserves or metals that are difficult to extract for economic and technological reasons, and they are widely used mainly as raw materials for high-tech products. In many cases, their reserves and production are unevenly distributed in specific countries or regions. Typical rare metals are lithium, cobalt and manganese which are used in products such as small batteries, tungsten which is used in super-hard tools and filament, molybdenum which is used in special steel, and indium which is used in products such as LCD. Also, rare earth is a generic term of 17 elements, such as scandium and yttrium, and is used for various purposes such as fluorescent material and lenses.

Rare metals and rare earth * exports expanded significantly by rising 42.4% in 2004, and after that it rose at a rate of around 20% each year. It rose 19.6% to US$29.7 billion in 2007. Nickel, though not included in the definition of rare metal and rare earth referred to in this column, also rose 62.0% to reach US$41 billion thanks to expanding exports by countries such as Canada and Russia. The export value of rare earth was relatively small at US$0.4 billion but expanded at a growth rate of more than 30% from 2004 onward and posted an increase of 73.8% in 2007.

In recent years, along with expanding production and consumption of products with high added value and high functions, such as digital consumer goods, there has been an increasing demand for rare metals and rare earth, which are the raw materials for these

* The rare metals and rare earth referred to in this column were classified and defined independently by JETRO based on data from the Japan Oil, Gas and Metals National Corporation, Special Metal Stockpile Association, U.S. Department of the Interior and "Rare Metal Dictionary."

products; on the other hand, prices have surged due to the limited source of supply. For instance, prices surged from US$38.07/MTU in 2002 to US$165.00/MTU in 2007 for tungsten, and from US$8.32/kg to US$66.65/kg for molybdenum.

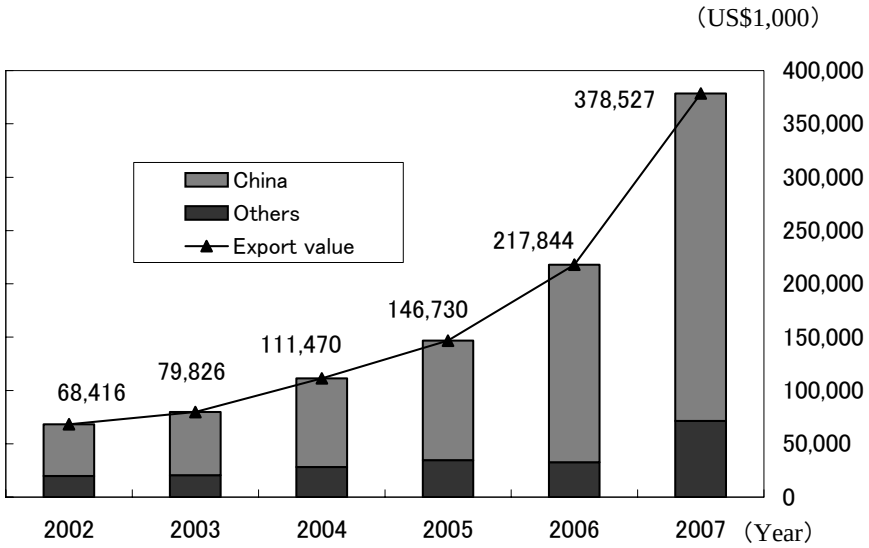
Of the imports of rare metals and rare earth in 2007, Japan accounted for the largest share of 15.2%, followed by the US (14.9%) and Germany (10.2%). Meanwhile, China was the largest exporting country (17.5%) and its share of world exports rose to approximately two times the share five years ago. The US (13.3%) had the second largest export value but its share was diminishing. In particular, China accounted for 81.2% of world exports of rare earth, significantly way ahead of the US (5.5%), the second largest exporting country. China's export value ballooned by six times over these five years, thereby establishing an overwhelming presence on the supply side.

Under these circumstances, in order to cope with growing domestic demand, China has recently designated rare metals as strategic material and started to regulate their outflow to foreign countries. From around 2004, in addition to the abolishment of value-added tax refund for non-ferrous metals, the government also took measures such as export tax increase, quantitative restriction, expansion of the scope of items for which export license is needed, and ban of processing trade. Furthermore, according to the revised "Guidance Catalogue for Foreign Investment Industry" released in November 2007,exploration and mining of rare metals are banned and rare metal-refining industries or manufacturing industries using rare metals are approved only on certain conditions.

As a result of China's movements to protect resources and putting top priority on domestic demand, prices surged with even stronger momentum and approximately 60% of the Japanese companies were concerned about the supply of rare metals ("White Paper on Monozukuri 2007" by the Ministry of Economy, Trade and Industry). According to the WTO trade policy review on China, there was increasing criticism by the international community, but China showed no intention of changing its policy. Rare metal-consuming countries like Japan face the issue of how to take countermeasures, such as diversification of the source of supply, development of substitute materials, stockpiling, and enhancement of the domestic recycling. The Japanese government is developing resource diplomacy to cope with this situation, and in November 2007, promised to cooperate on the mine development with South Africa and the Republic of Botswana. Also, in order to promote the resource procurement in producing countries, the government expanded the scope of minerals to which government finance is applicable and also raised the upper limit of financing. In the private sector, movements

to develop substitute materials are also spreading, such as the development of electrode materials in which no rare metals are used to replace lithium-ion batteries.

Fig. China enhancing its presence in rare earth exports



(Sources)National Trade Statistics.

Table Definition of rare metals and rare earth

Item name	HS classification code
Platinum	7110.11、7110.19
Nickel	7501～7506
Rare metals and rare earth	Rare metals, etc. + rare earth
Rare metals, etc. (inclusive of chemical compounds)	2804.50、2810、2812.10、2816、2819、2820.10、2825.20、2825.30、2827.31、2833.21、2833.27、2833.30、2833.40、2834.10、2836.50、2836.60、2836.91、2836.92、2840、2841.61、2841.70、2841.80、2844.40、2846、7110.21、7110.29、7202.92、8101-8112
Rare metals (limited to base metals)	8101-8112
Rare earth	2805.30

In terms of cereal as a whole, exports by the US and Europe account for 30%, respectively, of total exports. In addition, exports from Central and South America and

Russia are on a rising trend. Their share of total exports rose 8.6% and 0.3% in 2006 to 11.0% and 6.0% in 2007, respectively. In terms of imports, the EU and Africa are enhancing their presence. Although with a share on the declining trend, Japan (accounting for 13.6% of total imports in 2007) has consistently been the largest importer in the world, and its import value in 2007 rose 40.4% to US$6.6 billion. Regarding the suppliers, the US accounted for 76.3%, Australia for 7.4% and Canada for 7.2%, and these three countries accounted for most of Japan's imports. On a global basis, out of the major cereal exporting countries, the top five accounted for approximately 80% of total exports, which means that the cereal supplies are concentrated in specific countries/regions (Table I-9). Consequently, factors such as poor harvest and unfavorable weather on the side of producing countries have a significant impact on the output. In 2007, the torrential rainfalls and drought in places such as Europe, Canada and Australia caused the inventory ratio to fall. The term-end cereal inventory ratio (= term-end inventory ÷ annual amount of consumption × 100) for FY2007/2008 is expected to stand at 16.3%, lower than the level of safety stock (17-18%) stipulated by the Food and Agriculture Organization of the United Nations (FAO).

In addition, expectations of demand expansion along with high economic growth in emerging countries and surging prices of mineral fuels are considered to have given impetus to a tight food supply. As substitute fuel for crude oil, whose prices are surging, demands for biofuels such as ethanol has been rising rapidly. In particular, the import growth rate of corn, a raw material thereof, rose at an accelerating pace from 17.0% in 2006 to 55.4%. According to the forecast by OECD and FAO, the annual production of bio-ethanol is expected to reach 126.9 billion liters by 2017, i.e., double the present level.

Reflecting such a situation, prices of major cereals showed a considerable growth rate, with their prices all sharply rising in 2007 (Fig. I-9). Prices rose 34.5% yoy for corn and 32.1% yoy for wheat. In particular, rice prices are recently rising sharply, surging by more than 100% within half a year since the beginning of 2008.

Compared to the food crisis in the 1970s, which was caused mainly by the climatic changes and rising crude oil prices, current supply and demand conditions in the world have become more complicated. For fear of food shortages, an increasing number of cereal-exporting countries introduced or reinforced export regulations by putting priority on domestic supply. On the other hand, importing countries have also taken countermeasures of import deregulation such as the temporary abolishment of import duties (Table I-10). [(4)]

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4. In April 2008, Japan and Switzerland made a joint proposal to the WTO regarding a mechanism whereby the rules at the time of implementing export restrictions on agricultural products should be clearly defined and negotiations be conducted with importing countries in advance.

According to the United Nations, the world population is expected to increase by 110 million people or more on average each year in the approximately 20 years to come, and demand for food is presumed to continue the rising trend in the future as well. Even viewed from a short-term point of view, cereal trade is continuing to expand due to soaring prices.

According to the quarterly export statistics (import basis for some of the products) of the 20 major countries/regions (Table I-11), cereals and mineral fuels posted noticeable growth due to the impact of surging prices, and since the beginning of 2008, they had expanded by rising 63.9% and 62.8%, respectively. In addition, machinery/equipment, mainly precision machinery, which played the leading role in world trade in 2007, continued to expand by rising 14.3%.

(3) World service trade rose 17.8% in 2007

World service trade in 2007 (cross-border service exports, excluding government services) accelerated by rising 17.8% yoy to reach US$3.26 trillion (Table I-12).

By category, “transportation” expanded by significantly rising 18.3% yoy to US$742.1 billion, “travel” rose 14.4% to US$862.3 billion, and “other services” (such as finance, insurance, communications and royalty fees) rose 19.4% to US$1.65 trillion. “Other services” maintained the stable trend of expansion from 2002 onward and “transportation” and “travel,” which slowed down from 2005 to 2006, rebounded as well, with all three categories posting double-digit growth.

According to the United Nations World Tourism Organization (UNWTO), the tourist arrivals in 2007 increased by 6.6% yoy to 903 million, with the growth rate accelerating from 2006. In spite of increasing fares due to surging aviation fuels and the slowdown in the world economy in the second half of 2007, passenger demand was strong on the full-year basis.

By country and region, in 2007, service trade growth accelerated from 2006 on the whole. The dollar-based trade value was significantly boosted by such factors as surging transport fuel prices and, as in the case of goods trade, the dollar depreciation.

In terms of service exports and imports, the US ranked first; its exports rose 14.2% yoy to US$454.4 billion and imports rose 8.8% to US$335.6 billion (Table I-13).

According to the US Department of Commerce, travelers from Europe increased due to the euro and sterling appreciations and exports of “travel” rose. The number of travelers to US from Europe turned from a decline of 2% in 2006 to an increase of 12% in 2007. The strong “travel” also led to an increase in “transportation” to the US by US airline companies. In “other services,” exports of financial services such as M&A commissions were strong. On the other hand, affected by the dollar depreciation, the growth rate of imports was sluggish when compared to other major countries.

The EU’s exports (up 18.6% to US$1.51 trillion) and imports (up 17.3% to US$1.34 trillion) expanded at a rate higher than that for the world as a whole. In the euro zone in particular, the trade value reflected a significant boosting effect of the dollar depreciation. The growth rate in the EU in terms of the euro rose 8.2% for exports and 7.1% for imports, respectively, slowing slightly from 10.3% and 9.3%, respectively, in 2006.

Regarding service trade in Asia, exports rose 19.1% to US$745 billion and imports rose 17.1% to US$777.6 billion. China’s exports and imports both posted a growth rate of more than 20%. According to the WTO, China overtook Italy and became the seventh largest exporting country, while overtaking France to become the fifth largest importing country. India’s exports had expanded at a rate of more than 20% each year from 2003 onward due to the active expansion of IT services, but in 2007, the growth rate slowed down to 15.1%, which fell below the world’s growth rate as a whole for the first time since 1996.

Column I-2

◎ North Korea’s trade dependent on specific countries and products

The Democratic People’s Republic of Korea (hereinafter referred to as North Korea) has not released any statistics on its own trade. According to its trading partner countries’ statistics, its exports is highly dependent on primary products such as mineral resources and agricultural/marine products, and imports consist mainly of energy and food.

Trade with China, the largest trading partner, is continuing to expand. In 2007, the export value rose 16.1% to US$1,974 million posting a record high. Exports to North Korea were mainly foodstuffs such as pork and cereals, in addition to mineral fuels such as crude oil (a share of 20.3%) and oil preparations (6.9%). Imports from North Korea were mainly mineral resources such as coal (28.0%) and iron ore (13.7%), and among

them, coals sharply rose 68.0% to US$163 million. Mineral resource trade is done in the form of compensation trade, i.e., China supplies mining equipment and North Korea repays with resources.

According to Korea Unification Ministry, trade with North Korea (trade between North and South Koreas) was on a rising trend from the time the Kaesong Industrial District began operations, and the trade value exceeded US$1 billion in 2005, rising 33.2% to reach US$1,798million in 2007. Exports to North Korea mainly consist of textiles (a share of 20.7%), chemical industry products (19.7%), agricultural and marine products (13.3%), and machinery (13.2%). Textiles and chemical industry products are considered to be used as the raw materials for contract manufacturing, agricultural/marine products as food aid, and machinery as production equipment needed for the Kaesong Industrial District. The main import products from North Korea were textiles (24.9%), agricultural/marine products (24.1%), and steel and metal products (21.7%).

Trade with Japan steadily decreased after Japan imposed economic sanctions against North Korea in 2006. Before the sanction, transport equipment such as trucks were the main products exported to North Korea, while anthracite coals, fish and seafood, and Tricholoma matsutake were the main import products from. In 2001, exports rose sharply due to food aid, but in 2007, exports decreased to US$9.09 million and imports fell to zero.

Table　Trade with North Korea by major trading partners

(US$ million)

		2001	2002	2003	2004	2005	2006	2007
China	Exports	571	467	628	795	1,085	1,232	1,392
	Imports	167	271	396	582	497	468	582
South Korea	Exports	227	370	435	439	715	830	1,033
	Imports	176	272	289	258	340	520	765
Russia	Exports	56	47	112	205	224	191	126
	Imports	15	10	3	5	7	20	34
Japan	Exports	1,065	133	91	89	63	44	9
	Imports	226	236	174	164	132	78	0

(Sources) National trade statistics, Korea Unification Ministry.

It is difficult to grasp the total trade value of North Korea, but according to the Korea Trade-Investment Promotion Agency (KOTRA), North Korea's foreign exports amounted to US$919 million and imports to US$2,022 million in 2007. These figures do not include the trade value between North and South Koreas, and if that value is

added to these figures, exports would amount to US$1,684 million and imports to US$3,055 million.

Table I-4 World trade indices

		Unit	2003	2004	2005	2006	2007
World merchandise trade (based on exports)		US$ billion	7,486	9,092	10,388	12,006	13,760
	Nominal growth rate	%	16.3	21.4	14.3	15.6	15.0
	Real growth rate	%	6.2	12.6	9.2	10.5	5.6
	Export price growth rate	%	10.1	8.9	5.0	5.1	9.4
World trade in services		US$ billion	1,833	2,210	2,469	2,766	3,257
	Growth rate	%	14.7	20.6	11.7	12.0	17.8
World real GDP growth rate		%	3.6	4.9	4.4	5.0	4.9
Growth in industrial production index (23 industrialized econ		%	1.3	3.0	1.8	3.7	2.5
Crude oil	Price (average)	US$/barrel	28.9	37.8	53.4	64.3	71.1
	Demand	Million barrels/day	79.3	82.1	83.3	84.2	85.2
Change in nominal effective exchange rate of U.S. dollar		%	−12.3	−8.2	−1.5	−0.9	−5.4

(Notes)
(1) 2007 trade value and growth rate based on JETRO estimates.
(2) Real growth rate = nominal growth rate – export price growth rate
(3) Real GDP growth rates based on purchasing power parity.
(4) A negative change in the nominal effective exchange rate of the U.S. dollar indicates depreciation.
(Sources) IMF, *IFS* and WEO; WTO; BP; and national trade statistics.

Table I-5 Trends in trade price indices by commodity

(%)

	2003	2004	2005	2006	2007
Industrial products	14.4	9.5	3.6	3.8	9.7
Crude oil	15.8	30.7	41.3	20.5	10.7
Primary product (non-fuel)	5.9	15.2	6.1	23.2	14.0
Food	6.3	14.0	-0.9	10.5	15.2
Cereals	1.2	8.0	-2.9	21.3	30.9
Beverage	4.8	-0.9	18.1	8.4	13.8
Agricultural raw materials	0.6	4.1	0.5	8.8	4.9
Metals	11.8	34.6	22.4	56.2	17.4

(Source) IMF, *IFS*.

Table I-6 World trade by country and region (2007)

(US$ million, %)

	Exports				Imports			
	Value	Growth rate	Share	Contribution	Value	Growth rate	Share	Contribution
NAFTA	1,854,808	10.7	13.5	10.0	2,620,223	6.5	18.4	8.4
US	1,162,479	12.1	8.4	7.0	1,956,962	5.6	13.7	5.4
Canada	420,284	8.3	3.1	1.8	380,027	8.6	2.7	1.6
Mexico	272,044	8.8	2.0	1.2	283,234	10.6	2.0	1.4
EU27	5,322,715	16.0	38.7	40.8	5,403,545	16.3	38.0	39.9
EU15	4,786,136	14.9	34.8	34.5	4,854,614	15.4	34.1	34.1
Germany	1,327,670	19.7	9.6	12.1	1,059,704	16.7	7.4	8.0
France	553,710	11.7	4.0	3.2	615,927	13.6	4.3	3.9
Netherlands	552,296	19.0	4.0	4.9	492,434	18.0	3.5	4.0
Italy	492,241	18.0	3.6	4.2	504,960	14.1	3.5	3.3
UK	443,675	−0.8	3.2	−0.2	635,501	12.3	4.5	3.7
Belgium	430,979	17.4	3.1	3.6	413,728	17.5	2.9	3.2
Spain	241,225	12.8	1.8	1.5	373,100	13.4	2.6	2.3
Sweden	169,288	14.5	1.2	1.2	151,501	18.6	1.1	1.3
3 Central and Eastern European countries	356,596	26.7	2.6	4.2	376,471	25.9	2.6	4.1
Japan	712,735	10.1	5.2	3.6	621,084	7.2	4.4	2.2
East Asia	3,025,892	17.2	22.0	24.7	2,656,196	15.7	18.7	19.0
China	1,218,015	25.7	8.9	13.8	955,818	20.7	6.7	8.6
South Korea	371,327	14.1	2.7	2.5	356,453	15.2	2.5	2.5
Hong Kong	349,663	8.4	2.5	1.5	370,733	10.4	2.6	1.8
Taiwan	234,710	10.2	1.7	1.2	218,648	8.2	1.5	0.9
ASEAN	852,177	13.5	6.2	5.6	754,544	15.0	5.3	5.2
Singapore	299,404	10.1	2.2	1.5	263,247	10.2	1.8	1.3
Thailand	163,529	25.2	1.2	1.8	151,759	18.0	1.1	1.2
Malaysia	176,311	9.6	1.3	0.9	147,065	12.1	1.0	0.8
Indonesia	114,101	13.2	0.8	0.7	74,473	22.0	0.5	0.7
Philippines	50,270	6.9	0.4	0.2	55,317	7.3	0.4	0.2
Vietnam	48,561	21.9	0.4	0.5	62,682	39.6	0.4	0.9
India	147,564	21.7	1.1	1.5	217,543	25.8	1.5	2.4
Switzerland	171,916	16.3	1.2	1.3	161,110	13.9	1.1	1.0
Australia	141,338	14.5	1.0	1.0	157,887	18.9	1.1	1.3
Brazil	160,649	16.9	1.2	1.3	120,621	32.0	0.8	1.5
Argentina	55,780	19.8	0.4	0.5	44,707	30.9	0.3	0.6
Russia	279,724	23.5	2.0	3.0	189,619	48.0	1.3	3.2
Turkey	107,215	25.3	0.8	1.2	170,057	21.8	1.2	1.6
South Africa	69,868	20.7	0.5	0.7	79,924	17.3	0.6	0.6
World	13,759,746	15.0	100.0	100.0	14,236,939	15.4	100.0	100.0
Industrial countries	7,600,719	13.7	55.2	50.8	8,299,848	12.1	58.3	47.3
Developing countries	6,159,027	16.8	44.8	49.2	5,937,091	20.3	41.7	52.7
BRICs	1,805,951	24.2	13.1	19.5	1,483,601	25.3	10.4	15.8

(Notes)

(1) Trade value of world, EU27, Industrial countries and developing countries are based on JETRO estimates.

(2) The 3 Central and Eastern European countries are Poland, the Czech Republic and Hungary.

(3) ASEAN consists of 6 countries: Singapore, Thailand, Malaysia, Indonesia, the Philippines and Vietnam.

(4) East Asia consists of 10 countries: China, Korea, Hong Kong, Taiwan and ASEAN.

(5) Definitions of industrial countries and developing countries follow IFS (IMF).

(Sources) National trade statistics.

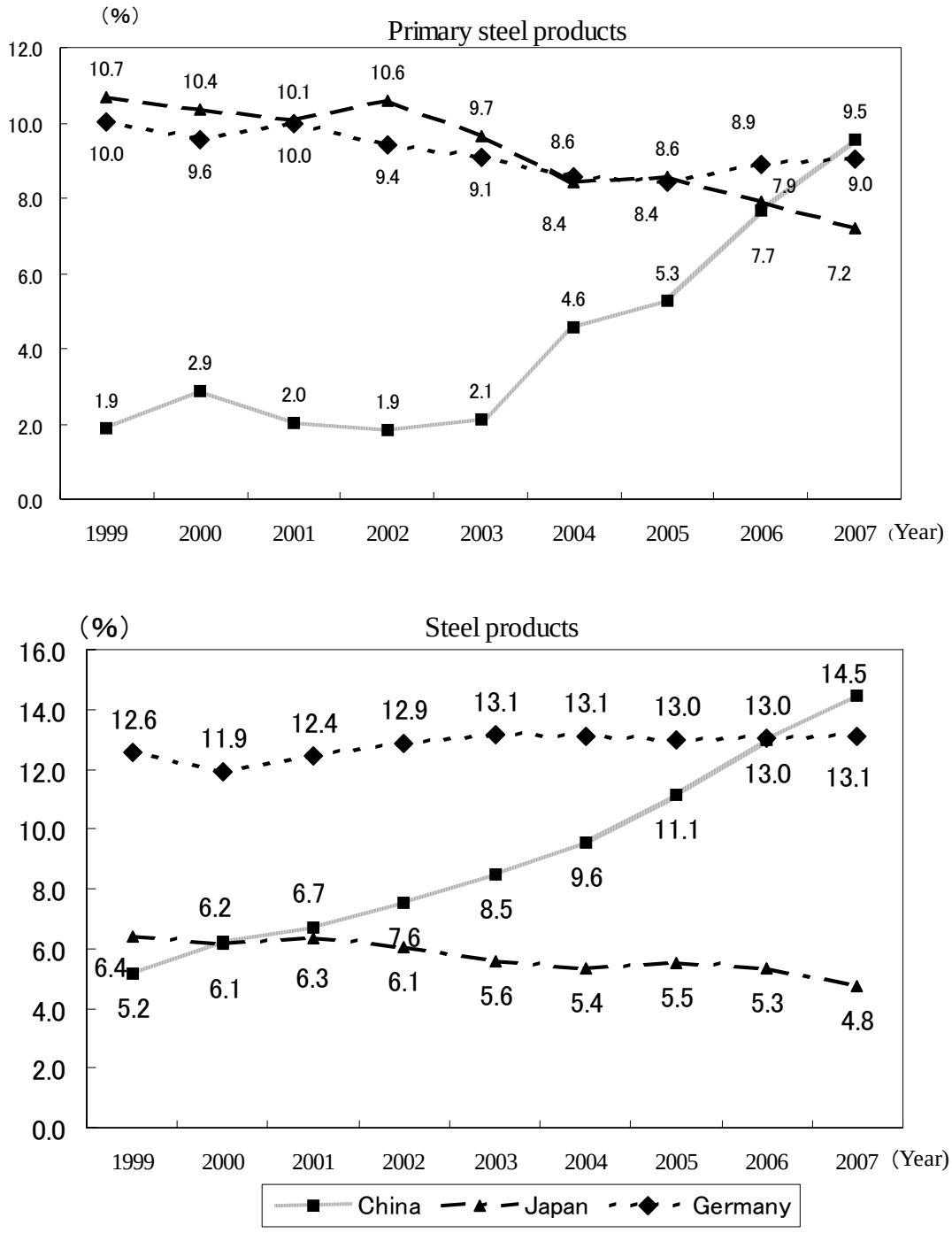
Table I-7 World trade <export basis> (2007)

(US$ million, %)

	Value	Growth rate	Share	Contribution
Total value	13,759,746	15.0	100.0	100.0
Machinery and equipment	5,598,140	13.0	40.7	35.9
General machinery	1,816,339	14.3	13.2	12.6
Air-conditioners	31,642	26.3	0.2	0.4
Electric equipment	1,804,765	10.0	13.1	9.1
Transport equipment	1,545,411	16.9	11.2	12.4
Automobiles	753,808	17.0	5.5	6.1
Passenger vehicles	616,165	15.5	4.5	4.6
Motorcycles	20,433	11.3	0.1	0.1
Automotive parts	323,138	13.8	2.3	2.2
Precision instruments	431,624	7.6	3.1	1.7
Chemicals	1,770,803	17.3	12.9	14.5
Industrial chemicals	1,190,494	18.2	8.7	10.2
Pharmaceutical and medical supplies	345,013	19.3	2.5	3.1
Plastics and rubber	580,310	15.7	4.2	4.4
Foodstuffs	819,553	18.4	6.0	7.1
Seafood	68,033	6.2	0.5	0.2
Cereals	68,557	44.4	0.5	1.2
Wheat	28,986	45.1	0.2	0.5
Corn	20,161	54.8	0.1	0.4
Rice	11,080	24.0	0.1	0.1
Processed food products	364,710	17.2	2.7	3.0
ethanol (ethylene alcohol)	3,905	11.4	0.0	0.0
Oils, fats and other animal and vegetable products	107,290	35.9	0.8	1.6
Soybeans	22,914	42.5	0.2	0.4
Animal and plant fats	59,856	38.5	0.4	0.9
Miscellaneous manufactured goods	403,667	17.4	2.9	3.3
Iron ore	42,112	23.7	0.3	0.4
Mineral fuels, etc.	1,799,402	11.2	13.1	10.1
Mineral fuels	1,716,608	11.4	12.5	9.7
Coal	53,860	6.4	0.4	0.2
LNG	57,724	12.4	0.4	0.4
Petroleum and petroleum products	1,452,237	12.0	10.6	8.6
Crude oil	955,658	10.6	6.9	5.1
Textiles and textile products	609,438	9.9	4.4	3.1
Synthetic fibers and textiles	72,731	8.1	0.5	0.3
Clothing	342,344	11.6	2.5	2.0
Base metals and base metal products	1,191,227	22.5	8.7	12.2
Steel	672,429	26.0	4.9	7.7
Primary steel products	418,864	28.0	3.0	5.1
Steel products	253,565	22.9	1.8	2.6
Copper	55,965	11.5	0.4	0.3
Nickel	23,967	57.3	0.2	0.5
Aluminum	56,273	7.9	0.4	0.2
Lead	5,549	67.3	0.0	0.1

(Sources) National Trade Statistics.

Fig. I-8 Major Steel-Exporting Countries



(Sources) National Trade Statistics.

Table I-8 World IT Trade <export basis> (2007)

(US$ million, %)

	Value	Share of total export	Share of total IT export
IT products	1,977,008	14.4	100.0
IT parts	988,354	7.2	50.0
Final goods	988,654	7.2	50.0
Computer and peripherals	445,452	3.2	22.5
Complex digital equipment	16,792	0.1	0.8
Computer and peripherals	277,753	2.0	14.0
Parts of computer peripherals	150,907	1.1	7.6
Office equipment	5,006	0.0	0.3
Telecommunication equipment	306,954	2.2	15.5
Semiconductors and electronic components	443,735	3.2	22.4
Electronic tube, semiconductor, etc.	77,846	0.6	3.9
Integrated circuits	365,890	2.7	18.5
Other electronic components	387,879	2.8	19.6
Flat panel display	61,338	0.4	3.1
Video equipment	186,447	1.4	9.4
Digital cameras	39,356	0.3	2.0
TV receivers (incl. liquid crystal and plasma)	60,138	0.4	3.0
Audio equipment	9,330	0.1	0.5
Portable players	7,262	0.1	0.4
Measuring and testing equipment	159,402	1.2	8.1
Semiconductor manufacturing equipment	32,802	0.2	1.7

(Sources) National trade statistics.

(Note) Time series comparison with the past data is difficult due to the significant revision of the HS code in 2007. Therefore in this White Paper, the current value and the share of the total exports are listed.

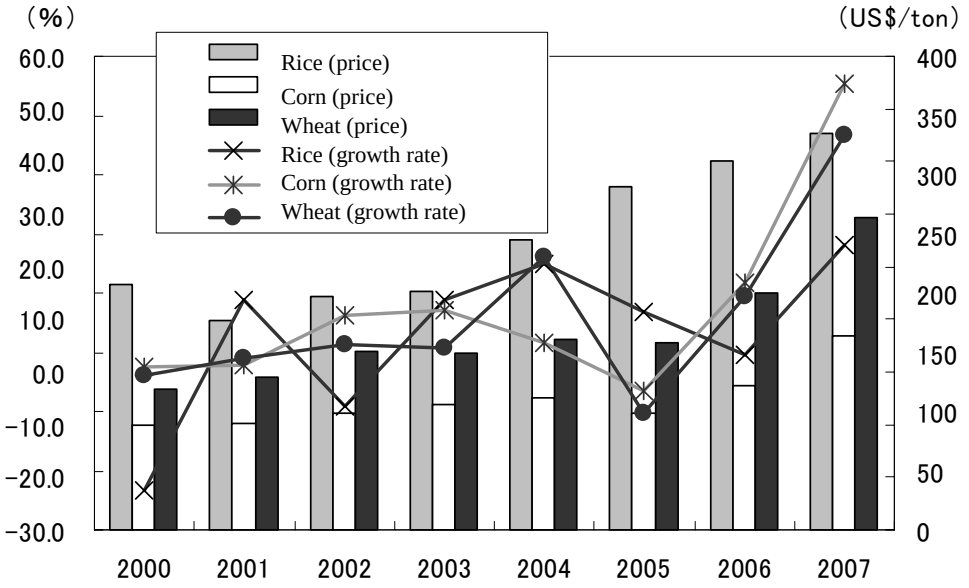
Table I-9 Major countries in cereal-exports (2007)

(%)

Wheat		Corn		Rice	
Country	Share	Country	Share	Country	Share
US	28.8	US	50.1	Thailand	33.7
Canada	15.3	Argentina	11.2	India	21.3
Russia	12.5	Brazil	9.5	US	12.5
France	12.2	France	7.5	Vietnam	7.8
Argentina	7.0	Hungary	5.3	Italy	4.9
Australia	5.6	China	4.3	China	4.3
Others	18.7	Others	12.0	Others	15.4

(Sources) National trade statistics. The share of Vietnam rice exports is based on estimated figures.

Fig. I-9 Prices and export growth rate of major cereals



(Note) Prices are the annual average price of White Rice, Thai 100% B second grade for rice, US No.2, Yellow for corn and US No.2, Hard Red Winter ord. Prot for wheat.
(Sources) National trade statistics and FAO.

Table I-10 Reactions to the surging food prices

(as of July 2008)

Country/region	Time of announcement/ initiation	Measure
EU	May 2008	Extended zero duty on imported cereals until 2009
	ditto	Completely abolished acreage reduction
Serbia	August 2007	Banned exports of cereals such as wheat, soy bean and corn
China	December 2007	Cancelled refund of export VAT for 84 items, such as rice, wheat and corn
	January 2008	Imposed 5-25% export tax on cereals such as rice, wheat and corn until the end of 2008
Indonesia	April 2008	Banned rice imports and exports
India	September 2007	Banned wheat exports
	April 2008	Banned exports of non-basmati rice, beans and cooking oil
	July 2008	Temporarily banned corn exports
Nepal	April 2008	Banned rice and wheat exports
Pakistan	January 2008	Banned wheat exports other than those with government contracts
Bangladesh	May 2008	Banned rice export for 6 months
Vietnam	March 2008	Suspended new contracts on rice exports (resumed in July)
Cambodia	March 2008	Banned rice exports for 2 months
Australia	November 2007	Imported feed grains for the first time in 4 years
Mexico	May 2008	Abolished general duties on wheat, edible white corn and rice
Brazil	April 2008	Stopped exports of government rice
Argentina	November 2007	Raised export tax for soy bean, wheat and corn
Russia	November 2007	Imposed export tax of 10% and 30% on wheat and barley, respectively (raised tax rate for wheat to 40% from January 2008, and then in July)
Ukraine	October 2007	Set export quotas for wheat, barley, corn and rye from November 2007 (lifted in May 2008)
Kazakhstan	April 2008	Banned wheat exports until September 1, 2008
Egypt	May 2008	Extended rice exports ban until April 2009, which was scheduled to end in October 2008
Saudi Arabia	April 2008	Reduced import duty on wheat

(Sources)News reports

Table I-11 Quarterly trade by major countries/regions in exports of major products

(US$ million, growth rate:%)

	Major 20 countries/ regions' share of world total in 2007	2007				2008
		Ⅰ	Ⅱ	Ⅲ	Ⅳ	Ⅰ
Total	62.7	1,953,749	2,113,899	2,197,034	2,360,616	2,333,133
		(13.0)	(12.4)	(14.1)	(17.1)	(19.4)
Machinery/equipment	76.1	980,696	1,034,127	1,071,657	1,174,787	1,121,094
		(9.5)	(8.0)	(13.0)	(14.4)	(14.3)
General machinery	72.6	310,215	320,035	332,534	356,007	353,433
		(14.1)	(10.4)	(11.5)	(11.0)	(13.9)
Electric machinery	80.5	324,476	341,490	377,277	409,008	364,081
		(3.6)	(0.7)	(12.0)	(15.2)	(12.2)
Transport equipment	73.8	267,429	288,161	273,004	311,793	308,833
		(13.4)	(15.3)	(17.5)	(18.1)	(15.5)
Precision machinery	81.1	78,577	84,440	88,843	97,979	94,747
		(5.5)	(7.7)	(10.2)	(13.1)	(20.6)
Chemical	63.6	264,648	279,732	285,452	296,963	315,719
		(17.7)	(16.4)	(15.6)	(16.8)	(19.3)
Foodstuffs	50.2	90,775	96,909	104,139	119,466	113,820
		(17.3)	(17.4)	(17.9)	(23.2)	(25.4)
Cereals	73.8	10,488	10,203	13,313	16,586	17,194
		(28.6)	(26.6)	(57.9)	(72.5)	(63.9)
Textiles and textile products	60.9	78,540	91,600	106,042	94,772	87,562
		(7.2)	(9.8)	(13.0)	(9.6)	(11.5)
Iron and steel	59.1	93,174	104,968	97,899	101,079	107,767
		(37.7)	(35.6)	(17.5)	(11.8)	(15.7)
Iron ore (imports)	78.3	10,510	11,158	12,926	15,453	18,219
		(27.8)	(36.3)	(35.8)	(66.6)	(73.3)
Mineral fuels (imports)	67.4	243,168	279,583	300,946	352,191	395,784
		(-4.3)	(1.3)	(2.7)	(43.3)	(62.8)
Crude oil (imports)	68.3	141,427	163,562	185,101	214,822	239,038
		(-5.0)	(-2.1)	(0.9)	(44.9)	(69.0)

(Notes)

(1) The 20 major countries/regions stand for Japan, China, Hong Kong, South Korea, Taiwan, Indonesia, Malaysia, the Philippines, Singapore, Thailand, US, Canada, Mex Brazil, France, Germany, UK, Switzerland, Russia and Australia.

(2) Iron ore, mineral fuels and crude oil are on an import basis. Others on an export basis.

(3) The growth rate is a yoy change.

(Sources)National trade statistics.

Table I-12 Growth Rate of World Service Trade (Export)

(%, US$ million)

	2001	2002	2003	2004	2005	2006	2007		
								Value	Contribution
World service export value	0.2	7.5	14.7	20.6	11.7	12.0	17.8	3,257,300	100.0
Transportation	-0.9	4.4	13.4	24.6	13.0	8.9	18.3	742,100	23.4
Travel	-2.1	4.7	10.1	19.2	7.4	9.3	14.4	862,300	22.1
Other services	2.5	11.1	18.3	19.5	13.7	15.0	19.4	1,652,800	54.5

(Source) WTO.

Table I-13 Service Trade by Country/Region (2007)

(US$ million, %)

	Exports			Imports		
	Value	Growth rate	share	Value	Growth rate	share
World	3,257,300	17.8	100.0	3,059,100	16.4	100.0
NAFTA	532,971	12.9	16.4	439,872	9.3	14.4
US	454,378	14.2	13.9	335,578	8.8	11.0
Canada	61,169	5.9	1.9	79,978	11.5	2.6
Mexico	17,423	6.4	0.5	24,315	8.9	0.8
Europe	1,662,000	18.6	51.0	1,433,800	17.4	46.9
EU27	1,512,100	18.6	46.4	1,337,300	17.3	43.7
UK	263,357	16.6	8.1	193,349	13.1	6.3
Germany	197,278	18.2	6.1	245,376	15.0	8.0
France	130,369	10.9	4.0	120,087	12.3	3.9
Spain	127,478	20.9	3.9	96,831	24.3	3.2
Italy	108,859	12.1	3.3	116,662	19.0	3.8
Asia	745,000	19.1	22.9	777,600	17.1	25.4
Japan	135,587	10.6	4.2	157,405	9.3	5.1
China	126,688	38.6	3.9	128,914	28.5	4.2
India	86,366	15.1	2.7	78,080	23.8	2.6
ASEAN10	147,200	17.3	4.5	184,000	15.9	6.0
Central and South America	90,600	16.3	2.8	96,500	18.4	3.2
Brazil	22,504	25.4	0.7	33,634	23.9	1.1
CIS	64,200	25.1	2.0	89,600	28.9	2.9
Russia	38,291	24.8	1.2	56,915	30.2	1.9
Middle East	78,600	15.4	2.4	124,500	16.8	4.1
Africa	83,900	21.4	2.6	97,200	19.3	3.2
South Africa	12,651	8.0	0.4	15,952	14.4	0.5

(Source) WTO.

3. Global direct investment & cross-border M&As

(1) Global direct investment exceeds US$2 trillion in 2007

Global inward foreign direct investment (FDI, JETRO estimates, net flows based on balance of payments) in 2007 rose 37.0% yoy to US$2.1074 trillion, reaching the new highest value, which significantly exceeded the previous peak of approximately US$1.6 trillion reached in 2000 (Fig. I-10). In the same way, outward FDI exceeded US$2 trillion for the first time by rising 36.3% yoy to US$2.1522 trillion. (5) Active cross-border M&A (cross-border mergers and acquisitions of companies) activities and strong earnings of companies operating overseas as a whole had an impact. The underlying trend of dollar depreciation that continued in 2007 relatively boosted the total dollar-based amount (refer to Table I-14 and Reference Materials/Supplement Statistics: Table 6).

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5. The figures of global inward FDI and outward FDI should be conceptually consistent, but there are many cases where figures differ in actual statistics. This is because the definition and the evaluation method of direct investment vary with countries, such as the lower limit value to be reported, reinvestment earnings, treatment of sub-subsidiaries, profit transfer, and treatment of transactions with offshore companies, and also the timing to include such investment.

As a result of the worldwide credit contraction arising from the sub-prime mortgage problem, from the second half of 2007 onward, M&As, which is a significant constituent factor of FDI, slowed down in terms of the executed contract value. However, as it takes approximately several months from the announcement of M&A transactions to their completion in many cases, the total M&A completion in 2007 maintained a high level and contributed to the growth of the global FDI value.

■ Both inward and outward FDI rising in the EU but inward FDI falls slightly in the United States

By country and region, the sum of inward FDI in the EU27 (hereinafter referred to as EU), which accounted for more than 50% of the global FDI value, rose 43.2% yoy to US$1.0929 trillion, and outward FDI rose 46.9% yoy to US$1.3494 trillion, both exceeding the US$1 trillion mark for the first time. The EU contributed 58.0% and 75.1%, respectively, to the overall growth of global inward FDI and outward FDI in the world in 2007. The euro appreciation against the dollar (up 9.1% yoy on annual average) also boosted the dollar-based growth rate.

There was active investment in the EU made by countries other than the EU Member States. According to the Eurostat (Statistical Office of European Communities), direct investment from countries other than EU Member States posted significant growth by rising 107.1% yoy (direct investment among EU Member States rose 14.8%). Its value reached US$197.5 billion, posting significant yoy growth of nearly 100% owing to a growing number of M&A cases with direct investment coming from the United States via the special-purpose companies located in the Netherlands and Luxemburg. In terms of the growth rate, direct investment from India was noticeable, with M&A towards the United Kingdom posting a sharp yoy increase of more than 20 times to US$13 billion.

Inward FDI among major EU Member States such as the Netherlands, France, Spain and the United Kingdom posted noticeable growth. In the Netherlands, which had the largest inflow of direct investment in 2007, large-scale M&A transactions in the category of finance had an impact, but there was also active investment via the special-purpose companies located there. In France, inter-company loans between parent companies and their subsidiaries expanded, posting a significant increase by rising 102.1% yoy. In Spain, large-scale M&A transactions in such sectors as electric power seem to have contributed to the increase. With respect to direct investment towards the United Kingdom, there occurred a succession of acquisitions of well-known companies, such as Gallaher Group (cigarettes), Alliance Boots (drugstore) and Corus Group (steel). By item of direct investment, “Equity capital” (acquisition of shares, etc.) rose 36.4% yoy in the United Kingdom, reflecting an increase in M&A transactions. Also, as a reflection of strong earnings generated from operations in the United Kingdom by foreign-affiliated companies, “Reinvestment earnings” (undistributed profits internally reserved by foreign-affiliated subsidiaries within the region) rose 44.7% yoy (Table I-15).

Inward direct investment towards new EU member countries posted a high growth rate from the previous year, up 152.2% yoy in Hungary, up 120.9% in Slovenia, and up 52.8% in the Czech Republic. Direct investment from other member countries (the value of direct investment from the EU (25 Member States’ basis) towards the twelve new Member States, Eurostat) accounted for 59.3% of the total, but the degree of dependence on other member countries fell when compared to 2006, which was 76.1%. Regarding direct investment from non-members, green field investment from Japan, which made investments in electric machinery-related industries, and other Asian countries such as China and India seems to have increased.

Outward FDI from EU companies increased significantly in almost all major countries, except the Netherlands, where movements of funds via special-purpose

companies occur frequently and change substantially each year. In particular, countries such as the United Kingdom, Italy and France, where there were large-scale M&A transactions, contributed to the increase.

The United States' inward FDI amounted to US$237.5 billion, and despite a high level of inflow continuing from 2006, it posted a minor yoy decline of 1.8%. The contraction of finance-related transactions is considered to have had an impact, and the inward direct investment value in the fourth quarter fell 34.9% from the same quarter of the previous year. By item of inward FDI, inter-company loans between foreign-affiliated parent companies and their subsidiaries ("Other capital") fell (down 61.0%), which became a contributing factor of the decline on the full-year basis. On the other hand, "Equity capital" rose 25.2% yoy to US$147.4 billion, which reflected increasing M&A transactions in 2007.

The United States' outward FDI rose 38.1% to US$333.3 billion. As in the case of inward direct investment, along with increasing M&A transactions, "Equity capital" rose 172.3% yoy to US$88 billion. "Reinvestment earnings" also rose 13.7% to US$263.3 billion, accounting for 79.0% of the net outflow. According to the Department of Commerce of the United States, reinvestment earnings through holding companies and manufacturing industries mainly in Europe, Asia (excluding Japan), and Central and South America posted an increase. On the other hand, sale of overseas subsidiaries (withdrawal of outward investment) reached a high level of US$61 billion (figure based on the preliminary report). The sale to Middle East countries such as Saudi Arabia and United Arab Emirates (hereafter referred to as UAE) was noticeable.

■ **In China, investment in non-manufacturing industries increased**

In East Asia, inward FDI rose steadily, up 42.3% yoy to US$258.7 billion, thanks mainly to increasing investment towards China and Hong Kong.

Inward FDI towards China rose 77.2% yoy to US$138.4 billion. Foreign-affiliated companies that have already been operating in China showed strong earnings, with significant increase in reinvestment earnings. It is also a widely acceptable viewpoint that speculative money expecting the Yuan appreciation flowed in as direct investment. By country and region, direct investment from Hong Kong amounted to US$79 billion, accounting for more than 50% of the total. According to the State Administration of Foreign Exchange, direct investment posted significant growth in non-manufacturing industries, such as "Real estate industry" (up 98% yoy), "Social service industry" (up 104% yoy) and "Wholesale and retail trade and restaurant business" (up 52% yoy). Direct investment in manufacturing industries rose 27% yoy (on balance of payments

basis). Under the circumstances where, in addition to rising labor costs and land prices, costs are expected to further rise due to factors such as the abolishment of preferential treatment for foreign investment based on the law of corporate income tax within five years in principle and the responses to the Law on Employment Contracts (both went into effect in January 2008), new investment towards China's manufacturing industries is expected to slow down gradually.

On the other hand, as laws for promoting inward M&As have been improved, M&As, which has so far been limited as a form of investment towards China, is expected to become more active in the future. However, along with the improvement of M&A-related legislation, the strengthening of the inward investment regulations in China is now gaining attention. According to the "Regulations for Merger with and Acquisition of Domestic Enterprises by Foreign Investors" enforced in 2006, the Ministry of Commerce needs to be notified of any investment towards the domestic priority industries, but it has been pointed out that the ministry has a high degree of discretion and the screening criterion for approval is not transparent. In the Antitrust Law enforced in August 2008, it is stipulated that the government should have the power to determine when an M&A transaction by foreign capital affects "the nation's economic security", which is another example of an ambiguous criterion.

In Hong Kong, as in 2006, investment from China accounted for the largest share, approximately 30%, of the region's overall inward FDI. As the preferential taxation for foreign investment is to be abolished in stages in the future, investment funds that are considered to have flowed into Hong Kong and then flowed back again to China for the purpose of benefiting from preferential taxation may gradually decrease.

Among the major ASEAN countries, inward direct investment posted high growth in Malaysia, rising 39.9% yoy, as manufacturing, finance and mining industries performed well. Investment towards Thailand, mainly for the expansion of manufacturing industries, continued to be robust but has been on a slowing trend over the last two years, partly due to rising labor costs and the unstable political situation.

■ Developing countries' inward FDI increase mainly in emerging countries

In 2007, due to high growth in emerging countries and growing demand for resources, developing countries' total inward direct investment value rose 39.4% yoy to US$665.3 billion (estimated by the JETRO), posting a growth rate higher than that of developed countries.

In particular, investment was active towards Central and South America in 2007, and the growth rate was particularly high in Brazil (up 83.7% yoy) and Chile (up 96.5%),

both of which have rich mineral resources. According to the Economic Commission for Latin America and the Caribbean (ECLAC), investment for the purpose of resource mining increased even in Mexico and Central and South American countries, towards which there had been few resource-related investment. In Brazil, Argentina and Mexico, investment also increased not only in the resource-related category but also in manufacturing industries (such as automobiles, construction and foodstuffs) and non-manufacturing industries (such as retail trade, finance and electric power) with an aim for market cultivation.

Direct investment towards Russia grew 62.0% yoy. There were noticeable increases in M&A transactions by resource and energy-related companies in Europe. The countries from which a large scale of new equity capital flowed in were, in a descending order, Cyprus, the Bermuda Islands (United Kingdom) and the Netherlands. However, as to countries such as Cyprus and the Bermuda Islands, in many cases, Russian capital is considered to have flowed back to Russia via these “tax heavens” for the purpose of tax avoidance and asset conservation.

India’s inward FDI also continued to grow, rising 15.2% yoy. Not only did large-scale M&A transactions related to IT and information & communication contribute to the growth, but investment in the categories of real estate and construction increased, backed by strong economic performance. There was also active investment for newly establishing or expanding manufacturing bases in the categories related to electric machinery, software and automobiles. Green field investment accounted for 76.7% of the total direct investment (on the executed contract value basis). Investment in the categories of oil and natural gas also posted a sharp increase by rising approximately five times yoy. There was also active investment in the category of resource, such as Singapore’s large-scale capital contribution (US$400 million) in the mining industry. On the other hand, however, the country’s high inflation rate has been a risk factor for economic growth. The increase in India’s WPI was close to a double-digit rate each year, thereby causing concern over the influence on new direct investment.

In Vietnam, high inflation also caused concern about the economy, but the direct investment value on the new approval basis rose to US$17.9 billion, up by almost 100% yoy, following 2006. Vietnam has thus continued to have a growing presence as a country receiving new investments. In finance, the HSBC of the United Kingdom, which invested US$250 million in the state-owned insurance company (equivalent to 10% of the issued shares), followed by the Sumitomo Mitsui Banking Corporation’s US$225 million investment the Vietnam Commercial Bank of Export and Import (a ratio of capital contribution at 15%). In this way, investment in non-manufacturing

industries such as wholesales, finance and insurance, which are on the process of liberalization after Vietnam's accession to the WTO are expected to increase in the future.

According to the United Nations Conference on Trade and Development (UNCTAD), FDI towards Africa amounted to US$35.6 billion, remaining nearly flat from the previous year. Resource mining-related M&A transactions were active, thereby investment maintaining a high level.

Developing countries' outward FDI in 2007 rose 16.7% yoy to US$283.2 billion (estimated by JETRO) and continued to grow robustly mainly in emerging countries. In addition to active outward M&A activities by countries such as India and Russia, capital contribution to developed countries by the sovereign wealth funds (SWFs) in the Middle East and Asia increased as well (refer to (2) of this Section). There were also noticeable cases where emerging countries such as China and Russia made capital contribution to Africa and Central and South America for the purpose of acquiring resources. On the other hand, the outward FDI fell significantly from the previous year in countries such as Brazil (down 74.9%), where there were large-scale cases in 2006, and South Africa (down 51.7% yoy), where some businesses have withdrawn or been sold.

■ **Global inward direct investment expected to decrease in 2008**

There are many risk factors for the world economy that will have an adverse impact on the total FDI value in 2008, such as sluggish economic growth in the United States from the second half of 2007 onward, deteriorating corporate earnings due to surging resource prices, and a contraction of M&A activities accompanying the worldwide credit crunch. The OECD forecast that the 30 member countries' inward FDI value in 2008 would fall approximately 24% yoy and the outward FDI value would fall approximately 37% yoy.

On the other hand, investments directed at emerging markets and large-scale resource development projects are expected to continue being brisk. In countries with increasing revenue generated from resources such as crude oil, it seems likely that the tendency for SWFs and state-owned enterprises to actively make outward FDI will continue.

(2) Global M&As expanding significantly

According to data from Thomson Reuters, global cross-border M&A (completed mergers and acquisitions) transactions in 2007 rose 53.6% yoy to US$1.5559 trillion, exceeding the US$1.2347 trillion record in 2000, or the peak of M&A boom. (refer to

Reference Materials/Supplement Statistics: Table 7). The number of cases also rose to 9,878 in 2007, exceeding the 9,677 record in 2006. (6)

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6. The M&A data is the value (gross) obtained by adding up the value of each M&A transaction upon the completion of acquisition, while each country's FDI statistics based on the balance of payments show the difference between the outflow and the inflow (net). The M&A data defines cross-border transactions as transactions in which the nationality of the ultimate parent company of the acquirer differs from that of the target company. According to this definition, however, an M&A among residents or non-residents, which is not included in the direct investment statistics is also included in cross-border M&A. Furthermore, the direct investment statistics differ from the M&A data in definition and classification, in that only transactions with a capital relation of 10% or more are included in the direct investment statistics. Also, M&A transactions are not included in the direct investment statistics if funds are raised in the country where the deal is done. However, M&A accounts for a large percentage of direct investment, and the two are close to each other in their trends. The "M&A" referred to in this section, with no exceptions, means cross-border M&A.

In the M&A boom in 2000, which was called the IT bubble, M&As were seen mainly in the communication-related industries, and stock swaps were actively utilized as the approach to acquisition owing to rising stock prices. However, the expansion of M&As from 2004 onward was characterized by the active business reorganization in a wide range of industries, and cash or loans were used as main funds for acquisition due to inflating liquidity worldwide.

Gradually influenced by the credit crunch triggered by the subprime mortgage problem from the second half of 2007 onward, global M&A transactions have shown a tendency to contract since the beginning of 2008 (Fig. I-11). In particular, increasing M&As for non-business purposes by investment companies sharply deceased because financial institutions started to tighten criteria for lending and therefore fund raising became difficult. The ratio accounted for by M&As for the non-business purpose in the total M&A value was on a decline, falling from 25.2% in the first half of 2007 to 16.1% in the second half of 2007 and to 13.3% in the first half of 2008. On the other hand, SWFs in emerging countries successively injected capital to financial institutions in Europe and the United States, which suffered losses due to the subprime mortgage problem, enhancing their presence in the M&A market.

■ M&A towards the United States grow significantly

Viewed from the target country, by country and region, M&A towards companies in the United States posted a significant increase by rising 69.6% yoy to US$319.3 billion, with both the amount and the number of deals (1,569 deals) being the largest for a single country. Large-scale acquisition of companies in the same trade aiming for the horizontal expansion of business took place in a wide range of industries, as seen in deals where the large British pharmaceutical company AstraZeneca acquired MedImmune, a US manufacturer of pharmaceuticals such as vaccine (US$14.7 billion), and where National Grid, another large British supplier of electric power and gas, acquired Keyspan, a US company in the same trade (US$11.9 billion).

M&As also expanded in the EU, rising 50.2% yoy to US$763.2 billion, and in particular, it rose approximately five times yoy to US$186.7 billion in the Netherlands, contributing to the total growth in the EU. This was largely due to the hostile acquisition of the Dutch financial institution ABN AMRO by such financial groups as Royal Bank of Scotland group of the UK (US$98.2 billion). This transaction was the second largest cross-border M&A case, following the acquisition of Mannesmann by the British company Vodafone (US$202.8 billion) in 2000.

In the United Kingdom, M&As remained nearly flat from the previous year, but with an amount of US$219.9 billion, it continued to be the largest target country for M&A in the EU. There were several large-scale deals in the United Kingdom, such as the acquisition of the major British electric power company Scottish Power by the major Spanish energy company Iberdrola (US$26.6 billion), and the acquisition of the major British drugstore Alliance Boots by investment funds in the United States (US$19.4 billion).

The total value of M&As towards the six ASEAN countries rose 63.7% yoy to US$28.4 billion owing to growth in countries such as the Philippines, Indonesia, and Vietnam, but there were relatively little movements in China and South Korea, and M&As towards East Asia as a whole remained flat from the previous year.

On the acquirer’s side, acquisitions by British companies rose 229.2% yoy to US$304.6 billion and posted highest for a single country by overtaking the United States (US$285 billion). There were five large-scale acquisitions exceeding US$10 billion by British companies, such as the acquisition of ABN AMRO and that of the major Canadian aluminum manufacturer Alcan by the major British resource company Rio Tinto (US$43.9 billion).

- **Noticeable M&As by companies in emerging economies and Sovereign Wealth Funds (SWFs)**

Acquisitions of companies in developed countries by those in emerging economies continued to increase rapidly in 2007. Companies in emerging countries, which are inferior to the multinational companies in developed countries in terms of brand capabilities, distribution networks and R&D capabilities, may have come to widely adopt the business strategy of strengthening their management resources by making effective use of M&As with companies in developed countries. In particular, large-scale M&A transactions were observed in India and Russia (Fig. I-12).

In India, acquisitions of companies in developed countries were noticeable in manufacturing industries, such as the acquisition of the major British steel company Corus Group by Tata Steel, the largest steel company in India (US$12.7 billion), and Tata Motors' acquisition of the British brands, Jaguar and Land Rover, from Ford Motors of the United States (US$2.3 billion) in 2008. M&As by Indian companies towards developed countries in 2007 accounted for 88.4% of the total value of M&A deals in India and for 70.8% in terms of the number of deals.

In Russia, resource and metal-related M&As were actively conducted by major resource and mining companies such as Gazprom, with a view to securing mining rights and expanding supply to developed countries. In 2007, Norilsk Nickel acquired the major Canadian mining company Lion Ore Mining, which deals with minerals such as gold and nickel (US$6.4 billion). Regarding other emerging countries, Brazil witnessed many acquisitions of steel and food companies in developed countries for the purpose of expanding production and sales and many cases of finance-related investment in developed countries, as well as active resource-related M&A transactions. Also in China, manufacturers of electric machinery, etc. have conducted M&A transactions with companies in developed countries or have made active expansions towards markets in developed countries. The Chinese government has been making efforts to globalize its domestic companies and has strategically utilized M&As, led by the establishment of China Investment Corp. (CIC), a wholly government-financed SWF, in 2007. In 2008, Aluminum Corporation of China Ltd. acquired approximately 10% of the issued shares of Rio Tinto (US$14.3 billion), as part of China's resource strategy to forestall the movement of Australia's BHP Billiton to acquire Rio Tinto.

M&A has also been conducted actively by SWFs and state-owned enterprises, using income from resources and government reserves like foreign exchange reserves as funds. In 2007 for example, a subsidiary of Singapore's Temasek Holdings acquired Australian natural gas supplier Alinta Energy (US$11.5 billion), and China's CIC injected capital of US$3 billion to Blackstone, a US investment company in the United States that fell short of funds due to losses arising from the subprime mortgage problem (portfolio

investment with a ratio of capital contribution at 9.9%). Also in 2008, there were active acquisitions in the categories of energy and finance. Abu Dhabi National Energy Company (TAQA), a state-owned enterprise in Abu Dhabi, the UAE, acquired the Canadian oil and natural gas company Prime West (US$4.6 billion), and Borse Dubai, a state-owned holding company which owns companies such as Dubai Financial Market (DFM), acquired OMX, a company operating businesses such as the Stockholm Stock Exchange (US$4.6 billion in total).

■ **M&As grew in the categories of finance, and resource and energy**

Viewing the M&A trend in 2007 by industry (cases of target companies), M&As in "Finance & Insurance" rose 115.5% yoy to US$354.5 billion, which significantly boosted the total growth. The trend of reorganization continued in the financial sector, as seen in the acquisition of ABN AMRO, the acquisition of the Irish DEPFA Bank by the Hypo Real Estate Holding AG, a major German real estate company (US$7.8 billion) and the acquisition of Finland's Sampo Bank by Denmark's Danske Bank (US$5.2 billion). In "Electric Power, Gas & Water" (US$150.3 billion, up 185.5% yoy), in addition to the acquisition of the British company Scottish Power by Spain's Iberdrola, there was also the acquisition of Spain's Endesa, S.A. by the major Italian energy company Enel SpA and other companies (US$26.4 billion). Acquisitions in the same trade were very active, particularly in Europe, as competition was becoming more and more fierce in the category of energy, such as electric power.

In "Metal and metal products" (US$112.9 billion, up approximately 6.3 times yoy), in addition to the acquisition of the British company Corus by India's Tata Steel, there was the acquisition of IPSCO, a steel manufacturer in the United States, by the SSAB, a Swedish steel manufacturer of products such as cold-rolled steel plates (US$8.2 billion).

M&As in "Oil and natural gas" (US$80.2 billion, up 104.1% yoy) also showed noticeable growth. As the importance to ensure oil and metal resources came to draw attention worldwide, noticeable large-scale acquisitions and business reorganization were observed in 2007, as in the previous year, in the categories of energy, and resources and raw materials, as represented by Rio Tinto's acquisition of Alcan.

Regarding the category of resources, in the oil and natural gas (oil refinery) industry, the Royal Dutch Shell Group was integrated in 2005, and in the mineral resource industry, the major Canadian nickel company Inco Limited was acquired by the major Brazilian company Vale and the major Canadian nickel company Falconbridge was acquired by the major Swiss non-ferrous metal company Xstrata in 2006. Triggered by such large-scale M&A transactions, full-scale reorganization got underway in each of

these industries (Fig. I-13). In November 2007, Australia's BHP Billiton, the largest mining company in the world, offered to buyout Rio Tinto, the second largest (US$188.2 billion). If this deal is realized, the sellers' dominant position on metal resource markets will be further strengthened, and the steel and non-ferrous metal industries, which are the users, will hold destabilizing factors in supply. In particular, Japan's steel industry has growing concern about this matter and in March 2008, the Japan Iron and Steel Federation requested that the Japan Fair Trade Commission suspend this offer. The oligopoly on the supply side will enhance incentive for buyers to strengthen their purchasing power and price negotiating capabilities, and consequently, reorganization may become active on the users' side as well.

■ **Global M&A transactions contracts in the first half of 2008**

As a result of the credit crunch triggered by the subprime mortgage problem, global M&A transactions have shown a downward trend since the beginning of 2008. The total cross-border M&A value in the first half of 2008 fell 14.5% yoy to US$597.3 billion. The number of M&A deals also fell 15.7% yoy to no more than 4,198. For instance, reflecting the sluggish real estate market in the United States, real estate-related M&As posted a significant yoy decline in both the value (down 39.4%) and the number of cases (down 34.7%). According to the M&A data based on the dates announced, which is a leading indicator, the value of the announced M&A deals in the first half of 2008 fell 47.2% yoy to no more than US$697.3 billion. Therefore, the full-year value in 2008 is also expected to fall.

M&A transactions using LBO (Leveraged Buyouts, the approach to raise funds by using the assets of the target company as a guarantee) declined sharply as a typical phenomenon of the contracting M&A market. Like subprime mortgages, how to dispose of the appraised losses of LBO loans is an issue for financial institutions in Europe and the United States, and they have become more cautious about new applications for LBO loans (Fig. I-14). As a result, for investment funds, which have depended on loans as funds for acquisition, it has become difficult to raise the necessary funds.

In the period of the M&A boom in 2000, the stock swap scheme (including cases where cash was used simultaneously) was often used in M&A transactions, and such transactions accounted for 47.2% of the total M&A value. Such M&A transactions, in 2007, despite showing an increase from 6.7% in 2006 partly due to the impact of the large-scale acquisition of ABN AMRO, in which a stock swap was partially utilized, accounted for only 15.6% of the total. As a distinctive trend in the resource industry where oligopoly is getting underway, however, there were some cases where major

mining companies acquired companies in the same trade by using stock swap, with their stock prices rising along with resource prices.

While M&A transactions contracted, global business reorganization continued. In the first half of 2008, there were large-scale deals such as the acquisition by the major British tobacco company Imperial Tobacco of the major Spanish company Altadis in the same trade (US$21.5 billion) and the acquisition by the major Dutch beer manufacturer Heineken of the major British company Scottish & Newcastle in the same trade (US$18.6 billion). From the mid-term point of view, reorganization through active utilization of M&As mainly by large Transnational Corporations with fund power is expected to continue in each industry.

Column I-3

◎ Rise of SWFs and inward investment regulation

According to the IMF, SWFs are the funds established or owned by governments and held for the purpose of long-term investment in overseas assets, with income generated from transactions of resources such as crude oil and minerals, and tax and foreign exchange reserves as funds for investment. The total assets are said to have reached US$2−3 trillion in 2007 and to reach US$12 trillion in 2012.

Despite their large scale, the actual state of investment has not been made known by many SWFs. In view of the fact that information on the investment-receiving company is also conveyed to the government, which is the investor, there is a growing sense of caution, particularly in developed countries, towards SWFs and investment by state-owned enterprises in categories such as national security, resources and energy, and some countries started to re-examine the inward investment regulations.

In the United States, triggered by the China National Offshore Oil Corporation's offer to buy out the US oil company Unocal in 2005 and the Dubai-owned firms' offer to buy out the US port management company in 2006 (both were withdrawn later), the Foreign Investment and National Security Act (FINSA) was passed to amend Section 721 of the Defense Production Act (Exon-Florio provision). Under the said provision, if a US company is controlled by a foreign company through acquisition, the Committee on Foreign Investment may examine the case. If the case is identified to pose a "threat to national security" as a result of the examination, then the President can prevent the acquisition. According to the FINSA, in addition to the requirements with respect mainly to national defense thus far, more new items will be added to the identification

of “threat to national security,” such as the concept of security for the important domestic infrastructure and the impact on energy assets and important technologies, and it has become possible to apply the regulations to a wider range of categories of industry.

Japan also expanded the scope of the regulations by enforcing a Cabinet Order to reexamine the inward investment regulations in September 2007, and Germany is discussing an amendment bill on the investment act with a wider scope of regulation applicability, targeting SWFs. Also in Russia, a federal law regulating foreign investment in the strategic categories was enforced in May 2008.

The movements to reexamine inward investment regulations are not solely targeting SWFs, and the stance varies by country under different circumstances, such as with the need to protect domestic industries intensifying or resource nationalism growing domestically. However, impact of foreign investments by SWFs and state-owned enterprises has come to draw attention from the viewpoint of national security and secret information management.

On the other hand, most activities by SWFs are considered to be conducted as stable investment in the long and medium terms. Almost all cases of subprime mortgage-related capital injection were securities investments with a ratio of capital contribution lower than 10%, such as the capital contribution to Switzerland’s USB by the Government of Singapore Investment Corporation (GIC) (US$9.8 billion, with a ratio of capital contribution at approximately 9.0%) and that to the Citigroup by the Abu Dhabi Investment Authority (US$7.5 billion, with a ratio of capital contribution at 4.9%). It is widely recognized that such activities had been conducted for a purely economic objective.

For fear of the adverse impact arising from excessive investment regulations, adjustment is now underway among international organizations. In the Declaration of the G8 Hiligendamm Summit held in June 2007, the leaders confirmed to work together to strengthen open and transparent investment regimes and to fight against tendencies to restrict investments. At the OECD Ministerial Council Meeting in June 2008, ministers recognized that SWFs’ investment activities have contributed to the stability of world financial markets and issued a statement pointing out that recipient countries should not discriminate among investors. At the same time, regarding regulations based on grounds such as national security, the statement also suggested that certain regulations should be recognized necessary on the condition that they are transparent and predictable and are not excessive. The IMF also set up an SWF-related working group jointly with organizations such as the OECD and is scheduled to work out a proposal for the best

practice (action plan) by the fall of 2008. The G8 Hokkaido Toyako Summit held in July pointed out that "SWFs are participants with an increasing importance in the world economy" and encouraged the efforts by the IMF and the OECD in its Summit Documents.

Individual countries also began preparing the guideline. In March 2008, along with the governments of Singapore and Abu Dhabi (UAE), the United States announced the guideline for receiving investment from SWFs without discriminating among investors, while promoting information disclosure regarding SWFs.

Table 1 List of Major SWFs by country

Name of country/Name of major fund	Asset	Funds for investment	Year of establishment	Outline
UAE/Abu Dhabi Investment Authority (ADIA)	875	Crude oil	1976	There are many long-term investments in large companies but the content of investments are not made open. The Abu Dhabi Investment Council was established in 2006.
Norway/Government Pension Fund (GPF)	395	Crude oil	1990	Supervised by the Ministry of Finance and operated by the central bank's "Norway Bank Investment Management." Transparency is high.
Singapore/ Government of Singapore Investment Corporation (GIC) Temasek Holdings	330 100	Government reserves	1981 1974	GIC was originally a subsidiary of Temasek, a government-affiliated holding company. Nowadays, Temasek is a private company in form. The government shows understanding of a certain extent of information disclosure.
Saudi Arabia/Saudi Arabian Money Agency (SAMA)	250	Crude oil	1952	The Money Agency invests with reserves of the national oil company's income. A new fund is scheduled to be established in 2008.
Kuwait/Kuwaiti Investment Authority (KIA)	160-250	Crude oil	1953	Future Generation Fund (FGF), an asset fund managed by KIA, makes investments with overseas assets.
China/ China Investment Corp. (CIC)	200	Government reserves	2007	A company under the direct control of the State Council and is financed by the Ministry of Finance. It makes investments with the largest foreign exchange reserves in the world.
Russia/Petroleum Stabilization Fund	160	Crude oil	2004	Divided into "reserves" and "people's welfare fund" in February 2008. It holds mainly foreign government bonds and international institutional bonds.
Australia/Australia Future Fund	42	Government reserves	2006	Established for the purpose of paying pensions to old people. The Future Fund Management Agency financed by the government operates this fund.
United States/Alaska Permanent Fund	35	Crude oil and minerals	1976	Owned by Alaska and operated by the state-owned Alaska permanent fund management organ. There are funds for respective states in the United States.
South Korea/Korea Investment Corporation	20	Government reserves	2005	US$17 billion financed by the central bank and US$3 billion by the government.

(Notes)

(1) The asset is an estimated figure (unit: US$1 billion).

(2) Government reserves are mainly foreign exchange reserves, and in the case of Australia, they are income from the selling of privatized companies' stocks.

(Sources) Prepared based on IMF data and various other materials.

Table 2 Outline of major countries' inward investment regulations

Name of country	Regulated industry	Examination criterion and outline	Method of regulation
United States	All industries	Activities by foreign persons (company, government and person) that have an impact on national security of the United States	Ex post facto intervention
Japan	Weapon, ordinance, aircraft, space development, nuclear power, related general-purpose goods, etc.	Examinations conducted based on national security, public order and public safety, and "inherent circumstances (agriculture, forestry and fisheries industry, etc.)"	Notification in advance
United Kingdom	All industries	Public interests (including national security). The business law was enacted in 2002. Defense Secretary may intervene.	Ex post facto intervention
France	Weapon, military industry, information and security, and countermeasures against bio-terror, etc.	Interests in terms of national defense. Amendment was triggered by the US PepsiCo's offer to buy out Danon in 2005.	Notification in advance
Germany	War weaponry, cryptography system, and tank engine	Interests in terms of national security under the current law. The Government put forward the "Risk Restriction Law" with a wider scope in 2007.	Notification in advance
China	"Priority industries": a wide range of industries are regulated	Regulate investments that "have an important impact on the safety of the national economy." The regulation aims to "secure safety for industries."	Notification in advance
South Korea	All industries	The government will intervene when clear evidence is found that "the indispensable public interests" are harmed.	Ex post facto intervention
Russia	Military, aviation, nuclear power, etc.	Inward investment regulations are scheduled to be introduced to 42 "strategic fields" in 2008.	Notification in advance

(Sources) Prepared based on data from the OECD and Ministry of Economy, Trade and Industry, and other materials

Fig. I-14 FDI of major economies (net flows based on balance of payments)

(US$ million, %)

	Inward FDI			Outward FDI		
	2,006	2,007	Growth rate	2,006	2,007	Growth rate
US	241,961	237,542	-1.8	241,244	333,271	38.1
Canada	62,765	108,655	73.1	39,117	53,818	37.6
EU27	763,316	1,092,864	43.2	918,702	1,349,387	46.9
EU15	693,129	1,001,850	44.5	886,226	1,305,846	47.3
France	78,154	157,970	102.1	121,370	224,650	85.1
Germany	55,168	51,812	-6.1	94,700	169,886	79.4
Italy	39,239	40,202	2.5	42,068	90,780	115.8
Netherlands	105,446	251,564	138.6	208,391	110,539	-47.0
Spain	26,889	53,385	98.5	100,250	119,605	19.3
UK	148,189	185,941	25.5	86,764	229,839	164.9
12 new EU members	70,187	91,014	29.7	32,477	43,541	34.1
Switzerland	26,275	40,391	53.7	69,854	50,968	-27.0
Australia	25,736	22,266	-13.5	22,638	24,209	6.9
Japan	-6,789	22,181	n.a.	50,165	73,483	46.5
East Asia	181,801	258,701	42.3	100,455	129,460	28.9
China	78,095	138,413	77.2	17,830	16,995	-4.7
Hong Kong	45,060	59,877	32.9	44,979	53,160	18.2
ASEAN5	47,635	50,673	6.4	22,120	32,923	48.8
Singapore	24,742	24,137	-2.4	12,241	12,300	0.5
India	19,352	22,300	15.2	10,389	11,861	14.2
Brazil	18,822	34,585	83.7	28,202	7,067	-74.9
Russia	32,387	52,475	62.0	23,151	45,652	97.2
Developed Countries	1,061,613	1,442,179	35.8	1,336,115	1,869,022	39.9
Developing countries	477,188	665,260	39.4	242,614	283,155	16.7
World	1,538,801	2,107,439	37.0	1,578,729	2,152,177	36.3

(Notes)

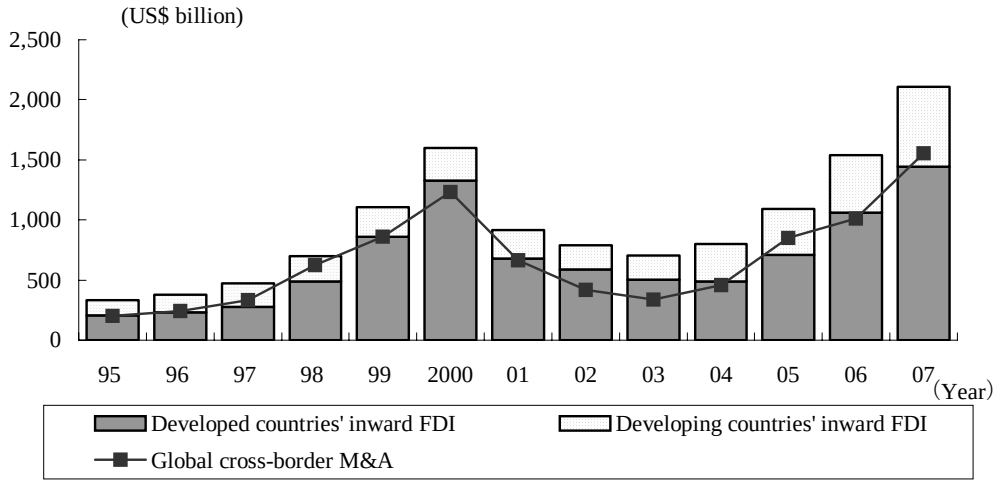
(1) JETRO estimates for "World" and "Developing Countries" figures. (refer to Reference Materials/Supplement Statistics: Annotation 3)

(2) ASEAN5 consists of Thailand, Malaysia, Phillipines, Indonesia and Singapore.

(3) “East Asia” stands for the sum of China, South Korea, Taiwan, Hong Kong and five ASEAN countries.

(Sources) National and regional balance of payments statistics, BOPS (IMF) and UN Economic Commission of Latin America Countries (ECLAC).

Fig. I-10 Global FDI and cross-border M&As



(Sources) BOPS (IMF), national and regional balance of payments statistics and Thomson Reuters.

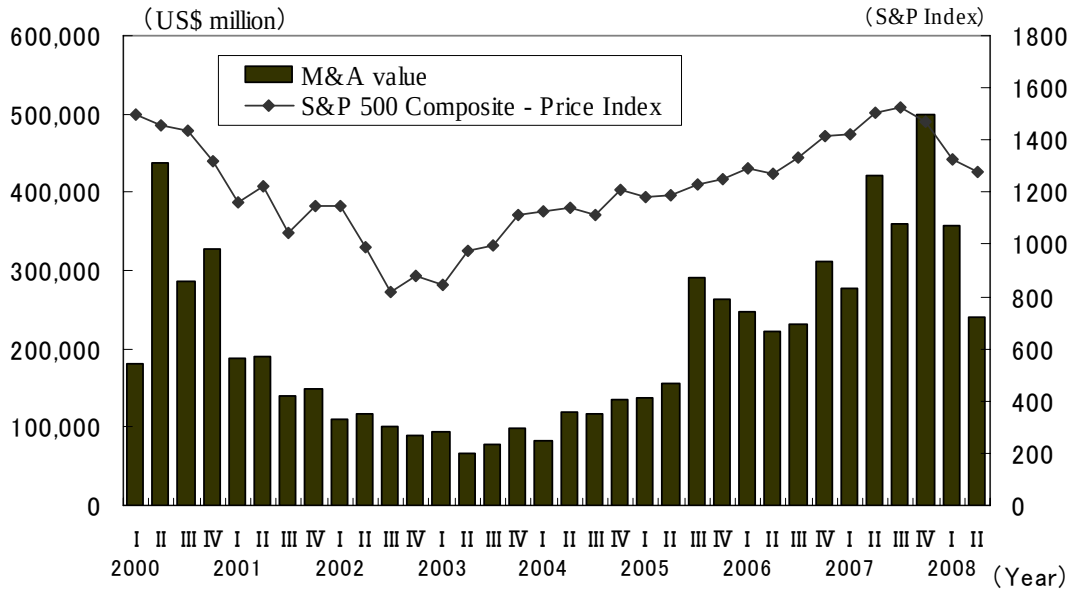
Table I-15 Top ten countries/regions in FDI worldwide

(US$ million)

	Inward FDI				Outward FDI			
	2006		2007		2006		2007	
1	US	241,961	Netherlands	251,564	US	241,244	US	333,271
2	UK	148,189	US	237,542	Netherlands	208,391	UK	229,839
3	Luxemburg	124,903	UK	185,941	France	121,370	France	224,650
4	Netherlands	105,446	France	157,970	Luxemburg	110,614	Luxemburg	181,848
5	France	78,154	China	138,413	Spain	100,250	Germany	169,886
6	China	78,095	Luxemburg	118,798	Germany	94,700	Spain	119,605
7	Belgium	63,912	Canada	108,655	UK	86,764	Netherlands	110,539
8	Canada	62,765	Hong Kong	59,877	Switzerland	69,854	Italy	90,780
9	Germany	55,168	Spain	53,385	Belgium	56,171	Japan	73,483
10	Hong Kong	45,060	Russia	52,475	Japan	50,165	Canada	53,818

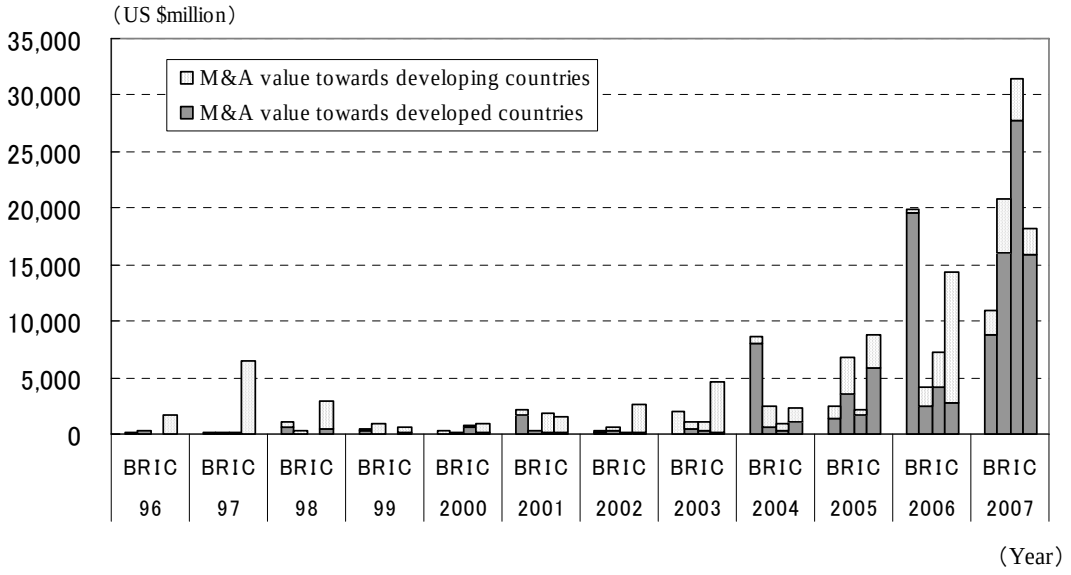
(Sources) National balance of payments statistics and BOPS (IMF).

Fig. I-11 Quarterly M&A value and US stock price index



(Note) Stock prices are the quarter-end closing prices.
(Sources) Thomson Reuters data and Datastream.

Fig. I-12 M&A value towards developed countries by major emerging economies



(Note) B stands for Brazil, R for Russia, I for India and C for China.
(Sources) Thomson Reuters.

Table I-16 Cross-Border M&As: 10 largest in 2007 and the first half of 2008

2007

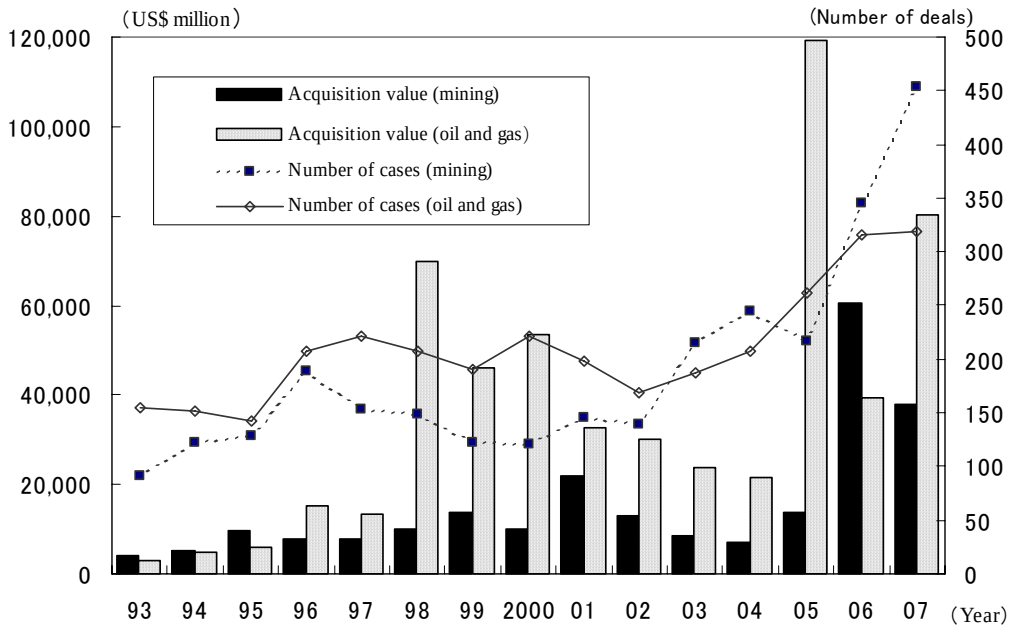
	Acquirer Company			Target Company			Amount (US$ million)	Equity after acquisition (%)
		Nationality	Industry		Nationality	Industry		
Nov.	RFS Holdings BV	UK	Finance (investment)	ABN-AMRO Holding NV	Netherlands	Bank	98,189	98.8
Nov.	Rio Tinto PLC	UK	Mining	Alcan Inc	Canada	Metal (aluminum)	43,923	100.0
Apr.	Iberdrola SA	Spain	Electric services	Scottish Power PLC	UK	Electric services	26,635	100.0
Oct.	Enel Energy Europe Srl, others	Italy	Electric services	Endesa SA	Spain	Electric services	26,438	92.1
Jun.	AB Acquisitions Ltd	US	Finance (investment)	Alliance Boots PLC	UK	Drug stores and proprietary stores	19,408	100.0
Apr.	Japan Tobacco Inc	Japan	Cigarettes	Gallaher Group PLC	UK	Cigarettes	18,800	100.0
Jul.	Unibail Holding SA	France	Real estate investment trusts	Rodamco Europe NV	Netherlands	Real estate investment and trust	18,504	95.7
Aug.	Spohn Cement GmbH	Germany	Kiln, ceramics and stone	Hanson PLC	UK	Kiln, ceramics and stone	18,360	100.0
Nov.	Groupe Danone SA	France	Dry, condensed, and evaporated dairy products	Koninklijke Numico NV	Netherlands	Dry, condensed, and evaporated dairy products	16,825	100.0
Jul.	Cemex SAB de CV	Mexico	Kiln, ceramics and stone	Rinker Group Ltd	Australia	Kiln, ceramics and stone	15,434	100.0

Jan.-Jun. 2008

	Acquirer Company			Target Company			Amount (US$ million)	Equity after acquisition (%)
		Nationality	Industry		Nationality	Industry		
Feb.	Imperial Tobacco Group PLC	UK	Cigarettes	Altadis SA	Spain	Cigarettes	21,489	100.0
Apr.	Heineken NV, Carlsberg A/S	Netherlands	Beverage (beer)	Scottish & Newcastle PLC	UK	Beverage (beer)	18,631	100.0
Jan.	Akzo Nobel NV	Netherlands	Chemical	ICI PLC	UK	Chemical	18,305	100.0
Apr.	Thomson Corp	Canada	Information services	Reuters Group PLC	UK	Information services	18,266	100.0
Feb.	Serafina Holdings Ltd	US	Finance (investment)	Intelsat Ltd	Bermuda	Information and communications	16,000	76.0
Jan.	Lafarge SA	France	Kiln, ceramics and stone	OCI Cement Group	Egypt	Kiln, ceramics and stone	15,018	100.0
Jun.	E ON AG	Germany	Electric services	Endesa Italia	Italy	Electric services	14,342	80.0
Mar.	Chinalco, Alcoa Inc	China	Mining	Rio Tinto PLC	UK	Mining	14,284	12.0
Mar.	GIC	Singapore	Finance (investment)	UBS AG	Switzerland	Bank	9,760	9.0
May	Toronto-Dominion Bank	Canada	Bank	Commerce Bancorp	US	Bank	8,638	100.0

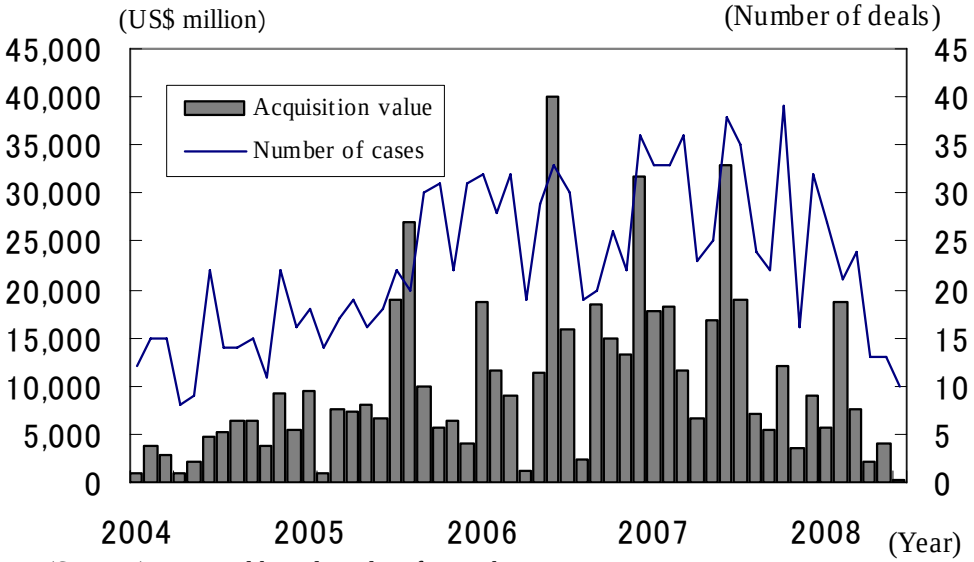
(Notes)
(1) The date is the completion date of the transaction. (2) The nationality of the acquirer is that of its ultimate parent company.
(3) The definition of M&A follows Thomson Reuters'. (4) The ranking is based on the value of a single transaction.
(5) If the acquirer is a holding company with manufacturing industries as its major business category, the manufacturer's name is listed.
(Sources) Thomson Reuters.

Fig. I-13 Resource-Related M&As



(Sources) Prepared based on data of Thomson Reuters

Fig. I-14 Monthly Movement of LBO-Utilizing M&As



(Sources) Prepared based on data from Thomson Reuters

4. Japan's Trade and Direct Investment

(1) Trade in Japan

■ **The export and import values both posted a record high in 2007**

In 2007, Japan's exports (customs-clearance basis) grew 10.1% yoy to US$712.7 billion, while imports grew 7.2% to US$621.1 billion. Exports increased for the sixth consecutive year, while imports increased for the fifth（Table I-17）. Japan's export value exceeded the US$700 billion mark for the first time, with the degree of dependence on exports (exports (customs clearance basis)/nominal GDP) reaching 16.3%, the highest in history. Boosted by surging crude oil prices during the fourth quarter, the import value also marked a record high at the US$600 billion range for the first time. As a result, Japan's total trade value (total value of the export and import) rose 8.7% yoy to US$1.3338 trillion. The trade surplus increased by US$23.7 billion to US$91.7 billion, posting a yoy increase for the first time in three years. In terms of volume, exports and imports showed contrasting results: while the export volume index rose 5.8% yoy, showing an increase for the sixth consecutive year, the import volume index fell 2.8% yoy, posting a decline for the first time in six years. In the first quarter of 2008, exports rose 18.5% to US$197.2 billion and imports rose 22.7% to US$178 billion, both maintaining rising momentum, but the trade surplus fell 10.1% to US$19.2 billion, turning minus for the first time in seven quarters.

In terms of the balance of payments, the current account surplus rose by US$40 billion yoy to US$210.5 billion, exceeding the US$200 billion mark for the first time in history. The ratio of the current account surplus to GDP rose 0.8% points to reach 4.5% (Table I-18). To a large extent, the current account surplus in 2007 was led by an increasing income account surplus. The income account surplus increased for the fifth consecutive year to US$138.6 billion, which was also the highest figure in history. From 2005 onward, there was a clear tendency for the income account surplus to outpace the trade surplus. As the breakdown shows, income generating from securities investment accounted for 74.1%, a main part, of the income account surplus, and this condition remained unchanged. As a reflection of strong earnings of Japanese companies' overseas subsidiaries, income from direct investment showed significant growth, which also contributed to an increasing surplus.

The services account deficit expanded for the first time in three years, rising by US$3 billion to US$21.2 billion. Despite a contracting travel account deficit that came about from the increasing number of foreigners visiting Japan and a continuing surplus of the other services account resulting from increasing royalty income, the deficit expanded. This was attributed to the fact that the magnitude of transport account deficit widened

due to rising crude oil and fuel prices. (The deficit rose by US$1.8 billion yoy to US$7 billion.)

■ **China became the largest trading partner**

In terms of exports and imports (on a customs-clearance basis) by country and region（Table I-18）, the total value of exports and imports with China (up 12.0% yoy to US$236.7 billion) outpaced that with the United States (up 0.2% yoy to US$214.2 billion), and it was the first time that China became Japan's largest trading partner on the calendar basis.

The export value towards China rose 17.5% yoy to US$109.1 billion, and on the volume basis, exports maintain strong momentum by rising 9.0% yoy. Judged from the breakdown, in addition to car exports, which showed a significant increase (up 77.5% to US$2.8 billion), chemical products and electric machinery both resulted in noticeable contributions to boosting the export value (up 25.7% to US$15.3 billion and up 18.6% to US$30 billion, respectively) following 2006. Incidentally, of the 10.1% yoy growth rate of the total export value towards the whole world, the total export value towards the East Asian region including China accounted for 5.0% points.

The export value towards the United States, reflecting the slowdown in the US economy triggered by the subprime mortgage problem, fell 1.6% yoy to US$143.4 billion, and posted a decline for the first time in four years. By products, such as general machinery, electric machinery and transport equipment, which account for a large share, all posted a yoy decline. As a result, the contribution by exports to the United States, which stood at 1.8% points in 2006, turned to minus 0.4% points in 2007.

With respect to exports to other regions, the export value towards the EU27 rose 11.8% yoy to US$105.3 billion, that to Russia and CIS rose 50.1% yoy to US$12.5 billion, and that to the Middle East rose 36.4% yoy to US$26.2 billion, with exports to regions other than the United States all being strong and bolstering export growth in 2007.

Imports from China remained flat by rising 0.0% yoy in terms of the volume basis but rose 7.7% yoy in terms of the value (to US$127.6 billion), and China remained Japan's biggest import partner for the sixth consecutive year. By items, import growth was bolstered by communications equipment including cell phones (up 143% to US$4.1 billion), chemical products (up 27.3% to US$6.8 billion), and electric machinery (up 13.1% to US$26.1 billion). On the other hand, the import value was pushed down by foodstuffs such as fish and seafood (down 14.5% yoy to US$2.7 billion) and vegetables (down 6.8% yoy to US$1.8 billion) due to concerns about the safety of Chinese

products.

Imports from the United States rose 4.1% yoy to US$70.8 billion in terms of the value and rose 5.5% yoy in terms of the volume. By item, foodstuffs (up 8.5% yoy to US$14 billion), raw materials (up 20.7% yoy to US$4.8 billion), chemical products (up 8.7% yoy to US$9.5 billion) and transport equipment (up 11.8% yoy to US$6.5 billion) contributed to import growth. On the other hand, electric machinery (down 3.5% yoy to US$11.7 billion) and general machinery (down 2.2% yoy to US$10.9 billion) pushed down the import value.

With respect to imports from regions other than China and the United States, as was expected, the import value from resource-rich countries and regions posted significant growth. The total import value from the Middle East posted a yoy decline from the first to third quarters of 2007, but as a result of surging crude oil prices in the fourth quarter, the value on the full-year basis increased, up 4.2% yoy to US$114 billion. The total import value of Australia, a major resource-rich country that is drawing attention, rose 11.5% yoy to US$31.2 billion, becoming the largest share for a single country (5.0% in 2007) after China, the United States, Saudi Arabia and the UAE.

■ **Automobile exports overcame the economic slowdown in the United States**

In terms of exports by commodity in 2007 (refer to Reference Materials/Supplement Statistics: Table 10), transport equipment exports led by automobiles (up 12.8% yoy to US$177 billion) made significant contribution to growth of the total export value, as was in the previous year.

Automobile exports showed a sharp contrast among different regions. Japan's passenger car exports to the world in 2006 posted a yoy increase of 17.9% in 2006, of which exports to the United States accounted for 11.0% points. However, that share fell to almost zero in 2007. Instead of that, passenger car exports to the regions such as the East Asia, Middle East and Russia enhanced their presence. As a result, passenger car exports to the world rose 14.2%, securing a growth not inferior to that in 2006 (Fig. I-15). According to the data released by the Japan Automobile Manufacturers Association, Inc., among domestically manufactured cars in 2007, the percentage accounted for by exports reached a record high of 57.4%, and in particular, the number of cars exported to the Middle East, Central and South America and Oceania posted a record high. For items other than cars, the growth of general machinery (up 10.9% yoy to US$141.2 billion) and manufactured goods, which continued to be strong due to rising resource prices (up 12.3% to US$84 billion), bolstered the export value. Despite the sluggish housing market in the United States, exports of general machinery

maintained a rising trend thanks to the recent resource development boom and demand for infrastructure improvement in emerging countries (construction /mining machinery rose 17.0% yoy to US$11.4 billion).

In terms of imports by commodity in 2007(refer to Reference Materials/Supplement Statistics: Table 11), as a reflection of surging resource prices, imports of mineral fuels including oil and natural gas boosted the import value, and this pattern remained unchanged from 2006 (imports of mineral fuels rose 7.2% to US$172 billion). In particular, in terms of the volume basis, imports of crude oil and unrefined crude oil fell 2.9% yoy to 239.61 million liters; but as an increase in the unit price boosted the value, such imports rose 5.4% yoy to US$104.6 billion. Incidentally, throughout 2007, import prices of crude oil rose 8.6% to US$69.40/barrel, substantially contracting from the magnitude of increase on the full-year basis in 2006 (an increase of 25.1%), but were boosted just by surging prices in the fourth quarter (up 37.0% to US$83.30/barrel). In the first quarter of 2008, price growth further expanded with strong momentum by rising 61.9% (the aforementioned Table I-17). In the same way, items that were impacted by rising international commodity prices, such as raw materials (up 18.0% yoy to US$48.1 billion) and manufactured goods (up 11.4% yoy to US$63 billion), drove up the total import value.

■ **The total value in IT trade continued to account for a large percentage**

In IT trade in 2007, exports amounted to US$143 billion and imports to US$87.6 billion, with the trade surplus reaching US$55.4 billion. The IT export value accounted for a percentage exceeding 20% of the total export value and also accounted for 17.3% of the total trade value (exports + imports), which is close to 20% (Table I-20).

By type of goods, exports and imports of electronic components such as semiconductors both accounted for a large share (31.1% and 27.5% of their respective total value), but characteristically, exports of “Other electric and electronic components” including flat panel displays (24.5%) and imports of “Computers and peripheral equipment” represented by PCs (22.2%) accounted for a large percentage.

In terms of IT exports by country and region, exports to East Asia (US$87.9 billion in 2007) took up a large portion, accounting for 60% or more of the total IT export value. In the same way, IT imports from East Asia reached US$64.2 billion, accounting for more than 70% of the total IT import value. And IT exports and imports to and from East Asia accounted for 65.9% of the total IT trade value. Trade with East Asia accounted for a high percentage of 43.6% of Japan’s total trade value, but IT trade with East Asia has gained an even more important position.

■ **Japan's exports maintained momentum through two types of "diversification"**

Over the past decade, the ratio of trade surplus to nominal GDP remained at approximately 2.3% on average. On the other hand, the income account surplus also continued to expand and posted a record high in 2007. According to the stage theory of economic development for the balance of payments [(7)], Japan is expected to shift to a "matured creditor country" which earns profits through investment rather than trade, but the actual state is that at least over the recent decade, Japan has earned profits from both trade and investment. To some extent, this was attributed to the international economic environment of the long-term trend of yen depreciation and the underlying trend of economic expansion, but the changes in Japan's trade over the recent decade can be characterized by the word "diversification." Specifically, Japan has diversified its "export destinations" and "export items."

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7. This is the concept that the trend of the balance of payments changes in stages according to the stage of economic development. Based on this concept, Japan is now positioned between "immature creditor country" and "matured creditor country."

With respect to Japan's total export value towards the world, in terms of the percentage by region, while exports to the United States slid back, exports to emerging regions steadily expanded in presence (Fig. I-16). Compared to a decade ago, the percentage accounted for by exports to the United States in the total exports fell (down from 30.5% in 1998 to 20.1% in 2007), while that accounted for by exports to East Asia including China rose significantly (up from 33.2% in 1998 to 46.0% in 2007). Exports to "Other regions," including such major resource-rich countries as the Middle East and Russia, sharply expanded in the past three years, and in 2007, in terms of the percentage, they approached exports to the United States with only a difference of one percentage point. Exports to the United States still have a large influence, accounting for 20% of Japan's total exports to the world, but doubtlessly, the structure of Japan's foreign demand is diversifying and continuing to break away from the U.S.-dependent pattern. The aforementioned case of car exports is an obvious reflection of this trend (above carried Fig. I-15). Exports to East Asia, Russia, the Middle East, Central and South America, and other regions in 2007 contributed 11.5% points, a percentage larger than the decline in exports to the United States (11.0% points), and they post double-digit yoy growth even when the United States and the EU27 are excluded.

This trend is not limited to passenger cars, and the export destinations are

diversifying for various other items. Compared to a decade ago, the percentage accounted for by exports to individual countries and regions showed a shift from the developed countries and regions (the United States and the EU) to the emerging regions (such as East Asia, the Middle East and Russia) for almost all major items (Table I-21). For almost all items, a shift from the United States and the EU to East Asia was obvious, but for passenger cars, it is a characteristic phenomenon that exports to Russia grew sharply, with those to the Middle East following suit. The shift to non-developed countries and regions for products not limited to specific ones might be understood in a positive way as Japan's movement to further diversify its export structure.

In addition, in terms of the contribution by each item to the export value towards the world (yoy growth rate), when compared to a decade ago, automobiles showed a noticeable presence (Fig. I-17). A review of the past decade shows that exports to the world from 1998 to 2001 were determined by the trend of electric machinery and general machinery. But from 2002 onward, contributions by basic metals and their products as well as cars started to rise. Basic metals and their products mainly include iron and steel products, and their rise is considered to have been a response to a strong demand for intermediary goods in emerging countries and regions, headed by East Asia. Also, the item groups classified as "Others," which include mineral fuels, foodstuffs, and precious metals (such as gold, silver and platinum), made increasing contributions. Regarding mineral fuels, attention is prone to focus on imports, but stagnant demand in Japan has promoted sales expansion in overseas markets [(8)], and the export value during the recent decade rose by 7.5 times (reaching US$9.2 billion in 2007), with the percentage accounted for in the total export value almost quadrupled (up from 0.3% points to 1.3% points).

It cannot be ignored that behind the stable expansion of Japan's trade surplus, there is the fact that exports of these diversified items have continued to be strong.

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8. According to "Petroleum Industry in Japan 2008 (Petroleum Association of Japan)," Japan's demand for fuel oil in FY2006 fell 8.0% from FY2000 (down from 243,218,000 kilo-liters to 223,843,000 kilo-liters).

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(2) Japan's outward FDI sets new record

In 2007, Japan's outward FDI (net flows based on balance of payments) totaled US$73.5 billion (up 46.5% yoy), significantly higher than the record of US$50.2 billion achieved in 2006, and marked a record high for the second consecutive year. This was

attributed to: (i) a remarkable 93.7% increase in outward M&A value by Japanese companies, which amounted to US$41.0 billion (data of Thomson Reuters); (ii) increased investments mainly by trading companies to secure interests in natural resources overseas, against the backdrop of surging crude oil and mineral resource prices; and (iii) an increase in reinvestment earnings of Japanese overseas owing to their continued strong performances mainly in manufacturing industries. In addition, investment towards emerging countries such as India grew steadily (refer to Reference Materials/Supplement Statistics: Table 12).

The breakdown of the FDI shows that, owing to increasing M&A transactions, "Equity capital" rose 80.2% yoy to US$51.8 billion and contributed to boosting the total FDI value. "Reinvestment earnings" also increased, up 19.6% yoy to US$19.6 billion, reflecting increasing earnings of Japanese companies' subsidiaries especially in Asia (Fig. I-18).

■ **Japan's outward FDI expands in major regions of the world**

By country and region, Japan's outward FDI registered double-digit growth (yoy) in most regions in the world, with FDI in North America, growing 70.6% to US$17.4 billion.

In North America, there was active investment in machinery industries, such as investment in "Electric machinery," which rose 175.5% yoy to US$900 million, and also in "Transportation machinery" such as automobiles, which rose 9.6% yoy to US$3.7 billion. The increase in investment in "Electric machinery" is attributed to factors such as the establishment of a new joint venture company by Ricoh and IBM for printing business (US$725 million). In 2008, there were movements to proceed with capital investments in the United States, an important market, as was seen in Canon's announcement to invest a total amount of JPY60 billion or more to establish a new toner cartridge factory in the United States. Investments to hold share in business projects were also active in North America. Nippon Oil Company and Mitsubishi Corporation jointly contributed capital to Anadarko Petroleum Corporation, an oil company in the United States (US$1.2 billion), and took over part of the rights for the oilfield in the Gulf of Mexico. There were also active acquisitions in the financial sector. M&A cases by Japanese companies with companies in the United States numbered 82, which was the largest by country.

With respect to growth in Western Europe, the acquisition of the major British cigarette company Gallaher Group by Japan Tobacco (JT) (US$18.8 billion), a case with the largest ever amount in Japan's outward M&A transactions, had significant influence.

After the acquisition, Gallaher's stocks were transferred from the United Kingdom to a holding subsidiary in the Netherlands, and consequently the capital contribution accompanying this case was booked in the Netherlands. On the other hand, in the Netherlands, there was a withdrawal of investment from the joint venture business of resource development in the oil sector. There were also many cases of withdrawal in Ireland and Norway throughout the year; and in 2007, the growth rate in Western Europe stood at 13.5%.

In East Asia, investment towards countries and regions such as Singapore, the Philippines and Taiwan increased. In Singapore, there were active investments in the financial sector, and the increase is seen to have attributed to cases such as the capital contribution by Tokio Marine & Nichido Fire Insurance to an investment company. In the Philippines, direct investment in the telecommunications sector increased. In Taiwan, in addition to the establishment of a DRAM production factory by Elpida Memory through a joint venture with a local company (with a total amount of approximately JPY160 billion), there were also noticeable finance-related transactions.

In Oceania, direct investment increased significantly by rising 481.2% yoy to US$4.2 billion, and in addition to active investment in resource development such as coals and iron ores in Australia, which rose more than 100% yoy to US$1.7 billion, the acquisition of National Foods, a beverage company producing dairy products, by Kirin Holdings (US$2.6 billion) is considered to have contributed to the increase.

Investment towards the Middle East rose sharply, up approximately four times yoy to US$958 million. Increasing cases of investment to secure oil resources in Saudi Arabia had a large impact. For example, Sumitomo Chemical is proceeding with the construction of a petrochemical plant jointly with the state-owned Saudi Aramco (US$1.2 billion). Japanese companies are continuing to acquire capital and strengthen business in energy and resource-related sectors in the Middle East region, where a succession of large-scale plants are under construction amid rising demand for energy in that region.

In Central and South America, Japanese companies successively acquired preferential equity certificates issued by special purpose entities, and investment towards the tax heavens in this region increased. In South America, direct investment in the resource sector increased as well. Nippon Mining & Metals Co., Ltd. and Mitsui Mining & Smelting Co., Ltd. announced the acquisition of rights for developing copper-bearing ore deposits in Peru (US$500 million). In 2008, Marubeni Corporation announced its capital contribution to a large-scale project of copper mine development in Chile (US$1.9 billion).

■ **India shows rapid increase among emerging countries**

Among direct investment towards emerging countries, investment towards India grew robustly, up approximately three times yoy to US$1.5 billion. M&A cases increased in India, such as Matsushita Electric Works' acquisition of Anchor Electricals Private (US$450 million). The automobile industry also accelerated their moves. In addition to the capital increase by Yamaha Motor Co., Ltd. for its local motorcycle-manufacturing subsidiary, and the establishment of a diesel engine-manufacturing factory by Suzuki Motor Corporation, major Japanese automobile manufacturers plan to make additional investments to expand their production bases as well from 2008 onward for the purpose of opening up the Indian car market, the presence of which is notably growing.

With respect to direct investment towards Vietnam, investment in production facilities by major manufacturing industries came to a pause and rose only slightly from the previous year. In Vietnam, along with deregulation of service sectors as a result of WTO accession, direct investment in non-manufacturing industries expanded. Sumitomo Corporation set up a locally incorporated company as a Japanese trading company in Hanoi, the first one for a Japanese company after WTO accession. In addition, in the financial sector, the Sumitomo Mitsui Banking Corporation invested US$225 million in the Vietnam Commercial Bank of Export and Import (with a ratio of capital contribution at 15%).

Investment towards China remained flat (up 0.8%), amounting to US$6.2 billion, but direct investment in manufacturing industries turned to a decline by falling 13.8% yoy to US$4.2 billion. In the survey conducted by JETRO, regarding the future of business development in China, out of the companies replying "Planning to expand the existing business or start a new business," no more than 33.1% replied "Will newly establish or expand a production base" (down 1.8 points yoy), thereby showing a declining trend from 2004 onward [(9)].

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9. "Survey on International Operations of Japanese Firms for FY 2007" released by JETRO in March 2008 (valid replies received from 773 companies, with a ratio of respondents at 27.9%).

Direct investment towards emerging countries in Central and Eastern Europe also rose, up 38.7% yoy to US$500 million. Increasing production facility investments related to automotive parts in the Czech Republic can be raised as the reason for the increase. In Poland, investments were made in LCD-related companies, accompanying the operation of Sharp's local factory. On the other hand, because of rising labor costs in

the region, for Japanese companies conducting production in Central and Eastern Europe, readjustment and reorganization of production bases will be an issue in the future.

■ **FDI in food industry and mining grow significantly**

In terms of Japan's FDI by type of industry in 2007, "Food industry", showed noticeable growth (US$12.8 billion). To a large extent, this is considered to have been attributed to the large-scale M&A cases, such as JT's acquisition of the British company Gallaher and Kirin's acquisition of the Australian company National Foods.

The percentage accounted for by investment in "Transportation equipment" in the total direct investment fell, but thanks to automobile-related capital investments in emerging markets such as India, as well as in the largest market, North America, investment continued to be robust, amounting to US$8.7 billion, which was almost the same as in 2005 and 2006. In North America, Toyota Motor Corporation is scheduled to invest approximately US$1.3 billion to build a new plant in the state of Mississippi to strengthen production. The automobile industry plans to make successive investments mainly in emerging markets such as India, Russia and Thailand as well.

Direct investment in the category of "Steel, non-ferrous and metals" also grew by rising 22.7% yoy to US$2.2 billion. In order to improve the steel delivery system towards Japanese affiliated car manufacturers in North America, Mitsui Corporation spent US$500 million to acquire Steel Technologies, a steel processing company in the United States. Sumitomo Metals set up a seamless steel pipe manufacturing company in Brazil through a joint venture with a French steel maker. A total of JPY200 billion is scheduled to be invested by 2010, when the plant goes into operation. In March 2008, Nippon Steel Corporation also announced its plan to build a steel mill in Brazil, with an annual capacity of 3 million tons, and it will become the company's first blast furnace overseas.

FDI in non-manufacturing industries doubled, rising 117.0% yoy to US$34 billion. Investment in "Mining" grew 156.9% yoy to US$ 4.1 billion due to sharply increasing resource demand. In particular, FDI towards Australia rose 121.1% yoy, with capital contributions concentrated for the purpose of procuring raw materials for the steel industry and securing energy, such as the agreement reached by Mitsubishi Corporation with Murchison Metals Ltd. regarding a project of iron ore resource development with a total operating expense of approximately JPY300 billion in around four years from 2007.

In other sectors, the direct investment value in "Finance and Insurance" rose by

approximately 3.5 times yoy to US$19.5 billion, and there were brisk M&A transactions and capital contributions towards Europe and the United States by the major financial institutions and insurance companies.

■ **Active outward M&A transactions by Japanese companies**

There were active movements by Japanese companies to make effective use of cross-border M&As abroad (Fig Ⅰ-19). Affected by the subprime mortgage problem, Japan's overseas M&A deals fell in the second half of 2007 (US$7.9 billion, 119 deals), compared to the first half of 2007 (US$33.1 billion, 143 deals). From the beginning of 2008 onward, deals numbered no more than 112, but the value returned to an increase and rose to US$22.2 billion due to the contribution by large M&A cases. Compared to financial institutions in Europe and the United States, the subprime mortgage problem had a smaller impact on Japanese financial institutions. On top of that, thanks to their good performance in the recent years, large Japanese companies held ample cash flows and their dependence on interest-bearing debts declined as well. For these reasons, a wide range of alternatives for raising necessary funds for conducting M&A transactions also served as tailwind for Japanese companies. With M&A as part of the growth strategy, more Japanese companies are expected to conduct cross-border M&As to aim for the expansion of overseas markets and to strengthen their technological capabilities. Below is a brief overview of Japanese companies' aims with respect to the cases of acquisition in the tobacco, food and pharmaceutical industries, which have made effective use of large-scale M&A transactions.

The tobacco industry, where regulations are being strengthened in developed markets, has been undergoing reorganization, with companies putting their survival on the line. JT, which had acquired the British company Gallaher, aims to secure its share in the world market and enhance the corporate financial strength along with the expansion of brand capabilities through this large-scale acquisition following the acquisition of RJR International in the United States in 1999.

Kirin's acquisition of the Australian company National Foods is a part of its growth strategy to aim for the expansion of the market share in Asia and Oceania. The company is going to push forward active business investment with an aim to achieve dramatic growth through the effective use of M&As in the future.

The pharmaceutical industry, with major companies taking a hard look at the business after the patent right expiration for their key products in the near future, has been undergoing reorganization, involving overseas companies. Eisai Co., Ltd., aiming to further strengthen the category of cancer treatment, which is its core business, acquired

Morphotek, a bio-venture company in the United States (US$325 million), and also in early 2008, acquired MGI Pharma, a pharmaceutical company in the United States (US$3.7 billion). In the MGI case, LBO finance, which had been used less frequently since the second half of 2007, was used, also showing Japanese companies' high level of fundraising capabilities. In May 2008, Takeda Pharmaceutical Company Limited made the Pharmaceutical Products Inc. (TAP), a joint venture with Abbott Laboratories, its wholly owned subsidiary. Furthermore, it completed the large-scale acquisition of Millennium Pharmaceuticals, Inc., a company competitive in the development of cancer-treatment medicines (US$8.1 billion), and made efforts to open up further the market in the United States, while the domestic pharmaceutical market was in stagnation. Daiichi-Sankyo Company, which announced in June 2008 its acquisition of Ranbaxy Laboratories, the largest pharmaceutical company in India, is going to expand its sales market from the existing 21 countries to 56 countries through acquisitions to strengthen its cost competitiveness while increasing its overseas sales.

■ **Rate of return on FDI continued the rising trend**

FDI outward stock (assets) as of the end of 2007 rose 21.6% yoy to US$546.8 billion. The rate of return on FDI of Japanese companies obtained from earnings received from FDI (such as reinvestment earnings and dividends) and FDI stock stood at 9.1%, posting an increase for the fourth consecutive year. Overseas subsidiaries thus enhanced their importance as Japanese companies' profit-making source. (Fig. I-20)

Increasing reinvestment earnings, one of the major factors of increasing earnings from FDI, have promoted the expansion of overseas businesses. On the other hand, it can be said that internal reserves of Japanese subsidiaries have piled up as reinvestment earnings as a result of lack of the incentive to remit overseas subsidiaries' income to Japan. According to the "Survey of Overseas Business Activities" conducted by the Ministry of Economy, Trade and Industry (May 2008), the stock of overseas subsidiaries' internal reserves in FY2006 amounted to JPY17.2168 trillion, up 36.6% yoy. The Ministry pointed out: "From a viewpoint of strengthening international competitiveness, revitalizing the economy, appropriately overcoming double taxation, and simplifying the system, it is necessary to make a comprehensive study of the state of the issue while closely following the trends in countries such as the United States and the UK." The Ministry is studying how to switch over from the worldwide system-credit method, under which corporate taxes are imposed on income earned worldwide, to the territorial system-exemption method, whereby remittance of income from abroad is exempted from taxation.

Incidentally, the United States, which levies tax on income earned worldwide like Japan, reduced the outstanding balance of internal reserves by adopting a temporary measure to briefly make dividends from overseas subsidiaries taxed less based on the American Jobs Creation Act of 2004. The changeover to the territorial system-exemption method is also under discussion in the United States. Some point out that benefits from the changeover are uncertain, as it may mean a de facto tax increase for some companies, and under the current circumstances, no consensus has been reached.

Column I-4

◎ Japanese companies diversifying their base of revenue derived overseas

■ Operating profits derived from Asia outpaced those from the Americas

According to financial results of listed companies aggregated by JETRO based on their consolidated financial statements for the accounting year ending between December 2007 and March 2008, the sales share (not including exports, etc. from Japan) and the ratio of operating profit from overseas divisions stood at 36.9% and 32.9%, respectively, both being the highest since FY1997 (Table). As a result of the change in the accounting rule[1] within FY2007, operating profits derived from domestic operations decreased if compared to those under the former accounting rule, but overseas divisions have been steadily gaining high importance as a profit source.

By region, overseas sales in the Americas continued to rank first, but operating profits that derived from Asia (including Oceania) outpaced those from the Americas for the first time. Europe is also steadily boosting its presence due to the appreciation of the euro, with sales and the ratio of operating profit to the total both reaching the highest ever level. The decline seen in the divisions operating in the Americas is considered to have been attributed to sluggish economic conditions in the United States, but Japanese companies' base of revenue derived overseas is being steadily reinforced because revenue from both Asia and Europe has been secured.

■ Non-manufacturing industries expected to expand their businesses overseas

[1] This includes the change in the criterion for evaluating inventory assets, the change in the depreciation method of tangible fixed assets, readjustment of the useful life and residual value, etc. Overseas subsidiaries had been allowed to conduct accounting processing by following the local accounting standard, but from April 2008 onward, they were obliged to use the same accounting standard as their parent companies, except in some exceptional cases.

However, there also remain some issues for overseas businesses operated by Japanese companies. One of them is that compared to manufacturing industries, non-manufacturing industries are left behind in overseas expansion. In FY2007, the ratio of overseas sales remained at a low level of 20.5% for non-manufacturing industries, while that for manufacturing industries was 40.5%, and the ratio of overseas assets to total assets was no more than 18.6% for non-manufacturing industries against 36.5% for manufacturing industries. The ratio of overseas operating profits stood at 33.8% for non-manufacturing industries as a whole, outpacing that for manufacturing industries (32.8%), but that was attributed, to a large extent, to the profits of the mining sector, which were significantly boosted by surging resource prices in 2007. If this is excluded, the percentage was 17.4%, still lower than in FY1997 (Fig.). In addition, of the outstanding balance of FDI (2006), non-manufacturing industries accounted for a percentage of 73.2%, larger than half, in the United States, but that percentage was only 41.6% in Japan, and even based on an international comparison, Japan's non-manufacturing industries are somewhat inferior in the overseas expansion.

Table　Earnings derived overseas by Japan's listed companies

（%）

Fiscal year		Sales shares by region						Operating profits share by region					
	No. of companies	Domestic	Overseas	Americas	Europe	Asia and Oceania	Others	Domestic	Overseas	Americas	Europe	Asia and Oceania	Others
1997	(582)	71.4	28.6	11.3	5.4	5.8	6.1	76.6	23.4	9.8	3.4	4.8	5.3
1998	(593)	71.1	28.9	13.4	6.0	4.9	4.6	73.4	26.6	13.8	4.8	4.4	3.6
1999	(643)	72.5	27.5	12.4	5.4	5.5	4.2	75.0	25.0	14.1	2.1	5.0	3.7
2000	(668)	71.9	28.1	12.6	5.2	6.4	3.9	79.9	20.1	10.4	0.7	6.0	3.0
2001	(715)	69.7	30.3	13.7	5.5	6.7	4.4	76.0	24.0	12.4	0.6	6.7	4.2
2002	(728)	68.0	32.0	13.7	6.0	7.8	4.6	72.9	27.1	13.0	2.8	7.2	4.1
2003	(738)	67.9	32.1	12.9	6.1	8.2	4.9	73.3	26.7	11.1	4.3	7.5	3.7
2004	(774)	67.3	32.7	12.2	6.4	8.8	5.3	71.8	28.2	10.9	4.7	8.6	4.0
2005	(804)	66.1	33.9	12.5	6.3	10.1	5.0	70.8	29.2	10.8	4.7	10.0	3.7
2006	(832)	66.2	33.8	12.6	6.9	10.3	4.1	73.5	26.5	9.1	4.1	8.3	5.1
2007	(866)	63.1	36.9	13.0	8.5	12.0	3.5	67.1	32.9	8.7	6.8	12.2	5.2

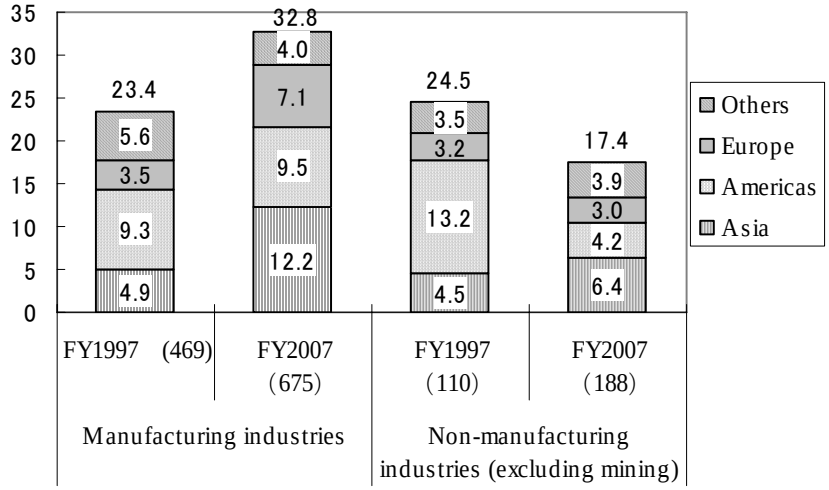
(Notes)
(1) The data covers listed companies with their accounting year ending between December and March (excluding banks and insurance companies) and with segment information by region included in their consolidated financial statements.
(2) Results are aggregated for companies that had released their consolidated earnings briefing for the accounting year of 2007 by May 31, 2008.
(3) The total sales also includes the inter-segment sales.
(4) There may be overlapping parts, as listed subsidiaries are also included for aggregation.
(5) "Others" includes summation items covering multiple regions, such as "Europe and the America" or "Overseas."
(Sources) Aggregated from CD-ROM of Corporate Financial Records (until FY2005) by Toyo Keizai Inc., earnings summaries of individual companies and financial statements (FY2006 and FY2007)

This is attributed to the fact that Japan's service industries are mostly operated on a small scale, and consequently they have no energy to spare for the overseas expansion.

On top of that, compared to the United States and the United Kingdom, they are not only insufficiently franchised and modularized but are also inferior in such aspects as management localization.

Regionally, Japanese companies are constructing a more diversified base of revenue by breaking away from single-pole dependence on the United States. On the contrary, in terms of the type of industry, dependence on manufacturing industries has not been overcome. It is expected that, in the future, if more industries of various types expand their businesses to the world market while the problems faced by non-manufacturing industries are being cleared away, a stronger base of revenue can be constructed for Japanese companies as a whole.

Fig. Ratios of Overseas Operating Profit for Manufacturing and Non-Manufacturing Industries



(Note) Figures in parentheses represent the number of companies whose data were compiled.
(Source) Compiled based on Toyo Keizai CD-ROM database (up to FY2005) and consolidated financial statements of each company (for FY2006 and FY2007

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(3) Smoothly expanding inward direct investment

■ Large-scale M&A cases led inward direct investment

In 2007, inward FDI towards Japan (balance of payments basis, net) amounted to US$22.2 billion, outpacing the highest ever record of US$12.3 billion in 1999 and posting a new record high. The value of capital inflow rose 48.3% yoy to US$67.7 billion. On the other hand, the value of capital outflow fell 13.2% yoy to US$45.5 billion, thereby leading to a significant increase in the value of net inflow (Fig. I-21). Active large-scale M&A cases towards Japan had a significant impact on the increase of

the value of capital inflow. According to Thomson Reuters (completion basis), M&A cases towards Japan amounted to US$22.6 billion in 2007, higher than the previous peak reached in 2001 (US$19.0billion) and posting a record high (Fig I-22 and Table I-23). In 2007, including the case of an acquisition of minority interest, there occurred five large-scale M&A cases over US$ 1 billion, which had not been seen since 2005, and they seemed to substantially boost the value. The number of M&A cases reached 151 cases, second only to the 158 cases recorded in 2000. Among them, Citigroup invested US$8.8 billion in 2007 alone and US$13.4 billion in total for the large-scale stock acquisition to make the Nikko Cordial group its wholly owned subsidiary. This case, larger than Vodafone's acquisition of Nippon Telecom (in 1999 and 2001, amounting to US$3.095 billion), became the largest ever M&A case toward Japan. The value of capital inflow with this case excluded (US$58.8 billion) was also of a level higher than the previous year's (US$45.5 billion), and foreign companies' investment towards Japan has been solid on the whole. In addition, the value of capital outflow fell below the previous year's level, as there was no case of a large-scale sale as was seen in Vodafone's sale of its Japanese arm (US$17.5 billion) and the dissolution of the capital tie-up between General Motors Corporation and Suzuki Motor Corporation (US$ 2.0 billion) in 2006.

Judged from net capital inflow and outflow by region, capital inflow was observed from all major regions, such as North America, Asia and Western Europe, for which capital outflow from Japan was reported in 2006 (Fig. I-23). With respect to North America, the capital movement turned from capital outflow of US$2.7 billion to excessive capital inflow of US$12.7 billion. However, as a result of Citigroup's case, capital inflow to non-manufacturing industries, in particular the finance and insurance industries, seems to have boosted the value of inflow. Further, there were also cases such as TDK Corporation's transfer of its brand recording media-selling business and subsidiary to Imation Corporation of the United States, and the capital movement also turned from the previous year's excessive capital outflow to excessive capital inflow in manufacturing industries.

With respect to Western Europe, an excessive outflow of US$3.6 billion was recorded in 2006, due mainly to the British company Vodafone's sale of its Japanese arm to Softbank's group company, but in 2007, there were also large-scale cases such as the acquisition of Nissan Diesel by Sweden's Volvo and that of Japan Air Gases by France's Air Liquide Group. There was active investment towards Japan's finance and insurance industries as well from countries such as Germany, the United Kingdom and Luxemburg. In addition, cases such as the additional capital contribution to Seiyu by

Wal-Mart of the United States through its investment subsidiary in Switzerland (US$815.34 million) also boosted the value of inflow. On the other hand, German chemical and pharmaceutical companies recorded capital outflow of approximately US$1.5 billion, but that is considered to be the impact of Bayer's sale of its factory and research facilities, and as a whole, excessive outflow of US$800 million to Germany was recorded. However, the capital movement turned to excessive capital inflow of US$4.8 billion from Western Europe as a whole.

With respect to Asia, a capital outflow of US$900 million was recorded due to foreign affiliated securities companies' movement to recover capital, but there was active investment toward Japan's real estate properties, such as investment in Hawks Town (US$862.2 million) and the hotel of Westin Tokyo (US$721.8 million) by Singapore's government fund GIC, resulting in a net capital inflow of US$1.6 billion. Incidentally, the value of inflow from Singapore rose by more than ten times over the past five years and accounted for 80% of the net capital inflow from Asia in 2007, of which approximately 60% was investment towards the real estate industry. With respect to capital inflow from other major Asian countries, an amount of US$200 million flowed in from South Korea, doubling the previous year's level. That value is considered to have been boosted by M&A cases, such as the acquisition of Myodo Metal Co., Ltd. by Samsung C&T Corporation (US$37 million) and the acquisition of GameOn Co., Ltd. by NeoWiz Games Corporation and other companies (US$95.5 million).

By type of industry, in manufacturing industries, capital flowed into the raw material industries such as "Petroleum," "Glass, clay and stone" and "Steel, non-ferrous metals and metals," but capital outflow of approximately US$1 billion was recorded in "Chemicals and pharmaceuticals." This is due to the movement by American and European pharmaceutical companies, as well as in the aforementioned Bayer case, to scale down or close down their research facilities in Japan for the purpose of improving efficiency for the new medicine development system and reducing costs. In machinery industries, as a result of the Volvo case, the capital movement in "Transportation machinery and apparatuses" turned from the previous year's excessive outflow of US$1.4 billion to an excessive inflow of US$300 million. On the other hand, there was an excessive outflow of nearly US$400 million in "Electric machinery and apparatuses." In non-manufacturing industries, capital inflow to "Finance and insurance" rose to the scale of US$17.7 billion as a result of the aforementioned Citigroup case, and in addition, there was also excessive inflow of US$1.4 billion to "Real estate industry," where there were cases of large-scale investment in hotels by

GIC and other investors of the United States (refer to Reference Materials/ Supplement Statistics: Table 13).

As a result, the outstanding balance of direct investment towards Japan as of the end of 2007 amounted to JPY15.1 trillion, with its ratio to the GDP rising to 2.9% from 2.5% in the previous year (Fig. I-24).

■ Changing trends of M&A cases towards Japan

Comparing the characteristics of the active M&A activities from 2007 onward to those during the previous M&A boom, investment was active from 1999 to 2001 towards the deregulated industries, such as telecommunications, with a formulated flow of business where investment funds acquire ailing companies, complete their rehabilitation and then sell them to other companies or list their stocks to gain profits. In addition, amid a relatively low level of interest rates, active real estate-related investment also boosted the value and number of M&A cases. Since 2007 onward, amid increasing moves aiming to take the initiative by expanding the company size and acquiring the market share, global industry reorganization has been underway in industries such as finance, cars and pharmaceuticals, and these moves also have had an impact on the trends of M&A towards Japan.

From the viewpoint of foreign affiliated companies, Japan continues to be construed as an important market for them. In fact, in the JETRO's "Japan Attractiveness survey" (March 2008), among the major Asian countries and regions, Japan was evaluated as "the most attractive country" along with China. Japan obtained a high level of satisfaction especially for its transportation and telecommunication infrastructure, as well as its stable political situation and the capability of human resources and labor force. The "Survey of Foreign-affiliated Firms in Japan" also shows steady improvement in the evaluation of Japan in regard to the investment environment, such as high business costs, exclusivity and peculiarity, and administrative procedures that were once regarded as problems (Fig. I-25 and Fig. I-26).

■ Discussions on inward investment regulations became active

At the same time, in 2007, there occurred several cases that attracted attention in the aspect of regulations on investment towards Japan. With respect to the hostile acquisition of listed companies, the Supreme Court rendered a decision in August 2007 concerning the defensive measure against the acquisition that Bull-Dog Sauce Co., Ltd. had taken, based on a special resolution of the shareholders meeting, and handed down the opinion that, on the grounds that nearly all of the shareholders other than the

acquirer recognized the necessity of the defensive measure, such act did not constitute a violation of the law. Furthermore, the Children's Investment Master Fund (TCI), a British fund, showed its intention to raise its ratio of capital contribution to J-Power from 9.9% to 20% in January 2008, but in April, the Ministry of Finance and the Ministry of Economy, Trade and Industry pointed out that it was a case of inward direct investment where national security was at stake and advised TCI to discontinue the said inward direct investment, based on the Foreign Exchange and Foreign Trade Control Act. The TCI issued a notification and a written explanation to the effect that it would not accept the advice, but in May, the two ministries issued a discontinuance order. In another case, Macquarie Group, an Australian investment bank, contributed approximately 20% of capital to Japan Airport Terminal Co., Ltd. (the company operating Haneda Airport), which triggered the move to incorporate the restriction on foreign capital in the amendment to the Airport Development Act, i.e., the ownership percentage by foreign capital in airport-related companies should be less than one-third. However, the introduction of the restriction was postponed because, from the Council for Regulatory Reform and within the government, there was a succession of opinions holding that such restriction would go against the policy of expanding investment towards Japan.

Under these circumstances, a proposal titled "Five Recommendations Toward the Drastic Expansion of Foreign Direct Investment in Japan" was put forward by the government's Expert Committee on FDI Promotion on May 19, 2008. Included in this proposal were the following five recommendations: (i) enhancement of system towards the facilitation of M&A, (ii) comprehensive studies on FDI regulations, (iii) establishment of priority strategies by sector, (iv) reduction of business costs and improvement of system transparency, and (v) regional revitalization by foreign capital, and strengthening of appeal to welcome foreign capital, etc. In response to this proposal, the "Basic Policy for Economic and Fiscal Reforms 2008," which as decided by the Cabinet on June 27, showed its policy to study clarification of the M&A rules and the modality of foreign capital regulations and effective corporate tax rates, tackle issues such as the reduction of business costs, and revise the "Program for Accelerating Direct Investment in Japan" formulated in June 2006, within 2008.

Japan's regulations on inward investment have improved considerably in terms of transparency, objectivity and predictability, and have reached a level that is in no way inferior to that of other developed countries. On the other hand, this has not yet necessarily been recognized adequately in the world. In the future, Japan will be required to make efforts to enhance recognition in the international community.

Table I-17 Japan's trade trends (2007)

(US$ million, %)

	2006	2007	2007				2008
			Ⅰ	Ⅱ	Ⅲ	Ⅳ	Ⅰ
Total export value	647,290	712,735	166,395	170,855	179,577	195,908	197,171
(Growth rate)	8.2	10.1	10.1	8.0	8.0	14.1	18.5
Total import value	579,294	621,084	144,924	149,753	153,775	172,633	177,986
(Growth rate)	11.7	7.2	4.5	5.0	3.5	15.6	22.7
Trade balance	67,997	91,651	21,471	21,102	25,803	23,275	19,184
(Difference from previous year (quarter))	△ 11,581	23,654	9,021	5,548	8,152	933	△ 2,287
Export volume index	123.2	130.4	122.0	127.6	132.7	139.5	133.9
(Growth rate)	7.7	5.8	2.4	4.2	5.6	11.2	9.8
Import volume index	122.3	118.8	117.4	117.2	116.6	124.0	115.6
(Growth rate)	3.7	△ 2.8	△ 0.3	△ 3.9	△ 4.9	△ 2.2	△ 1.6
Crude oil import price (US$/barrel)	63.9	69.4	57.5	64.7	71.0	83.3	93.1
(Growth rate)	25.1	8.6	△ 3.4	△ 0.4	0.4	37.0	61.9
Ratio of crude oil imports	17.1	16.8	15.3	15.0	17.1	19.6	21.3
Ratio of manufactured imports	56.8	56.3	58.1	57.5	56.0	54.0	51.8
Quarterly average exchange rate (yen/dollar)	116.3	117.8	119.4	120.7	117.8	113.1	105.2
(Rate of increase)	△ 5.3	△ 1.2	△ 2.1	△ 5.3	△ 1.3	4.1	13.5
Real GDP growth rate	2.4	2.1	1.1	△ 0.6	0.3	0.6	0.8

(Notes)
(1) The base year for volume indices is 2000.
(2) The exchange rate is the quarterly average of the center value of the interbank rate.
(3) Quarterly growth rates are yoy comparisons.
(4) Seasonally adjusted figures (on the qoq basis) are used for the quarterly real GDP growth rate.
(Sources) Prepared based on "Trade Statistics" (Ministry of Finance), "National Accounts" (Cabinet Office) and "Foreign Exchange Quotations" (Bank of Japan)

Table I-18 Trend in Japan's Current Account

(Unit: US$1 million, %)

	2006	2007	Change
Current account	170.507	210.479	39.972
Goods and services account	63.039	83.499	20.460
Trade balance	81.296	104.747	23.451
Exports	615.778	678.046	62.268
Imports	534.482	573.299	38.817
Services account	△ 18.257	△ 21.248	△ 2.991
Income account	118.153	138.492	20.339
Current transfers	△ 10.685	△ 11.512	△ 0.827
Current account/GDP	3.7%	4.5%	–

(Note) The figures released on the yen-basis were converted to dollars by using the average quarterly Bank of Japan interbank rate.
(Sources Prepared based on "Balance of Payments Conditions" (Ministry of Finance) and Bank of Japan), "Foreign Exchange Rates" (Bank of Japan) and "National Economic Accounting" (Cabinet Office)

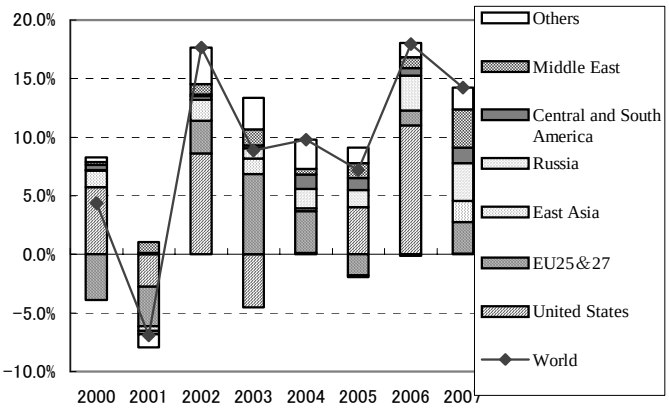
Table I-19 Japan's trade trends with major countries and regions

(US$ million, %)

			2006	2007	2007				2008
					Ⅰ	Ⅱ	Ⅲ	Ⅳ	Ⅰ
World	Exports	Value	647,290	712,735	166,395	170,855	179,577	195,908	197,171
		Growth rate	8.2	10.1	10.1	8.0	8.0	14.1	18.5
	Imports	Value	579,294	621,084	144,924	149,753	153,775	172,633	177,986
		Growth rate	11.7	7.2	4.5	5.0	3.5	15.6	22.7
	Export volume growth rate		7.7	5.8	2.4	4.2	5.6	11.2	9.8
	Import volume growth rate		3.7	△ 2.8	△ 0.3	△ 3.9	△ 4.9	△ 2.2	△ 1.6
the United States	Exports	Value	145,651	143,383	35,274	34,133	35,730	38,247	36,679
		Growth rate	8.0	△ 1.6	2.5	△ 3.9	△ 4.1	△ 0.5	4.0
	Imports	Value	68,071	70,836	17,110	18011	16882	18834	18863
		Growth rate	5.5	4.1	4.3	5.9	△ 2.7	8.8	10.2
	Export volume growth rate		8.8	△ 7.6	△ 0.6	△ 11.6	△ 9.4	△ 7.8	△ 10
	Import volume growth rate		0.4	5.5	9.3	9.4	△ 4.4	7.9	△ 1.0
EU27	Exports	Value	94,139	105,270	25,469	25,445	25,693	28,663	30,438
		Growth rate	6.7	11.8	11.8	9.4	10.8	15.0	19.5
	Imports	Value	60,064	65,009	15,709	15,711	16,384	17,204	17,751
		Growth rate	1.4	8.2	5.2	7.4	9.9	10.3	13.0
	Export volume growth rate		3.9	4.9	△ 2.9	7.7	5.3	10.4	15.6
	Import volume growth rate		0.9	3.4	1.9	4.5	5.0	2.4	0.8
East Asia	Exports	Value	295,694	327,726	74,879	79,735	83,429	89,682	88,959
		Growth rate	5.8	10.8	10.4	9.6	9.0	14.2	18.8
	Imports	Value	239,708	253,976	60,274	62,303	62,594	68,804	68070
		Growth rate	9.3	6.0	5.9	6.6	3.6	7.6	12.9
China	Exports	Value	92,852	109,060	24,244	26,085	28,143	30,589	29,039
		Growth rate	15.6	17.5	19.3	15.7	17.2	17.7	19.8
	Imports	Value	118,516	127,644	29,831	31,427	31,581	34,806	32,729
		Growth rate	8.6	7.7	7.8	9.4	5.7	8.0	9.7
	Export volume growth rate		14.4	9.0	13.8	10.9	13.0	0.4	△ 18.3
	Import volume growth rate		7.8	0.0	2.8	2.4	△ 1.2	△ 3.3	△ 3.8
ASEAN 10	Exports	Value	76,349	86,990	19,438	20,970	22,561	24,022	24,718
		Growth rate	0.4	13.9	10.0	12.8	12.2	20.2	27.2
	Imports	Value	79,990	86,898	20,484	20,991	21,818	23,603	25,729
		Growth rate	9.5	8.6	7.2	7.1	6.6	13.4	25.6
	Export volume growth rate		△ 0.2	10.3	5.8	9.5	8.5	17.4	10.8
	Import volume growth rate		3.5	△ 1.3	1.4	△ 4.0	△ 4.4	2.1	1.6
South Korea	Exports	Value	50,321	54,199	13,156	13,284	13,011	14,748	15,162
		Growth rate	7.3	7.7	9.3	6.1	3.0	12.3	15.2
	Imports	Value	27,345	27,252	6,492	6,795	6,363	7,602	7,350
		Growth rate	11.4	△ 0.3	△ 3.4	1.0	△ 4.4	5.1	13.2
Taiwan	Exports	Value	44,152	44,780	10,171	11,235	11,569	11,805	12,069
		Growth rate	0.6	1.4	△ 4.1	0.1	3.6	5.9	18.7
	Imports	Value	20,345	19,809	5,111	4,726	4,826	5,145	5,237
		Growth rate	11.9	△ 2.6	3.7	△ 4.8	△ 5.2	△ 4.1	2.5
Hong Kong	Exports	Value	36,469	38,818	9,020	9,528	9,779	10,491	10,013
		Growth rate	0.9	6.4	10.7	5.7	△ 0.2	10.3	11.0
	Imports	Value	1,521	1,448	382	313	337	417	421
		Growth rate	△ 3.7	△ 4.8	△ 1.0	△ 13.3	△ 14.5	10.0	10.2
Middle East	Exports	Value	19,194	26,184	5,986	5,777	6,367	8,054	7,886
		Growth rate	15.8	36.4	30.6	35.4	27.6	50.5	31.7
	Imports	Value	109,190	113,824	25,067	25,352	28,114	35,292	39,941
		Growth rate	24.6	4.2	△ 5.6	△ 5.3	△ 6.3	36.4	59.3
Central and South America	Exports	Value	30,574	35,063	8,431	8,219	8,899	9,514	10,361
		Growth rate	21.8	14.7	13.9	24.5	6.1	16.2	22.9
	Imports	Value	20,411	24,117	5,395	5,823	6,315	6,584	6,261
		Growth rate	26.7	18.2	6.4	16.4	21.2	28.4	16.1

(Notes)
(1) The ASEAN 10 are Singapore, Thailand, Malaysia, the Philippines, Indonesia, Brunei, Myanmar, Cambodia, Laos and Vietnam.
(2) East Asia means the sum for China, NIEs (South Korea, Taiwan, Hong Kong and Singapore), and ASEAN4 (Thailand, Malaysia, the Philippines and Indonesia).
(Sources) Prepared based on "Trade Statistics" (Ministry of Finance)

Fig. I-15 Breakdown of Contribution by Region by Passenger Car Exports to World



(Note)

(1) East Asia stands for Asian NIES, ASEAN4 and China. Asian NIES stands for South Korea, Hong Kong, Taiwan and Singapore. ASEAN4 stands for Thailand, Malaysia, the Philippines and Indonesia.

(2)The statistics from 2007 onward were calculated based on the EU27.

(Sources) Trade Statistics (Ministry of Finance)

Table I-20 Import and Export Values and Actual State of Japan's IT-Related Products (2007)

	2007				
	Export	Percentage of total IT export value	Import	Percentage of total IT export value	Percentage of total trade value accounted for by total IT trade value in 2007
	Value	%	Value	%	%
① Computers and peripheral equipment (sum)	9,057	6.3%	19,438	22.2%	2.1%
Complex digital equipment	1,166	0.8%	1,355	1.5%	0.2%
Computer and peripheral equipment	4,191	2.9%	12,825	14.6%	1.3%
Computer components	3,700	2.6%	5,258	6.0%	0.7%
②Business equipment	114	0.1%	250	0.3%	0.0%
③Communication equipment	8,298	5.8%	9,295	10.6%	1.3%
④Electronic components such as semiconductors	44,508	31.1%	24,107	27.5%	5.1%
Electronic tubes, semiconductors, etc.	11,159	7.8%	2,779	3.2%	1.0%
Integrated circuits	33,349	23.3%	21,327	24.3%	4.1%
⑤ Other electric and electronic components	34,994	24.5%	16,560	18.9%	3.9%
Flat panel displays	9,052	6.3%	4,303	4.9%	1.0%
⑥ Video equipment	15,753	11.0%	5,205	5.9%	1.6%
Digital cameras	11,779	8.2%	1,596	1.8%	1.0%
TV receivers (incl. Liquid crystal and plasma)	995	0.7%	909	1.0%	0.1%
⑦ Audio equipment	155	0.1%	667	0.8%	0.1%
Portable players	121	0.1%	533	0.6%	0.0%
⑧ Measuring equipment and instruments	17,196	12.0%	9,159	10.5%	2.0%
⑨ Semiconductor manufacturing equipment	12,909	9.0%	2,916	3.3%	1.2%
Components	85,132	59.5%	46,454	53.0%	9.8%
Final goods	57,852	40.5%	41,143	47.0%	7.4%
IT-related equipment (sum)	142,984	100.0%	87,597	100.0%	17.3%

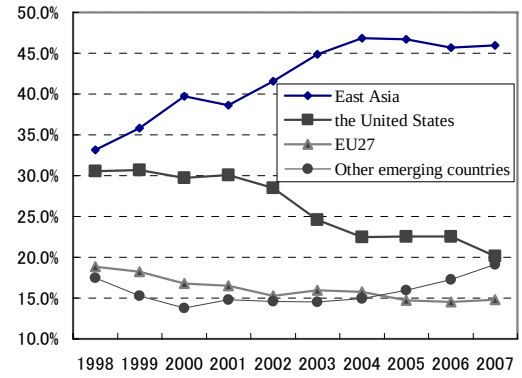
(Note)

(1) For the definition of the commodity classification, refer to Reference Materials/Supplement Statistics: Annotation 2.

(2) For the 2007 data, time series comparison to the past data is difficult due to the significant revision of the HS code. ' in this White Paper, the recent levels and ratios among the total trade value (exports or imports) are shown.

(Sources) Prepared based on "Trade Statistics" (Ministry of Finance)

Fig. I-16　Share by region of Japan's value of exports



(Sources) "Trade Statistics" (Ministry of Finance)

Table I-21　Magnitude of change in share by item and region (1998-2007)

	Automotive parts	Precision machinery	Chemicals	General machinery	Basic metals and basic metal	Electric machinery	Automobiles	As a whole
the United States	-20.7%	-14.5%	-9.5%	-13.4%	-14.4%	-10.7%	-4.8%	-10.4%
EU27	1.6%	-6.6%	-6.4%	-2.3%	-2.2%	-3.0%	-5.3%	-4.1%
East Asia	15.8%	20.3%	18.8%	13.3%	18.6%	14.1%	2.1%	12.8%
Central and South America	1.7%	0.3%	-0.7%	0.0%	-0.9%	-0.6%	-2.2%	-0.7%
Russia	0.2%	0.2%	0.2%	0.7%	0.2%	0.0%	6.2%	1.3%
Middle East	0.2%	0.0%	0.0%	1.4%	0.3%	-0.3%	2.0%	0.5%
Other regions	1.2%	0.4%	-2.3%	0.3%	-1.7%	0.6%	2.0%	0.7%

(Note) The colored parts mean the combination of a country and item which decreased its share.
(Sources) Fig. I-21 and Table I-17 both prepared based on "Trade Statistics" (Ministry of Finance)

Fig. I-17　Contribution by export item（1998-2007）

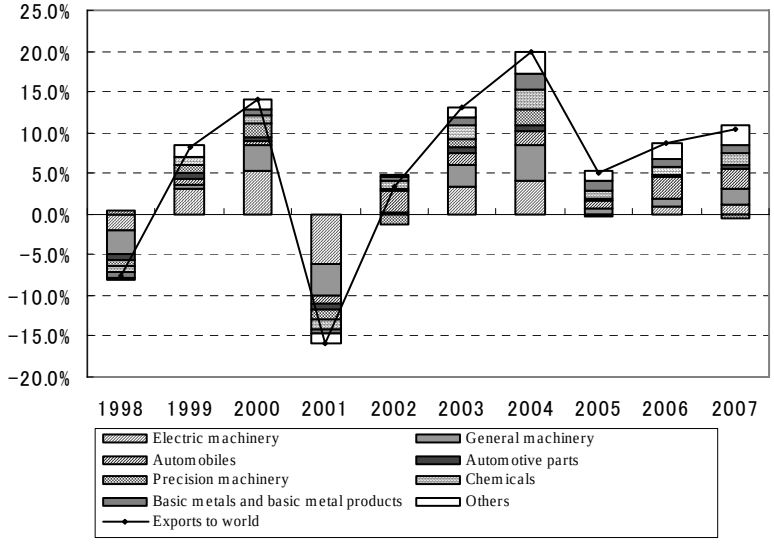
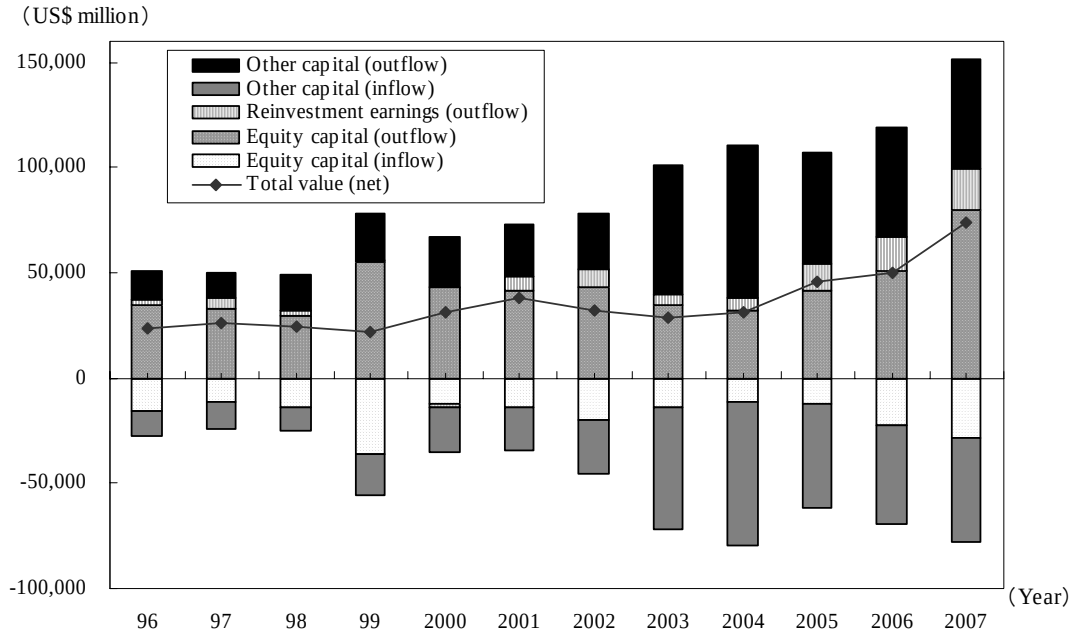


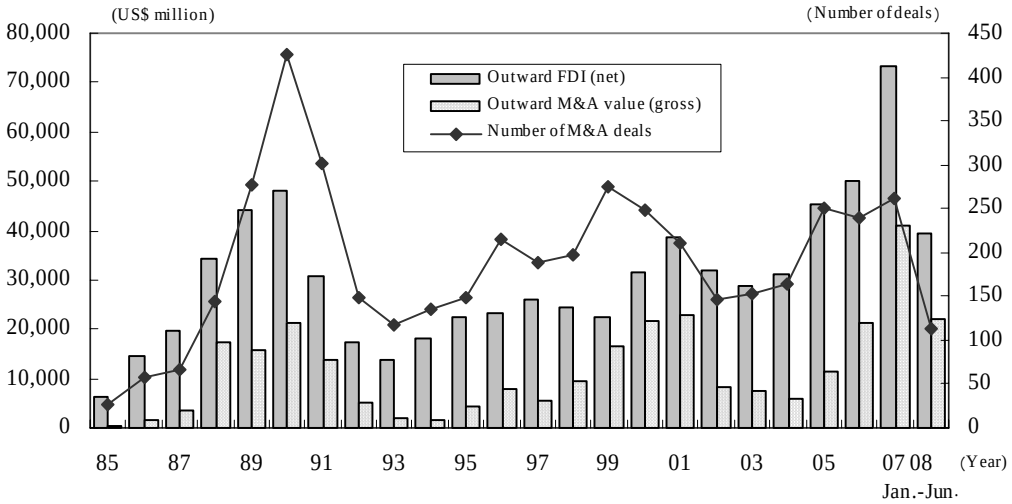
Fig. I-18 Breakdown of Japan's outward FDI



(Note) The figures released on the yen-basis were converted to dollars by using the average quarterly Bank of Japan interbank rate and then the annual sum was calculated.

(Sources) "Balance of Payments" by Ministry of Finance and Bank of Japan

Fig. I-19 Japan's outward FDI and outward M&As



(Note) Strictly speaking, there is no continuity in the data on the value of FDI flow, due to factors such as the difference in the dollar-converting method and the change in the definition of FDI. For the period from 1984 to 1994, the dollar-based published figures are used. For 1995, the yen-based published value is converted to dollars for each six-month period by using the average Bank of Japan interbank rate for the period, and for the years thereafter, such conversion is done for each quarter by using the average quarterly Bank of Japan interbank rate. The amount of outward FDI in 2008 is for January to May, and M&A value in 2008 is for January to June.

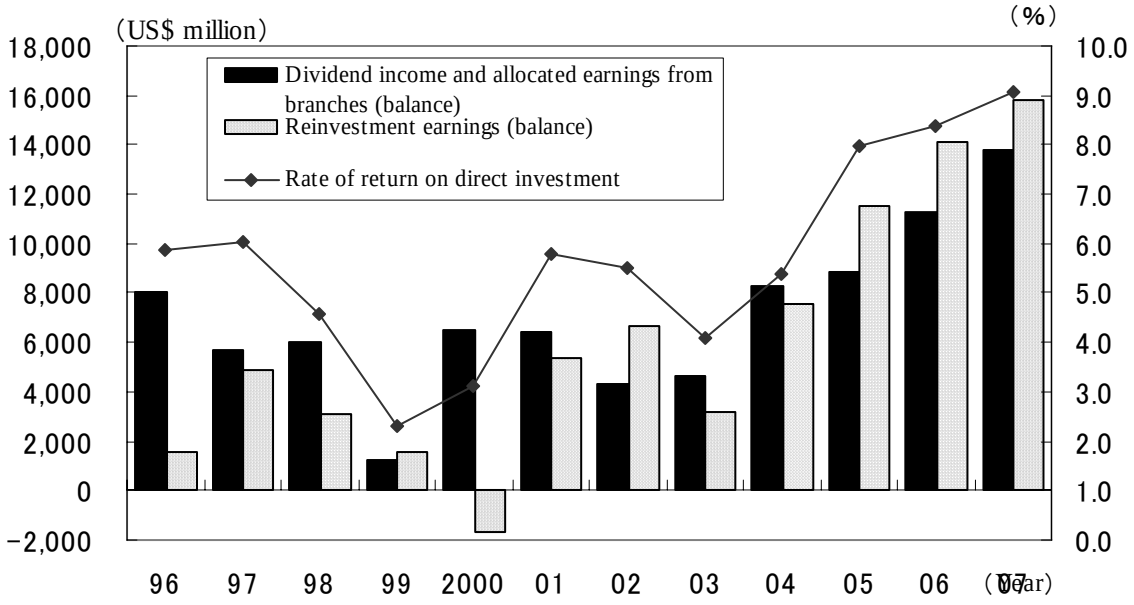
(Sources) "Balance of Payments" (Ministry of Finance), Bank of Japan and Thomson Reuters.

Table I-22 Japan's 10 largest outward M&A (from 2007 to June 2008)

Year	Acquirer company		Target Company			Deal Value (US$ million)	Equity after acquisition (%)
		Industry		Nationality	Industry		
April 2007	Japan Tobacco Inc	Cigarettes	Gallaher Group PLC	UK	Cigarettes	18,800	100.0
May 2008	Takeda Pharmaceutical Company Limited	Pharmaceuticals	Millennium Pharmaceuticals Inc	US	Pharmaceuticals	8,128	100.0
January 2008	Eisai Co., Ltd.	Pharmaceuticals	MGI Pharma	US	Pharmaceuticals	3,655	100.0
June 2007	Marubeni and Tokyo Electric Power Company	-	Mirant Asia Pacific Ltd.	Philippines	Electric services	3,420	100.0
December 2007	Kirin Holdings	Beverages (beer)	National Foods Ltd.	Australia	Dairy products	2,595	100.0
February 2008	Olympus Corp	Precision machinery	Gyrus Group PLC	UK	Medical equipment	2,161	100.0
May 2008	Takeda Pharmaceutical Company Limited	Pharmaceuticals	TAP Pharmaceutical Products	US	Pharmaceuticals	1,500	100.0
May 2007	Nippon Oil Company and Mitsubishi Corporation	-	Anadarko Petroleum Corporation	US	Petroleum and natural gas	1,200	23.2
February 2007	Nomura Holdings	Finance (investment)	Instinet Group Inc	US	Information services	1,200	100.0
August 2008	Marubeni Corp	Trading company	Jamaica Public Service Co. Ltd.	Jamaica	Electric power services	1,082	80.0

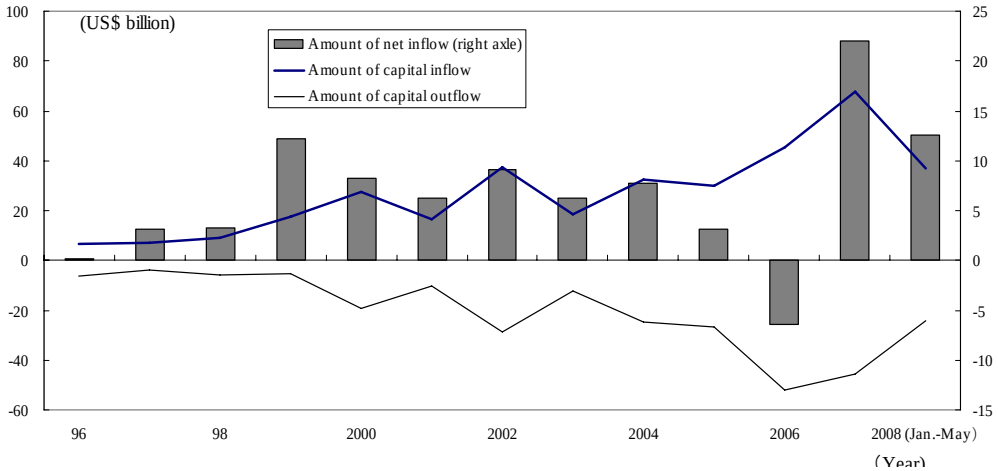
(Notes) (1) The date is the completion date of the transaction.
(2) The definition of M&A follows Thomson Reuters'.
(3) The ranking is based on the value of a single transaction.
(Sources) Thomson Reuters.

Fig. I-20 Rate of Return on Japan's outward FDI



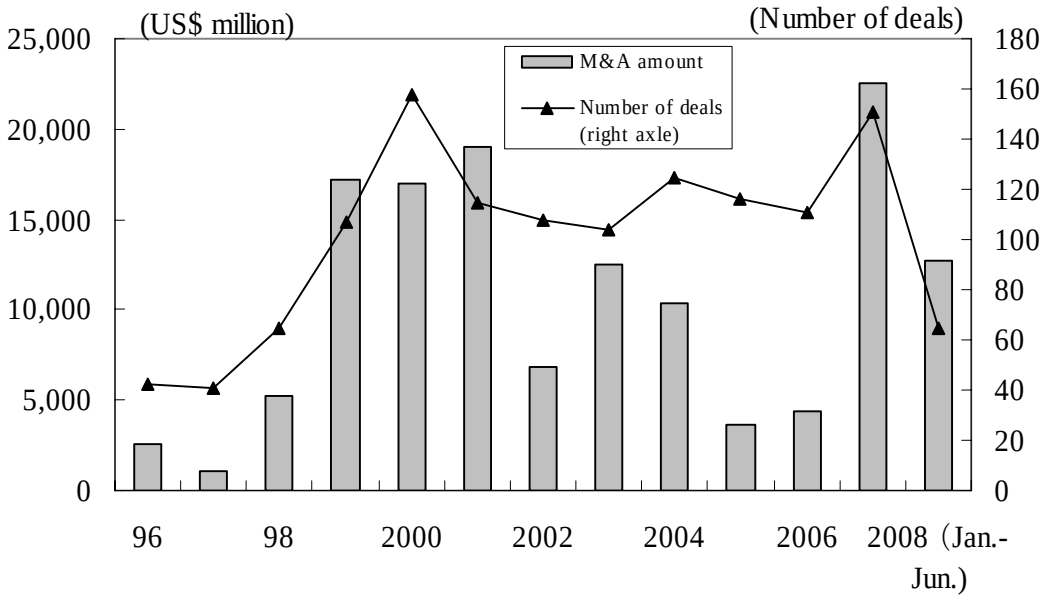
(Notes) (1) For reinvestment earnings, there is discontinuity for the period from 2004 onward and that prior to 2003, due to the change in the way figures were included.
(2) The rate of return on FDI: "FDI earnings of this term/average of FDI balance for this term end and previous term end"
(Sources) "Balance of Payments" by Ministry of Finance and Bank of Japan

Fig. I-21 Japan's inward FDI



(Note) The yen-based value is converted to dollars each quarter by using the average quarterly Bank of Japan interbank rate and then the annual sum is calculated.
(Sources) Both this figure and Fig. I-35 were prepared based on Bank of Japan and Ministry of Finance.

Fig. I-22 M&A towards Japan



(Note) Data as of July 7, 2008. Transaction completion basis.
(Sources) Both this figure and Fig. I-29 were prepared based on Thomson Reuters data.

Table I-23 Major M&A cases by overseas companies in Japan (from 2007 to June 2008)

Year	Company acquired	Industry	Acquiring company			Amount (US$ million)	Equity after acquisitio
				Country /region	Industry		
Apr. 2007-Jan. 2008	Nikko Cordial Group	Securities	Citigroup Japan Holdings (subsidiary wholly owned by Citigroup Inc.)	U.S.	Holding company (financial holding company)	13,351	98.7
Jun. 2007	Hotel under direct management of ANA Group	Air transport	Shiroyama Properties (a private limited company set up by the real estate fund operated by the company affiliated with U.S. Morgan Stanley in the U.S.)	U.S.	Finance	2,361	100.0
Mar. 2007	Nissan Diesel	Truck and bus body manufacturing	NA Co., Ltd. (set up by Volvo for the purpose of acquisition)	Sweden	Automobiles	2,294	94.6
Mar. 2008	Arysta LifeScience Corporation	Chemistry	Industrial Equity Invest	UK	Finance	2,185	100.0
Mar. 2007	Hawks Town Corp.	Department stores	GIC	Singapore	Investment advice	860	100.0

Fig. I-23 Japan's inward direct investment by region (net)

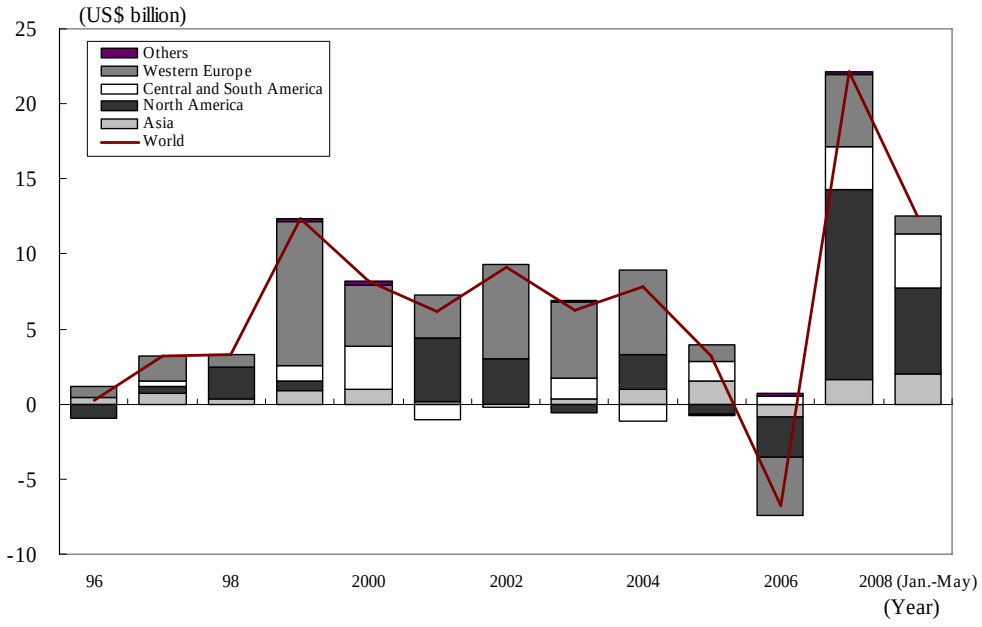
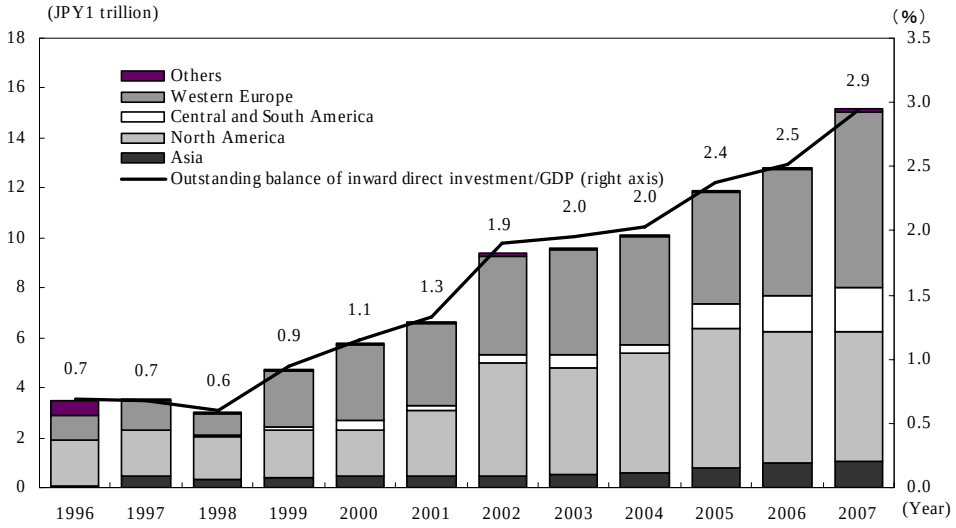
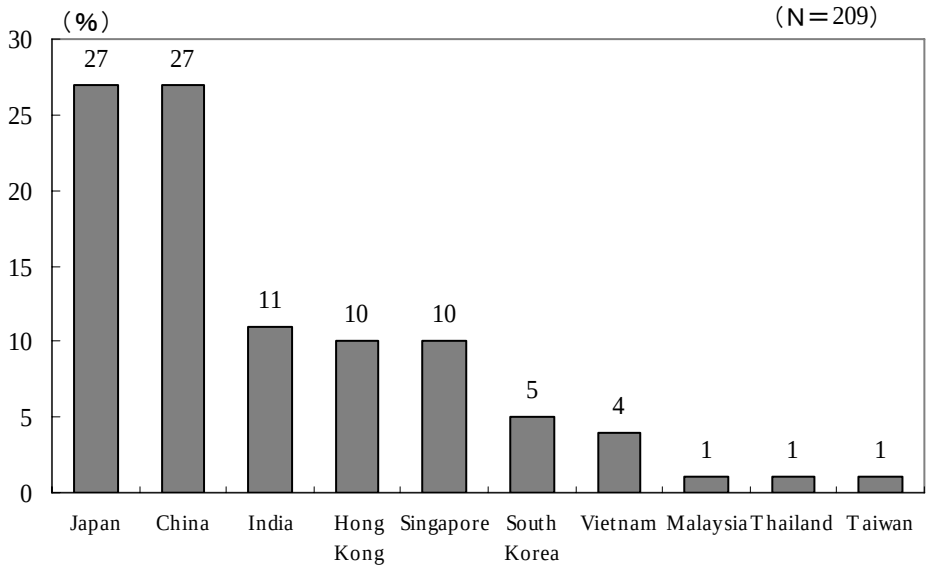


Fig. I-24 Balance of Japan's Inward Direct Investment



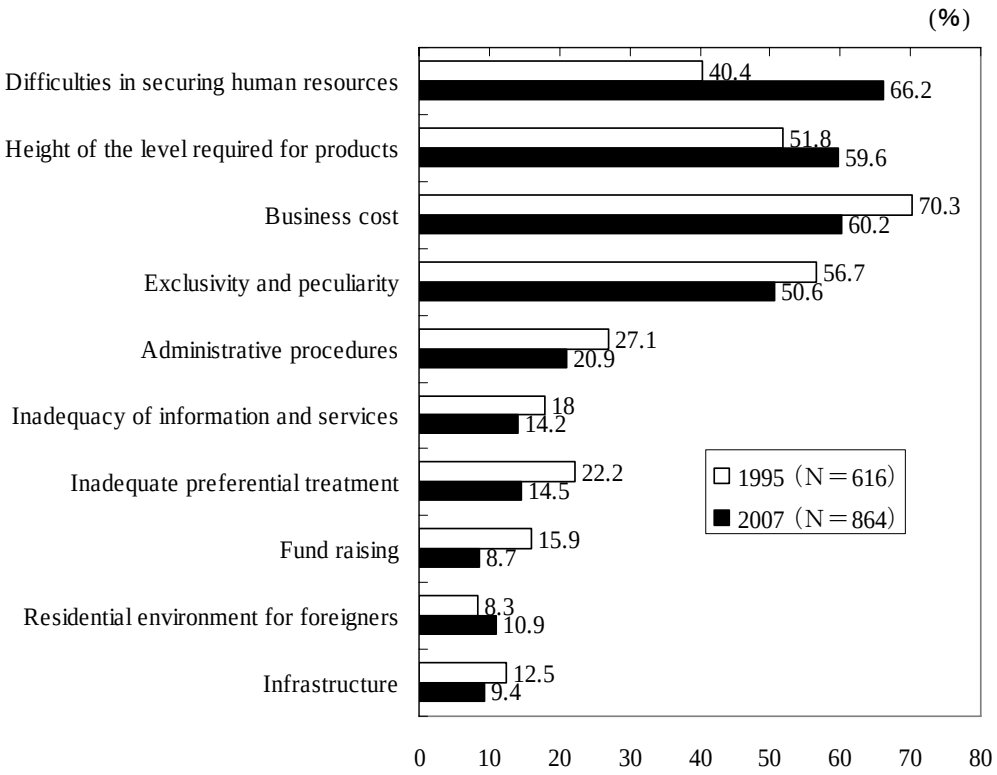
(Source) Bank of Japan and Ministry of Finance statistics.

Fig. I-25 The most attractive country and region in Asia for foreign affiliated companies



(Note) Average of the evaluation for the investment environment, which is classified into 19 items
(Sources) Survey of European, U.S. and Asian Foreign Affiliated Companies' Interest in Investment Towards Japan by JETRO (March 2008)

Fig. I-26　Factors making it difficult to do business in Japan (Multiple replies)



(Sources) “Survey of Foreign Affiliated Companies’ Awareness Concerning Direct Investment Towards Japan” by JETRO (March 2008)

5. WTO

(1) Chance to reach an agreement for the new round by the end of 2008 diminishing

Six years have passed since the launch of the Doha Round (new round) at the Fourth WTO Ministerial Conference (Doha Conference) held in November 2001 (Table I-27). Negotiations collapsed at the Fifth WTO Ministerial Conference (Cancun Conference) in September 2003, the Framework Agreement was reached at the WTO General Council in September 2004, and negotiations were again deadlocked in July 2006 and resumed in January 2007. While facing many twists and turns, member countries have made efforts in negotiations towards establishing the formula to reduce tariffs and subsidies, called "Modalities."

However, depending on the topics, a complicated pattern of oppositions emerged due to different positions between developed and developing countries and between exporting and importing countries of agricultural products, and no breakthrough for this impasse has been found.

Why has the new round been intractable? One of the reasons is that the new round constitutes multilateral trade negotiations. As of August 2008, 153 countries participated in the new round, while there were 123 countries participating in the nine-year Uruguay Round. It is not easy for so many countries to reach a consensus on a great number of topics. In addition, compared to the previous Uruguay Round, participation by an increasing number of developing countries can also be construed as the reason for this sluggishness. Developing countries, which already account for nearly 80% of the total member countries, will not listen to developed countries' demands unless they can perceive sufficient benefits from the new trade rule. Furthermore, the recent sharp increases in FTA can also have adverse wind effects for the new round. FTAs, whose role should be limited to be only complementary to the multilateral trade system, have now become the most important trade policy for many countries.

■ New round of negotiations may collapse once again

Individual countries have spared no efforts for negotiations with an aim to reach a final agreement by the end of 2008. Why is it so important to reach an agreement by the end of 2008? If they miss it, then it is considered that there will be growing political uncertainties such as the birth of a new administration in the United States, and negotiations may become much more difficult. In the United States, which is the largest player, the Democratic Party has controlled both the Lower House and the Senate as a result of their election wins in 2006. Democrats tend to place emphasis on the problems

of domestic employment and the environment instead of free trade, and depending on the case, they may take a negative stance towards free trade. The current Democratic presidential candidate has made assertions that would forestall free trade, advocating the necessity to add labor issue to the new round and renegotiate NAFTA. If the Democratic Party wins the presidential election in the fall of 2008, there is a high possibility that the protectionism sentiment will grow in the country, which will have a large impact on the new round.

The revival of the US Trade Promotion Authority (TPA), which expired in June 2007, might also become a key to the new round in the future [(10)]. If there is no TPA, then all the draft agreements reached with foreign countries should be subject to the congressional review, and this will make it difficult to conduct negotiations in an efficient manner. As for reviving TPA, it is necessary to show the United States Congress the progress made in the new round.

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10. According to the Federal Constitution of the United States, the category of trade falls under congressional authority, and if the TPA is adopted, the authority that the Congress originally possesses will be referred to the President on a temporary basis. Draft agreements reached with other countries based on the TPA should undergo the procedures of blanket deliberation by the Congress, and therefore, without being subject to the congressional revision, the Congress should either fully support the bills or reject them.

Under these circumstances, an unofficial ministerial meeting was held in Geneva in July 2007. Individual countries defined this meeting as the final chance to establish the “modalities” so as to reach a final agreement targeted by the end of 2008, and among the discussions based on the chairpersons’ papers on agriculture and the non-agricultural market access (NAMA) announced prior to the meeting, they negotiated energetically the important agenda items for which a political will would be needed (Table I-24).

During the conference, in response to the progress in negotiations, WTO Director-General Lamy circulated a draft version of framework agreements, and the ceiling of agricultural subsidies for the United States, upon the strong requests from developing countries, was lowered to US$14.5 billion from US$17 billion, an amount that the United States had unofficially proposed so far. Also in the discussions on coefficients for the Swiss Formula for NAMA [(11)], a consensus was gradually formed.

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11. The reduction of tariffs on industrial products is calculated by using the mathematical formula referred to as “Swiss Formula.” The lower the coefficient in the formula is, the more tariffs are reduced.

Regarding this coefficient for which this mathematical formula is used, negotiations are underway among individual countries. In the draft of the framework agreement, it was proposed that developed countries be required to choose the coefficient "8" and developing countries to choose from the coefficients "20," "22" or "25." In the case of developing countries, according to the sliding scale, for instance, if the coefficient "20" is chosen, the items on the exclusion list is expanded, but if "25" is chosen, no exceptional item is recognized.

However, at the G7 meeting (the United States, the EU, Japan, Brazil, India, China and Australia) thereafter, while discussing the special safeguard mechanism (SSM) [(12)], of which the use by developing countries had been approved, a confrontation became apparent between the United States, which sought tighter conditions needed for taking such measures, and India and China, which sought less discipline. In the end, having seen no way of narrowing the gap in the opinions of the both sides, Director-General Lamy decided that it was impossible to reconcile the dispute and announced that the negotiations had broken down.

It has not been decided when and in what form negotiations will resume in the future, but some major countries as well as Director-General Lamy, clearly expressed their commitment to continue the new round, and various exchanges of opinions are expected to be held towards the restart of the negotiations.

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12. SSM means the emergency safeguard measure on imports, which can be applied temporarily for the purpose of protecting domestic industries when imported agricultural products sharply increase in developing countries. Unlike the general safeguard for which the proof of the damage on industry is needed for making the decision to finally apply the measure, SSM can be automatically applied if surge on imports of agricultural products has reached a certain level and domestic prices are confirmed to have fallen.

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(2) Status of China's conformity to the WTO rule and increasing importance of its service liberalization

Six years have lapsed since China's WTO accession (December 2001). According to its commitments, China has proceeded with the improvement of legal systems and its economy has sufficiently benefited from the liberal trade policy. The liberalization measures in the aspect of trade, such as prohibition of the discriminatory treatment of foreign affiliated companies, reduction of tariffs and non-tariff barriers, grant of trading rights, and improvement in trade-related investment measures, have bolstered the

formation of special economic zones in the coastal regions and production bases in other places promoted under the ongoing reform and liberalization policy and thrust China up to the “Factory of the World.” The export value reached US$1.218 trillion in 2007 and China became the largest exporting country, second only to Germany. Also, with the import value amounting to US$955.8 billion, China ranked third after the United States and Germany (Fig. I-28).

Major countries have recognized China’s efforts to improve its legal systems in the aspect of trade, but on the other hand, they also point out that barriers still exist and they have recently demanded that China deregulate the sectors not even covered in the WTO Protocol as well.

The “2008 Report on the WTO Consistency of Trade Policies by Major Trading Partners ” (Ministry of Economy, Trade and Industry of Japan) outlines the status of China’s WTO conformity and points out the following as the issues of particular importance: the ”Rules on Imports of Auto Parts with Features of Assembling Whole Vehicles (de facto local content requirements),” infringement on intellectual property such as counterfeit and pirated products, arbitrary use of anti-dumping measures, and subsidy measures incompatible with the WTO. In its “2008 National Trade Estimate Report on Foreign Trade Barriers (NTE),” the United States Trade Representative (USTR) no longer defined China as a newly acceding country but as a core member of the WTO. On top of that, it pointed out that the focus had been shifted from the implementation of the commitments made upon accession to a series of problems with the government’s industrial policies, which have made the implemented systems less effective. The European Commission issued its China strategy titled “EU-China: Closer Partners and Growing Responsibilities” in October 2006, pointing out that in addition to the implementation of the commitments, it will seek for China’s liberalization beyond the commitments made upon accession.

In order to rectify China’s unfair trade and improve the business environment, the governments of Japan and the United States and the Europe Commission have raised the issues through bilateral and regional negotiations, such as Japan-China High-Level Economic Dialogue, the U.S.-Sino Joint Commission on Commerce and Trade (JCCT), the Strategic Economic Dialog (SED), and the EU-Sino High-Level Economic and Trade Dialogue, and also through the transitional review mechanism (TRM) of the WTO. Regarding issues that are difficult to solve, they have tried to rectify and improve the situation by taking measures such as filing a complaint to the WTO.

■ **Changing business environment and new policy placing emphasis on domestic**

sale and services

Side effects brought about by rapid industrialization have come to the fore in China in recent years. The negative aspects arising from rapid industrialization have become pronounced, such as massive resource consumption and environment contamination resulting from the concentration of energy-consuming and highly contaminating enterprises. In addition, as a result of the concentrated resource input to labor-intensive industries in the processing trade, low priced export products swept the world market, thereby leading to serious trade frictions with other countries, especially in Europe and the United States.

In order to improve this condition, the Chinese government issued its future policy, such as the shift from attracting foreign capital through expanding exports to investing in industries catering to domestic markets, the shift from labor-intensive industries to high-tech and environment-friendly businesses, and the promotion of service industries. The situation surrounding business is also changing. For companies engaging in low-cost operations, there have been increasing factors to weaken cost competitiveness, such as the yuan appreciation and rising labor costs. These circumstances have bolstered the transition from production for exports to production for domestic sale.

There are also favorable winds for service industries promoted by the Chinese government. Prior to accession, China had stringent restrictions on service industries in place. However, upon accession, China made commitments to somewhat liberalize 93 service sectors, out of the 155 defined by the General Agreement on Trade in Services (GATS), outpacing Thailand (75 sectors), Brazil (43 sectors) and India (37 sectors). By the end of 2007, the improvement of legal systems with respect to the service sectors was nearly completed based on committed matters. Also, according to the new corporate income tax law enforced in January 2008, the tax rate for service industries was lowered from 33% to 25%, while it was raised from 15% to 20% for export-type manufacturing companies, which had thus far received preferential treatment. In 2007, Japan's direct investment towards China posted a decline of 43% in manufacturing industries, with the value falling from the previous year's US$4.88 billion to US$2.8 billion. On the other hand, it recorded a steady increase of 71% in non-manufacturing industries, particularly in service industries, with the value rising from US$1.14 billion to US$1.95 billion (Fig. I-29).

■ **Business barriers still remain in service industries**

The improvement of legal systems in the service sectors based on the commitments made upon WTO accession seems to have been completed overall, though delays are

observed in some sectors. On the other hand, Japan, the United States and the European Commission have pointed out that there still remain various barriers for foreign affiliated service companies operating in China.

The problems pointed out by the governments of individual countries and the business can generally be divided into three types: (i) delay in the introduction and revision of the laws and regulations based on liberalization schedule promised upon WTO accession, (ii) existence of laws and regulations that become barriers to business operations even if the improvement of legal systems has been completed based on the commitments made upon WTO accession, and (iii) problems found in the operation of laws and regulations by the government (Table I-25).

The introduction and revision of the laws and regulations based on the commitments made upon accession were nearly completed at the end of 2007 as the remaining parts in the telecommunications and travel sectors were finally liberalized, but some delays in implementation was found in part of them. Most of the distribution sector has become open to foreign capital according to the “Measures for the Administration of Foreign Investment in Commercial Fields” enforced in 2004, but some products such as books, newspapers, magazines and audio-video products (DVD) have not been made open as was promised. In the telecommunications sector, there are also some parts that have not been made open, such as online data-processing services. These delays are being attributed to the fact that the Chinese government has failed to work out the appropriate laws and regulations under unique social conditions with information control and amid whirling changes in the technological development.

Although the legal system has been improved based on the commitments made upon accession, there are still some sectors where the legal system restricts business or many barriers remain for business. In the construction sector, the “Regulations on Administration of Foreign-Invested Construction Enterprises (Decree No.113)” was promulgated to enable complete financing through foreign capital. On the other hand, however, it prohibits direct contracting from overseas. In fact, most foreign affiliated companies had adopted direct contracting in China before its accession. Moreover, in the case of complete financing through foreign capital, business is limited to the four categories such as projects with 100% foreign capital or grant-aid projects and internationally financed projects through international tenders. Foreign affiliated companies have thus slid into a vicious cycle: due to restrictions on orders they can receive, their work experience, which is a prerequisite for receiving orders, also decreases.

No matter how the legal system improves, business is hindered if there are problems

with the operation by the government. Many Japanese companies recognize the significant improvement in the operation. At the same time, there still remain comments such as on uncertainty over the business approving process and time-consuming responses. For instance, broker business of A-shares (shares which only Chinese residents can trade) is not approved for foreign affiliated companies. But UBS and Goldman Sachs are allowed to do business based on the full license, and this is considered a violation of the most-favored-nation treatment (MFN). In the life insurance service sector, it is said that several Japanese affiliated companies had submitted applications for establishing a joint venture company around 2004 but some of them have not yet been approved. Also, the problems with the system operation are frequently seen in many other sectors such as transportation, telecommunications, travel and non-life insurance services.

■ **In order to smoothly operate business in China**

As was explained above, China imposed stringent restrictions on foreign companies' entry into its service sectors over a long period. China has substantially opened up its service sectors according to its commitments made upon WTO accession and also promotes service sectors in its new policy in recent years. These moves are considered to be based on China's intention to nurture local industries, which are inferior in technological capabilities, through the transfer of sophisticated technology from foreign affiliated companies.

Nevertheless, despite the ongoing improvement of legal systems based on the commitments made upon WTO accession, if they do not suit actual business practices or there are problems with the operation and implementation by the government, it is difficult for foreign affiliated companies to fully exhibit their capabilities.

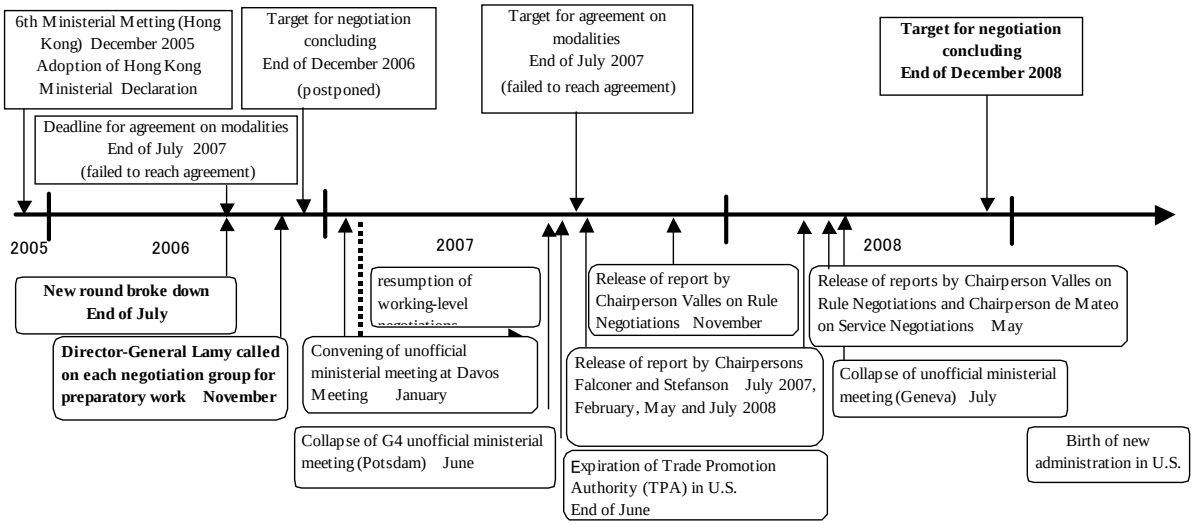
If China's laws and regulations go against the WTO rules, interested countries need to persistently demand that China conform to the rules through bilateral negotiations as well as the WTO. If negotiations do not make progress, it is also an option for the countries to file a complaint to the WTO's dispute settlement body. The United States has already filed six complaints since China's accession.

Regarding hindrance to business and problems with the operation by the government beyond the framework of the commitments upon WTO accession, individual governments have also pointed out the importance of improvement and they might be able to ask China to make improvements through ways such as bilateral negotiations. In addition to the government's efforts toward improvement, private companies can also open the way to smooth business operation in China through their own efforts, if

situation allows. For instance, while other Japanese affiliated non-life insurance companies were having a tough time for reasons such as the delay in the approval process for a business license, which is one of the above raised problems with the system operation and implementation by the government, Sompo Japan raised the status of its liaison office in Dalian to make it a local legal person in July 2005, and further set up a branch in Shanghai, the first one for Japanese affiliated companies, in October 2007. Sompo Japan had actively conducted business activities in alliance with local companies, e.g., the establishment of a broker company through joint capital contribution with the People's Insurance Company of China (PICC) and the joint development of car insurance goods with Ping An Insurance of China. Sompo Japan construes that the company has won high commendation from the Chinese authorities because "Sompo Japan's business structure is consistent with the Chinese government's policy" (article from "China Business," January 2008).

This year marks the 30th anniversary of China's reform and opening-up. Moves to establish market economy structures continue. At the same time, for the Chinese government, there are also many phenomena that cannot be explained by the laws and regulations in the statutory to manage such a huge country as China, and in such cases, solutions sometimes sought in a form apart from the laws. Companies may be forced to have a tough time if they bring in business practices inconsistent with the government's policy and intentions. As shown in the aforementioned case, the trustworthy relationship with local companies and the government through technology transfer and cooperation towards China and the formation of business alliance will sometimes bring about success. This case may serve as one of the hints for Japanese companies intending to expand business in China.

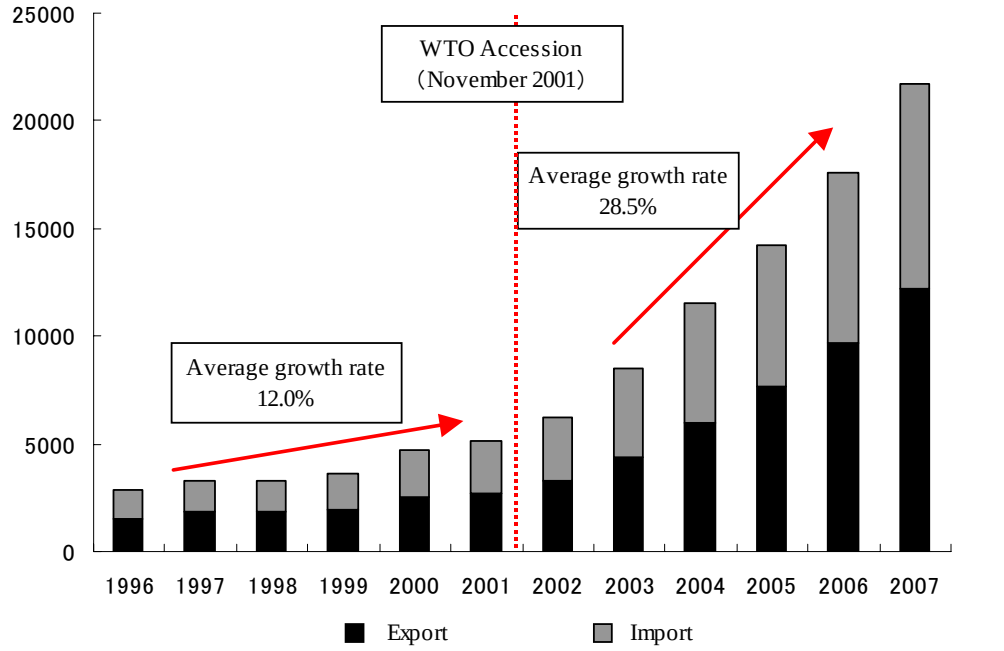
Fig. I-27 Flow of New Round since the 6th Ministerial Meeting (Hong Kong) (December 2005-December 2008)



(Sources) Prepared based on materials of Ministry of Foreign Affairs of Japan and WTO Reporter (BNA)

Fig. I-28 Trends of China's Trade

(Unit: US$100 million)



(Sources) Prepared based on "China Customs Statistics"

Table I-24 Categories and Points at Issue for Negotiations at Unofficial Ministerial Meeting (July 2008, Geneva)

Category			Points at issue for negotiations[*1]
Non-agricultural market access	Coefficients for the Swiss Formula		The coefficient for developed countries is "8." No product will be exempted from tariff cut for developed countries. Tariff cut should be implemented over five years in equal installments, commencing from January of the year following the effective date of DDA. The coefficient for developing countries is chosen from "20," "22" and "25." If the coefficient "20" is chosen, 14% of tariff line for industrial products may be exempted from overall tariff cuts determined by coefficient. The reduction rate forthe exempted products should be at least half of the cuts determined by coefficient. However, the condition is that these tariff items do not exceed 16% of the total trade quantity of industrial products. Or 6.5% of tariff line for industrial products may be exempted from overall tariff cuts. However, the condition is that these products do not exceed 7.5% of the total trade quantity of industrial products. If the coefficient "22" is chosen, 10% of tariff line for industrial products may be exempted from overall tariff cuts determined by coefficient. The reduction rate for the exempted products should be at least half of the cuts determined by coefficient. Or, 5% of tariff line for industrial products may be exempted from overall tariff reductions. If the coefficient "25" is chosen, there will be no product exempted from overall tariff cut. Tariff reductions should be implemented over ten years in equal installments, commencing from January of the year following the effective date of DDA. For the least developed countries (LDCs) and most recently acceded members*2, there is no obligation for tariff reductions. For recently acceded members*3, tariffs reductions should be implemented over ten years plus three to four years.
	Anti-concentration clause (ACC)		For developing countries, at least 20% of tariff line for industrial products classified based on HS classification or 9% of import value for each classification should be classified as products subject to overall tariff cuts based on the Swiss Formula.
	Elimination and lowering of tariffs by sector		The participation is voluntary. However, for developing countries participating in sectoral negotiations, it is possible to add some more to the coefficient.
Agriculture	Market access (tariff cuts)	Overall tariff cuts: Tariff cuts for the items placed in highest tier[*4]	For products with a bound rate of 75% or more, developed countries should reduce by 70%. For tariffs with a bound tariff rate of 130% or more, developing countries should reduce by 2/3 of what developed countries should. With respect to recently acceded members, for the top two tiers, the rate of reduction should be 10% lower than that for developing countries, and for the lower two tiers, the rate of reduction should be 5% lower. For general products overlapping the products committed upon accession, tariffs should be reduced one year after the commitments are fulfilled. An additional period of reduction is granted, with a duration of two years longer than that for developing countries as the upper limit. For LDCs and most recently acceded members, there is no obligation for tariff reductions.
		Sensitive product	Developed countries may classify 4-6% of the agricultural products as sensitive products. Developing countries may add 1/3 to the above-mentioned 4-6% and classify that portion as sensitive products.
		Special product (SP)	In addition to sensitive products, developing countries may classify 12% of the total products as SP. For SPs, tariffs should be reduced by 11% on average. And up to 5% of them may be exempted from tariff cuts. For small vulnerable economies (SVEs)[*5], 24% of the total products may be classified as SP.
		Special safeguard mechanism (SSM)	Developing countries may designate SSM products equivalent to 2.5% of the total agricultural products. The condition is that if the import quantity increases 40% on average for the last three years, SSM may be applied by adding 15 points to the current bound tariff rate as the limit. However, SSM cannot be applied if not being accompanied by declines in domestic prices.
	Domestic support (subsidy cuts)	Overall trade distorting subsidies (OTDS)[*6]	From the average OTDS value during the period from 1995 to 2000, the EU should reduce 80%, the United States and Japan 70%, and other developed countries 50% or 60%. If converted to a monetary value, that means an upper limit of approximately US$34.6 billion for the EU and US$14.46 billion for the United States. Developing countries should reduce by 2/3 of what developed countries should. Tariff cuts should be implemented by developed countries over five years and by developing countries over eight years in equal installments. Most recently acceded members and low-income countries among recently acceded members have no obligation to reduce tariffs. Other recently acceded countries should reduce 2/3 of what developing countries should.

(Notes)

*1 The underlined parts were the new proposals put forward by individual countries at the unofficial ministerial meeting in July 2008 or the draft of the framework agreements put forward by Director-General Lamy.

*2 Nine countries that most recently acceded to the WTO among recently acceded members, such as Vietnam, Uruguay and Albania.

*3 Nine recently acceded members such as China, Taiwan and Ecuador.

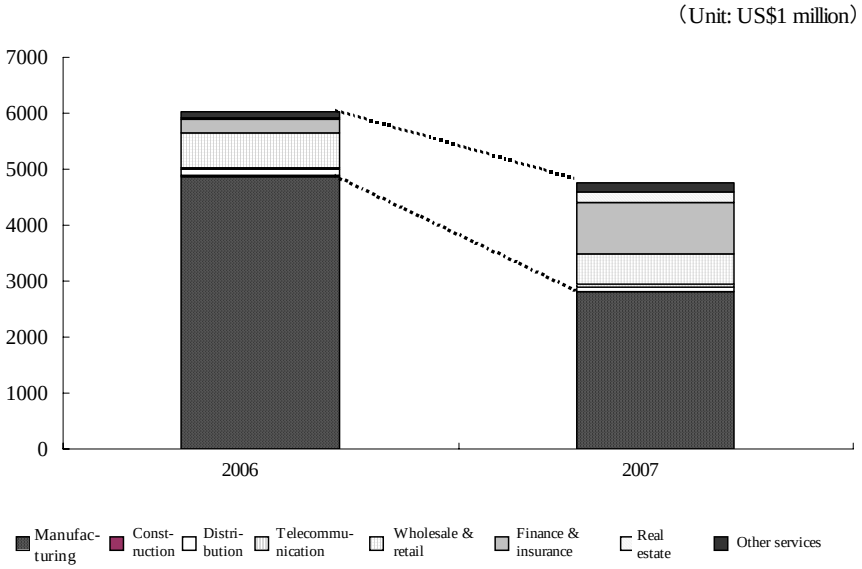
*4 The highest tier means the top one of the bound tariff rate (general tariff line) which is divided into four tiers according to tariff rate

*5 Countries with the trade value of industrial products accounting for less than 0.1% of the global total.

*6 Including "Amber" policy (subsidies having a trade-distorting effect), "Blue" policy (subsidies having a slighter trade-distorting effect than in the case of "Amber" policy), and de minimis (petty "Amber" policy).

(Sources) Prepared based on data of WTO Secretariat, WTO Reporter (BNA), World Trade Online (Inside Washington Publishers) and various newspapers

Fig. I-29 Breakdown of Japanese Companies' Investment towards China



(Note) Excluding agriculture, forestry and fisheries, mining, etc.
(Sources) Prepared based on Ministry of Finance and BOJ's "Balance of Payments Statistics"

Table I-25 Comments by Japan, United States and Europe on Problems in China's Service Sectors ((1) delay in the improvement of laws, (2) laws and regulations restrictive to business, and (3) problems with system operation and implementation)

Sector	Actual state and problems
Wholesale and retail trade	(1) Distribution of books, newspapers, magazines and audio-video products (such as DVDs) is allowed only for joint venture companies in which Chinese companies are the majority shareholder (United States). (2) (3) Distribution of pharmaceuticals is based on the ambiguous stipulation in the "Measures for the Administration of Foreign Investment in Commercial Fields": "With respect to pharmaceuticals, the Ministry of Commerce shall implement regulations separately," and in some cases, an approval is not granted by local governments (United States). (2) In the new law related to petroleum, there are still strict qualification requirements (e.g., stockpiling quantity, pipeline, railway, wharf, level of supply contract) (United States). (2) (3) In areas for which the urban network plan has not been elaborated, the distribution license is not issued to foreign affiliated retailers. This restriction does not apply to domestic companies (United States). (2) (3) Foreign affiliated companies alone undergo a long approval process by the province or the Ministry of Commerce of the central government before the State Administration of Industry & Commerce issues the license. Some of the local companies do not need to undergo the process of the Ministry of Commerce (United States). (1) The gasoline-retailing sector has not yet been opened up (United States).
Construction	(2) It is prohibited to make use of special subcontracting construction companies for ordinary skeleton work (Japan). (2) Direct contracts that were previously allowed has become no longer possible since July 2005, and it is difficult for foreign affiliated companies to provide construction services (Japan). (2) There are restrictions on contracting business. Foreign affiliated companies are in a vicious cycle: due to restrictions on orders they can receive, their work experience, which is a prerequisite for receiving orders, also decreases. (2) (3) A branch should be established in order to contract construction works in provincial regions. The administration of industry and commerce in each province requires the submission of an unthinkable number of documents (Japan). (2) If a company wholly invested by foreign capital is to acquire the qualification certificate, they are imposed with strict requirements such as capital and engineers for each qualification grade. In addition, there are restrictions on the scale and type of the work that can be implemented for each grade (Japan and the United States).

Transport	(2) In order for forwarders to provide aviation services, the CAAC license (approval for air transport selling agency) should be acquired, but according to the internal circular notice, applications by companies in which foreign capital accounts for a majority are not accepted. In addition, regarding marine services provided by forwarders, it is obliged to acquire NVOOC (Non Vessel Owning Ocean Carriers), but the Ministry of Commerce and the Ministry of Communications have different opinions. For instance, the Ministry of Commerce pointed out that in order to undertake international door-to-door multi-modal transport, B/L may be issued if based on "Regulations on Administration of Foreign-Invested International Freight Forwarding Enterprises," but in the opinion of the Ministry of Communications, only the "Marine Transportation Regulations of the People's Republic of China" is applicable and "the procedures (2) Documents such as the forwarder license and NVOOC are needed for customs clearance. Also, in the case of customs clearance through an agent, five registered customs specialists are needed but it is difficult to acquire such license (Japan). (2) It is stipulated that five trucks should be possessed in order to acquire a license for trucking business in the city (Japan). (2) Changes in flight are not aproved and when time for export clearance is over, the procedures for export clearance have to be completed again after completing the procedures for import clearance first (Japan). (2) (3) There have occurred overlapped jurisdiction, many requirements and rules for approval as a result of a large number of competent departments and bureaus (United States). (3) The Ministry of Communications has had delays in its approval of foreign affiliated companies, and further, it does not issue a license for trucking business that covers the whole country. In addition, there are many cities of which city traffic is made inaccessible to foreign affiliated companies in the daytime (United States). (2) The license for air freight forwarding agency is not issued to companies wholly invested by foreign capital. Cargoes needed to be loaded onto Chinese international and domestic airlines via China's local agencies (United States).
Telecommunications	(2) In the "Classification Index of Telegraphic Services" enforced in April 2003, there are restrictions on services that foreign capital can provide (Japan). (2) (3) There has been delay in the introduction of the "Telecommunications Law" (Japan). (2) (3) With respect to cryptography-related R&D and manufacture, the scope of the cryptographic technology and manufacture monopolized by the government has not been made clear and there has been no actual case where a foreign (1) VOIP services have not yet been made open (Japan). (3) With respect to the introduction of the Chinese 3G specifications, there is uncertainty over the introduction of "W-CDMA" and "CDMA2000" which have been adopted by Japan, the United States and Europe, and the business license has not yet been issued (Japan). (2) Foreign affiliated companies providing international services are required to use the gateway of state-owned companies (United States). (3) The Ministry of Telecommunications' license approval process is time-consuming (United States). (3) China made the commitment to open wireless services but has not yet announced a detailed plan (United States). (2) IP-VPN services are classified as basic telecommunications if they are international services, and as value added telecommunications if they are domestic services (there is also the impact of the restriction on the ratio of capital contribution) (United States). (1) Online database processing services have not been made open (Japan).
Banking	(2) It was determined that except existing measures for maintaining orderly credit conditions, all the others imposing restrictions on the ratio of capital contribution by foreign companies, business and the corporate form should be abolished within five years after accession, but there still exist related regulations (Japan). (2) (3) The total loan amount is regulated based on the "counter regulation." The said regulation affects companies' fund raising (Japan). (2) The registered capital of a foreign affiliated bank or a Sino-foreign joint venture bank should be at least CNY1 billion. If a branch is to be set up, the head office is required to contribute working capital of at least JPY100 million. In addition, the condition for a foreign affiliated bank to run a joint venture is that the head office has operated business in China for at least two years (United States). (2) Foreign affiliated banks are allowed to handle yuan deposits for individual Chinese, but the yuan business for individuals is limited to the term deposit with a minimum amount of CNY1 million for each account. In other words, in order for foreign affiliated banks to operate the full-scale yuan business for individual Chinese, they should satisfy the condition that a locally incorporated company be established (having operated business for at least three years and earned profits for two or more years thereof) (United States). (2) Capital needed for a branch is CNY100-600 million, which is a large amount (Europe).
Securities	(2) In direct finance, broker's business of A shares is the most profitable but that is not open to foreign affiliated companies (Japan). (3) UBS and Goldman Sachs are allowed to do business based on the full license and that is possibly a violation of MFN (Japan). (2) The ratio of capital contribution is limited to 33% at maximum (49% at maximum in the case of asset management) (Japan). (2) There has been the movement to set up a requirement of sponsor qualification for the M&A business license. For each M&A case, two qualified sponsors will be needed. In China, there are a little over 800 qualified sponsors in total (none of them are foreigners) in the underwriting business into which the system has already been introduced, and there has been competition for talented personnel, and in the M&A business, such competition is also expected to become fierce (Japan).

Life and non-life insurance	(2) Insurance companies in China are obliged to first offer to at least two domestic special reinsurance companies in China with at least 50% of reinsurance premium (Japan). (2) So long as an approval is not acquired from the Insurance Supervision and Administration Committee, a foreign affiliated insurance company is prohibited to do reinsurance transactions with its affiliated companies (Japan). (2) According to the administration regulation, the head office is required to have business experience of at least thirty years and business experience of at least three years in China is needed. In the first place, in the case of life insurance companies, normally it takes seven to eight years to turn a profit (Japan). (2) When foreign affiliated companies run a joint venture with a local company, in some cases they are reminded or regulated by the authorities, e.g., that the application will not be approved if that local company has foreign capital in it (3) There are many unclear points, e.g., in which process of the China Insurance Supervision and Administration Committee the documents of license application is (Japan and United States). (2) The private sector is prohibited to handle political risk insurance (United States). (2) While existing Chinese insurance companies are allowed to set up two or more branches at one time, foreign affiliated insurance companies are allowed to set up only one branch each time (United States). (2) When a locally incorporated company is established, in addition to a registered capital of at least US$200 million, capital will be required when a branch is established (United States). (2) The ratio of capital contribution by foreign companies is set at 50% or lower, and there are also restrictions on the scope of the broker's business (United States). (2) It is difficult to acquire a business license for corporate pensions (United States). (2) (3) There is information that the China Post has acquired the insurance business license by using its existing post facilities (United States).

(Sources) Prepared based on "2006 Report on the WTO Inconsistancy of Trade Policies by Major Trading Partners" by Ministry of Economy, Trade and Industry of Japan, "Chinese Economy after WTO Accession" by Japanese Chamber of Commerce in Beijing, various materials of United States Trade Representative (USTR), Trade Council of WTO Secretariat, materials of European Commission, and interviews with individuals directly related to a company and specialists

II. Global FTA Trends and Use of FTAs for Gaining Momentum in the Business Arena

1. Continuously Expanding Global FTA Network

(1) The expanding global FTA network pushed by the lagging WTO talks

As of August 2008, 148 free trade agreements (FTAs) [(1)] were in effect worldwide FTAs (including customs unions, and based on notification to WTO. For a listing of the FTAs, refer to the Appendix, the table of "Worldwide FTA" at the end of the White Paper.), which only numbered 18 at the end of 1989, increased by 46 in the following decade from 1990 to 1999, and in the approximately eight and a half years from 2000 to August 2008, 84 new agreements have been formed (Fig.II-1).

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1. WTO agreements allow the FTA signatory countries to remove tariffs and other trade regulations (Article 24, GATT) and to liberalize services (Article 5, GATS) between them. NAFTA and other FTAs formed by advanced countries, however, include chapters on government procurement, intellectual property rights, competition and other subjects. In the case of Japan, FTAs generally refer to agreements on the trade in goods and services while the agreements covering wider areas such as investments and government procurement are called Economic Partnership Agreements (EPAs). In this chapter, the term of FTA is used to collectively refer to FTA and EPA.

One of the factors behind this sudden increase in the number of FTAs is the protraction of the previous Uruguay Round and the current Doha Round (New Rounds). At present, as many as 153 countries have joined the WTO, making the formation of consensus in the New Rounds more difficult. When the multilateral trade negotiations fail to show progress, FTAs are sometimes found more reasonable to the countries seeking an access to overseas markets as they can be negotiated with more selected counterparts and can be concluded within a relatively short period of time. Further, creation of the situation where many countries rush to join FTA negotiations following the major trading countries shifting to FTAs, or "an FTA spurts the creation of yet more FTAs" in a manner, is considered to be another factor concerning the sharp increase in the number of FTAs.

(2) FTA strategies of Europe and the US targeting the emerging economies becoming clearer

Until recently, the majority of FTAs were formed between neighboring countries and regions. Originally, it was in the natural course of events that the neighboring countries

with strong political and economic relationships form FTAs looking for stronger or improved ties (Table II-1). The EU, with the philosophy of keeping a “peace in the region” based on the reflection of the European countries that experienced the two World Wars, can be regarded as a highly political regional unification.

On the other hand, as economy further globalizes, many FTAs now cut across regional boundaries in recent years. In other words, FTAs are formed between countries belonging to different regions in an increased number of cases. According to Table II-1, the cross-regional FTAs, of which there were only five at the end of the 1990s, now number 24.

In the past, we saw that advanced countries, in most cases, entered into FTAs only with other advanced countries and developing countries only with other developing countries because of economic disparities between advanced and developing countries. Typical examples of FTAs among advanced countries include the US-Canada FTA and the EU, and that of FTAs among developing countries is the Mercosur, formed by Brazil, Argentina and several other South American countries. The recent trend shows, however, that an increasing number of FTAs have been formed between the advanced and developing countries. Such FTAs, which had a share of only about 30% of the entire FTAs prior to 2004, have claimed the majority of the total FTAs worldwide since 2005. It can be considered from this fact that advanced countries, including Japan, the US and Europe, are actively seeking to enhance economic relationships with emerging market economies by expanding their FTA networks.

■ **US attempts to extend its NAFTA-type FTAs in the Americas**

The US is promoting FTAs throughout the Americas using the North American Free Trade Agreement (NAFTA) model, formed in 1994. The NAFTA-type FTAs have a characteristics of, besides complete elimination of tariffs, high-level and comprehensive liberalizations, sometimes going into the domestic regulations of the partner countries, including investments in general, financial and telecommunication service sectors, government procurement, intellectual property rights, etc. Using its huge market as a bait, the US takes a tough stand in negotiating FTAs, eventually forcing, in many cases, the Central and South American countries seeking an access to the American market to accept the US demands. In this way, the NAFTA-type FTAs promoted by the US are expanded to all areas of the Americas.

The negotiations at the first Summit of the Americas, held in Miami in December 1994, which aimed to establish the Free Trade Areas of the Americas (FTAA) involving 34 countries in the Americas, ended in failure owing to strong conflicts between the US

trying to expand the NAFTA-type FTAs and Brazil opposing thereto. Since then, the US has been forming FTAs with Central and South American countries one after another by negotiating with them individually in the manner of “single-hook fishing” (Table II-2).

■ **Movement by the EU trying to expand its regional integration model to neighboring countries**

Based on the philosophy of keeping a “peace in the region”, the EU is expanding its regional integration model to neighboring countries. Conclusion of the European Agreements with the Central and Eastern European countries in the 1990s and the Stabilization and Association Agreements with West Balkan countries (Croatia, Macedonia, etc.) after the year 2000 were all aimed at the possible accession of these countries to the EU. Bulgaria and Romania joined the EU in January 2007, increasing the number of membership countries to 27. Currently, Turkey, Macedonia, and Croatia are listed as of the candidate countries that will possibly accede to the EU in the future (Table II-3).

Further, by concluding Association Agreements with Morocco and other countries in the Mediterranean coast, the EU is enhancing the stability in these regions and strengthening its economic relationship with the countries located there. By introducing the common “Pan-Euro-Mediterranean Cumulation of Origin System” to the countries in these regions and EFTA countries, and by regarding the different regions associated with each other through multiple FTAs in the Diagonal Cumulation System, as if they were a “single country”, the EU is trying to promote regional specialization among the enterprises within the area. The EU is also setting forward negotiations on FTAs with African countries to which preferential tariffs were extended in the past.

The FTAs of the EU are different from those of the US in that their coverage and levels of liberalization differ in accordance with the economic levels of the partner countries and the purpose of integration. For instance, for the EU member and candidate countries, liberalization in a large number of fields and harmonization of laws to deepen integration of markets, including: free flow of services; capital and labor; introduction of common outward tariffs; and common agricultural and fishery policies—let alone the complete elimination of tariffs in the region—are among the fundamental requirements. On the other hand, in the European Economic Area (EEA), formed with the EFTA countries, excluding Switzerland, free movement of services, and capital and labor, as well as common competition policies, are introduced within the EU region while a part of agricultural and fishery trade is exempted from the liberalization requirements. In FTAs with countries in the Mediterranean coast and developing countries, including the

Republic of South Africa, liberalization is sometimes set forward step by step starting from the trading of goods, depending upon the partner countries concerned. As seen from the above, the EU determines the field of integration in accordance with the conditions of the partner countries and the purpose of FTAs and determines a flexible approach taking into consideration time constraints and the gradual expansion of the target fields.

- **Change in the investment environment in Central and Eastern European countries and the possibility of additional FTAs**

The EU is expanding its membership to include countries in the region's eastern areas. Ten Central and Eastern European countries, such as Poland and Romania, joined the EU in 2004 and 2007, respectively, with some countries spending more than ten years to eliminate tariffs and introduce the EU legal system.

Integration of these countries into the EU has enhanced the corporations' willingness to invest in Central and Eastern Europe and made the factor to invite continued investments in the region by foreign-affiliated companies, mostly Western European ones. Due to the fact that many of these countries were formerly socialistic, privatization projects claimed the majority share of the direct investments in the previous years, but green-field investments increased their share as accession to the EU got closer. Major Japanese enterprises established themselves in this region following their European and American competitors (Figure II-2).

What are the advantages of the investment environment of the Central and Eastern European countries when compared with those of Western Europe? The biggest advantage is low labor cost. The wages of the ordinary workers in the region are approximately one third or one quarter of those in Western Europe. Another advantage is that Central and Eastern European workers are highly educated as a whole and have English and mathematic skills. The existence of various investment incentives promoted by the respective governments also encouraged investments by foreign enterprises. Further, business-related laws compatible with the EU system were developed along with the accession to the EU to enhance harmonization with the markets in Western Europe and to establish the "free movement" of goods, services and labor, etc.

While equipped with conditions favorable to the manufacturing industry, the Central and Eastern European countries have started to show changes in their investment environments. In the "Survey on Japanese Manufacturing Affiliates in Europe/Turkey – Year 2006" (made with 590 enterprises with 320 thereof making valid responses), "securing of labor" is listed as the biggest management problem (70.5% of responses)

of the Japanese manufacturing industry in Central and Eastern Europe. In Poland in particular, 67% of the manufacturers point out this problem while only 33% of them did so in the previous survey. Talented personnel from the Central and Eastern European countries tend to move to Western Europe looking for higher wages. A Japanese electronics manufacturer, who has invested in Poland counting on its reportedly ample supply of talented workers, complains that the firm now need to compare the wages with those in England to retain good personnel in the management class. In Central and Eastern Europe, the average wage is also on the rise (Figure II-3).

It is believed that the industries in Central and Eastern European countries will be increasingly sophisticated in the future along with the developments of technological cooperation by the European Commission and technology transfer by foreign-affiliated companies. The majority of the Japanese industries that made new investments in Poland in 2006 turned out to be in the producers of electric and electronic components, and precision machines and machine parts, very different from the 1990s when investments are concentrated in sectors such as furniture, rubber and tire.

It seems that along with the increase in wages, labor-intensive industries will look for more attractive investment destinations to obtain an abundant and less expensive labor force. The EU, for instance, has expressed its intention to start negotiating an FTA with Ukraine, which joined WTO in May 2008. The average monthly wage in Ukraine in 2007 is USD 268.00 and remains at a level only a quarter of that in Czech Republic. In the survey mentioned earlier, as many as 13.5% of the Japanese companies developed in Central and Eastern Europe see Ukraine as a promising production base, and this exceeds the number of Japanese firms (9.6%) putting emphasis in Bulgaria, a member of the EU. With a population of 46 million, Ukraine has a large supply of workers relatively highly skilled for their low wages. However, the country does have a considerable number of problems, including its political relationship with Russia and an under-developed infrastructure, but by promoting FTAs with these promising countries in the adjacent area, the enterprises will be able to further expand the structure of the international division of labor.

■ Influence of the US and European FTA strategies toward Asia and Pacific

Currently, the US and Europe are actively engaging in FTA negotiations with the nations of Asia—the growth center of the world (Figure II-4). Immediately before the APEC Summit held in November 2006, the US announced the “Free Trade Area of the Asia-Pacific (FTAAP)” project. As economic integration has been accelerated in the Asia-Pacific region in recent years, the US, with fears of being painted out of the picture,

is apparently trying to deter an economic integration without its presence by showing its intention to involve itself actively in said region.

The FTAAP, however, is only a long-range outlook for the US, who promotes bilateral FTAs as the practical means to get market access in the rapidly growing Asian countries. Following the announcement of the “Enterprise for ASEAN Initiative (EAI)” with ASEAN in 2002, the US started negotiating FTAs with Singapore, Malaysia and Thailand, and put an FTA with Singapore into effect in January 2004. Besides these agreements, the FTA with Australia went into effect in January 2005 followed by another FTA concluded with the Republic of Korea (South Korea, hereafter referred to as ROK) in June 2007. In recent years, the US has shown its intention to approach an FTA with the P4 (New Zealand, hereinafter “NZ”, Chile, Singapore and Brunei.)

In October 2006, the European Commission established a new axis within its trade policies. Named “Global Europe”, this new strategy is aimed at concluding FTAs with the emerging-market countries with high market potential but sticking to tariff and non-tariff trade barriers in many aspects. Out of the Asian countries and territories, ASEAN, India and ROK have been selected as potential candidates for its FTA partners. With regard to FTAs with ASEAN and India, the objectives are to eliminate their heavy trade barriers and improve an access to their markets, highly appreciating the huge size thereof. For ROK, it is intended to level off the unfavorable competitive business environment for EU enterprises resulting from the US-ROK FTA.

By the approaches made from Europe and the US, ROK and ASEAN have been accorded with the possibility to grow into a hub of the FTA network. Triggered by the US-ROK FTA, the EU started negotiating an FTA with ROK in May 2007, forcing ROK to liberalize its market using the high-level and comprehensive US-ROK FTA as a benchmark. While declaring an elimination of its own tariffs on the entire imported items at an early stage of the negotiation, the EU strongly asked ROK to relax its domestic regulations on manufacturing and service industries together with an elimination of its tariffs on agricultural and fishery products. Application of EU safety and environmental standards in lieu of the Korean counterparts to EU-made automobiles sold in ROK is an example of such requests.

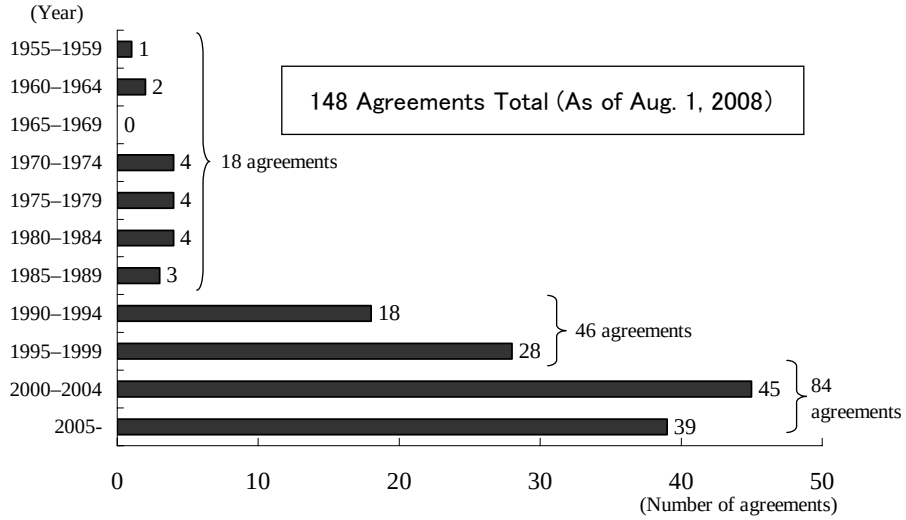
The FTA between the EU and ROK could have an immense effect on some Japanese companies. The EU currently imposes a maximum 14% tariff on imported electrical appliances. When the FTA is concluded, it is highly likely that Samsung and other Korean brands will be imported free of duties. Additionally, the EU is beset with the problem of tariff classification of IT products, including the inconsistencies in tariff classification of the like products among the member countries. Thus, if the FTA goes

into effect, ROK will be the only country in Asia with a solution to these problems, driving some Japanese companies into an uphill battle.

On the other hand, it can be considered that the FTAs of the EU with ASEAN and India will partly relieve the damages on Japanese companies caused by the EU-ROK FTA. Japanese companies currently maintain huge production bases in Asian countries, including ASEAN, from where they are provided at this moment with reduced or eliminated tariff rates on some of their products in the Generalized Scheme of Preferences (GSP) of the EU. Yet, some other products are still subject to import duties, and Japanese companies could enjoy merits from the EU-ASEAN FTA. Such an agreement would provide a tailwind for Japanese automobile manufacturers currently producing automobiles in India and looking to reinforce their export strategies to Europe.

The race between the US and Europe for FTAs with Asian and the Pacific nations seems to be intensified further and further. The US and European FTAs resulted in new additional FTAs in a chain reaction and could seriously impact the economic integration currently in progress among the Asian and the Pacific nations, including Japan.

Fig. II-1 Trends of FTAs Worldwide



(Notes)

(1). Of the 211 regional trade agreements (RTAs) listed on the WTO website ("listing" signifies that GATT or WTO has been notified of the agreement and it is currently in effect), we have excluded 66 as duplicates due to 1) new participants in existing FTAs, 2) notification to both GATT and GATS, etc. Thailand-India FTA, the ROK-ASEAN FTA and the Japan-Brunei FTA are added to the total number above.

(2).The year is based on the date of the agreement becoming effective. If that is unclear, the date of notification to GATT or the WTO is used.

(Source) WTO website (www.wto.org/english/tratop_e/region_e/region_e.htm) as of July 18, 2008

Table II-1 FTAs by Year and Region

(Unit: Number of agreements)

	Europe, Russia and the CIS, Middle East, Africa	Americas	Asia-Pacific	Cross-regional	Total
1955–1959	1				1
1960–1964	1	1			2
1965–1969					
1970–1974	1	1		2	4
1975–1979	2		2		4
1980–1984	1	1	2		4
1985–1989		1		2	3
1990–1994	13	2	3		18
1995–1999	23	4		1	28
2000–2004	20	8	8	9	45
2005–	13	2	14	10	39
Total	75	20	29	24	148

(Notes)

1. Of the 211 regional trade agreements (RTAs) listed on the WTO website ("listing" signifies that GATT or WTO has been notified of the agreement and it is currently in effect), we have excluded 66 as duplicates due to 1) new participants in existing FTAs, 2) notification to both GATT and GATS, etc. Thailand-India FTA, the ROK (South Korea)-ASEAN FTA and the Japan-Brunei FTA are added to the total number above.
2. The year is based on the date of the agreement becoming effective. If that is unclear, the date of notification to GATT or the WTO is used.

(Source) WTO website (www.wto.org/english/tratop_e/region_e/region_e.htm) as of July 18, 2008

Table II-2 Development of the FTAs of the US

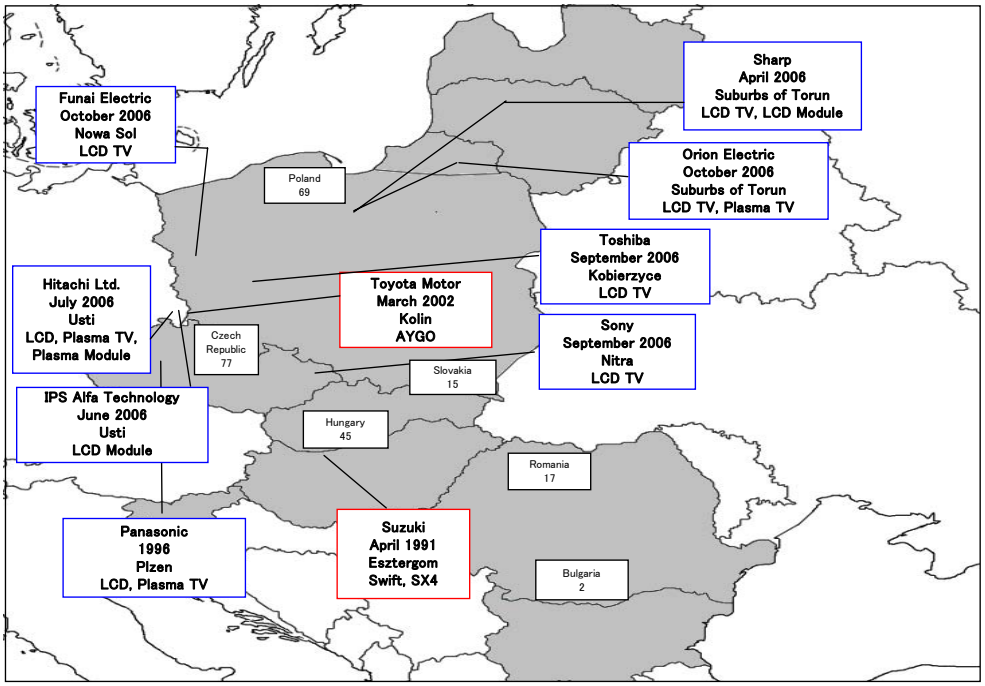
(As of August 2008)

		Negotiation Started	Agreed	Concluded	Effective	Remarks
The Americas	Free Trade Area of the Americas (FTAA)	April 1998	Suspended Feb. 2004			Timing of agreement unknown (negotiations by 34 countries in the Americas, except Cuba)
	NAFTA	June 1991	Provisionally agreed Oct.1992	Dec. 1992	Jan. 1994	Member: US, Canada and Mexico
	Chile	Dec.2000	Dec.2002	June 2003	Jan. 2004	
	CAFTA-DR			Aug. 2004	In effect with 5 countries	Effective: March 2006: El Salvador, April 2006: Honduras, Nicaragua, July 2006: Guatemala, March 2007: Dominican Republic; Not Effective yet: Costa Rica
	Five countries in Central America	Jan. 2003	Jan. 2004			
	Dominican Republic	Jan. 2004	March 2004			
	Panama	April 2004	Dec. 2006	June 2007		Timing of ratification unknown
	Andean countries					
	Peru	May 2004	Dec. 2005	April 2006		Ratified by US and Peru
	Columbia	May 2004	Feb. 2006	Nov. 2006		Timing of ratification unknown
Middle East & Africa	US-Middle East Free Trade Area (MEFTA) initiative					Initiative announced in May 2003; FTA to be concluded by 2013
	Israel	Jan. 1984	Feb. 1985	April 1985	Sept. 1985	
	Jordan	June 2000		Oct. 2000	Dec. 2001	
	Morocco	Jan. 2003	March 2004	June 2004	Jan. 2006	
	Bahrain	Jan. 2004	May 2004	Sept. 2004	Aug. 2006	
	Oman	March 2005	Oct. 2005	Jan. 2006		
	United Arab Emirates	March 2005	Suspended May 2006			
	South African Customs Union (SACU)	June 2003	Terminated April 2006			Referred back to joint work program in the stage prior to FTA
Asia & Oceania	US-ASEAN Enterprise for ASEAN Initiative (EAI)					Initiative announced in October 2002 with no deadline specificed; Trade Investment Framework Agreement (TIFA) concluded in August 2006
	Singapore	Nov. 2000	Jan. 2003	May 2003	Jan. 2004	
	Thailand	June 2004	Suspended Jan. 2006			Negotiations frozen by coup d'état until civil government restored
	Malaysia	May 2006				
	South Korea (ROK)	June 2006	April 2007	June 2007		Timing of ratification unknown
	Australia	March 2003	Feb. 2004	May 2004	Jan. 2005	

(Source) Compiled from "FTA Guidebook 2007" (JETRO) and USTR materials.

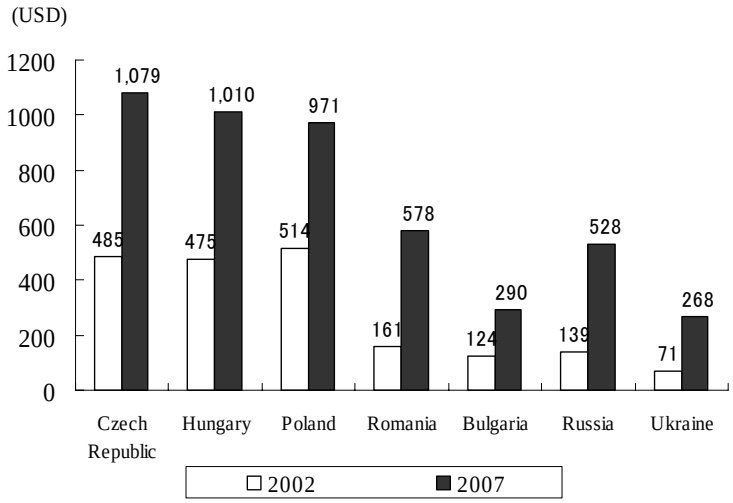
Fig. II-2 Major Japanese Companies with Production Bases in Central and Eastern Europe (Automobile, Electric and Electronic [LCD/Plasma])

(As of the end of 2007)



Note 1: The number of Japanese manufacturers are shown below the name of the country.
Note 2: Items are listed in the order of time of foundation, location and products/models

Fig. II-3 Changes in Average Wages (Monthly) in Central and Eastern European Countries



(Note) Currencies of the countries converted at average annual rate against USD.
(Source) Compiled from the materials of The Vienna Institute for International Economic Studies.

Table II-3 Development of FTAs of the EU

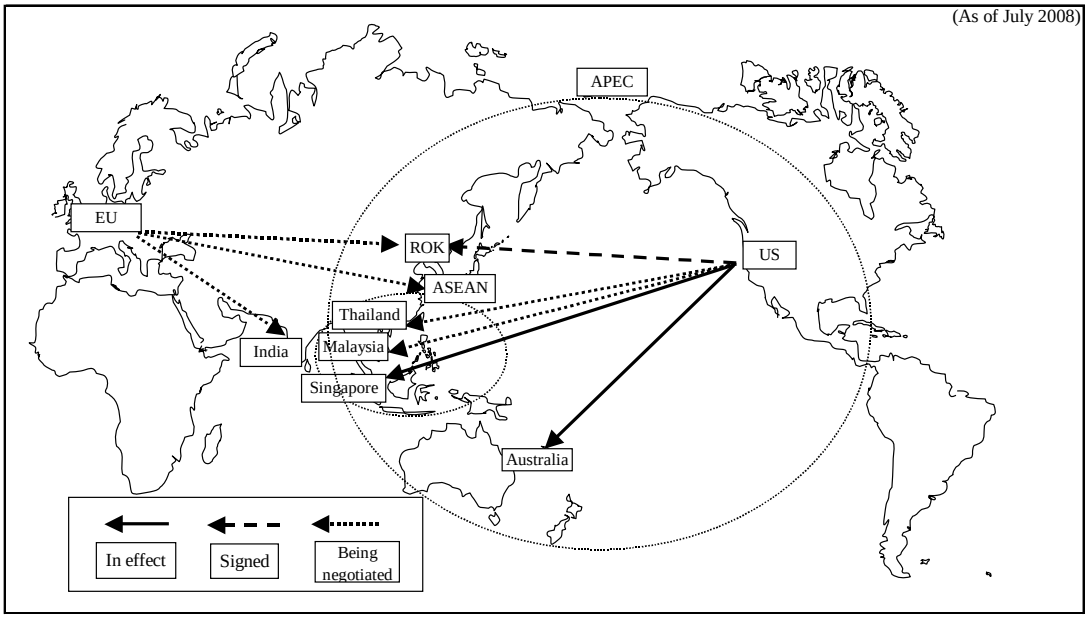
(As of August 2008)

	Name	Effective	Participating countries and regions	Remarks
Europe	European Union（EU）	1993	Belgium, Czech Republic, Denmark, Germany, Estonia, Greece, Spain, France, Ireland, Italy, Cyprus, Latvia, Lithuania, Luxemburg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Slovenia, Slovakia, Finland, Sweden, United Kingdom, Bulgaria, Romania	European Economic Community (EEC) established in 1958, and Customs Union in 1968; transformed into European Union in 1993 when Maastricht Agreement went into effect; joined by Austria, Sweden and Finland in 1995 and by Czech, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia in May 2004; Bulgaria and Romania joined in January 2007
	Agreement on European Economic Area (EEA)	1994	EU, European Free Trade Association (EFTA) (except Switzerland)	Switzerland voted down participation in referendum; Liechtenstein joined in 1995
	Europe Agreement	1994-1999	Concluded respectively by 10 Central and Eastern European countries, except Cyprus and Malta	Aimed at ultimate objective of acceding to EU; no more countries left to the Agreement when Bulgaria and Romania joined EU in 2007
	Stabilization and Association Agreement	2004 2005 2006	EU and former Yugoslav Republic of Macedonia EU and Croatia EU and Albania Former Yugoslav countries as future participants	Aimed at ultimate objective of acceding to EU; trade-related part, including FTA of the Agreement, provisionally went into effect with Macedonia from 2001, with Croatia from 2002, and with Albania in 2006; signed with Montenegro (in October 2007), Serbia (in April 2008) and Bosnia-Herzegovina (in June 2008)
	Customs Union	1991	EU and Andorra	Including industrial products only
		1996	EU and Turkey	Including industrial products and agricultural processed goods only
	Free Trade Agreement	1973 1997	EU and Switzerland EU and Danish Faroe Islands	
Middle East & Africa	Association Agreement	1997 1998 2000 2002 2003 2004 2005	EU and Palestinian Self Government Authority EU and Tunisia EU and Morocco, Israel EU and Jordan EU and Lebanon EU and Egypt EU and Algeria	Provisional association agreement, including FTA, with Palestinian Self Government Authority; only trade-related part, including FTA, provisionally effective with Lebanon; yet to be signed with Syria with trade-related part, including FTA, scheduled to take provisional effect after the signature; former generation FTA already in effect with Syria since 1977
	Free Trade Agreement		EU and Gulf Cooperation Council	Negotiations started in 1990 and resumed in March 2002 after an interruption; negotiations still in progress
	Agreement on Trade, Development and Cooperation	2004	EU and Republic of South Africa	Only trade-related part, including FTA, provisionally went into effect from 2000
Latin America	Association Agreement	2000 2003	EU and Mexico EU and Chile	
			EU and the Southern Common Market of South America (Mercosur)	Negotiations started in April 2000 and still in progress
			EU and Central American countries EU and the Andean Community	A part of the new trade strategy announced in October 2006
Asia	Free Trade Agreement		EU and India EU and the Republic of Korea (ROK) EU and the ASEAN countries	Negotiations started with ROK and ASEAN in May 2007, and with India in June the same year
Other	Association Agreement	1971	EU and the overseas departments and territories of EU members	

(Source) Compiled from "FTA Guidebook 2007" (JETRO) and European Commission materials.

Fig. II-4 Trends in FTAs between the US/Europe and the Asia-Pacific Region

(As of July 2008)



(Note) The negotiations for the US-Thailand FTA have been suspended.
(Source) US Trade Representative, European Commission and “FTA Guidebook 2007” (JETRO).

2. Deepening of the FTAs in Japan and the Asia-Pacific nations

(1) Japan's FTAs and status of their utilization

■ Japan's FTAs in effect, signed and under negotiation

Japan has FTAs in effect with Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia and Brunei. While exports to FTA signatories in effect account for 11.7% of total Japanese exports, imports from FTA signatories in effect account for 13.3%, and the two-way trade covered by the FTAs in effect account for 12.4% (Table II-4).

There are two, signed FTAs (one with the Philippines and one with the ASEAN countries). With ASEAN as a whole, an agreement was reached in April 2008 with round-robin signatures of the cabinet members, following the agreement reached at the summit meeting held in November 2007. This FTA is expected to take effect before the end of 2008 when ratification procedures by the respective countries are completed. (Japan completed the Diet ratification last June.) On the other hand, it is not foreseeable when the FTA with the Philippines will go into effect as the ratification procedures in the country are being delayed.

Further, FTAs are being negotiated with the GCC (Gulf Cooperation Council, formed by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates), Vietnam, India, Australia and Switzerland. The value of exports covered by all FTAs in effect, signed and under negotiation (including the FTA negotiations with the ROK, which are currently suspended) account for 27.7% of the total, 42.6% of imports and 34.6% of two-way trade, indicating the growing importance to keep the FTA in mind when firms run their business.

■ Status of FTA utilization by Japanese affiliates

According to the questionnaire survey by JETRO (conducted in the period from November 27, 2007 through January 4, 2008 with valid answers received from 733 companies and a response rate of 27.9%), a preferential tariff system is utilized by the largest number of companies (31) in the Japan-Thailand and Japan-Malaysia FTAs, respectively, followed by the second largest number of companies (25) in AFTA (ASEAN Free Trade Area) and the Japan-Mexico FTA, respectively (Table II-5). Utilization by Japanese affiliates of the major FTAs in effect in Japan and the Asia-Pacific region is characterized by the facts that: utilization is outstanding in the FTAs concluded by Japan; AFTA, in which area Japanese companies have built up comprehensive production networks, is well utilized; and utilization is outstanding in FTAs concluded by Thailand, where Japanese companies have accumulated themselves, with India and Australia.

Among FTAs where utilization is contemplated, the Japan-Thailand FTA numbers most (66), suggesting high expectations thereof, followed by AFTA (31) and the China-ASEAN FTA (27) (Table II-6). A conspicuous number of companies (21) consider utilizing the Thailand-India FTA.

In terms of type of business, it is characteristic that an outstanding number of companies in the categories of "Automobile, Automotive Parts & Other Transport Equipment," "Oil & Coal Products, Plastics and Rubber Products," "Electric Machinery," "Chemicals," and "Food and Beverages" (Table II-7) utilize FTAs. On the other hand, only a small percentage of companies in "Information and Communication Machinery & Equipment, Electronic Components & Devices" utilize FTAs, but this seems to be due to the background fact that before the FTAs went into effect, the tariff rates on IT products had already been eliminated in Japan, Asia and neighboring countries under the ITA (Information technology Agreement) of the WTO.

■ Japan-Mexico FTA

The Japan-Mexico FTA went into effect in April 2005, and more than three years have passed since then. Major Japanese export items to Mexico comprise IT products and transport equipment including automobile and steel products, and the value of trade between these two countries has been on a steady incline at the average annual growth of 19.3% in two-way trade in the period from 2005 (before the FTA came into effect) to 2007 (in the statistics on the Japan side). Although imports from Mexico have largely remained steady, with the share of Mexican imports to total Japanese imports only increasing from 0.48% in 2004 to 0.51% in 2007, the share has grown from 0.9% to 1.4% in terms of exports. In the import statistics prepared by Mexico, Japan's share in the same period has grown from 5.4% to 5.8%.

Among the items exported from Japan to Mexico, the effects of the FTA have been most marked in automobiles. In Mexico, a 50% MFN (most-favored nation) tariff is imposed on automobiles. However, under the FTA, Mexico allows Japanese automobiles a tariff-free import quota, which is equivalent to 5% of the total number of automobiles sold in Mexico's domestic automobile market during the previous year. In addition, the tariff rates applicable to automobiles imported from Japan exceeding the allowed tariff quota are scheduled to be reduced gradually, and the tariff quota itself will be eliminated after an elapse of seven years from effectuation of the FTA. Even before the FTA went into effect, the passenger car manufacturers manufacturing in Mexico were allowed to import their products free of tariff in the quantity equivalent to 10% of the number of units manufactured in Mexico, but this quota was not provided to the

companies not manufacturing in Mexico. Accordingly, market access has been improved by the FTA for Mazda, Suzuki, Isuzu, Fuji Heavy Industries, Hino Motors and other Japanese companies without local production in Mexico.

Mazda, selling the “Mazda 3” and “CX7” etc., in Mexico, for instance, imports some models of automobiles to be placed in the market utilizing the tariff-free quota under the FTA. The sales volume of the company has grown more than 21 times from 771 units in 2005 to 16,604 units in 2007 (Table II-8). Suzuki, who sells “GRAND VITARA”, “SWIFT”, “XL7” and “SX4” in Mexico, utilizes the FTA in importing a majority of these models. The sales volume of this company has largely increased from 762 units in 2005 to 5,700 units in 2007. Isuzu, Fuji Heavy Industries and Hino Motors have also increased their respective sales volumes, and the total sales volume of the Japanese automobile manufacturers without local production in Mexico has grown to 25,322 units in 2007, while it was nil before the FTA came into effect. The total number of automobiles sold by Japanese companies in Mexico has increased from 299,043 units in 2004 (before the FTA came into effect) to 378,119 units in 2007, increasing Japan’s share in the Mexican passenger car market from 27.3% to 34.4%. The share of passenger car imports from Japan to the total passenger cars imported to Mexico also rose from 10.9% in 2004 to 16.0% in 2007.

Utilization of the FTA is also seen in areas such as the steel industry. Japanese steel products are exported to Mexico mainly for use as steel plates for automobiles. The value of their imports into Mexico was 891 million dollars in 2006, over 90% of which seems to be imported under the Programa de Promocion Sectorial (PROSEC) [(2)] at low tariff rates of zero, or 3% in the majority of the cases. Out of the commodities designated in PROSEC, the advantage of tariff reduction under the FTA is seen in the importation of dutiable items. This is due to the fact that, in Mexico’s tariff reduction schedule for steel products stipulated in the FTA, many items of such steel products are included in those which tariff reduction is to be started in the sixth year after the FTA goes into effect (2010), while the same items may be free of tariffs when imported by the firms PROSEC is applicable to. Accordingly, Nippon Steel and other companies exporting steel products to Mexico are allowed to export almost all of their products tariff free.

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2. PROSEC is a system applicable to manufacturers in Mexico where import duties imposed on materials, parts, machine and equipment necessary for the production of finished products are lowered to between 0% to 5% in the 23 designated areas. (For details, refer to JETRO’s website: http://www.jetro.go.jp/biz/world/cs_america/mx/invest_03/.)

IT products are also one of Japan's top export items, with a share of approximately 40% in its exports to Mexico. Although Mexico is not a signatory to the Information Technology Agreement of the WTO, the country has lowered its MFN tariff rates on IT products under the scheme named "ITA Plus". Tariff-free import or low tariff rates of 3% to 5% are established and made applicable to the majority of the IT products under the PROSEC system. FTAs are also utilized for some of these IT products. A certain Japanese manufacturer has a record of utilizing the Japan-Mexico FTA in connection with some office equipment, including LCD TVs and data projectors. The MFN tariff on these items—15 to 20%—was eliminated immediately when the FTA came into effect. Also, other Japanese companies are utilizing the FTA in connection with hand sets of the private branch exchanges (PBX). The MFN tariff of 20% on this item was immediately eliminated in the Japan-Mexico FTA.

■ **Japan-Malaysia FTA**

It has been two years since the Japan-Malaysia FTA came into effect in July 2006, and the Ministry of International Trade and Industry of Malaysia has published the value of its exports that utilize FTAs. Included in the items imported from Japan utilizing the FTA are boilers, electric machinery, steel products, plastic products, toys, automotive parts, rubber and rubber products, and apparel and clothing. The areas where exports from Japan are expected to grow in the future are automobiles and steel products, etc. Concerning automobiles, although the tariff on CKD parts was eliminated immediately when the FTA went into effect, the tariff on passenger cars exceeding 2000 cc is scheduled to be eliminated in 2010 and that on other passenger cars in 2015. The tariff on steel products is scheduled to be eliminated gradually over a period of 10 years after the FTA goes into effect. Utilization of the FTA is expected to be enhanced in the future.

In Malaysia's exports to Japan, on the other hand, the value of exports utilizing the FTA in 2007 amounts to 1.9 billion dollars.

The import tariff in Japan is at the lowest level in world. Dutiable items imported into Japan (excluding the tariff free items in accordance with the WTO) account for nearly 60% (on a value basis) of the total value of imports into Japan. Out of the value of Japan's total imports from Malaysia, 4.8 billion dollars (27.6% of Japan's total imports from Malaysia, 2007) belong to dutiable trade. The composition ratio derived using this figure as the denominator and the value of Malaysian exports to Japan utilizing the FTA on a CIF basis (converted with the insurance premium and freight assumed to be

equivalent to 10% of the FOB value) as the numerator comes to 44.8% (Table II-9). In terms of Japan's imports, it can be pointed out that while 70% of the total imports were already tariff-free when the FTA went into effect, the FTA still contributes to further elimination of tariffs imposed on the remaining 30% of the dutiable items and is widely utilized.

In terms of actual items, the FTA is believed to be used for palm oil and plastic products, as well as for certain textile products. The GSP, which was applicable to the palm oil and some of plastic products imported from Malaysia until the FTA went into effect, has already been replaced by the FTA. Although the GSP has been made applicable to textile products, many of the textile items still remain dutiable, and they are one of the products that have seen lowered or eliminated tariffs due to the FTA. Among the textile and textile articles (HS50-63), share of the Malaysian products imported into Japan, in terms of items, has grown in wool (HS51) and cordage, and ropes and cables (HS56). Of these items, the share expanded from 5.2% in 2005 (before the FTA came into effect) to 7.2% in 2007 and in the latter items from 2.0% to 4.5%. Concerning clothing (HS62 and 63), on the other hand, the share of imports from Malaysia remains at 0.5% (2007), indicating no change so far from the time before the FTA came into effect.

■ **Japan-Thailand FTA**

The Japan-Thailand FTA came into effect in November 2007, and Japanese companies show growing interest in the FTA as they maintain a close relationship with Thailand in trade and investment.

The Ministry of Commerce of Thailand, as well as its Malaysian counterpart, has released the value of exports utilizing the FTA. In Thailand's exports to Japan in November and December 2007, the value of the exports utilizing the FTA amounts to 600 million dollars. This accounts for 63.5% of the total value of Japan's dutiable imports from Thailand, indicating the wide use of the FTA. In terms of actual items, the FTA is used for cooked poultry, shrimps and starches.

As for the exports from Japan to Thailand, utilization of the FTA is expected to be enhanced in the future for steel products, which are included in the items where the tariff is scheduled to be eliminated immediately or gradually over a period of 10 years after effectuation of the FTA.

Fruits from Japan have become popular among the affluent segment in Thailand and are sold in the local Japanese department stores. The tariff imposed on fruits in Thailand has been lowered by the FTA. For instance, the tariff rate on strawberries in Thailand,

40% on a basis of MFN, has been reduced to 26.67% under the Japan-Thailand FTA. It is scheduled to be eliminated in six years after the FTA goes into effect. In addition, the tariff on other kinds of fruits, including apples and pears, is subject to immediate elimination or phased reduction, and exports of Japanese agricultural and fishery products are expected to be expanded. The value of fruits (HS0810) imported into Thailand from Japan in the period from November 2007 to March 2008 has been greatly increased to 540,000 dollars from 290,000 dollars during the corresponding period of the preceding years.

(2) FTAs in the Asia-Pacific region: those in effect and the status of FTA utilization

Mentioned below are the status of the FTAs in effect and their utilization in an expanded region of the Asia-Pacific region (ASEAN+6) [3], where Japanese companies have built up a wide production network.

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3. ASEAN+6 comprise ASEAN10 and Japan, China, the ROK, India, Australia and New Zealand.

Currently, the FTAs in effect in the Asia-Pacific region are as shown in the Table II-10. In 2007, the new ASEAN-ROK and Japan-Thailand FTAs went into effect, while in 2008, the Japan-Indonesia and Japan-Brunei FTAs went into effect. Thailand and Singapore, which have been actively involved in the promotion of FTAs, have put the bilateral FTAs with India, Australia and New Zealand into effect, in addition to those concluded within the East Asian region, forming the hub of the FTA network in the Asia-Pacific region. Further, China and New Zealand reached an agreement for an FTA in April 2008, showing a steady expansion of the FTA network in the Asia-Pacific region.

Trade between FTA signatories in effect reached 674.4 billion dollars, or 49.5% of the total value of intra-regional trade (around 1,363.6 billion dollars on an export basis) inside the Asia-Pacific (ASEAN+6) region (Table II-11). Trade between FTA signatories that are expected to go into effect in the near future account for 2.9% of the total value of the intra-regional trade in the region, which will raise the share of the trade among the countries signatory to these two categories of FTAs to 52.4% when combined with the share of 49.5% mentioned above. The share of the trade between countries with FTAs being negotiated comes to 16.1%. Including the value of trade between countries with FTAs in effect, signed or being negotiated, the value comes to 68.5% of the total value of intra-regional trade in the area. FTAs in the Asia-Pacific region cover a broad range of countries through bilateral and regional agreements.

■ ASEAN Free Trade Area (AFTA)

Thailand and Malaysia have released the values of their trades utilizing FTAs, and these values provide fundamental materials that can be used in evaluating the status of FTA utilization in Asia. The status of utilization of the major FTAs will be examined in this section, based mainly on the statistics on their utilization released by Thailand and Malaysia.

AFTA (ASEAN Free Trade Area) is a leading FTA in the Asia-Pacific region and is currently acting as the region's core FTA. ASEAN countries are engaged in gradual tariff eliminations in the region under AFTA. In AFTA, between the six original ASEAN member countries (Thailand, Malaysia, Indonesia, the Philippines, Singapore and Brunei) are to eliminate the intra-regional tariffs in 2010 and the four newer member countries (Vietnam, Laos, Cambodia and Myanmar) are to eliminate them in 2015 [(4)].

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4. In the beginning, AFTA was scheduled to reduce tariffs on the items covered by CEPT to below 20% within five to eight years from 1993 and also to reduce the intra-regional tariff on such items already lowered to below 20% further down to 0% to 5% over a period of seven years from 2001 (by 2008). However, resolutions to accelerate such tariff reductions were made in the AFTA Council (organized by economic ministers of ASEAN countries) and the summit meeting held in 1998. Actually, it was decided that the original ASEAN member countries would reduce the intra-regional tariff rates, with the exception of those of certain items, to below 5% by 2002. It was further decided that Vietnam by 2003 and Myanmar and Laos by 2005 would respectively make the number of commodities subject to tariff rates of below 5% more than the number of those subject to any higher tariff rates and would make the number of tariff-free items more than that of dutiable items in three years thereafter. In addition, it was decided at the summit meeting held in 1999 that the deadline of tariff elimination, 2015 in principle for both of the original and newer member countries, were moved up to 2010 for the original member countries and to 2015 for the newer member countries. In November 2004, the "ASEAN Framework Agreement on Priority Integration Sectors" was signed to require the original member countries to move up their deadline of tariff elimination from 2010 to 2007 and the newer member countries to 2012, with respect to a total of 4,514 items in nine sectors of wood-based products, automotives, rubber-based products, textiles and apparel, agro-based products, fisheries, electronics, information technologies (IT) and health care. (However, 15% of these items were allowed to be eliminated in the ordinary schedule as Negative Products.)

The six original member countries are engaged in developing the abolition of intra-regional tariffs, setting an interim target elimination date of 2007 for tariffs on

80% of the items covered by the Common Effective Preferential Tariff (CEPT) – a scheme for lowering and eliminating tariffs inside the AFTA. However, in Singapore, where tariffs on all of the items have already been eliminated, percentage of the items made free of intra-regional tariffs exceeded 80% in 2007 in Malaysia, Indonesia, Thailand and the Philippines. Among the newer member countries, Vietnam has already eliminated tariffs on more than half of the items imported into the country.

The value of exports utilizing CEPT was increased in 2007 in Thailand by 42.8% over the previous year to 7,864.71 million dollars and in Malaysia by 27.8% to 3,924.49 million dollars, and the total of these two countries increased by 37.4% to 11,789.20 million dollars, respectively. The total value of exports taking advantage of CEPT accounted for 25.7% of total value of exports (including the items for which tariffs have been eliminated on a MFN basis by the export destination countries) from two countries to ASEAN, making the highest share on record since 1998, when the statistics became available (Table II-12). By countries, the ratio in Thailand comes to 30.9% and in Malaysia to 19.1%, respectively (excluding Singapore, which does not impose tariffs on anything except some alcoholic items).

Examination of CEPT utilization by countries shows that Thailand and Malaysia both have the highest rates of utilization at 43.2% with Vietnam, followed by the Philippines (34.1%) and Indonesia (34.3%). In terms of actual items utilizing CEPT, transport equipment, including passenger cars below 3,000 cc, commercial vehicles and automotive parts, take the major share in exports from Thailand to other ASEAN countries (according to the Ministry of Commerce of Thailand). In Malaysia, CEPT is utilized in the exportation of palm oil, air conditioners, non-alloy steel and resins (according to the Ministry of International Trade and Industry of Malaysia).

Concerning ASEAN, attention should be drawn to the fact that the “ASEAN Economic Community (AEC) Blueprint”, positioned as the implementation schedule for the realization of the ASEAN Economic Community (AEC) and the “Charter of the Association of Southeast Asian Nations”, positioned as the highest standards of ASEAN, were adopted at the ASEAN Summit held in November 2007.

The AEC Blueprint is the implementation schedule for the foundation of the ASEAN Economic Community. Listed in the AEC Blueprint as fundamental elements of the ASEAN Economic Community are: (1) single market and production base; (2) competitive economic region; (3) equitable economic development; and (4) integration into the global economy, together with the detailed processes to be followed in the period up to 2015 in accordance with the respective elements. Among the elements, “single market and production base” is defined in the greatest detail, positioning goods,

services, investment, skilled labor and capital as core areas for its realization and showing the policies to realize a free flow in these areas. In actuality, the goods include, in addition to the tariff reduction schedule, improvement of the rules of origin, establishment of an ASEAN Single Window (unification of procedures related to export and import) and harmonization of various standards. The services include measures for liberalization in service areas, and the investment includes the approach to be made for protection of and liberalization in investments. The "competitive economic region" includes competition policies, consumer protection, intellectual property rights, development of infrastructure, the taxation system and e-commerce, while the "equitable economic development" includes development of small- and medium-sized enterprises, and the "integration into the global economy" includes participation in global supply chains.

The Charter of ASEAN constitutes the highest standards of the association and defines its purposes, fundamental principles, legal personality, admission of new members, organs, methods of decision-making and settlement disputes. The Charter of ASEAN is currently under the ratification procedures of the respective member countries for effectuation within 2008.

Despite these comprehensive efforts made to realize an ASEAN Economic Community, the current policy movements reveal that some of the member countries are unable to implement the ASEAN decisions as scheduled and are delayed in putting the policies in practice. For instance, although the "elimination of tariff on designated items in the priority integration sectors" and "elimination of tariff on 80% of the applicable items" were scheduled to be implemented by January 1, 2007, they were actually put into practice as scheduled only by Singapore, which had already eliminated all of its import tariffs.

Malaysia was behind the agreed schedule by approximately three months in implementing the policies, and Indonesia enforced them in September 2007, while Thailand did so only in February 2008. These three countries made the elimination of these tariffs effective retroactively from January 1, 2007, and the firms which imported the applicable items in these periods of delay are allowed to claim a refund of the import duties. On the other hand, the Philippines, which eliminated its tariffs in June 2008, is reported not to make the tariff elimination retroactively effective. These delays in putting policies into practice have become a factor to lower the predictability of the companies operating in the ASEAN region.

■ FTAs between ASEAN and China

The ASEAN-China FTA has put the Early Harvest [5] into practice for agricultural products since January 2004 and for non-agriculture and fishery sectors since July 2005. The total value of exports from Thailand and Malaysia to China utilizing the FTA between ASEAN and China was 3.4 billion dollars, accounting for 10.8% of the total value of exports to China from the two countries and generally remained steady from 2006 (Table II-13). (The total of exports used as the denominator includes the items for which tariffs have been eliminated on a MFN basis by the export destination countries.)

In terms of items, cassava, fruits, rubber products, kerosene, polycarbonates, etc. are included in those exported from Thailand to China utilizing the FTAs (according to the Ministry of Commerce of Thailand). In exports from Malaysia to China, the FTAs are utilized for rubber, vegetable oil, glycerin and acetic acid. In Malaysia's imports from China, FTAs are utilized for steel products, fruits, automotive parts, electric machinery, cocoa products, chemicals and textiles (according to the Ministry of International Trade and Industry of Malaysia).

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5. The Early Harvest refers to the measures taken to reduce tariff rates on certain commodities in advance.

FTAs between ASEAN and China are utilized mostly for agricultural and fishery products. The share of agricultural and fisheries products imported into Thailand, Malaysia and China from the signatory countries of the ASEAN-China FTA to the total of the same products generally shows a sharp increase in 2007, as compared with the share in 2003, before the FTA were not in effect yet (Table II-14).

With regard to the FTA between ASEAN and China, any noticeable utilization has not been made in the areas of industrial products so far when compared with agricultural and fishery products. Behind the trends are, as it can be pointed out, the facts that: (1) trade between ASEAN and China consists mainly of intermediate goods for export products [6], to which tariff reduction and elimination systems other than FTA (tariff reduction and elimination system for export processing zone and in-bond system for the production of export commodities) are extensively applied; (2) the range of tariff reductions still remains small under the schedule of gradual reductions; and (3) for certain items, the MFN tariff was reduced after the FTAs went into effect, resulting in an inversion phenomenon where MFN tariff rates get lower than FTA tariff rates.

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6. The (2006) share of intermediate goods imported into China (excluding food and fuel, and based on the UN Comtrade classification,) to the total imports into China comes to 63.1% in terms of imports from the ASEAN region, while it comes to only 55.5% in terms of imports from the whole world.

Column II-1

◎ Level of MFN Tariff in Major ASEAN Countries (on an Item Basis)

In ASEAN countries, tariffs are generally reduced under FTAs, as well as on a basis of MFN, for the purpose of enhancing their industrial competitiveness and further tariffs on an increasing number of items is eliminated.

The simple MFN tariff rate average and the ratio of tariff-eliminated items to the entire items in 2004 and 2007 reveal that tariffs are generally reduced and the tariff-eliminated items are expanding their share in major ASEAN countries.

Table 1　Average MFN Tariff Rate & Share of Tariff-free Items in Major ASEAN Countries (2004)

Country	Total Number of Items	Simple MFN Tariff Rate Average	Tariff-free Items (MFN)	
			Number of Items	Share（%）
Thailand	9,211	20.6	323	3.5
Indonesia	11,165	9.8	2,333	20.9
Malaysia	10,395	10.0	5,930	57.0
Philippines	11,059	7.5	393	3.6
Singapore	10,705	0.0	10,705	100.0
Vietnam	10,689	18.5	3,078	28.8

(Note) Average MFN tariff rate is calculated excluding items subject to specific duty. For items subject to either specific or ad valorem duties; ad valorem duty is selected.
(Source) "Consolidated CEPT Package 2004" (ASEAN); for Thailand and Malaysia, "Consolidated CEPT Package 2003"

Table 2　Average MFN Tariff Rate & Share of Tariff-free Items in Major ASEAN Countries (2007)

Country	Total Number of Items	Simple MFN Tariff Rate Average	Tariff-free Items (MFN)	
			Number of Items	Share（%）
Thailand	5,931	11.7	313	5.3
Indonesia	8,745	7.8	2,088	23.9
Malaysia	12,593	9.7	6,158	48.9
Philippines	11,490	7.8	483	4.2
Singapore	10,705	0.0	10,699	99.9
Vietnam	10,689	18.5	3,078	28.8

（Note）Average MFN tariff rate is calculated excluding items subject to specific duty. For items subject to either specific or ad valorem duties; ad valorem duty is selected.
（Source）"Consolidated CEPT Package 2007" (ASEAN)

In Singapore, the simple MFN tariff rate average comes to 0% while tariff-eliminated items account for 99.9% of the total items, evidencing that tariffs on almost all items has been eliminated in that country. (Only some alcoholic products are subject to tariff.) Malaysia shows a tariff-elimination ratio of 50% while the rate comes to 20% in Indonesia. Vietnam has the tariff-elimination ratio of 30% but its simple MFN tariff rate average still remains at a high level. The tariff-elimination ratio remains at 4.2% in the Philippines and at 5.3% in Thailand. The simple MFN tariff rate average in Thailand comes to 11.7%, which is higher than the rate in Malaysia, Indonesia and the Philippines, but it shows a sharp decrease in recent years.

Under the FTA between ASEAN and China, however, tariffs for items classified as Normal Track will be lowered to 5% or lower in January 2009, and by 2010, tariffs on Normal Track items will be eliminated with the exception of a few items (maximum of 150 items, until 2012). As there is an accumulation of Japanese firms in China and the ASEAN countries, further utilization of FTA between ASEAN and China is expected in the future.

According to the aforementioned questionnaire survey conducted by JETRO, only a limited number of Japanese firms currently utilize the FTA between ASEAN and China

even though they maintain production sites widely spread in both of the two regions. However the FTA between ASEAN and China ranked high as a FTA they are planning to utilize, which suggests that the Japanese firms put their expectations on the gradual tariff reductions to be made in the future.

In East Asia, development of logistics infrastructure is in progress, which includes the East-West Economic Corridor (linking Myanmar, Thailand, Laos and Vietnam), Southern Economic Corridor (linking Thailand, Cambodia and Vietnam) and South-North Economic Corridor (linking Thailand and China.) (7) Among China and the ASEAN countries, service link costs (8) in both of the tariff and logistics areas have started to get lower, which is expected to lead to further activation of trade.

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7. In the East-West Economic Corridor, the second international bridge over the Mekong River was completed at the end of 2006, contributing to improved efficiency in road transportation.

8. Service link cost refers to necessary costs to link remote production sites.

■ FTAs utilized in imports into Thailand

According to the statistics released by the Thai government, the value of imports into Thailand from AFTA utilizing FTAs in 2007 is 3.1 billion dollars or 10.4% of the total imports from signatory countries. Its ratio to the dutiable imports, which is calculated by reducing the value of tariff-free imports from the total imports, comes to 20.5% (Table II-15). The value of imports utilizing the FTA between ASEAN and China is at the level of 400 million dollars with the ratios of 2.2% to the total imports and 3.7% to the dutiable imports, respectively.

In terms of actual items, FTAs are used mainly for coal, automotive parts and textiles in imports from AFTA and fruit and other foods in imports from China.

Concerning imports into Thailand from other ASEAN countries and China, tariff reduction and elimination systems other than FTAs seem to be widely used. Such systems include export processing zones, in-bond systems, etc. which allow, as part of preferential treatments accorded to foreign investments, reduction or elimination of tariffs on raw materials and components to be used in export commodities.

■ Thailand-Australia, Thailand-New Zealand, and Thailand-India FTAs

Together with Singapore, Thailand has bilateral FTAs with Australia, New Zealand and India in effect, in addition to the intra-regional FTAs in East Asia.

FTAs are still widely used in Thailand’s exports to Australia and India. Japanese

affiliates accumulated in Thailand seem to be among the most active users of the FTAs. In 2007, exports utilizing the FTA between Thailand and Australia amounted to 4.1 billion dollars and accounted for 66.2% of total exports from Thailand to Australia. Over the period from 2005 when the FTA went into effect to 2007, the exports utilizing the Thailand-Australia FTA have recorded an average annual growth rate of 38.4%. According to the Ministry of Commerce of Thailand, the FTA is being used for items such as automobiles (including pick-up trucks), air conditioners and components, seafood and jewelry. With automotive industries accumulated in Thailand, the surge in automotive exports from Thailand to Australia is particularly noteworthy. Thailand's share of passenger car imports to Australia rose by 7.4 points from 1.1% in 2004 (before the FTA went into effect) to 8.5% in 2007, and similarly, Thailand's share of commercial car imports to Australia rose by 10.9 points from 25.3% to 36.3%.

On the other hand, Japan's share of automotive imports to Australia during the same period substantially decreased by 13.6 points in passenger cars and by 16.2 points in commercial cars, suggesting the imports from Japan were replaced by those from Thailand (Table II-16). Thanks to expanded automotive exports to Australia, Thailand's share of total imports to Australia rose from 2.7% in 2004 to 4.2% in 2007. In imports to Thailand, imports from Australia utilizing the FTA amounts to 400 million dollars, accounting for 10.6% in total imports and 31.4% in dutiable imports to Thailand from Australia, respectively (Table II-15). In terms of actual items, the FTA is being used mainly for primary products including zinc ore, malt, aluminum plate and wool. In imports to Thailand, imports from New Zealand utilizing the FTA amount to 200 million dollars, accounting for 34.8% in total imports and 44.4% in dutiable imports to Thailand from New Zealand respectively. New Zealand's share of total imports to Thailand remains unchanged at 0.3% in 2004 (before the FTA went into effect) and 2007. The FTA is being used in importing primary products or food, including milk/cream, malt extract, wood, meat/fish, fruits and cheese.

Since the Thailand-India FTA went into effect in September 2004 covering only the elimination of the tariff for the 82 Early Harvest items, it has been widely used by Japanese affiliates. Thailand's exports to India utilizing the FTA only amounts to 400 million dollars and is relatively small compared to exports utilizing FTAs to the ASEAN countries, China and Australia. However, this value accounted for 14.0% of all Thai exports to India, and among exports in the 82 items, it accounted for 98.1% of exports, meaning that the majority of Thai exports utilized the FTA (Table II-13). In terms of actual items, most notably, the FTA is used in Thai exports to India of CRTs for TVs, electrical appliances such as air conditioners and petrochemical products such

as polycarbonates and epoxy resins (Table II-17).

In Thai imports from India, on the other hand, imports utilizing the FTA amount to 34.76 million dollars, accounting for 1.6% of total imports and 3.3% of dutiable imports to Thailand (Table II-15). In terms of actual items, the FTA is used mainly for automotive parts, including gear boxes.

Thailand and India are currently negotiating the tariff for items other than the Early Harvest items, and the scope of items covered by the FTA is expected to be expanded in the future. In addition, an FTA is being negotiated between ASEAN and India, and trade between the two countries will be activated when such agreements are realized.

Japanese affiliates enjoy broad merits of the Thailand-Australia and Thailand-India FTAs. In the Asia-Pacific region, discussions are being made on the scheme to form an FTA covering expanded regions of the ASEAN+6. The expanded-regional FTA, including India, Australia and New Zealand, is anticipated by Japanese affiliates for its possible comprehensive effects.

■ ASEAN-ROK FTA

The FTA between ASEAN and the ROK came into effect in June 2007. However, the agreement has not gone into effect yet between Thailand and the ROK as problems over a part of the items to be covered still remains unsolved. Utilization of the FTA can be confirmed only through the statistics released by Malaysia, according to which Malaysia's exports to the ROK utilizing the FTA amounts to 400 million dollars and account for 11.1% of the total exports to the ROK. In Malaysia's imports from the ROK, the FTA is used for rubber, textile products, boilers and electric machinery (according to the Ministry of International Trade and Industry of Malaysia).

The ASEAN-ROK FTA comprises the items for gradual tariff elimination, Sensitive Track and the items for immediate tariff elimination. Among the ROK and the original ASEAN member countries, the tariffs on the Normal Track items will be reduced to between 0% and 5% in 2009 and will be eliminated in 2010, as in the case of the ASEAN-China FTA. Accordingly, the FTA is expected to be increasingly utilized in the future.

■ Major FTAs in the Asia-Pacific region advancing toward the elimination of tariffs by 2010

The course seems to be set for "ASEAN+1" as the ASEAN-centered FTA network covering the Asia-Pacific region. The ASEAN-China FTA went into effect in July 2003, and the ASEAN-ROK FTA went into effect in June 2007, while the ASEAN-Japan

FTA is expected to go into effect in 2008. Furthermore, agreements are expected in 2008 for the negotiations for the ASEAN-Australia-New Zealand and the ASEAN-India FTAs, which have entered their final stages (Table II-18). However, the ASEAN-India FTA does not allow for optimism, as the target date for agreement has been postponed several times in the past due to slow progress in negotiations over certain items to be included in the Sensitive List.

Tariffs on almost all items under AFTA will be eliminated among the original members by 2010, and the ASEAN-China and the ASEAN-ROK FTAs are planning to eliminate tariffs on a majority of products between China, the ROK and the original ASEAN members by 2010. In the Asia-Pacific region, FTA networks are increasing rapidly, while their utilization is also expanding at a gradual pace. In the Asia-Pacific regions, where Japanese affiliates have set up extensive production networks, the barriers posed by tariffs are being eliminated in further expanded areas. In the areas covered by the ASEAN-China FTA, where direct investments by Japanese companies have been accumulated, the scheduled elimination of tariffs may possibly cause major impact to business activities, and the firms will have the growing need to keep the FTA in mind when they run their business.

It is imaginable that expanding domestic demand in East Asia, where an increasingly attractive consumer market is being created, will lead to expanded utilization of FTAs in the future. Up to now, Japanese companies have considered the ASEAN countries and China as export bases, but East Asia is forming an attractive consumer market along with the rise of its middle-class population. As the domestic demand grows, Japanese affiliates are the need to have “production bases for domestic demand”, in addition to “production bases for exports” they have already have. According to the “2007 Survey of Japanese Affiliated firms in ASEAN and India”, the percentage of export-oriented companies with export/sales ratio of 70% or more to total Japanese affiliates in 2007 has decreased in comparison to the percentage in 2002 in the majority of the ASEAN countries (Figure II-5). Out of the six ASEAN member countries, the ratio of export-oriented enterprises decreased from 58.7% in 2002 to 49.8% in 2007. While tariff reduction or elimination system other than FTAs, including export processing zones and in-bond systems, are applicable to parts and intermediate goods for export products, and such systems will not be available for sales to satisfy domestic demand. Accordingly, the growing domestic demand in the ASEAN countries and China is expected to lead to expanded utilization of FTAs in the future.

(3) Major FTAs outside the Asia-Pacific region and status of their utilization

Mentioned below is status of FTA utilization under the major FTAs outside the Asia-Pacific region.

■ ROK-Chile FTA

The ROK-Chile FTA came into effect in April 2004 as the first FTA for the ROK. According to the Korean government, 96% of the tariffs in the two countries are expected to be eliminated eventually under the FTA. The ROK's share of the total imports to Chile rose from 3.0% in 2003 (before the FTA went into effect) to 7.2% in 2007 and the ratio of imports from Chile to total imports to the ROK rose from 0.6% to 1.2% respectively.

In exports from the ROK to Chile, the FTA seems to be utilized for automobiles. The ROK's share of the passenger car imports to Chile rose from 16.1% to 29.3%, making the ROK the top import trading partner for Chile ahead of Japan in 2007. (Total value of imported passenger cars increased from 700 million dollars to 1.7 billion dollars.) The ROK's share of the commercial car imports to Chile also rose from 6.3% to 9.1%. (Total value of imported commercial cars increased from 400 million dollars to 1.4 billion dollars.) While passenger and commercial cars imported to Chile from other countries are subject to the MFN tariff of 6%, tariff on the cars imported from the ROK has been reduced or eliminated. Although cars imported from the ROK enjoyed tariff advantages in competition with cars imported from Japan, the Japan-Chile FTA went into effect in September 2007 to eliminate the tariff on Japanese passenger and commercial car imports to Chile and the competitive conditions between the two countries have been made even. Chile has eliminated tariffs on passenger and commercial cars imported from the EU and the U.S. under the FTA concluded with those countries.

In the ROK's imports from Chile, noteworthy increase has been made in food, which includes wine (subject to MFN tariff of 15% while tariff on imports from Chile is set at 2.5% as of 2008), kiwi fruits (MNF tariff 45%, tariff on imports from Chile at 24.5%) and grapes (MFN tariff 45%, tariff on imports from Chile at 24.5%).

■ US-Australia FTA

Since the US-Australia FTA went into effect in January 2005, no remarkable change has been made in trade between the two countries. Although the U.S. eliminated the tariffs on commercial cars (25% or 4% on a basis of MFN), Australian commercial cars imported to the U.S. have not made any remarkable expansion in their share.

Remarkable increase has been made in lamb imported to the U.S. from Australia.

Since the tariffs (MFN tariff set at $0.007 or $0.028 per kg) were eliminated under the US-Australia FTA, Australia's share of the US lamb imports rose from 61.7% in 2004 to 72.5% in 2007.

(4) Issues surrounding FTAs

■ Rule of origin

In order to utilize FTAs for trade in goods, a certificate of origin proving that the goods are the products of countries signatory to FTAs is required. Currently, discussions are being made on: (1) criteria to determine origin; (2) intermediary trade; and (3) operational certification procedures.

The criteria for certifying origin are divided into two general types: wholly obtained criterion (fruits and other products obtained within the country concerned) and substantial transformation criterion (criterion applicable to products in which production in more than two different countries are involved). In the substantial transformation criteria, one of the following criteria is generally applied: change in tariff classification criterion alone, value-added content criterion alone, manufacturing process criterion alone, a choice of criteria type allowing the choice to be of either value added or change in tariff classification, and a dual criteria type requiring both to be of value added and change in tariff classification. It is also common that in a single FTA, different criteria are used depending upon the items. In recent years, a remarkable number of FTAs concluded in the Asia-Pacific region have adopted either the criterion allowing a choice of criteria or the change in tariff classification criterion alone. In the ASEAN-ROK, Japan-Malaysia and Japan-Thailand FTAs, the criterion allowing a choice has been adopted for majority of products. The AFTA, which has utilized the criterion of value-added content criterion alone (40%), is now under the policy of shifting to the criterion allowing a choice of criteria. (9) In the Australia-New Zealand FTA, change in tariff classification criterion was introduced in 2007, while the previously adopted value-added content criterion remains applicable up to 2012.

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9. In the 20th AFTA Council held in 2007, it was agreed on to shift the rules of origin adopted in the AFTA to the "criterion allowing a choice", and new rules are expected to be introduced in the future.

In FTAs concluded by India, a dual criteria type requiring both to be of value added and change in tariff classification has been generally adopted, and some of the companies utilizing FTAs complain of difficulties in usage, including increasing

business administration costs. They generally prefer the choice of criteria, which is the most flexible of all.

Issues involved in intermediary trade include re-invoicing in any FTAs and the back-to-back in the FTAs involving three or more signatories, which is sometimes accepted and sometimes not accepted depending on FTAs. Re-invoicing is a commercial flow in which invoices are issued from a home office or regional headquarters in a third country other than the origin while certificates of origin are issued in the country of origin and goods are shipped direct from the country of origin to the country of destination. The back-to-back certificate is a system where goods and the certificate of origin, in addition to re-invoicing, are shipped through a third country, and the signatory in the third country issues back-to-back certificates of origin based on the certificates of origin issued by the country of production (signatory). In the ASEAN-ROK FTA and FTAs entered into by Japan, the Operational Certification Procedures (OCP) attached thereto generally stipulates that re-invoicing and back-to-back certificates are both acceptable. In the ASEAN-China FTA, on the other hand, such a stipulation is not made in the agreement and re-invoicing and back-to-back certificates are accepted by some countries and not accepted by others, depending upon the different interpretations made by the customs authorities of the respective signatory countries. Strong demands are being expressed that these two systems, which have already become a common form of business transaction, should be accepted in FTAs.

■ Procedures of origin certification

Active discussions are being made recently in Japan on procedures of origin certification. The procedures globally adopted are of three general types: (1) third party certification; (2) certification by approved exporters; and (3) self-certification by exporters. Besides these, there exists a system that may be called “approved products”, in use even though only in a limited number of cases (Table II-19).

A third party certification is a system in which an exporter provides a third-party organization (government or designated agency) with information to prove that its export products satisfy rules of origin and the third-party organization, upon judgment of the origin of such products, issues a certificate of origin. The certificate of origin is issued by a third-party organization for each export. The FTAs concluded by Japan up to the present all adopt third party certification, and Chamber of Commerce and Industries has been nominated the issuing organization. third party certification is widely adopted in the FTAs concluded in the East Asian region.

Self-certification by exporters is a system introduced in the FTAs entered into by the

U.S. and others, where all exporters certify the origin of their products on their own responsibility. The documents certifying that the rules of origin requirements have been satisfied are issued by the exporters themselves. This self-certification system is typically applied to in NAFTA and the US-Australia FTA, as well as in the US-ROK FTA, which is signed but not in effect yet. Among the FTAs in the Asia-Pacific region, the New Zealand-Thailand and the New-Zealand-Singapore FTAs have adopted the self-certification system.

The approved exporter is a system in which the self-certification system or more simplified methods of application are made available to exporters authorized by the government or designated authorities. Exporters other than those approved by the government or designated authorities are required to apply for judgment of origin through a third-party organization. This system is commonly adopted in the FTAs concluded by the EU and EFTA.

In the Australia-Singapore FTA, only the first export of a product requires certification by a third-party organization while the subsequent exports of the same product in the following two years only are exempted from the certificate of origin issued by a third-party organization, which can be replaced by self-certification by exporters. Since the fulfillment of rules of origin requirements is judged for each item, not for an exporter, and the certificate of origin for each export is not required for a designated period thereafter, this may be called a system of certified products.

By rough classification, it may be said that the system of third party certification is mainly used in East Asia, the system of self-certification in the Americas and the system of approved exporter in Europe, respectively.

Although the system of self-certification seems more flexible than the other two systems in view of an application for certification from a third-party organization made unnecessary, it may be pointed out that the system does not decrease the work load of confirmation of origin performed by exporters and that it leaves the related costs unchanged. Cost reduction is possible only in the clerical works related to application procedures with third-party organizations. In the self-certification system, companies are commonly required to retain their origin certification documents for a fixed period (three to five years.) The system also requires the companies to develop internal structures to ensure compliance, connoting the possibility that they will face unexpected risks if their structures are not properly operated. In the U.S. where self-certification is introduced, a huge fine may be imposed on companies when they are found responsible for false declarations.

On the other hand, companies utilizing FTAs express their expectation that the

self-certification system will lead to a decrease in lead time, on top of a reduction of clerical costs related to application procedures. Along with a speed up in logistics, time-sensitive items, including IT components, are often shipped by airfreight. Under the third-party certification system in which original certificates of origin are required by customs authorities for clearance of the products, it sometimes happens that the certificate of origin arrives at the airport of destination later than the products and additional costs such as storage for bonded warehouse space and clerical expenses related to refunds of customs duty will be incurred. This kind of situation may be avoided under the self-certification system, which can contribute to reduced lead time for the products with only a minimal transit time allowed for transportation.

The certification by approved exporters, a combination of the aforementioned two systems, may be found well-balanced for the companies utilizing FTAs as it makes the self-certification available to certain certified companies including those that make a large number of export shipments.

Criteria for certified exporters differ from country to country. In Mexico, for instance, criterion for a certified exporter in the EU-Mexico FTA requires: (1) to export more than 200,000 dollars of products in a year; (2) to export fresh foods; or (3) to export handiwork.

■ The situation that MFN tariffs lower than FTA tariffs

When an FTA is utilized, a situation where MFN tariff rates get lower than FTA tariff rates sometimes happens when the signatories reduce the MFN tariff rates after the FTA goes into effect. The situation has happened in some of the FTAs entered into by Japan, as well as in the ASEAN-China FTA. This can be caused in any FTA adopting the "base rate method" in which tariff rates are reduced gradually from the tariff rates in effect in a particular year set as base rates. The situation is more likely to happen in FTAs with developing countries where the MFN tariff rates between the signatories remain at a high level and leave a large room for tariff reduction.

The "margin of preference method" has been adopted in some other FTAs, including the Singapore-India FTA, Mercosur and the Mercosur-Chile FTA, where tariff reduction is defined in percentages instead of rates in the agreement documents and the percentages of reduction are applied to the MFN rates effective on the day of importation. Accordingly, the situation where MFN tariff rates get lower than FTA tariff rates cannot happen in this method. However, the margin of preference method connotes a risk that tariffs applicable on the day of importation and accordingly the tariff agreed in an FTA will be raised when a signatory raises the MFN rates to the

extent permitted by GATT. (In and after the year when the percentage of reduction has reached 100% and the tariff has been eliminated, the tariff will be free even if the MFN rates are raised.) Consequently, the margin of preference method is preferable in terms of avoiding the situation while the base rate method predominates in terms of predictability.

In the FTAs covering substantially all the commodities under Article 24 of GATT, eventually the situation will gradually disappear for the majority of the items as the tariff on those items will be eliminated in a fixed period of time.

Column II-2

◎ Trade relationships in the Asian region getting closer

The ratio of intra-regional trade (two-way trade) to total trade in the Asia-Pacific region (ASEAN+6) reached 43.8% in 2007, rising by 3.5 points from 40.3% in 1999 (Table 1). The ratio generally rose in the regions of AFTA, ASEAN+Japan, ASEAN+China and ASEAN+India, showing that the trade relationships within these regions are getting even closer. On the other hand, the intra-regional trade ratio in NAFTA is 41% on a downward trend these few years. The ratio of 65.8% in the EU27 is higher than those in NAFTA and the Asia-Pacific region and remains on a steady trend in recent years.

In terms of industry, the Asia-Pacific region is characterized by the fact that the intra-regional trade ratio remains high in IT products showing not much change between 2000 and 2006, while the ratio is on an upward trend in transport equipment, as well as in chemicals (Table 2). As for IT products, tariffs on many items have been eliminated under the ITA (Information Technology Agreement), while cross-border production networks were being built up in Asia over a long period of time. To the rising intra-regional trade ratio in transport equipment, on the other hand, contributions are apparently made by the fact that, among the high tariff barriers imposed by all countries, tariff rates have been reduced through AFTA and other frameworks in recent years and that construction of the cross-border production network has been rapidly moved forward in the Asian region as typically demonstrated by the IMV[Note] (Note) project of Toyota Motors. [(Note)] The intra-regional trade ratio in transport equipment in the Asian region seems to leave plenty of room for continued improvement in the future as it

[Note] IMV is an abbreviation of Innovative International Multi-purpose Vehicle. This project of Toyota Motors is aiming at building the optimum production and supply system on a global scale for pick-up trucks and multi-purpose vehicles.

remains at a considerably low level compared to the rate in NAFTA and the EU15, while the areas other than AFTA still maintain high tariff barriers, which are scheduled to be reduced gradually in many of the FTAs already in effect.

On the other hand, the intra-regional trade ratio in the EU15 remains high in every category of industry, but the ratio shows a steady or slightly downward trend compared to the level in 2000. The ratio in NAFTA also remains high, but it shows a downward trend in general and, particularly, in IT products and transport equipment.

Table 1 Intra-regional trade within major regions of the world (two-way trade)

(Unit: %)

			1980	1985	1990	1995	1999	2000	2005	2006	2007
Two way trades	Asia	ASEAN+6 (adjusted for re-exports)	-	-	-	-	40.3	42.0	44.2	43.4	43.8
		ASEAN+6	33.3	34.0	33.0	40.4	39.0	40.6	43.1	42.6	43.1
		ASEAN+3	29.0	29.2	28.6	37.0	35.4	37.4	39.2	38.4	38.8
		ASEAN	15.9	17.9	17.0	21.1	21.8	22.7	24.9	25.6	25.6
		ASEAN + China	14.9	15.9	15.8	19.2	19.2	20.1	20.8	21.2	21.5
		ASEAN + India	15.1	16.8	16.5	20.8	21.4	22.3	23.9	24.6	24.4
		ASEAN + Japan	23.4	19.9	21.7	27.5	24.8	26.4	26.0	25.9	26.2
	North America	NAFTA	33.2	38.3	37.2	42.0	46.8	46.8	42.9	42.0	41.0
	Europe	EU27	57.5	58.4	65.4	65.4	66.8	65.1	65.0	65.5	65.8
Export	Asia	ASEAN+6	33.2	31.3	31.0	38.3	34.8	36.9	39.4	38.5	39.1
		ASEAN+3	28.9	26.4	26.8	34.9	31.0	33.7	35.1	34.0	34.4
		ASEAN	17.3	18.6	18.9	24.5	21.7	23.0	25.3	25.0	24.9
		ASEAN + China	15.9	17.3	16.5	20.9	18.4	19.5	19.3	19.0	19.3
		ASEAN + India	17.0	18.2	18.4	24.1	21.8	22.9	25.3	24.8	24.9
		ASEAN + Japan	23.3	17.4	20.4	26.6	22.7	24.7	25.2	24.8	24.8
	North America	NAFTA	33.6	43.9	41.4	46.2	54.6	55.7	55.4	53.8	50.6
	Europe	EU27	61.3	59.2	66.9	66.4	68.7	67.7	67.4	67.7	67.7
Import	Asia	ASEAN+6	33.3	36.9	35.2	42.6	44.0	44.8	47.1	47.1	47.4
		ASEAN+3	29.0	32.3	30.6	39.3	40.9	41.8	43.7	43.5	43.8
		ASEAN	14.4	17.2	15.2	18.1	21.8	22.5	24.3	26.4	26.3
		ASEAN + China	13.9	14.6	15.1	17.5	20.2	20.8	22.4	23.8	24.1
		ASEAN + India	13.2	15.4	14.9	17.9	20.9	21.6	22.4	24.4	24.0
		ASEAN + Japan	23.5	23.1	23.2	28.6	27.4	28.4	26.9	27.2	27.8
	North America	NAFTA	32.8	34.4	33.9	38.4	41.1	40.5	34.9	34.3	34.5
	Europe	EU27	54.2	57.6	64.0	64.4	65.0	62.5	62.6	63.3	64.0

(Note) (1) ASEAN+6 is comprised of the ASEAN countries plus Japan, China, ROK, Australia, New Zealand and India.
(2) ASEAN+3 is comprised of the ASEAN countries plus Japan, China and ROK.
(3) The share of intra-regional trade was calculated by (Value of intra-regional exports + Value of intra-regional imports) / (Value of exports to the world + Value of imports from the world) x 100.
(4) In terms of ASEAN +6 (adjusted for re-exports), adjustments to the estimations of intra-regional exports were made by excluding re-exports as duplicate postings, using the estimation method below:
<Adjustments to Singapore, one of the ASEAN+6 countries)
(1) Exports of Singapore origin to the World = Total value of exports to the world – Value of re-exports to the world
(2) Exports of Singapore origin to ASEAN+6 = Total value of exports to ASEAN+6 – Value of re-exports to ASEAN+6
(3) Imports of Singapore from the World = Total value of imports from the World – Value of re-imports from the World
(4) Imports of Singapore from ASEAN+6 (estimate) = Value of imports from ASEAN+6 ×((Value of imports from the world - Value of re-exports to the World) / Value of imports from the world)
<Adjustments to Hong Kong, one of the non-ASEAN+6 countries>
In addition to the amount of intra-regional exports of the ASEAN +6, calculated using the above procedures, the following adjustments were made:
(1) Value of re-exports from ASEAN+6 to ASEAN+6 via Hong Kong is added.
(2) Of the above re-exports, those that have been re-exported from China to China via Hong Kong have been excluded (since they are considered to be domestic Chinese trade).
(Source) “Direction of Trade Statistics” May 2008 (IMF)

Table 2 Ratio of intra-regional trade by industry

(Unit: %)

	Asia-Pacific				NAFTA		EU15	
	ASEAN5		ASEAN5+6					
	2000	2006	2000	2006	2000	2006	2000	2006
Information technology	28.1	27.9	42.2	42.3	41.4	37.2	57.9	55.8
Transport equipment	13.9	22.6	20.4	24.2	62.3	55.0	66.9	64.6
General machinery	24.6	26.2	38.5	39.8	41.3	39.9	59.6	55.8
Chemicals	24.8	25.0	40.3	44.8	44.4	40.5	67.3	66.5
Steel	21.1	24.8	51.1	51.8	55.5	47.8	72.2	67.8
Textiles	10.6	10.7	40.3	35.1	38.5	26.9	57.2	53.5

(Note) (1) ASEAN5 includes Thailand, Malaysia, Indonesia, the Philippines and Singapore. ASEAN5+6 includes Japan, China, ROK, India, Australia and New Zealand.

(2) Due to statistical constraints, the EU covers EU15, not EU27.

(Source) Trade statistics of the respective countries.

Table II-4 Japan's FTAs: In effect, signed, being negotiated

(Unit: %)

	FTA	Date/Status	Share of Japanese trade (2007)			Share of tariff-free items (trade amount basis)	
			Export	Import	Two-way	Trading partner country / region	Japan
In effect	Singapore	November 2002, revised March 2007	3.1	1.1	2.2	100	94.7
	Mexico	April 2005	1.4	0.5	1.0	98.4	86.8
	Malaysia	July 2006	2.1	2.8	2.4	99.3	94.1
	Chile	September 2007	0.2	1.3	0.7	99.8	90.5
	Thailand	November 2007	3.6	2.9	3.3	97.4	91.6
	Indonesia	July 2008	1.3	4.2	2.6	89.7	93.2
	Brunei	July 2008	0.02	0.4	0.2	99.9	99.99
	Subtotal		11.7	13.3	12.4	-	-
Signed	Philippines	Signed September 2006	1.3	1.4	1.4	96.6	91.6
	ASEAN	Signed April 2008	12.2	13.9	13.0	Approx. 90	Approx. 93
Being negotiated	GCC (Gulf Cooperation Council)	Governments in negotiation since September 2006	3.0	16.0	9.0	-	-
	Vietnam	Governments in negotiation since January 2007	0.8	1.0	0.9	-	-
	India	Governments in negotiation since January 2007	0.9	0.7	0.8	-	-
	Australia	Governments in negotiation since April 2007	2.0	5.0	3.4	-	-
	Switzerland	Governments in negotiation since May 2007	0.4	0.8	0.6	-	-
	South Korea (ROK)	Negotiation suspended since November 2004	7.6	4.4	6.1	-	-
Total			27.7	42.6	34.6	-	-

(Note)

(1) The tariff-free quota rate refers to the share of total value of trade of categories for which tariffs have been immediately abolished and categories for which tariffs will be abolished in stages within 10 years to the total value of trade.

(2) Tariff-free quota rates represent the share of 2005 for trade with Singapore, the share of 2002 for trade with Mexico, the share of 2004 for Japan and the share of 2003 for Malaysia for trade with Malaysia, the share of 2005 for trade with Chile, the share of 2004 for Japan and the share of 2003 for Thailand for trade with Thailand, the share of 2003 for trade with the Philippines, the share of 2005 for trade with Brunei, the share from May 2004 to April 2005 for trade with Indonesia and the share for trading partner countries/regions of ASEAN represents the share for ASEAN6.

(Source) Trade Statistics of Japan, Ministry of Foreign Affairs, METI, "2008 Report on Compliance by Major Trading Partners with Trade Agreements" (METI)

Table II-5 FTAs utilizing preferential tariffs of major FTAs in effect in Japan and the Asia-Pacific region

FTA	Number	Share % (n=87)
Japan-Thailand	31	35.6
Japan-Malaysia	31	35.6
ASEAN Free Trade Area (AFTA)	25	28.7
Japan-Mexico	25	28.7
Japan-Chile	11	12.6
Thailand-India	8	9.2
Thailand-Australia	7	8.0
Japan-Singapore	5	5.7
China-ASEAN	5	5.7

(Source) "Survey on International Operations of Japanese Firms (FY2007)" (JETRO)

Table II-6 FTAs planning to utilize major FTAs in effect in Japan and the Asia-Pacific region

FTA	Number	Share % (n=114)
Japan-Thailand	66	57.9
ASEAN Free Trade Area (AFTA)	31	27.2
China-ASEAN	27	23.7
Japan-Malaysia	23	20.2
Thailand-India	21	18.4
Japan-Chile	10	8.8
Japan-Singapore	10	8.8
South Korea (ROK)-ASEAN	8	7.0
China-Hong Kong	8	7.0
Japan-Mexico	6	5.3
Thailand-Australia	4	3.5

(Source) "Survey on International Operations of Japanese Firms (FY2007)" (JETRO)

Table II-7 Status of utilization of the preferential tariffs of the FTAs in effect in the Asia-Pacific region

	Parameter (Number of companies that responded)	Number of companies utilizing preferential tariffs (%)
Automobile, automotive parts, other transportation equipment	55	29.1
Coal and petroleum products, plastic products, rubber products	24	20.8
Electric machinery	46	19.6
Chemicals	46	17.4
Other manufacturing	35	17.1
Food and beverages	62	14.5
Ceramics/earth & stones	14	14.3
Textile, fabric/apparel	24	12.5
General machinery	81	12.3
Medicine and cosmetics	20	10.0
Trading & wholesale	167	7.2
Information and communication machinery and equipment, electronic components & devices	43	4.7
Steel, non-ferrous metal, metal products	47	4.3
Precision equipment	30	3.3

(Note) The respondent firms are not necessarily limited to those engaged in trading.
(Source) "Survey on International Operations of Japanese Firms (FY2007)" (JETRO)

Table II-8 Automobile Sales of Japanese Automobile Manufacturers and status of Passenger Car Imports in Mexico

(Unit: Number of vehicles, %)

			FY 2004	FY 2005	FY 2006	FY 2007	FTA quota (FY 2007)
Number of vehicles sold locally	Japanese firms with production base in Mexico		299,043	324,605	354,256	352,797	45,270
	Japanese firms without production base in Mexico		0	1,634	13,040	25,322	11,574
		Mazda	0	771	7,495	16,604	5,505
		Suzuki	0	762	4,413	5,700	4,092
		Isuzu	0	101	824	2,077	1,221
		Fuji Heavy Industries	0	0	308	703	400
		Hino Motors	0	0	0	238	356
	Total Japanese firms		299,043	326,138	326,472	378,119	56,844
	Total number of passenger cars sold in Mexico		1,095,733	1,131,768	1,139,718	1,099,866	-
	Market share of Japanese firms		27.3	28.8	28.6	34.4	-
Imports	Value of imports from Japan		754	1,074	1,249	1,535	-
	Total value of imports		6,942	8,270	9,400	9,596	-
	Market share of Japanese firms among passenger car imports		10.9	13.0	13.3	16.0	-

(Note) (1) The HS Code for passenger cars is 8703.
(2) The FTA quota is for April through March.
(Sources) Mexican Ministry of the Economy, AMIA (Mexican Automotive Industry Association), ANPACT (National Association of the Manufacturers of Busses, Trucks and Tractor Trailers of Mexico), and the Trade Statistics of Mexico.

Table II-9 Value of exports from Thailand and Malaysia to Japan utilizing FTAs

(Unit: US$ million, %)

Exporting country	Item	November-December 2007
Thailand	Value of exports to Japan utilizing FTA (FOB basis)	642
	Value of Japanese imports from Thailand utilizing FTA (CIF basis, estimated)	706
	Value of Japanese dutiable imports from Thailand (CIF basis)	1,112
	Share to the value of total dutiable imports (estimated)	63.4
		2007
Malaysia	Value of exports to Japan utilizing FTA (FOB basis)	1,949
	Value of Japanese imports from Malaysia utilizing FTA (CIF basis, estimated)	2,144
	Value of Japanese dutiable imports from Malaysia (CIF basis)	4,822
	Share to the value of total dutiable imports (estimated)	44.5

(Note) (1) The values of Japanese imports from Thailand and Malaysia utilizing FTA are the estimated figures derived by converting the value of exports to Japan utilizing FTA (FOB basis) of the respective countries into a CIF-basis value by adding 10% thereof (with insurance premium and freight assumed to be equivalent to 10% of the FOB value).
(2) Based on Japan's Tariff Schedule from April 2008 and Trade Statistics from 2007; the value of dutiable items has been calculated by deducting the value of such items as classified free in the WTO rate column of the Customs Tariff Schedule. Practically, as there are other items classified free under the Temporary and EPA Tariff rates or imported tariff free in limited quantities under the import quota system, the actual value of the dutiable imports is assumed to be less than the figure given above.
(Source) Thailand Ministry of Commerce, Malaysia Ministry of International Trade and Industry, trade statistics of Thailand and Malaysia, and the Tariff Schedule of Japan

Table II-10 FTAs in effect in the Asia-Pacific (ASEAN+6) region

FTA	Date, Status
Australia-New Zealand	January 1983
Laos-Thailand	June 1991
ASEAN Free Trade Area (AFTA)	January 1992 (start of tariff reduction January 1993)
Singapore-New Zealand	January 2001
Japan-Singapore	November 2002
Singapore Australia	July 2003
ASEAN-China	July 2003 January 2004 (EH for agricultural and fisheries products) July 2005 (start of tariff reduction for non-agricultural products)
Thailand-India	September 2004 (start of Early Harvest)
Thailand-Australia	January 2005
Thailand-New Zealand	July 2005
Singapore-India	August 2005
Singapore-ROK	March 2006
Japan-Malaysia	July 2006
ASEAN-South Korea (ROK)	June 2007
Japan-Thailand	November 2007
Japan-Indonesia	July 2008
Japan-Brunei	July 2008

(Source) WTO, governments

Table II-13 Utilization of FTAs in Thailand and Malaysia

(Units: Millions of dollars, %)

	Trading partner country/region	Total value of exports utilizing FTA			Share to the total exports		
		2005	2006	2007	2005	2006	2007
Thailand	ASEAN (excluding Singapore)	4,942	5,299	7,609	30.0	28.2	30.9
	China	614	1,450	1,769	6.7	12.3	11.1
	India	267	328	399	17.6	18.1	14.0
	(82 items of the Early Harvest Scheme)	267	328	399	79.0	89.1	98.1
	Australia	2,122	2,746	4,067	67.3	62.6	66.2
Malaysia	ASEAN (excluding Singapore)	2,731	2,898	3,736	18.5	18.4	19.1
	China	274	1,043	1,629	2.9	8.9	10.0
	South Korea (ROK)	-	-	403	-	-	11.1
Total	ASEAN (excluding Singapore)	7,673	8,197	11,345	24.6	22.8	25.7
	China	888	2,493	3,398	4.8	10.6	10.8
	China-ASEAN (excluding Singapore)	8,561	10,690	14,743	17.2	18.0	19.5

(Note) (1) The share to the total exports is the value of exports utilizing CEPT/total value of exports.Total value of exports includes items eliminated on a MFN basis by the exporting trading partner.
(2) Malaysia's trade figures with ROK are based on June to December 2007 results.
(Source) Malaysia Ministry of International Trade and Industry, Thailand Ministry of Commerce, and trade statistics of Thailand and Malaysia.

Table II-11 Share of trade between countries with FTAs in effect, signed and under negotiation of the amount of total intra-regional trade in the Asia-Pacific (ASEAN+6) region (2007)

(Unit: %)

Importing country / Esporting country	Japan	China	South Korea (ROK)	Thailand	Indonesia	Malaysia	Philippines	Singapore	Brunei	Vietnam	Cambodia	Laos	Myanmar	India	Australia	New Zealand	Total	Trade with countries with FTAs in effect (exports)	Share of trade with countries with FTAs in effect
Japan	-	8.1	4.0	1.9	0.7	1.1	0.7	1.6	0.0	0.4	0.0	0.0	0.0	0.4	1.0	0.2	20.0	5.2	26.0
China	7.5	-	4.1	0.9	0.9	1.3	0.5	2.2	0.0	0.8	0.1	0.0	0.1	1.7	1.3	0.2	21.6	6.8	31.6
South Korea (ROK)	1.8	6.8	-	0.4	0.4	0.5	0.3	0.9	0.0	0.3	0.0	0.0	0.0	0.4	0.4	0.1	12.3	2.4	19.7
Thailand	1.3	1.1	0.2	-	0.3	0.6	0.2	0.7	0.0	0.3	0.1	0.1	0.1	0.2	0.4	0.0	5.7	5.5	96.2
Indonesia	1.7	0.8	0.6	0.3	-	0.4	0.1	1.0	0.0	0.1	0.0	0.0	0.0	0.3	0.3	0.1	5.6	5.0	88.4
Malaysia	1.2	1.1	0.5	0.6	0.4	-	0.2	1.9	0.0	0.2	0.0	0.0	0.0	0.4	0.4	0.1	7.1	6.1	86.7
Philippines	0.6	1.4	0.1	0.1	0.0	0.2	-	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	2.3	78.5
Singapore	1.1	2.1	0.8	0.9	2.2	2.8	0.4	-	0.1	0.5	0.0	0.0	0.1	0.7	0.8	0.1	12.6	12.6	100.0
Brunei	0.2	0.0	0.1	0.0	0.1	0.0	0.0	0.0	-	-	0.0	0.0	0.0	0.0	0.1	0.0	0.5	0.4	86.6
Vietnam	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1	-	-	0.0	0.0	0.0	0.0	0.2	0.0	1.4	0.8	53.8
Cambodia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	69.5
Laos	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	-	-	0.0	0.0	0.0	0.1	0.1	97.3
Myanmar	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-	0.0	0.0	0.0	0.3	0.2	74.7
India	0.3	0.9	0.3	0.1	0.2	0.1	0.0	0.4	0.0	0.1	0.0	0.0	0.0	-	0.1	0.0	2.5	0.5	21.1
Australia	1.9	1.5	0.8	0.3	0.2	0.2	0.1	0.2	0.0	0.1	0.0	0.0	0.0	0.6	-	0.5	6.5	1.1	16.2
New Zealand	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	-	1.0	0.5	49.5
Total	18.1	24.2	11.6	5.8	5.6	7.3	2.7	9.4	0.1	2.7	0.3	0.1	0.3	5.0	5.5	1.3	100.0	49.5	
Trade with countries with FTAs in effect (imports)	5.4	6.8	2.2	5.4	5.1	7.0	1.8	9.4	0.1	2.2	0.2	0.1	0.3	0.9	1.7	0.7	49.5		
Share of trade with countries with FTAs in effect	30.0	28.2	18.8	93.8	91.9	95.1	68.8	100.0	95.4	79.7	95.0	96.5	91.5	18.7	30.5	56.2			

(Note) (1) The light-colored shading indicates trade between countries with FTAs in effect, the dark-colored shading indicates trade between countries with FTAs that are signed (not in effect), and the half-tone shading indicates trade between countries with FTAs under negotiation.
(2) The share represents each country's / region's value of trade with countries that have FTAs in effect of the total value of exports and imports to the ASEAN+6 region.
(3) The Thailand-ROK portion alone of the ASEAN-ROK FTA has not gone into effect. Includes the trade amount between India and Thailand, which only covers items under the Early Harvest Scheme (82 items). FTA negotiations between Japan and ROK have been suspended.
(4) The Singapore-New Zealand FTA is part of the Trans-Pacific FTA (Brunei, New Zealand, Chile and Singapore).
(Source) "DOT May 2008" (IMF)

Table II-12 Total value of exports utilizing AFTA (CEPT) and CEPT utilization rates in Thailand and Malaysia

(Units: Millions of dollars, %)

	Trading partner country/region	Total value of exports utilizing CEPT					Share to the total exports				
		1998	2003	2005	2006	2007	1998	2003	2005	2006	2007
Total for Thailand and Malaysia	Vietnam	7	632	1,343	1,763	2,772	0.8	30.3	38.3	36.3	43.2
	Philippines	179	748	1,333	1,529	1,928	9.3	24.9	33.2	32.0	34.1
	Indonesia	99	913	2,468	2,231	3,530	5.0	20.6	33.9	30.1	34.3
	Malaysia	212	801	1,270	1,363	1,850	11.9	20.7	22.4	20.5	22.1
	Thailand	91	594	1,227	1,270	1,206	3.9	13.0	16.2	14.9	13.8
	Brunei	0	2	5	14	15	0.1	0.7	1.3	3.3	3.0
	Singapore	17	247	393	382	445	0.1	1.1	1.3	1.2	1.2
	Laos	0	4	22	23	30	0.0	0.9	2.8	2.3	2.1
	Myanmar	0	2	6	4	13	0.0	0.4	0.6	0.4	1.0
	Cambodia	0	0	1	1	1	0.0	0.0	0.1	0.1	0.1
	Total	606	3,942	8,066	8,580	11,789	2.2	9.3	13.3	12.4	14.7
	Total (excluding Singapore)	589	3,696	7,673	8,198	11,345	5.6	18.4	24.6	22.8	25.7
Thailand	**Total**	391	2,561	5,146	5,509	7,865	4.0	15.5	21.5	20.2	22.5
	Total (excluding Singapore)	383	2,454	4,942	5,299	7,609	7.4	23.0	30.0	28.2	30.9
Malaysia	**Total**	214	1,382	2,921	3,071	3,924	1.2	5.3	7.9	7.3	8.7
	Total (excluding Singapore)	206	1,242	2,731	2,898	3,736	3.8	13.2	18.5	16.9	19.1

(Note)The share to the total exports is the value of exports utilizing CEPT/total value of exports.Total value of exports includes items for which tariffs have been eliminated on a MFN basis by the exporting trading partner.
(Source) Malaysia Ministry of International Trade and Industry, Thailand Ministry of Commerce and trade statistics of Thailand and Malaysia

Table II-14 Share of ACFTA countries and area to agricultural and fishery imports of major ACFTA signatories

(Unit: US$ million, %)

	Before FTA (2003)			After FTA (2007)		
	Total Import	Import from ACFTA Country & area	Share	Total Import	Import from ACFTA Country & Area	Share
Thailand	1,547	121	7.8	2,768	304	11.0
Malaysia	1,332	197	14.8	2,348	457	19.5
Indonesia	724	142	19.6	2,015	386	19.1
Philippines	647	29	4.4	1,044	84	8.1
China	4,090	567	13.9	7,821	1,418	18.1

(Note) (1) Agricultural and fishery products subject to Early Harvest are those under HS01to 08.
(2) Thailand, Malaysia, Indonesia and Philippines are shown in ratio to imports from China, and shown in ratio to imports from ASEAN countries.
(Source) Trade statistics of the respective countries

Table II-15 Status of FTA utilization in Thailand (imports)

(Unit: US$ million, %)

	Trading partner country/region	2007
Value of imports utilizing FTA	ASEAN	3,053
	China	379
	India	35
	Australia	437
	New Zealand	156
	Total	**4,060**
Ratio of the value of imports utilizing FTA to the value of total dutiable imports	ASEAN	20.5
	China	3.7
	India	3.3
	Australia	31.4
	New Zealand	44.4
	Total	**14.5**

(Note) Value of dutiable imports has been derived by calculating trade value of the items listed in the MFN Tariff Schedule from 2007 and by deducting the same the value of total imports.

(Source) Thailand Ministry of Commerce and trade statistics of Thailand

Table II-16 Trends in Australian imports of passenger and commercial cars

(Unit: Millions of dollars, %)

			2004	2005	2006	2007	Share change compared to 2004
Passenger cars	Total value of imports		8,141	9,268	9,482	11,651	-
	Share	Japan	58.9	55.1	49.6	45.3	△ 13.6
		Germany	13.4	10.5	10.3	10.6	△ 2.8
		South Korea (ROK)	5.9	7.5	10.0	9.8	3.9
		Thailand	1.1	2.2	4.8	8.5	7.4
Commercial cars	Total value of imports		2,556	3,040	3,343	4,596	-
	Share	Thailand	25.3	38.1	32.0	36.3	10.9
		Japan	43.8	29.9	28.3	27.6	△ 16.2
		US	15.0	13.1	21.3	14.1	△ 0.9
Total value of imports			103,686	118,610	132,778	157,887	-
	Value of imports from Thailand		2,767	3,663	4,723	6,630	-
	Share of Thai imports to total		2.7	3.1	3.6	4.2	-

(Source) Australian trade statistics

Table II-17 Major items by value of trade among the 82 Thailand-India Early Harvest categories

(Unit: Millions of dollars, %)

	Items	2003	2004	2005	2006	2007	Annual average growth rate 2004–2007
Exports	Polycarbonates	11	17	112	52	115	90.6
	Air conditioners	9	8	16	28	37	69.4
	CRTs for TVs	0	5	21	32	32	88.9
	Epoxy resins	3	5	11	16	27	73.5
	Total exports	639	905	1,519	1,815	2,853	46.6
Imports	Gear boxes	0	4	30	40	36	103.0
	Total imports	877	1,138	1,275	1,625	2,236	25.2
Balance of trade		△ 239	△ 233	244	190	617	-

(Note) Gear boxes until 2006 were HS code 2002-8708.40. From 2007, a portion of 8797.99 has been incorporated in 8708.40.

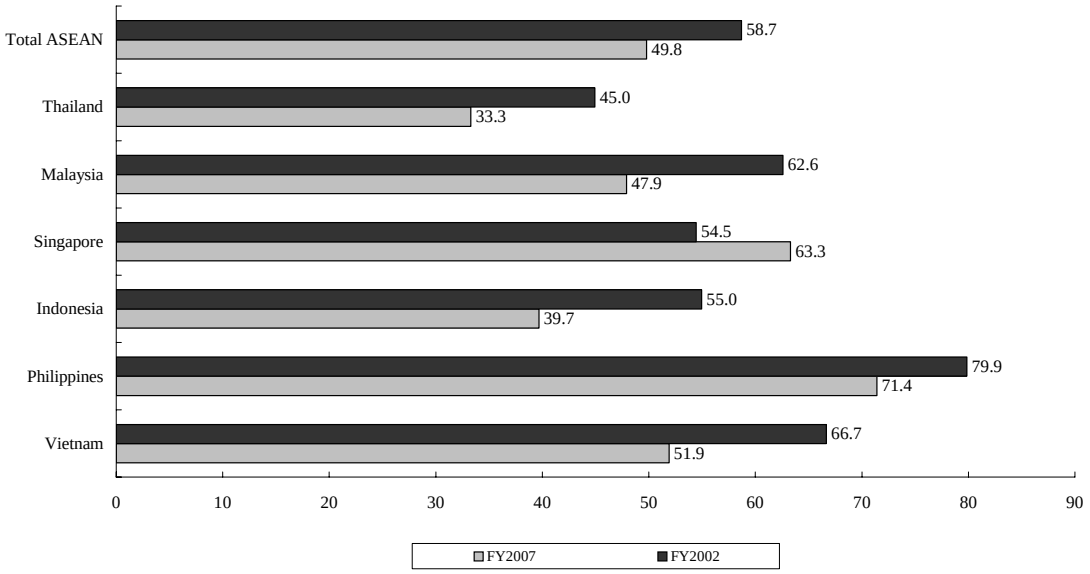
Table II-18 Status of AFTA and ASEAN+1: In effect and under negotiation

(Unit: Millions of dollars, %)

FTA		Value of trade	Share of Asia-Pacific (ASEAN+6) intra-regional trade	Status	Year of tariff elimination
AFTA		220,203	16.1	Started tariff reduction since January 1993. The original members of ASEAN (Thailand, Malaysia, Indonesia, Philippines, Singapore and Brunei) have already eliminated tariffs of 80% of all items.	2010 (Original members of ASEAN) 2015 (CLMV)
ASEAN	China	186,121	13.6	Went into effect in July 2003. EH scheme covering agricultural and fisheries product (HS01-08) started in January 2004. Non-agricultural and fisheries products and other agricultural and fisheries products in July 2005, started reduction of tariff.	2010 (Original members of ASEAN) 2016 (Vietnam) 2018 (CLM)
	South Korea (ROK)	70,487	5.2	Went into effect in June 2007.	2010 (Original members of ASEAN) 2015 (CLMV)
	Japan	173,595	12.7	Agreement at East Asia Summit in November 2007. Each country completes signature in April 2008. Expected to go into effect in 2008.	–
	India	36,713	2.7	Under negotiation.	–
	Australia New Zealand	53,602	3.9	Under negotiation.	–

(Note) The year of tariff elimination refers to the year in which the tariffs of items classified as Normal Track are eliminated.
(Source) Each agreement and statistics from each government

Fig. II-5 Ratio of Export-oriented Companies (with export percentage of over 70%) to Japanese Manufacturing Companies



(Note) FY stands for fiscal year beginning from April 1 to March 31.
(Source) "2007 Survey of Japanese Affiliated firms in ASEAN and India(2002)" and "Business Status of Japanese Affiliates in Asia (2007)"

Table II-19 Classification of operational certification procedures.

Classification		Outline of System	Examples of Applicable FTA
Third-party certification system		An exporter provides a third-party organization (government or designated agency) with information to prove that its export products satisfy rules of origin and the third-party organization, upon judgment of the origin of such products, issues a certificate of origin.	Japan-Singapore, Japan-Mexico, Japan-Malaysia, Japan-Thailand, Japan-Chile, AFTA, ASEAN-China, ASEAN-ROK, Singapore-India, etc.
Hybrid type	Approved products system (Third-party certification in the initial stage followed by invoice declaration for a	For all exporters, a third-party organization will certify origins of the products at the first time of exportation. In a limited period thereafter, certificates of origin for individual exports are not	Singapore-Australia
	Approved exporter system	The self-certification system and other more simplified methods of application are made available to exporters authorized by the government or designated authorities. Other exporters than those approved by the government or designated authorities are required to apply for judgment of origin by a third-party organization.	EU･EFTA (excluding Switzerland), EU-Mexico, EU-Chile, EFTA-Mexico, EFTA-Chile
Self-certification system		All exporters certify origins of their products on their own responsibility.	NAFTA、US-Australia, US-Singapore, Trans-Pacific, Singapore-New Zealand, Mexico-Chile, Thailand-New Zealand, US-ROK (not in effect yet), etc.

(Note) Trans-Pacific is joined by Singapore, Brunei, New Zealand and Chile.
(Source) The websites of the respective countries and the "2008 Report on the WTO Inconsistency of Trade Policies by Major Trading Partners".

3. Increasing importance of comprehensive FTAs: current status and utilization status of the liberalization of investments, services and government procurement

(1) Continued importance of lowering tariffs

The past WTO rounds resulted in significant tariff reductions for the countries (Table II-6). These countries are still battling with one another for further tariff reduction on agricultural, mining and industrial products in the current new rounds.

■ **High tariff levels in developing countries and the importance of reducing high tariffs in major countries**

The tariffs in major industrialized countries, including Japan, the U.S. and the European countries, have been reduced to significantly lower levels. However, there are still a number of developing countries that maintain high tariff levels (Table II-7). The average applied tariff rates (by item) in India and Brazil in 2007 come to 14.5% and 12.2%, respectively, and remain at high levels compared with the rate of 3.5% of the U.S. and 5.2% of Japan. India and Brazil, being members of BRIC, attract global attention as the most promising developing countries and high hopes are held for their tariff reduction.

Some industrialized countries maintain high tariff levels on some items, including trucks in the U.S. (with a maximum of 25%) and electrical appliances in the EU (with a maximum of 14%). High tariff rates are permitted legally to the extent that they do not exceed the bound rates of the WTO, but in view of free trade, it is preferable that they be reduced to a lower level.

Industrialized countries concluding FTAs must satisfy Article 24 of the GATT, which obliges them to eliminate substantially all tariffs. For this reason, Europe and the U.S. are demanding higher levels of liberalizations in the FTAs with developing countries. Moreover, FTAs can be effective in eliminating the high tariffs of the industrialized countries. The US-ROK FTA has been successfully reducing or eliminating the US's high tariff on trucks (25%) and the ROK's high tariffs on agricultural products (at almost 49%), vehicles (10%) and pharmaceuticals (8%).

■ **Increasing demands for the reduction of non-tariff measures and business barriers**

Trade barriers are not limited to tariffs. Amid the global trend of falling tariffs, the non-tariff measures (NTM) of each country are drawing considerable attentions.

In the definitions of the United Nations Conference on Trade and Development

(UNCTAD), NTMs are classified into: (1) quantitative restrictions, including import licenses and tariff quotas; (2) technical restrictions, including labeling requirements and quality inspections; and (3) price regulations, including control of exports and import prices. These restrictions are maintained in a large number of countries for purposes other than trade restrictions, such as product safety and procedures necessary for administration, for example, but problems will arise when they are too restrictive for international trade.

In the "2007 JETRO White Paper on International Trade and Foreign Direct Investment", the economic effects of tariff reduction and non-tariff barrier reduction in ASEAN+6 was estimated. If these countries had mutually eliminated tariffs and removed half of their NTM, Japan's GDP would have been increased by another 1%, while the increasing effect would have been limited to 0.05% if only the NTM had been eliminated. These figures show the importance of eliminating NTMs.

For companies engaged in international operations, it is imperative to reduce costs incurred as a result of domestic regulations on services necessary for business activities including finances and logistics, as well as of inadequate infrastructure, in addition to direct trade costs such as tariffs and NTMs. The WTO has the "General Agreement on Trade in Services (GATS)", "Trade-Related Investment Measures (TRIM)" and other agreements that can affect domestic regulations. However, the covenants under GATS are definitive and the application of TRIM is limited to prohibition of local content and trade-balancing requirements. On top of these, the WTO has in effect the "Agreement on Government Procurement (GPA)" to facilitate national treatment in government procurement of each country, as well as efficiency and transparency in the related procedures, but the multilateral agreement has been signed by only 13 countries and regions.

It is also significant that countries, as a means to supplement the deregulatory and disciplinary measures on the various agreements of the WTO, use FTAs to influence their trading partners in terms of their tariffs and NTMs, as well as measures relating to investments, services, government procurements and other factors that pose barriers to the conducting of their business.

(2) Investments and services through FTAs and status of their utilization

■ Expanding world trade in services and FDIs

World trade in services and FDIs continues to expand in the same manner as trade in goods. The value of world trade in services amounted to 3,257.3 billion dollars in 2007 and accounted for 6.0% of the world GDP, representing a rise of 2.6 points from 3.4%

in 1990 (Figure II-8). Trade in services is divided into four modes. In terms of the share of the respective modes in world trade in services, the WTO estimates that Mode 1 (cross-border trade) accounts for 35%, Mode 2 (consumption abroad) accounts for 10% to 15%, Mode 3 (commercial presence) accounts for around 50% and Mode 4 (presence of natural persons) accounts for 1% to 2%, respectively. (10) Modes 3 and 1 constitute the major part of trade in services. (11) Mode 3 is the mode in which companies provide services to overseas consumers through business bases established across the border, and this means the services are provided through direct investments.

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10. Based on “International Trade Statistics 2005” (WTO)

11. Mode 1 (cross-border trade) is the mode in which a supplier in their country provides services to a consumer in their country and covers the services provided through telephone, etc. Mode 2 (consumption abroad) covers services provided by a supplier in their country to a consumer visiting such country, and this includes overseas tours. Mode 3 (commercial presence) covers services provided by a supplier to a consumer in the consumer’s country through a commercial base established in the consumer’s country. Mode 4 (presence of natural person) covers services provided to a consumer by a supplier visiting the consumer’s country, and this includes concerts given by foreign artists, etc.

World FDI, which includes direct investments in the manufacturing industry, as well as in the service industry, entered a correction phase when the IT bubble collapsed in 2001. However, it has been growing continuously since 2004 to reach 2,107,4 billion dollars in 2007, which accounted for 3.9% of the world GDP.

For trade in services and FDI in Japan, imports have been exceeding exports, leaving the balance in the red. However, the exports are growing at a rate higher than that of imports, and the degree of deficit is getting smaller year by year.

As a result of expanding overseas operations by Japanese firms, Japan’s outward FDI stock has also increased to 546.8 billion dollars as of the end of 2007, marking a twofold increase from 258.7 billion dollars, as of the end of 1996 (Figure II-9). Profit (return) from FDI has been increasing commensurate with the accumulation of FDI stock. Japanese firms looking for new profit-earning opportunities are highly motivated to expand their business to overseas markets, including emerging market economies. Japan’s balance of income, which represents the revenue earned from the country’s entire overseas assets, including FDI and portfolio investment, has been exceeding the trade balance for three consecutive years since 2005.

■ FTAs and investment treaties to exercise discipline in advance

The framework for protection of trade in services and FDI and revitalization through liberalization is provided by the WTO through such agreements as the General Agreement on Trade in Services (GATS) and Trade-Related Investment Measures (TRIM), as well as the Services and Investment Chapters of the FTAs and investment treaties. The sustained growth of world trade in services and FDI has meant greater significance for the disciplinary framework over trade in services and FDIs.

GATS disciplines trade in services by granting “most favored nation” status as well as market access and national treatment. However, the areas of the most favored nation status that have been reserved in the annex are not covered by the agreement, while only the areas of market access and national treatment that have been promised in a positive list method are covered by the agreement.

TRIM, as indicated by its name, regulates only the investment measures related to trade. Practically, the agreement expressly prohibits each signatory country from demanding local content, demanding balance between exports and imports, restricting access to foreign exchange and exercising export control. Disciplines related to other investment rules and liberalization of investment have been slated for further negotiations, such as the Singapore Issues by the WTO, but no progress is being made as talks at the Doha Round have stalled because of their failure to agree to start negotiations.

While investment rules are partly disciplined through Mode 3 of GATS and by TRIM in the WTO, no comprehensive framework for the rules has been built up yet. In these circumstances, bilateral and some multilateral investment rule-making are being undertaken preemptively through FTAs and investment treaties. [(12)] According to the “2008 Report on the WTO Inconsistency of Trade Policies by Major Trading Partners” [(13)], the investment chapters of FTAs and investment treaties are classified into two kinds of treaties. One is the “investment protection treaty” which defines national and most-favored nation treatments for post-establishment, expropriation and compensation, fair and equitable treatment and the settlement of disputes between investors and states. The other is the “investment protection and liberalization treaty” which covers, besides the investment protection rules, national treatment for pre-establishment, most-favored nation treatment for pre-establishment and prohibition of performance requirements. The investment protection treaty is, as suggested by its name, meant to provide elements of insurance to investors while the investment liberalization treaty is to contribute to revitalization of FDIs through improvement of predictability and liberalization at the investment permission stage. In the areas related to investment protection, particular attention has been drawn to the regulations on dispute settlements between investors

and states, in recent years. These regulations are designed to form a comprehensive prior agreement between the investor and the state that dispute over expropriation and compensation or breach of fair and equitable treatment, if any, and may be referred to arbitration by the ICSID (International Center for Settlement of Investment Disputes) and the UNCITRAL (United Nations Commission on International Trade Law). In Japan, increased attention is being paid to the regulations since Nomura Securities Co. substantially won in the Saluka Case (a case of arbitration by Nomura against the Czech Republic government based on the bilateral investment treaty between the Netherlands and Czech Republic [BIT] (14)). The Saluka Case is known as the first instance in which a Japanese affiliate has utilized the articles on investor-to-state dispute settlement.

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12. As a framework to discipline multilateral investment rules, the "Energy Charter," which came into effect in 1998 and is currently signed by 53 countries and organizations, disciplines investments in the area of energy.

13. Refer to the "2008 Report on the WTO Inconsistency of Trade Policies by Major Trading Partners" (Ministry of Economy, Trade and Industry) for GATS, TRIM, Services and Investment Chapters of the FTAs and investment treaties.

14. According to UNCTAD (United Nations Conference on Trade and Development), 2,573 BITs (excluding FTAs, including investment chapters) have been concluded in the world (as of the end of 2006). In terms of a country, Germany (with 134 treaties), China (with 120 treaties) and Switzerland (with 114 treaties) are among the top-rankers. (Per "Recent developments in international investment agreements <2006-June 2007>" <UNCTAD>)

Among the FTAs including liberalization of investment, NAFTA is known as the typical example. The majority of the FTAs currently concluded in the Asia-Pacific region are classified as investment protection and liberalization treaties.

In Japan, a rapidly increasing number of comprehensive economic partnership agreements, including investment chapters (EPA) and investment agreements, have been concluded in recent years. Out of the 21 FTAs, including the investment treaty and investment chapter Japan has already concluded, 20 FTAs have already gone into effect. The ratio of outward FDI stock covered by investment treaties and investment chapters of the FTAs to Japan's outward FDI stock in the 11 countries where FDI stock statistics are available comes to 22.4% on the basis of the investment treaties and FTAs signed and in effect, and to 21.3% on the basis of those in effect (10 countries) (Table II-20). As the Japanese government has announced a policy to be actively engaged in investment treaties, as well as in FTAs, from the viewpoint of assisting Japanese firms

in their overseas business development, the investment treaty network is expected to be further expanded in the future.

■ Examples of liberalization of investments and services in NAFTA

FTAs and investment treaties containing WTO-plus contents are particularly significant, especially when we consider what little progress has been made by the WTO negotiations on investments.

FTAs and investment treaties mainly consist of binding contents of existing regulations [(15)], and contain only limited contents in terms of liberalization exceeding existing regulations at the investment permission stage. Binding contents of existing regulations are significant as they contribute to improve predictability of the firms of signatory countries conducting business activities in the partner's country. However, liberalization exceeding existing regulations, including restrictions on foreign investments, is expected to further revitalize investments.

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15. Binding contents of existing regulations commit in principle not to make revisions exceeding the existing regulations, which contributes to improved predictability of firms.

Hereunder, with a focus placed on liberalization exceeding existing regulations, an outline of liberalization through the major FTAs already concluded and examples of business utilizing such liberalization will be discussed.

The first subject of discussion is the liberalization on foreign investment policies by Mexico under NAFTA, which is known as a typical example of an FTA, including liberalization exceeding existing regulations. In conjunction with the measures to liberalize investments and trade in services based on NAFTA, Mexico has revised the foreign investment law on an MFN basis to provide the treatment granted to the U.S. and Canada to the EU and Japan outside of NAFTA.

Areas in which the measures included in NAFTA has led to the relaxation of the foreign investment law in general are: (1) cable television (liberalized on January 1, 1999); (2) advanced and value-added telecommunication (liberalized on July 1, 1975); (3) construction (liberalized on January 1, 1999); (4) automobile parts (liberalized on January 1, 1999); (5) operation of bus and truck terminals (completely liberalized on January 1, 2004); (6) international bus and truck transportation (completely liberalized on January 1, 2004); and (7) commercial banks (liberalized on January 19, 1999).

Since foreign investment policies were liberalized to all countries following the liberalization under NAFTA, liberalization in the area of investments and trade in

services did not become a major subject in the negotiations of the EU-Mexico and Japan-Mexico FTAs conducted afterwards.

In the area of finance industry, however, special measures exist for countries that have signed FTAs with Mexico, based not on the provisions of foreign investment laws but on the provisions of the financial institution laws, etc. and these special measures have major significance to negotiations of FTAs with Mexico. In the Mexico's domestic laws related to financial institutions, such as the Financial Institutions Law and Insurance Institutions Law, there exist provisions concerning the establishment of foreign financial institution's subsidiary in Mexico (Chapter III of the Financial Institutions Law and Chapter I BIS of the Insurance Institutions Law). They define foreign financial institutions authorized to establish subsidiaries in Mexico as "financial institutions established in countries that have concluded an international treaty or agreement with Mexico that permits the mutual establishment of financial subsidiaries." Even after 1999, when restrictions on foreign equity participation in commercial banks were eliminated, a foreign bank newly entering the Mexican domestic market in the form of a subsidiary, not through acquisition of an existing bank, was required to be an enterprise of the country signatory to NAFTA. As the service agreement of the EU-Mexico FTA went into effect in March 2001, it became possible for European banks to operate in Mexico. The first European financial institution to be established after the FTA went into effect was Credit Suisse First Boston Bank, which received a banking license in July 2002.

As the Japan-Mexico FTA, which went into effect in April 2005, includes a chapter concerning "financial services", it may be interpreted that Japanese banks are allowed to operate in Mexico in and after April 2005. Under the provisions of the Insurance Institutions Law, it is possible for a Japanese insurance firm to operate in Mexico as a subsidiary of an insurance firm of the country that has entered into an FTA with Mexico. One Japanese commercial bank and two Japanese insurance firms have established their local corporations in Mexico in the form of 100%-owned subsidiaries of their U.S. corporations utilizing the provisions of NAFTA.

■ NAFTA provisions concerning cross-border truck transportation between US and Mexico and disputes over their application

While Mexican trucks have been allowed to operate in the U.S. only inside the commercial zone within 20 miles (approximately 32 kilometers) from the border since 1982, NAFTA stipulates the liberalization of cross-border truck transportation between the U.S. and Mexico in stages. According to the US schedule on specific commitment of

NAFTA, it is stipulated that trucking service from Mexico to the U.S. Border States will be permitted effective from 1997 and cross-border truck transport to all areas of the U.S. effective from 2000.

While the liberalization was deferred in consideration for labor union and other opposition forces under the Clinton administration, the Bush administration issued an enforcement order in November 2002 when the related bills were passed by the US congress. As the Teamsters Union (US labor union for truck drivers) and citizens' groups, including environment protection organizations, demanded an emergency moratorium on the enforcement order, issue of the total liberalization was referred to judicial judgment. In January 2003, U.S. District Court made a decision to order the U.S. Department of Transportation to conduct an environmental impact assessment once again, and the federal government, dissatisfied with the judgment appealed to the U.S. Supreme Court, which delivered in June 2004 a judgment to permit the liberalization without conducting another round of environmental impact assessments. However, the liberalization was delayed in implementation as the two countries failed to reach an agreement on the procedures to ensure security.

On February 22, 2007, the two governments finally agreed to commence a pilot program for mutual access for truck transportation, in which only a total of 100 trucking companies from the two countries will be granted access to the other country for safety confirmation in the first year. If no problems are found in the period, trucking operations between the U.S. and Mexico will be gradually liberalized to permit up to 100 selected trucking companies from each country, up to 25 a month, to attain a full-scale liberalization on a mutual basis.

The Federal Motor Carrier Safety Administration (FMCSA) reports that, as of December 2007, a total of 55 trucks from 10 Mexican trucking companies have been deemed to have met the US requirements and have been granted permission to participate in the program, while a total of 41 trucks from four US trucking companies have been given access to Mexico from the Mexican government.

■ Examples of liberalization of investments in Australia through the US-Australia FTA

Liberalization of investments exceeding existing regulations is included in the US-Australia FTA (which came into effect in January 2005). Australia's foreign investment policies are characterized by the fact that, although in certain limited areas: (1) FDIs on a scale exceeding a fixed limit or in designated sectors are subject to prior approval by Foreign Investment Review Board (FIRB); and (2) "national interest

clauses [16]" are included, by which the Treasurer is authorized to turn down an application for investment when it is judged to be against the national interest of the country. [17]

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16. For example, the national interest clauses were used in 2001 by the Treasurer when he turned down the application filed by Royal Dutch Shell in an attempt to acquire Woodside Petroleum, one of the major energy firms in Australia.

17. For Australia's policies on FDIs, refer to the website at http://www.firb.gov.au/content/default.asp.

In more concrete terms, prior approval by the Foreign Investment Review Board (FIRB) is required in the following events under the Foreign Acquisitions and Takeovers Act (FATA) 1975: (1) establishment of new firms involving a total investment of A$10 million or more; (2) acquisition of Australian firms with total assets of A$100 million or more; (3) acquisition of offshore firms with assets of A$200 million or more in Australia; (4) investment of 5% or more in media firms; (5) all direct investments by foreign governments or their agencies; (6) acquisition of interest in real estate in certain regions and certain areas; and (7) proposals where any doubts exist.

In addition, industry-wise restrictions are applied to the sectors of banking, air services, airport management, shipping, media and telecommunications. Acquisition of existing Australian banks by foreign firms is subject to prior approval. In the sector of air services, investments of up to 100% may be made in domestic carriers to the extent not to hurt the national interest while investments in international carriers are limited to 49% (investments in Qantas Airways are limited to 25% for individual investors and to 35% for foreign air carriers). Furthermore, investments in airports are limited to 49% (5% for air carriers). Investments in Telstra (a telecommunications company, 17% of which is invested in by the Australian government) are limited to 35% for foreign investors and to 5% for individual investors.

In the US-Australia FTA, the prior approval requirements have been made inapplicable, in principle, to US companies, excluding the U.S. government and their agencies, when they establish a new firm, as defined in (1) above, in Australia. With the exception of acquisition by the U.S. government and their agencies and in some sensitive sectors, the prior approval threshold for acquisition of an Australian firm, as defined in (2) above, has been raised from A$100 million on an MFN basis to A$913 million (as of 2008, and the amount is automatically raised according to the yearly GDP deflator). As to the acquisition of foreign firms as defined in (3) above, the prior approval threshold has been raised similarly to A$913 million. Partly loosened

requirements are being applied to U.S. firms with respect to acquisition of interest referred to in (6) above. In terms of industry-sector restrictions, acquisition of Australian banks by U.S. firms has been made not subject to prior approval.

As a result of liberalization of investments exceeding existing restrictions defined in the US-Australia FTA, U.S. firms are granted improved market access at the investment permission stage, when compared with firms from other countries. Although there seems to be no instances in which an application of investment filed by a Japanese firm has been turned down under the Australia's prior approval system, U.S. corporations under the US-Australia FTA are granted more favorable conditions in investments than those given to Japanese counterparts.

■ Examples of liberalization of investments in Thailand

Partial liberalization of investments in Thailand has been incorporated into the Thai-Australian FTA. In Thailand, business activities of foreigners are controlled by the Foreign Business Act, which defines that the following three categories of industries should be subject to government control and manages them by way of negative lists: (1) businesses where business operations of foreigners are not permitted (List 1); (2) businesses that may affect national security, art and culture, traditional and folk handicraft, natural resources and environment (List 2); and (3) businesses in which Thai nationals are not yet ready to compete with foreigners (List 3). Article 4 of the Act defines "foreigners" as: (1) a natural person not having a Thai nationality; (2) a juristic entity that is not registered in Thailand; (3) a juristic entity incorporated in Thailand with a majority of the total number of shares or registered capital owned by foreigners as defined in items (1) or (2) of this paragraph, and a Limited-partnership or ordinary registered partnership managed or jointly managed by foreigners as defined in item (1) of this paragraph; and (4) a juristic entity incorporated in Thailand with a majority of the total number of shares or registered capital owned by any foreigners as defined in items (1), (2) and (3) of this paragraph. [(18)]

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18. Under Thai legislation, a firm is defined foreign so long as the majority of its shares are owned by "foreigners." In practical investments in restricted industries, however, there seem to be cases in which such majority of shares are allotted to Thai partners of a joint venture in preferred share (preferred in dividend and residual assets but limited in voting rights, when compared with common share) in order for the foreign investor to retain a majority on a basis of voting rights. Accordingly, it is possible for a foreign enterprise to secure a majority of voting rights (substantially secure management authority) in a Thai firm of the restricted industry. In these circumstances, a bill to amend the Foreign Business Act and to define

"foreigners" on a basis of voting rights was approved in the cabinet meeting (Surayud's caretaker cabinet subsequent to the military coup d'état) in January 2007. The amendment bill was rejected in August 2007 by Thai congress due to a proposal to define a foreigner in a more rigid manner. (JETRO Daily by JETRO, dated August 10, 2007)

Included in the List 1 are agriculture, forestry and fisheries, as well as newspapers, radio and television broadcasts, while List 2 includes weaponry, domestic transportation, sericulture, sugar and salt production, and mining. Retail and wholesale services, construction services, engineering services and advertising services, all of which are highly interesting to foreign firms, are included in List 3. While foreign investments of less than 50%, which will allow the invested firms not to be defined foreign, are permitted in all of the restricted industries, foreign investments of 50% or more are not permitted in the industries included in List 1. Foreign investments of up to 60% or 75% are allowed in the industries included in List 2 subject to permission from the Minister of Commerce under an approval by the cabinet, while similar investments of up to 100% are allowed in the industries included in List 3 subject to permission by the Chief of Bureau under an approval by the Foreign Business Committee. In practical operations, investments of 50% or more by foreign firms are hardly permitted in the industries included in Lists 1 and 2, while such investments are sometimes permitted in the industries included in List 3.

While foreign investments in Thai industries are restricted as mentioned above, a relaxation of foreign equity-cap restrictions has been incorporated into the Thailand-Australia FTA in addition to the binding contents of the existing regulations. In more practical terms, Australian firms are allowed to make investments of up to 60% in the mining industry, while investments in the area on a basis of MFN are limited to less than 50%. Similar favorable treatments are provided to consulting services (shareholding of less than 50% on a MFN basis expanded to up to 100% in the FTA), construction services (shareholding of up to 100% allowed), retail and wholesale services of firms manufacturing in Thailand (shareholding of up to 100% allowed), tertiary education services in science and technology (shareholding of up to 60% allowed), restaurants and hotels (shareholding of up to 60% allowed) and services ancillary to maritime cargo services (shareholding of up to 60% allowed) (Table II-21). Particularly, it is of great significance that Australian firms are allowed to make investments of up to 60% in the mining industry as "mining" belongs to the country's key industry included in List 2.

During the period from the time the FTA went into effect to April 2008, one

Australian firm entered Thai market using the Thailand-Australia FTA.

In the Japan-Thailand FTA, liberalization of investments exceeding existing regulations has been incorporated, such as in the case of the Thailand-Australia FTA. In more concrete terms, the FTA stipulates that: investments of up to 100% are allowed in consulting services; up to 51% in logistics; up to 60% in the repair and maintenance field, in cases where the manufacturer or its group firm handles products manufactured in Thailand or Japan; up to 75% in wholesale and retail services handled by the manufacturer or related firm of the products manufactured in Thailand or Japan; and up to 60% in hotels and restaurants. (19)

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19. The minimum amount of investment and other detailed terms and conditions are sometimes set individually for each area of industry.

Under the US-Thai Treaty of Amity and Economic Relations (concluded in 1966), Thailand commits to the U.S. comprehensive liberalization of investments exceeding existing regulations. Pursuant to the provisions of the treaty, U.S. firms are permitted to make investments of up to 100% in all sectors of Thai industries other than communications, transport, fiduciary functions, banking, exploitation of land and natural resources, and domestic trade in domestic agricultural products that have been designated as exceptions. During the period from March 2000 to April 2008, a total of 776 US companies were established in Thailand utilizing the US-Thai Treaty of Amity and Economic Relations.

■ **Examples of liberalization of investment in the banking sector in Singapore**

In Singapore, where restrictions over foreign investments are generally limited, detailed regulations have been established for investments in the area of financial services. In terms of QFBs (Qualifying Full Banks) and Full Banks (20), which are permitted to engage in local-currency denominated retail operations in the domestic market, the number of banking licenses issued to foreign banks is limited and the number of branches and access to the ATM networks of the local banks are also restricted. (21)

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20. QFBs and Full Banks are in different statuses from each other and different restrictions are imposed on them in terms of criteria for establishment of branches and ATMs.

21. According to the Monetary Authority of Singapore (MAS), as of June 12 2008, six local banks and 108 foreign banks exist in Singapore, out of which 25 are classified as full banks, 42 as wholesale banks

and 41 as offshore banks.

In GATS, Singapore has made comprehensive limitations in terms of market access and national treatment in the financial sector, the minimum amount of deposit in local currency, and the establishment of branches and ATMs. Accordingly, FTA negotiations with Singapore often focus on the issues in the area of financial services. The case of Citibank is known as a good example of a successful business expansion in Singapore following the liberalization of investment in the area of financial services through the FTA. In the Financial Services Chapter of the US-Singapore FTA (which went into effect in January 2004), the following promises that Singapore has made with the U.S. are incorporated: liberalization that will eliminate the restrictions on the number of QFBs and wholesale banks after a certain period of time (for QFBs a year and a half, for wholesale banks three years after the FTA goes into effect); expansion of the number of branches and ATMs to 30 at the time the FTA goes into effect, and elimination of such restrictions in two years; provision for the creation of ATM networks between QFBs; and two and a half years after the FTA has gone into effect, allowance for QFBs incorporated as subsidiaries in Singapore to negotiate ATM connections with local Singapore banks (QFBs not incorporated as subsidiaries in Singapore to commence such negotiations four years after the FTA has gone into effect).

Citibank has expanded its retail operations through the liberalization of the number of branches and ATMs provided for in the US-Singapore FTA. As a matter of fact, Citibank's ATMs are now easily found at subway stations and other various locations in Singapore. After incorporating a local subsidiary in Singapore (with the capital of S$1.5 billion) in June 2004, Citibank announced in January 2005 to increase the number of branches and ATMs, spending more than S$20 million. Compared to the total of nine branches and ATMs (four branches and five ATMs) it had in Singapore as of January 2005, Citibank now has branches and ATMs at 79 different locations (18 branches and 61 ATMs), as of June 2008. The alliance with Singapore Mass Rapid Transit (SMRT), which manages the Singapore subway system, to promote ATMs located at subway stations, has contributed to an increase the number of ATMs. In addition, Citibank has its ATMs connected to those of other QFBs (ABN AMRO, HSBC, Maybank and Standard Chartered Bank).

The expansion of business in Singapore by Citibank has been made possible by the liberalization of investments through the FTA, and it may be pointed out as one of the typical examples of an FTA utilized in the areas of services and investments.

In the Singapore-India FTA, Singapore has promised India liberalization in terms of

granting QFB banking licenses to a maximum of three banks, allowing QFBs to have a maximum of 25 branches and ATMs, permitting ATM connections between QFBs, and the elimination of restrictions on the number of wholesale banks. A QFB license has been granted to the State Bank of India (SBI).

On the other hand, India has liberalized its financial sector in favor of Singapore by relaxing restrictions portofolio investments in India by foreign institutional investors. To make security investments in India, foreign institutional investors need to be registered as such in India, and they are allowed to make investments of up to 10% in Indian firms. In the Singapore-India FTA, GIC and Temasek, in both of which the Singapore government has made investments, are expressly defined as two separate legal entities. By this definition, it may have been made possible for these two institutions to invest in Indian firms up to 20%, not 10%, in total for the two.

In the 2007 amendment protocol to the Japan-Singapore FTA, Singapore liberalized investments in its financial sector in favor of Japan by expanding the number of full bank licenses to be granted to Japanese banks by one and also by eliminating the restrictions on the number of wholesale bank licenses to be granted to Japanese banks. In Singapore, two Japanese banks have been granted full bank licenses before the amendment protocol goes into effect, and the Japan-Singapore FTA is expected to provide advantages to other Japanese banks when they try to acquire full bank licenses in Singapore.

(3) Liberalization of government procurement

- **Limitations of liberalizing the government procurement market under the WTO and advantages of its liberalization through FTAs**

According to national accounting estimates, the share of government procurement in major countries to their respective GDPs comes to 10% or more in the U.S., United Kingdom, Canada and the ROK, 8% in France and Italy, 7% in Japan, 6% in Germany and 4% in Mexico. The share comes to 9% in total of the nine countries, illustrating the substantial size of their government procurement markets (Figure II-10).

Despite the substantial size of such market, government procurement in international trade has shown, in many cases, governments' providing preferential treatment to domestic companies and products for security reasons and, particularly in developing countries from the standpoint of protecting their fledgling domestic industries. Taking these situations into consideration, in GATT, government procurement has been handled as an exemption from the principle of national treatment.

While the importance of government procurement is increasingly recognized among

some industrialized countries, the “Code on Government Procurement” was signed in the Tokyo Rounds held in 1979 and the “Government Procurement Agreement (GPA)” came into effect in 1996.

The GPA is a plurilateral agreement joined by 13 countries and regions, including Japan, the U.S., the EU (27 countries), Canada, Hong Kong, the ROK, Israel, Liechtenstein, Norway, Aruba (Dutch), Singapore, Switzerland and Iceland. The GPA comprises 24 articles that oblige the signatories to provide national treatment and establish fair and transparent procurement procedures and challenge procedures, as well as to eliminate the offsets.

While the GPA was epoch-making in introducing national treatment into the government procurement market where preferential measures for domestic industries are extremely common, the commitments made in the GPA are more restrictive than those made in other WTO agreements in terms of the facts that it is participated by only 13 countries and regions and that the participants are not bound by such commitments outside of the scope of application as well as the government agencies in the commitment list they have agreed on.

While it is considered important, in these circumstances, that each country will keep on demanding its trading partners to open up their markets through FTAs, developing countries and some others firmly determined to protect their domestic industries tend to show strong resistance in negotiation.

The U.S. has been demanding its trading partners to open up their markets by having government procurement included in FTAs. When a FTA partner is not a signatory to GPA, the U.S. requires from the partner liberalizing and disciplining regulation in the almost same degree as it would otherwise have been required under the GPA. As a result of NAFTA, Mexico has become the first non-GPA-signatory country to liberalize its government procurement market. In the meanwhile, when a FTA partner is a signatory to GPA, the U.S. requires from the partner liberalization in higher degree as it is required under GPA. The ROK, a signatory to the GPA, has promised to lower the threshold values for its central government and to expand the scope of applicable agencies in the US-ROK FTA. The threshold values for procurement of goods and services by the ROK’s central government (any procurement made in excess will be subject to GPA), which was SDR130,000 (approximately KW210 million) under the GPA, has been reduced to KW100 million under the US-ROK FTA to provide U.S. companies with increased opportunities to enter the government procurement markets.

Japan, being as similarly interested in government procurement markets like the U.S., has incorporated the government procurement chapter into the FTAs concluded with

Singapore, Mexico and Chile.

■ **Increasing opportunities for companies to participate in government procurement**

As of August 2008, Mexico has concluded 12 FTAs with 44 countries. Mexico, not a participant of the GPA, has opened up its government procurement market to the U.S. and Canada through NAFTA, to 27 EU countries under the framework of the EU-Mexico FTA and to Japan under the framework of the Japan-Mexico FTA.

Government procurement in Mexico is made through bidding by local companies in principle while its legal system is operated in the order of the Mexican constitution, international agreements and domestic laws. In other words, when a company of a FTA partner country of Mexico successfully meets the requirements given in the FTA, it will be eligible to participate in bidding for government procurements in Mexico.

The US-Mexico FTA went into effect in 1994 while the EU-Mexico FTA went into effect in 2000, respectively. The Japan-Mexico FTA came into effect only in April 2005, and before that time, Japanese companies would have been precluded from participating in the international bidding in Mexico, which was open only to the FTA partner countries of Mexico. The companies from the U.S. and European countries were eligible for participation in the bidding.

Since the Japan-Mexico FTA went into effect, Japanese companies have been given constant opportunities to participate in the international biddings offered in Mexico. Mitsubishi Heavy Industries, Ltd. won in February 2006 the contract for the supercritical thermal power generating facilities (coal type) of PACIFIO from the Power Agency of Mexico (total investment amount: US$611 million). It was the first major project won by a Japanese enterprise after the FTA with Mexico went into effect.

Also, in Mexico, preferential treatment is given to domestic products when the bids for machinery and equipment are evaluated. Domestic products are compared with foreign products with 10% deducted from their actual prices (Table II-22). However, companies of Mexican FTA partners are granted national treatment and accordingly free from the preferential measures given to Mexican companies. Before the Japan-Mexico FTA went into effect, Japanese businesses were suffering from these discriminating measures, but the FTA has eliminated such discrimination lying between the Japanese companies and their US and European counterparts.

There are instances where companies of a country not signatory to the GPA benefit from a FTA as the FTA eliminates discrimination against the country. The U.S. applies measures called the “Buy American Act” to products and services of the country not

signatory to the GPA. The Buy American Act provides preferential treatment to domestic companies and products, including the offsets (to purchase American products or use American-made content [50% or over]), with 6% to 12% (varies according to the terms and conditions) added over the price of foreign products at the time of evaluation. Australian companies were forced into unfavorable competition in the huge government procurement market in the U.S. as the country was not a signatory to the GPA.

The U.S. and Australia have liberalized their government procurement markets in the framework of the US-Australia FTA, which came into effect in January 2005. The U.S. has exempted Australian companies and products from the Buy American Act, thereby granting national treatment to Australian companies with respect to government procurement exceeding certain amounts and eliminating the added value over Australian products.

Australia, on the other hand, has granted U.S. businesses access to procurements offered by the central government, government agencies, and all state and territorial governments of the country, which amount to 80 in total.

Exempted from the requirements of the Buy American Act by U.S. federal and state governments, Australian companies now enjoy increased opportunities to access the American government procurement market. For example, Infohrm from Brisbane, which offers personnel consulting services, was registered in July 2007 in the scheduled price list of the U.S. General Services Administration (GSA) in the areas of auxiliary general personnel services. As almost all of the products and services procured by the federal government are selected from the companies registered in this schedule, this Australian company is given a new advantage created by the US-Australia FTA, which was not available to Australian companies before the FTA went into effect. Another business from Australia, Innovonics, with its head office located in Melbourne specializing in manufacturing and distributing surveillance cameras, supplied, in September 2005, the State of New Jersey Transit Authority with digital surveillance cameras for public buses—a value equivalent to US$2.3 million.

Supplementing the limited GPA disciplines as well as eliminating discrimination against non-GPA-signatory countries through FTAs will provide companies with enhanced opportunities to participate in the government procurement of FTA partner countries and contribute to an expansion of international trade.

(4) Eliminating NTM and business barriers through comprehensive FTAs

There are FTAs around the world covering a broad range of areas. Some of the NAFTA-type FTAs promoted by the U.S., the FTAs of the EU, the EFTA (European

Free Trade Association) and the FTAs advanced by Japan cover a broad fields, including the improvement of business environments, intellectual property rights, trade remedies, and cooperation and movement of natural persons, in addition to the trade in goods, investment, trade in services and government procurement. These so-called "WTO-plus" liberalizations and disciplines are expected to greatly contribute to eliminating non-tariff measures (NTM) and improving business environment.

■ Highly-evaluated efforts to improve business environments

Improvement of business environments is a unique scheme included in the FTAs concluded by Japan. Introduced for the first time into the Japan-Mexico FTA, which came into effect in April 2005, improvement of business environments has been included in the Japan's FTAs with Malaysia, Chile, Thailand and Indonesia. The Meeting of the Sub-committee on Improvement of Business Environment (the committee in the Japan-Mexico FTA) provides the opportunity for government representatives of the two countries of the FTA to discuss with each other how to provide solutions to problems facing Japanese affiliates developed in the FTA partner countries when they conduct their business. Up to now, meetings were held three times in Mexico, twice in Malaysia and once in Chile in April 2008.

Under Japan's FTAs concluded with Malaysia and Thailand, liaison offices have been set up (in the Ministry of International Trade and Industry in Malaysia, in the Office of the Board of Investment, Ministry of Industry in Thailand, and in the Ministry of Foreign Affairs in Japan). When Japanese companies operating in the FTA partner countries are in trouble with local rules and regulations, they may bring inquiries to the liaison offices. They are then referred to the liaison office of the trading partner country through the local Japanese embassy. The liaison then refers them to the relevant ministries of its government asking for a reply, which will eventually be relayed to the company through the embassy. Thus, Japanese companies with troubles in business are guaranteed to receive replies from the government concerned. The liaison offices also refer inquiries placed by Japanese companies to the Sub-committee, which then takes up some of them deemed significant or involving a large number of companies.

The plenary session of the Committee held once a year within a framework of the FTA with Mexico is attended by representatives from the Ministry of Foreign Affairs, and the Ministry of Economy, Trade and Industry of the Japanese government, by delegates from Nippon Keidanren, the Japanese Chamber of Commerce and Industry in Mexico, Japanese Maquiladora Association (JMA) from the private sector and by JETRO. The issues taken up in the session are discussed between the representatives

from the Japanese Chamber of Commerce and Industry in Mexico and related agency of the Mexican government when deemed necessary, and measures for their solution are being taken.

Furthermore, the Japanese Chamber of Commerce and Industry in Mexico has established a section that meets to work on subjects highly interesting to its Japanese member companies. The section holds meetings with Mexican government authorities on an occasional basis and studies concrete measures to improve the business environment. When necessary, it conducts a questionnaire survey toward the member companies to confirm current status of facts and demands improvements in discussions with Mexican government agencies. Meanwhile, seminars sponsored by the section provide Japanese companies with opportunities to understand the business environment in Mexico.

Efforts by the Japanese Chamber of Commerce and Industry in Mexico to improve the business environment have produced concrete results. Issues raised by Japan and the current status and results of solution efforts by Mexico are listed in Table II-23. One of those issues, customs and clearance procedures, will be taken up hereunder for further study.

While issues concerning customs and clearance procedures has been taken up since 2007 for discussion at the meeting between the Japanese Chamber of Commerce and Industry in Mexico and Mexican government agencies, the issue of HS2002/2007 related to the Certificate of Origin (certificate of origin required for an application of preferential tariff defined in the FTA) has come to a solution.

Behind the issue of HS2002/2007 is a revision of the “International Harmonized Commodity Description and Coding System (HS)” performed by the World Customs Organization (WCO) every five years in principle. Japan switched to the HS2007 version effective from January 2007 while Mexico did so effective from July 2007. Since then, both countries have been indicating the HS item numbers based on the HS2007 classification in import declaration forms.

Along with the introduction of the HS2007 version, the Mexican government commenced issuing certificates of origin showing the tariff item numbers based on the HS2007 version effective from July 1, 2007, with recognition that certificates of origin issued by Japan should also show them based on the same version. On the other hand, the Japanese Chamber of Commerce and Industry continued to issue certificates of origin in HS2002 version even after Japan switched to the HS2007 version. This is due to the recognition of the Japanese government that the FTA with Mexico should still be operated based on the HS2002 version as the schedule of concessions and the rules of

origin by item attached to the FTA were prepared based on the HS2002 version.

In September 2007, a Japanese fishery product processing company exported a processed fishery product to Mexico utilizing the Japan-Mexico FTA. The certificate of origin issued for the product with an item number based on the HS2002 version was judged invalid in Mexico as the item number did not agree with the number shown in the import declaration prepared in Mexico for the product based on the HS2007 version. Several other certificates of origins were later judged invalid from similar reasons, and the Japanese embassy in Mexico, JETRO and Japanese Chamber of Commerce and Industry in Mexico jointly requested cooperation from the related agencies of Mexican government to find a solution to this problem, utilizing the framework for the improvement of business environment.

As a result, the Mexican government has amended a part of its “2007 General Rules on International Trade” and decided to deem valid such certificates of origin that indicate the products covered in item numbers are different from those defined in the HS2007 version. Even if their certificates of origins are denied by the customs, companies are now able to refute them based on the rules amended as above. Furthermore, for a shipment already imported with duty paid based on general tariffs, it has become possible for the importer to file a revised declaration based on FTA tariffs and ask for a refund of the import duty paid in excess.

In Malaysia, meeting of the Sub-committee was held twice so far, and the Japanese government demanded solutions to the hijacking of trucks on highways, failure in natural gas distribution and power failure, on-the-spot measures against copied products and improvement of import procedures for EG (electrically galvanized) steel plates (Table II-24).

In response to the above demands, the Malaysian government has launched a campaign to prevent truck-hijacking and included expenses to improve safety measures in the 2008 budget. In addition, measures have been taken for improved security at highway rest areas and intensified patrol activities on highways. Schedules have been made to construct fenced parking areas with security personnel for high-risk shipments and to install more than 1,000 units of surveillance cameras along the highways.

While tariff rates are being reduced on a global basis, it is of increasing significance to reduce NTM and business barriers especially in developing countries. The Improvement of Business Environment introduced by Japan attracts attention from the rest of the world as a scheme capable of identifying the problems facing local companies and finding a solution to them through cooperation between the governments or chambers of commerce of the countries concerned.

■ **Efforts by countries to prevent abuse of trade remedy measures**

Antidumping duty (AD) and countervailing duty are the measures employed to remove damage which imported products (meaning products dumped by exporting companies in cases of AD, and products with unfairly high competitiveness created through grants given by the government of the exporting country in the case of countervailing duty) may give to domestic industries of the importing country by imposing additional duty on imported products. Countries are allowed to apply these measures pursuant to the provisions of the WTO rules.

However, frequent use of trade remedy measures may be a serious threat to exporting countries. In fact, a large number of countries, including Japan, are proposing in the new rounds of WTO to enhance regulations on the AD Treaty in order to prevent the countries like the U.S., actively applying the measures from abusing them.

There are FTAs, although small in number, in the world in which the participating countries mutually agree to abandon an application of trade remedy measures. The European Economic Area (EEA), FTA between EU and EFTA (excluding Switzerland), the Australia-New Zealand FTA and the Canada-Chile FTA, belong to this sort of FTA. The US-ROK FTA, similar to some others, does not prohibit the use of such measures but obliges the participating countries to give a notice to the other country before they start investigations or provides an opportunity for mutual consultation.

In the EEA where the signatories have mutually eliminated trade remedy measures, there exists an underlying belief that dumping, in which problems are often caused by monopolistic firms, can theoretically be dealt with under a competition law. In fact, the EFTA side has adopted the EU competition law and employed the common competition policy. For instance, when a Japanese affiliate in Europe restricted competition in musical instrument products in EU countries and Iceland signatory to EFTA in July 2003, the company was found guilty of violating Article 81 of the EC Treaty and Article 53 of EEA Agreement and was charged with a penalty of 2.56 million euros.

The Canada-Chile FTA also has highly political elements involved. Canada, dissatisfied with the abuse of AD measures by the U.S. for a long time, proposed in the NAFTA negotiations to mutually eliminate the application of AD measures. While this proposal was turned down by the U.S., Canada, with a hope of eventually eliminating AD in the future Free Trade Area of the Americas (FTAA), agreed to eliminate AD with Chile, which at that time did not have many kinds of products to compete with those of Canada.

In the FTA concluded with the ROK, the U.S. agreed on the obligation to mutually

give prior notice to the other country when investigations are commenced and promised to provide an opportunity for bilateral consultation. For the first time since NAFTA, the U.S. has acceded to a request of this nature. Accordingly, the Korean government and companies, who receive an advance notice from the U.S. on the commencement of its investigations, will be able to make positive explanations in the conference and check the investigating authorities. Furthermore, the two countries are expected to establish a committee on trade remedies to see if these opportunities and considerations are properly provided.

The U.S. and China have been reminded of the problems under the WTO concerning the system and operation of AD. These arrangements made in the US-ROK FTA may be helpful to Japan in preparing for its future FTAs as Japan is often targeted with AD duty (Figure II-11).

■ **Bilateral cooperation advantageous to both sides**

The EU and Japan have incorporated cooperation chapters in their FTAs to provide developing countries with technical assistance. Even though the EU and Japan reduce tariffs through FTAs, FTAs will not be fully utilized unless developing countries have high export capabilities. Even though the EU and Japan liberalize tariffs through FTAs, FTAs will not be utilized effectively when quality of the customs system and capabilities of the customs officials in developing countries are not high enough. Therefore, companies from the EU and Japan, as well as developing countries, benefit from cooperation. Through the framework of FTAs concluded by Japan, the following categories of cooperation are scheduled to be provided: cooperation to provide partner countries with increased opportunities of market access, such as health quarantine and certification of standards; cooperation to help partner countries improve their operation of FTAs, such as customs cooperation and cooperation to contribute to liberalization of investment and services by partner countries, such as IT technology and tourism.

The EU provides candidate member countries with various kinds of cooperation. In order to be granted membership to the EU, candidates are obliged to liberalize their trade and investment at the level of industrialized countries in Western Europe and to coordinate related rules and regulations. Implementation of rules and regulations requires improvement of the governance and operational capabilities of the government. The European Commission and member countries have provided Central and Eastern European countries that joined EU in 2004 and 2007 with various items of cooperation to realize efficient accessions.

According to an officer in charge in the European Commission, cooperation with

Central and Eastern European countries in technical standards was started around 1988. To the officials of government and Conformity Assessment Body (CAB), on-the-job training and seminars were given by specialists in all areas including surveillance, certification and technology assessment to help them improve their capacities. As a result, such officials were judged to have reached the level of their counterparts in Western Europe before their countries were admitted to the EU.

The know-how on cooperation owned by the EU is utilized in the FTAs concluded with countries and regions outside of the EU, also. For Mexico, a FTA partner to the EU, the EU has implemented a large number of cooperation items through the "Capacity Building Project of the Mexico-European Union Free Trade Agreement (PROTLCUEM)".

PROTLCUEM programs focus mainly on the areas of customs procedures and quarantine between the government agencies to enhance utilization of the EU-Mexico FTA. The program has been in practice since 2005, and the budget of 16 million euros to support the program is equally shared between the EU and Mexico. Included in the programs are research and analysis in specific areas to support operations of concerned agencies, technology aid, enhancement of systems, transfer of technology and know-how, and exchange of information on best practices and training.

In April 2008, Mexico put the deregulation measures on international trade into practice. The measures include a relaxation of requirements for registration of approved exporter to Europe under preferential tariff and an elimination of procedures to apply for expansion of products, components and facilities subject to the in-bond processing program (IMMEX) widely utilized by Japanese affiliates, and can be called a comprehensive improvement capable of reducing NTM. Cooperation that can assist this sort of efforts of liberalization by developing countries will be advantageous to both of the developing and industrialized countries.

■ Presence of natural persons strongly demanded by developing countries

In the WTO, movement of a natural person from one country to another is addressed in Mode 4 "Presence of Natural Persons" of GATS. In Mode 4, movement of a natural person is limited to the "measures to regulate a temporary stay." In other words, the rule applies to service providers under contract, including intra-company transferees, short-staying personnel and computer technicians, etc. Workers who move looking for employment and holders of permanent citizenship are not covered.

Among the FTAs in the world, movement of natural persons is most liberalized in the EU, in seeking a unification of labor markets. Various rules and regulations have been

introduced to promote free movement of workers in a manner far beyond the concepts of the Mode 4 of GATS. The citizens of EU member countries are allowed to stay in other EU member countries for a period of up to three months without restriction, and subject to employment, period of their stay may be extended to six months or more. Permanent resident status will be granted to those who have stayed in the country for more than five years. In order to secure smooth movement of natural persons, laws are being developed for freedom of opening business in other countries and mutual recognition of professional qualifications for doctors, architects, etc.

Pursuant to the provisions of the Schengen Agreement, which was incorporated into the Treaty on European Union in 1999, immigration control at the borders between countries signatory to the Agreement have been abolished. In March 2008, nine out of 10 Eastern European countries that newly joined the EU participated in the Schengen Agreement to eliminate immigration control at their borders with countries in Western Europe.

Under the Mode 4 of GATS, the U.S. admits “Short Stay (90 days or less)”, “Intra-company Transferees (a stay of three years or less with extension of 2 years when permitted)” and “Professionals (a stay of three years or less, up to 65,000 persons in a year, four-year college graduate in principle)”, etc. In FTAs, the U.S. provides partner countries with employment opportunities in the form of the special admission quota of “Professionals”. In the framework of NAFTA, the U.S. has promised to receive 5,500 persons a year (quota eliminated from 2004) from Mexico (TN visa), 5,400 persons from Singapore (H1B1 visa) and 1,400 persons from Chile (H1B1 visa). While the movement of natural persons was not included in the US-Australia FTA, an extra quota of the Professional Visa (E3) of 15,000 persons a year has been granted to Australia apart from the FTA.

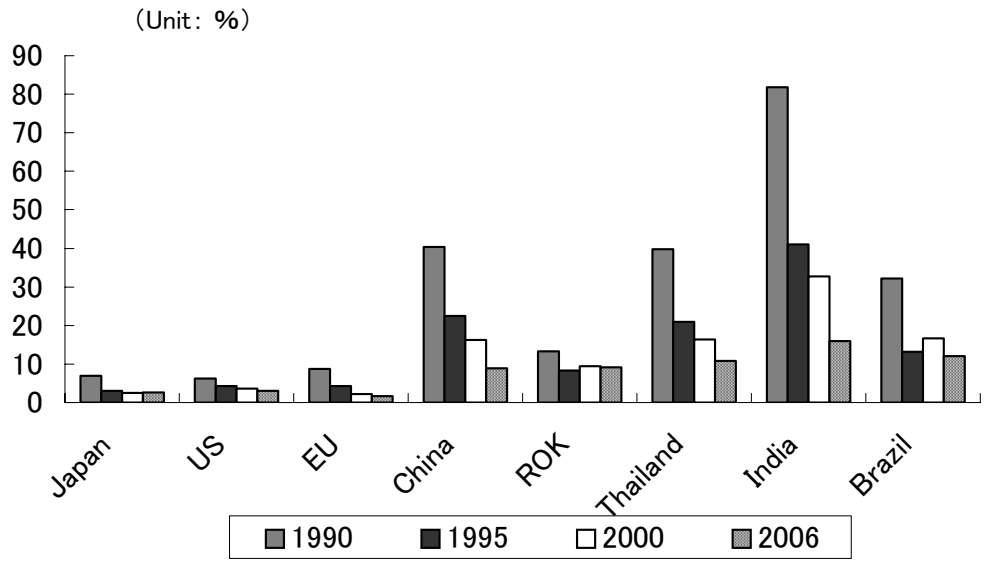
While the ordinary U.S. visa for professionals (H1B) is issued to 65,000 applicants a year, 150,000 applications were filed in 2008 within a few hours after the commencement of acceptance. Accordingly, it is of great significance that separate quotas have been established for TN and E3 visas, different from H1B in kind, and for H1B1 visas to expand H1B quotas. The number of people granted visas through these extra quotas are on a steady increase even though the quotas are not fully utilized yet (Table II-25).

Money remitted to home countries by emigrating workers working in industrialized countries plays an important role in the economy of the developing countries. According to the statistics released by the World Bank, emigrating workers remitted 240 billion dollars to developing countries, accounting for 1.9% (provisional figures for 2007) of

their GDP. In terms of country, India received the top amount of 27 billion dollars, followed by China receiving 25.7 billion, Mexico receiving 25 billion and the Philippines receiving 17 billion. In terms of the share to GDP of the receiving countries, remittances to Tajikistan and Moldova respectively show a very high percentage of 36.2%.

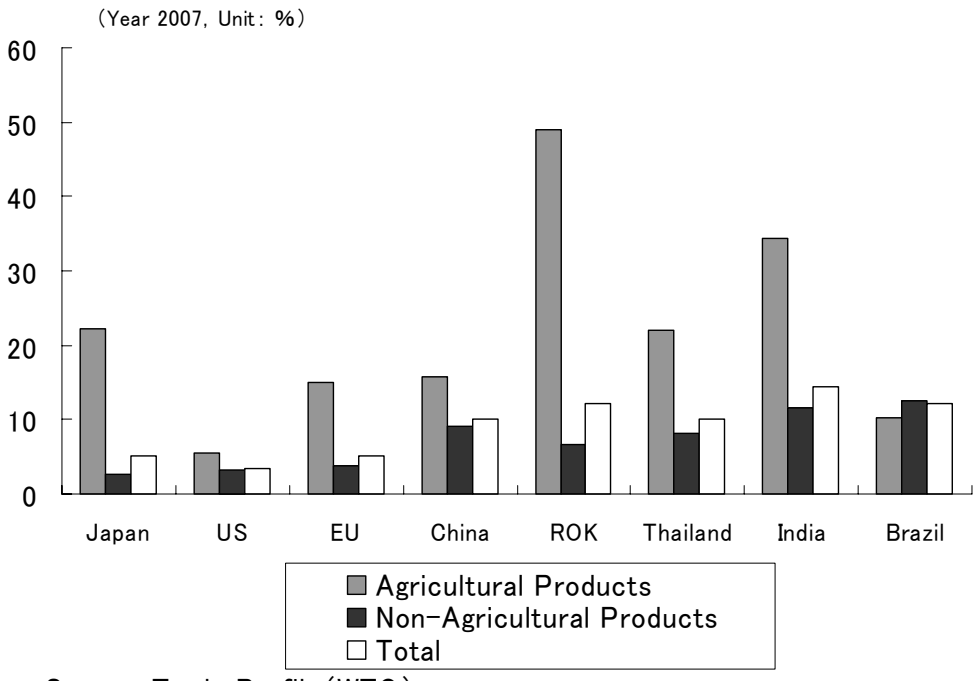
The movement of persons often creates sensitive issues to the countries that receive such movement. On the other hand, money remitted home by emigrating workers may give significant economic effects to developing countries. Industrialized countries may open up their industries, which are not sufficiently stuffed by their own workers, to immigrating workers and secure the optimum distribution of their labor.

Fig. II-6　Average Applied Tariff Rate by Country (time series)



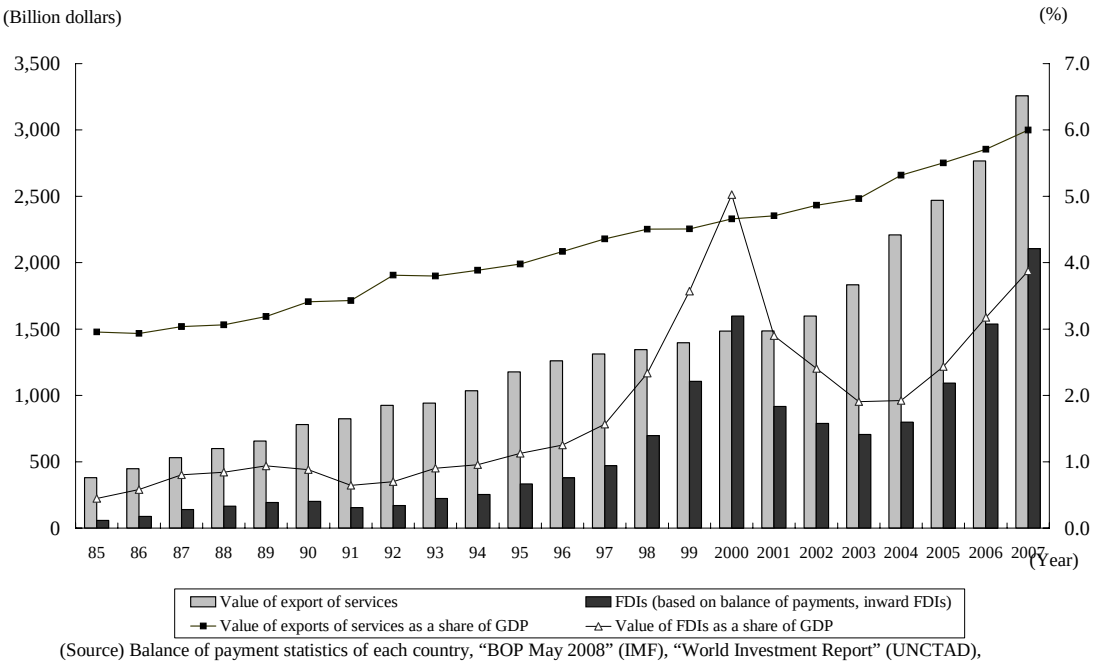
Source: Trains database（UNCTAD）

Fig II-7　Average Applied Tariff Rate by Country（by product）



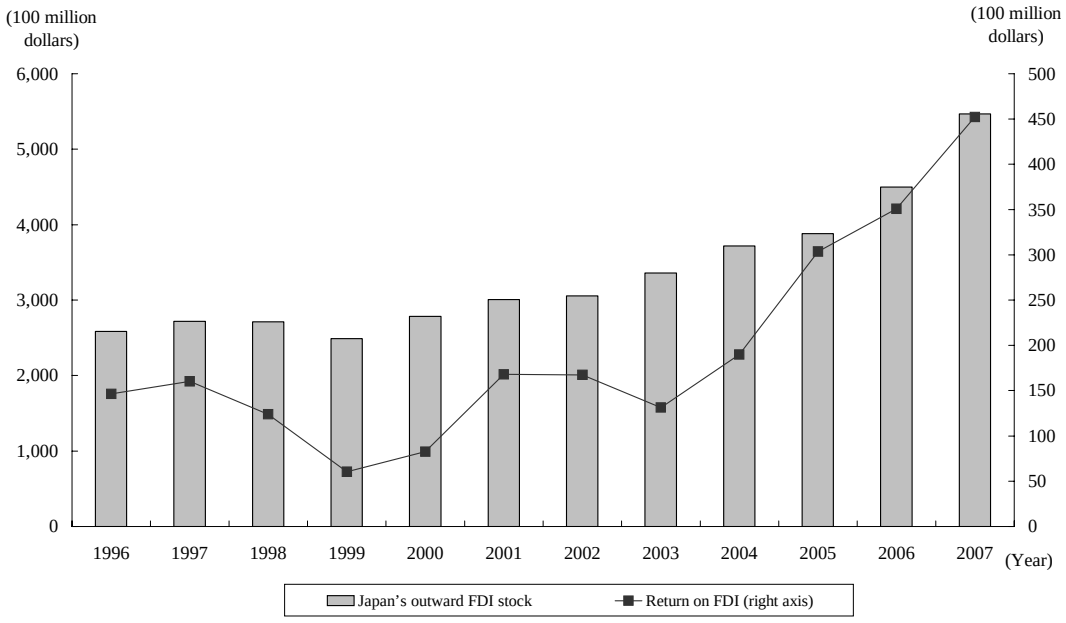
Source: Trade Profile（WTO）

Fig. II-8 Trends in trade in services and FDI as percentages of world GDP



(Source) Balance of payment statistics of each country, "BOP May 2008" (IMF), "World Investment Report" (UNCTAD), WTO, "WEO April 2008" (IMF)

Fig. II-9 Japan's outward FDI stock and returns on FDIs



(Source) "Balance of Payments Statistics" (Ministry of Finance, Bank of Japan), "Foreign Exchange Rates" (Bank of Japan)

Table II-20 FDI stock of Japan (as of the end of 2007), major partners and investment agreements, FTA Investment Chapter

(Unit: US$ million, %)

Country /Region	Stock	Share	Investment Treaty, FTA	Country/Region	Stock	Share	Investment Treaty, FTA
USA	174,199	31.9		Germany	9,524	1.7	
EU27	145,280	26.6		Taiwan	7,742	1.4	
The Netherlands	63,941	11.7		The Philippines	5,780	1.1	FTA concluded
ASEAN	61,435	11.2		India	4,218	0.8	FTA negotiated
China	37,797	6.9	Bilateral Investment Treaty in effect; Japan-China-ROK Investment Treaty negotiated	Luxemburg	3,537	0.6	
Cayman Islands	32,038	5.9		Sweden	2,956	0.5	
United Kingdom	32,021	5.9		Saudi Arabia	2,585	0.5	
Thailand	19,776	3.6	FTA in effect	Spain	1,736	0.3	
Australia	17,940	3.3	FTA negotiated	Vietnam	1,711	0.3	Bilateral Investment Treaty in effect
Singapore	17,586	3.2	FTA in effect	Mexico	1,469	0.3	FTA in effect
France	12,415	2.3		Switzerland	1,118	0.2	FTA negotiated
South Korea (ROK)	12,103	2.2	Bilateral Investment Treaty in effect; Japan-China-ROK Investment Treaty negotiated	New Zealand	951	0.2	
Belgium	12,071	2.2		Republic of South Afric	852	0.2	
Brazil	11,028	2.0		Italy	837	0.2	
Hong Kong	9,129	1.7	Bilateral Investment Treaty in effect	Russia	373	0.1	Bilateral Investment Treaty in effect
Indonesia	8,315	1.5	FTA in effect	United Arab Emirates	254	0.0	
Malaysia	8,184	1.5	FTA in effect	Iran	5	0.0	
Canada	9,577	1.8		World Total	546,839	100.0	

(Note)

(1) The figures in this table cover FDI stock only. Investment treaties have "investment" defined in other manners and include other investment.
(2) The figures were originally shown in JPY and converted into USD at the BOJ end-of-term interbank rate.
(3) The following countries are not included in the table but have an investment treaty or FTA (investment chapter) with Japan: Egypt, Sri Lanka, Turkey, Pakistan, Bangladesh, Mongolia, Cambodia (not in effect yet), Laos (not in effect yet), Chile, and Brunei. (Refer to "2008 Report on the WTO Inconsistency of Trade Policies by Major Trading Partners")
(Source) "International Investment Position" (Ministry of Finance, Bank of Japan) "Foreign Exchange Rates"(Bank of Japan) and "2008 Report on the WTO Inconsistency of Trade Policies by Major Trading Partners", etc.

Table II-21 Examples of liberalization of investment exceeding existing regulations in Thailand-Australia FTA

	MFN basis	Australia
Consulting service	Less than 50%	100%
Construction service	Less than 50%	100%
Retail & wholesale services by manufacturers manufacturing in Thailand	Less than 50%	100%
Tertiary education services in science and technology	Less than 50%	60%
Restaurants & hotels	Less than 50%	60%
Maritime cargo services	Less than 50%	60%
Mining	Less than 50%	60%

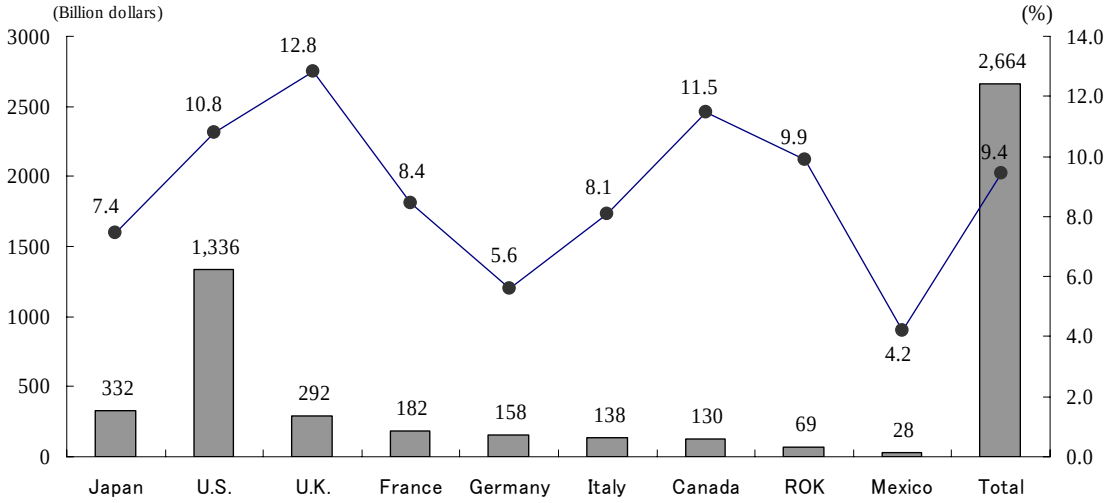
(Note)

(1)Details conditions such as the minimum amount of investment established to certain sectors.

(2)Investment of 50% or more on MFN basis can be allowed when individual permission obtained.

(Source) Australia MInistry of Foreign Affairs & Trade, Australia-Thailand FTA Agreement.

Fig. II-10 Size of the government procurement market of major countries



(Note) The government procurement amount is derived by adding gross fixed capital formation and products/non-products sales to final consumption expenditure of general government, less depreciation of fixed assets, indirect taxes and employment compensation. The procurement amounts for Japan and ROK represent the average amounts for 2003–2005, while Mexico's amount represents the average for 2002–2004.

(Source) National Accounts of OECD Countries 2007, OECD

Table II-22 System of preferential treatment of domestic products in Mexico's government procurement

(Case 1: For domestic products of non-signatories of FTAs)

	Asking price	Appraisal value	Results of bid
Mexican products	10	9.00 (10% less of 10.00)	○
Products of a non-signatory country	9.8	9.80 (No change to asking price)	×

*10% preference is shown to the appraisal value of Mexican products

(Case 2: For domestic products of signatories of FTAs)

	Asking price	Appraisal value	Results of bid
Mexican products	10	(No change to asking price)	×
American products	9.8	(No change to asking price)	○

* No preference is shown to Mexican products

(Case 3: When evaluating the value of domestic products of FTA signatory and non-signatory countries)

	Asking price	Appraisal value	Results of bid
American products	10	(No change to asking price)	×
Products of a non-signatory country	9.8	(No change to asking price)	○

*No preference is shown to American products

Table II-23 Progress made by the Committee on Improvement of Business Environment under the Japan-Mexico FTA

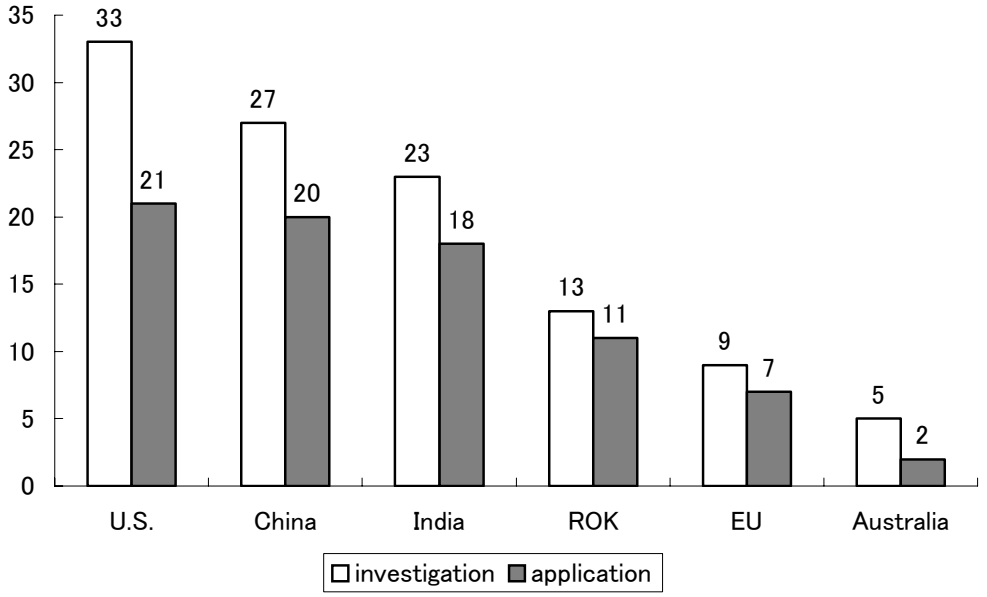
Field	Specific problem	Progress/results
Public safety	- Deteriorating safety at the airport and residential areas - Increase in theft and burglaries of goods, rising cost of security measures	- Sustained discussions with the Ministry of Public Safety - Patrols undertaken at railway terminals - Improved security at Mexico City International Airport - Deliberation of enhanced security of freight transport routes
Protection of intellectual property rights	- Adverse effects of the distribution of counterfeit goods on sale and brand images - Companies whose products have been victims of counterfeiting must file requests for administrative hearings and formal complaints to detect counterfeit goods, but are reluctant to do so because of the risk of retribution from the offending companies - Customs do not have the authority to confiscate counterfeit goods	- Sustained discussions with the Mexican Institute of Industrial Property - The said Institute has issued letters of warning to companies infringing trademarks following the request of Japanese companies - The staff of the said Institute have been dispatched to Japan to study the systems employed by Japanese customs to crackdown on counterfeit goods - Promise to cooperate with customs to crackdown on counterfeit goods at the border - Representatives of Japanese companies are participating as observers in the Mexican government's committee on intellectual property rights
Facilitating immigration procedures	- Complicated Customs procedures at the US-Mexico border - Japanese business travelers given limited access to Mexican destinations through errors of border immigration control officials - Incurring unnecessary immigration procedures because of the misinterpretation of facts by regional immigration officials	- Improvement of services through the establishment of a field office at the US-Mexico border - Official notice stating unlimited access to Mexican destinations for Japanese business travelers - Preparation of the "Visa Manual" in cooperation with the Mexican Immigration Agency - Holding seminars on visas in regional cities with officials from the Mexican Immigration Agency serving as lecturers - Introduction of custom form for travelers in Japanese
Taxation/ customs procedures	- Weakening of Japan's competitive edge due to the time and cost spent in clearing customs - Unclear method of resolution in cases where differences in tariff classifications occur - Too much time required for Value Added Tax rebates	- Contact person for customs and taxation matters is designated
Certification standards	- because of domestic testing requirements (entailing double work), antiquated standards that do not conform to International standards and troublesome procedures, excessive time and additional costs are being incurred in the introduction of new products	- A revision of the specifications of electronic devices has been decided and the government has promised that Japanese companies would be able to participate in this process
Infrastructure	- High electricity costs and frequent electrical outages - High ground transportation costs - Expansion of the Otay border (Tijuana-San Diego)	- Deliberation with local governments to improve the infrastructure around the border area - Paving of the portion of the roads in Tijuana

Table II-24 Progress made by the Sub-Committee on Improvement of Business Environment under the Japan-Malaysia FTA

Field	Specific problem	Progress/results
Hijacking	- Occasional incidences of truck-hijack on highway reported - Increase in theft and burglary at the sites of factory and storage	- Budget for improvement of public safety measures added to 2008 budget - Stepped up security at rest stops and highway patrols conducted - Installation of security guards and fenced parking planned for high risk freight - Installation of 1,000 surveillance cameras planned
Gas supply	- Lack of natural gas, and new supply not being implemented	- Deliberation including hike in gas prices by top government officials - Japanese companies will not be subject to discriminatory treatment compared with local companies - Government has prepared a set of preferential treatments in cases where companies implement energy saving measures
Electricity	- occasional electricity outages, damaging to production activities	- Tenaga Nasional will invest 1.9 billion ringgits (15.0 billion ringgits in the next five years) in measures to remedy the supply shortage situation - Tenaga Nasional will be liable for damages in the case of intentional outages or outages caused by negligence
Intellectual property rights	- counterfeit goods flown from foreign countries	- Establishment of courts for intellectual property rights and implementation of stepped up measures at the border
Import procedures for EG steel	- It is getting increasingly difficult to acquire duty-free importation status for electrogalvanized (EG) steel	- Sustained discussions on duty-free importation status will take place

Fig. II-11 The number of anti-dumping measures investigated and applied against Japanese products by country (Year 1995-June 2006)

（Unit：the number of investigation and application）



（source）WTO secretariat.

Table II-25 The number of issuance of the "Professional" visa in the U.S. (related to FTA)

（Unit：persons）

Country	Type of visa	Remarks	Fiscal Year					
			2002	2003	2004	2005	2006	2007
Canada, Mexico (NAFTA)	TN	Number permitted per year: no limits, Period: 1 year (may be extended)	699	423	908	1,902	2,972	4,091
	TD (spouse and children of TN)		856	796	1,268	1,941	2,779	3,438
Singapore, Chile	H1B1	Number permitted per year: 5,400 (Singapore), 1,400 (Chile), Period: 18 months (may be extended)	—	—	72	275	440	639
Australia (note)	E3	Number permitted per year: 15,000, Period: 2 years (may be extended)	—	—	—	4	1,918	2,572
	E3D (spouse and children of E3)	Employment allowed to spouse	—	—	—	3	1,053	1,368

(Note) In terms of Australia, another special quota was established separately from the quota under the FTA.
(Source) US Department of State

4. Toward the active utilization of global FTAs

(1) Expanding Asia-Pacific FTAs and increasing utilization by companies

Japan's FTAs in the Asia-Pacific region are showing progress. FTAs have already gone into effect on a bilateral basis with Singapore, Malaysia, Thailand, Indonesia and Brunei, respectively, and FTAs with the Philippines and ASEAN as a whole are waiting for a "go" sign. In addition, its FTA negotiations with Vietnam, Australia and India are underway.

Among others, great expectations are being placed on the bilateral FTA with Thailand, a huge production base in ASEAN for Japanese companies. Despite being one of the most recent, the Japan-Thailand FTA has been selected in the questionnaire survey conducted by JETRO as the FTA in which Japanese companies use preferential tariffs most or as the FTA they consider to utilize more than any other FTAs. Utilization of the Japan-Thailand FTA by Japanese firms, particularly in responding to the internal demand of Thailand, is expected to be expanded as the tariffs in Thailand are lowered.

In the Asia-Pacific region, formation of FTAs by ASEAN+1 is in progress. Countries such as Japan, China, the ROK, India, Australia and New Zealand, the players comprising such future wide-area FTAs as ASEAN+3 and ASEAN+6, are expanding their efforts to establish FTAs with the ASEAN countries, which will be placed at the core of those future FTAs. Of those, the ASEAN-China FTA attracts great attention among Japanese affiliates operating in the region. Although their utilization remains at a low level at the present moment, the ASEAN-China FTA is expected to be used more actively by companies as the tariffs are scheduled to be reduced or eliminated in full scale from January 2009 and completely abolished for many categories by 2010. The ASEAN-Japan FTA was ratified in Japan in June 2008, and it is now waiting to be ratified by each ASEAN country. When the ASEAN-Japan FTA goes into effect, the Japanese companies operating in the region will become able to utilize cumulative rule of origin to import flat panels for TV and other high-value-added components from Japan, and export assembled products to other ASEAN countries free of tariffs. This can be a great support for Japanese companies with supply chains expanded over the ASEAN region.

In April 2008, New Zealand signed an FTA with China, which is the first FTA signed by an industrialized nation with China. China, with its average effective tariff rate being as high as 10% in 2007, has promised to New Zealand to eliminate tariffs on the items equivalent to 96% of its imports (on a basis of export value). In the ASEAN+6 regions, FTAs other than those in the ASEAN+1 frameworks are becoming substantial. For companies, it is becoming increasingly important to consider business strategies

with the developments of the Asia-Pacific FTA network in mind.

In building up wide-area FTAs, it is important to consider FTAs that are easy to utilize so that they will become even more attractive to companies. In forming FTAs with the Mediterranean coast countries, the EU has introduced the identical rule of origin with respect to all items. When rules are unified, companies will no longer be required to make different kinds of preparation according to different FTAs, and their certification costs are expected to be lowered. It is desirable that the rule of origin be unified to the greatest possible extent in the Asia-Pacific region too. Furthermore, the respective criteria used to define changes in tariff classification, added value and manufacturing process are not of the same usability to all industries and companies. It is required that selectable rules fully reflecting the opinions of the companies be introduced, and considerations should be given to procedures of origin certification. As mentioned earlier, the Asian-style systems of certification by third party and the NAFTA-style system of self-certification respectively have their advantages and disadvantages. For the electric and electronics industry, in which just-in-time procurement is required, the approved exporter system of the EU-style can be an alternative when the risks involved in an importation through a third country are fully considered.

The FTA has also brought about liberalization in fields such as investment, trade-in services and government procurement, in addition to trade in goods. Europe, the US and Japan are actively promoting liberalization of trade in services, investments and government procurement through FTAs. The mutual access for truck transportation between the US and Mexico, the establishment of Mexican subsidiary of Credit Suisse First Boston, the increase in the number of branches and ATMs in Singapore for Citibank, and the successful bidding for the Mexican power generation business by Mitsubishi Heavy Industries are all examples of companies utilizing the advantages of the liberalization of trade in services, investment and government procurement through FTAs. The market access to these fields in the ASEAN countries and other developing nations is limited. When Japan promotes FTAs in the Asia-Pacific region, the point lies in how much “WTO-plus” liberalization will be achieved.

Furthermore, the Committee on Improvement of Business Environment scheme invented by Japan attracts great attention to FTAs in the Asia-Pacific region as a means to solve problems in trade and investments faced by Japanese companies developed in Asia. As seen in the examples of Mexico and Malaysia, it will lead to an improvement in the business environment, which governments and the private sector in close cooperation with each other actively utilize and participate in, in order to demand the

governments of partner countries to correct problems in trade and investments.

(2) Further expansion of FTAs, and various efforts by each country

Efforts by Europe and the US to strengthen their economic relationships, including those with FTAs with countries in the Asia-Pacific region, become clearer. The US has FTAs with Singapore and Australia, and signed an FTA with the ROK. In June 2008, the US announced commencement of the negotiations on a bilateral investment treaty (BIT) with China and Vietnam, to which US has carefully kept its eye as they developed their legal systems in accordance with the promises they made when they joined the WTO. As for the EU, they are advancing FTA negotiations with the ROK, the ASEAN countries and India. The high-level efforts made by Europe and the US toward elimination of tariffs and "WTO-plus" liberalization of investment, trade in services and government procurement, as well as elimination of NTM, are highly likely to influence the economic integration flow of this region.

The FTAs of Europe and the US with countries in the Asia-Pacific area are considered to be advantageous to those Japanese affiliates that have a wide production network established in the region. Concerning trade in goods, for instance, such companies will become able to utilize these FTAs when they export products to EU from their production bases in ASEAN.

However, in case the FTAs of Europe and the U.S. are more advanced and comprehensive than those of Japan, it is possible that companies with production bases in Japan will be discriminated against in Asia. When the tariff on certain items is eliminated only for Europe and the U.S., situations disadvantageous to Japan will be created. Furthermore, the countries in the Asia-Pacific region are not signatories to the GPA, with the exception of the ROK and Singapore. If these countries open up their government procurement markets only to Europe and the U.S., Japanese companies will be put at a disadvantage, as seen in the case of Mexico mentioned earlier. It is required that Japan continues to promote high-level and comprehensive FTAs so as to avoid being placed at a disadvantage compared to Europe and the U.S. in the battle over FTAs

Implementing measures on domestic industries that will be impacted by the FTAs will have the effect of holding down domestic adjustment costs and will be essential in facilitating FTA measures. For example, when the U.S., Mexico and the ROK open up their domestic markets to partner countries, they simultaneously implement bailouts including subsidies for domestic industries that are likely to be affected.

Before NAFTA went into effect in 1994, the U.S. introduced the "NAFTA Transitional Adjustment Assistance Program (NAFTA-TAA)" anticipating the damage

that may be caused to the textile, apparel and automotive industries. Through the NAFTA-TAA, 525,407 workers received assistance in 4,116 cases. Later, the NAFTA-TAA was integrated into a more comprehensive TAA program following the introduction of the “2002 Transitional Adjustment Assistance Act (2002 TAA as amended)”.

With corn and frijoles and other agricultural products included in the sensitive list, Mexico introduced the “Farmers Direct Support Program (PROCAMPO)”, which was aimed, through direct income assistance, at assisting low-income farmers in modernizing their farm and farmland and to transfer themselves from traditional farm products to those with higher profitability. During the 14 years from 1994 to 2007, PROCAMPO payments amounted to 16.024 billion dollars (converted from the amounts published in peso denomination at the average annual exchange rates to USD of the respective years concerned).

Agriculture is also a sensitive field to the ROK. The ROK promised to liberalize their agricultural market almost completely in the US-ROK FTA, and has established an assistance program of KW20.4 trillion (equivalent to approximately JPY2 trillion, as of July 2008) over a period of 10 years from 2008, in consideration for the damages expected to be suffered by the country’s agricultural industry following the liberalization. For its manufacturing and service industries, the ROK has announced projects to assist them in enhancing their competitiveness and are transferring jobless workers in the industries to other fields. Through these assistance projects, the ROK has been trying to soften the damages caused by FTAs to its domestic industries.

Demands made by partner countries are not limited to an elimination of tariffs on the items in the fields they specialize in. If the partner is a developing country, there exists a case in which they request assistance to enhance export capabilities of their companies so that they may make the best use of their FTAs. Japan, as well as the EU, has incorporated cooperation into its FTAs with developing countries and implements cooperation schemes to assist them in operating the FTAs, which includes improvement of the export capability of their companies, development of their industries, and simplification of their customs and quarantines. The cooperation in these areas also has effects that lead to smoother trade and investment. Cooperation produces advantage to industrialized countries as well as to developing countries.

Japan has accepted nurses and care workers from Indonesia. This is an attempt that has never been tried before, and attention should be paid to its future development. Many developing countries are interested in sending their workers to industrialized countries, though this is a difficult question for countries that receive them from the

viewpoint of employment, as accepting a certain volume of labor with appropriate consideration given to conditions in their countries is expected to be advantageous to both sides.

While competition with the rest of the world over FTAs is getting more and more intensified, these examples of successful efforts by other countries is helpful as a reference for Japan to strengthen economic relations through FTAs.

III. Consumer Markets Expanding Worldwide

1. Consumption Trends in Japan and Worldwide

As Japan has been the first to see an aging Baby Boomer generation amidst a declining birth rate, resulting in a population contraction, the country has little room for any market growth in volume terms. Breaking into overseas markets is thus ever more important for Japanese companies aiming for growth, and prospects for winning over consumer markets in emerging economies, where both the markets themselves and consumer income levels are expanding, are an important theme that will determine company futures. Meanwhile, demographics worldwide are graying in both developed and developing nations, and thus looking at how the consumer market in Japan is changing as the population ages could be effective in discerning likely trends in worldwide consumer markets.

We will now turn our attention to the changes and characteristics of the Japanese consumer market amidst the aging of the country's population. We will then explore a broad overview of the characteristics of worldwide consumer markets from the perspectives of both income levels and age brackets.

(1) Japan's consumer market both maturing and facing an aging population

In recent years, Japan's consumer market has been more noticeably maturing and undergoing consequent qualitative changes. For starters, the average propensity to consume, in other words the ratio of spending to disposable income, has been trending gradually downwards overall for the past 20 years since 1988 (in terms of the trailing three-year average; same below), and it appears that consumption is beginning to mature as basic demand is met（Figure III-1）. Looking at the average propensity to consume (APC) by age bracket, we find that, while the APC for consumers under 60 has been declining, the APC for those 60 and over has been rising. The APC tends to run relatively higher for older age brackets as they retire, have their pensions as their main source of income, and begin to spend down their savings. However, lacking any major changes apparent in disposable income, any increase in the propensity to consume can be viewed as an indication of increased consumer confidence in that age group. As of 2007, roughly 40% of total consumer spending was concentrated in the 60-and-older bracket [(1)], an increase from the roughly 30% posted in 2000. Breaking this down by product category shows that the share of spending for all areas aside from education shifted towards the 60-and-over group between 2000 and 2007, as the upper age brackets take on a leading role in Japanese consumption trends.

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1. Based on two-or-more-person working-class households (excluding agriculture, forestry and fishery households).

Looking next at the share of consumer spending by category over the long term, the categories that have posted the most share growth in order are transportation and telecommunications, followed by "other", and then cultural and entertainment (Figure III-2). These three categories comprised approximately 50% of total consumer spending in 2007, and also included substantial amounts of unnecessary and non-urgent consumption, also called "optional consumer spending" [(2)]. Among the spending categories by application, everything aside from utilities includes some form of optional consumer spending, but close to 70% of total optional consumer spending for 2007 was for the three categories listed above. Moreover, optional consumer spending comprised around 60% of total spending within each category. Meanwhile, categories that include substantial basic consumer spending, such as foods or shoes and apparel, all saw their share of total spending decline.

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2. As defined by the Ministry of Internal Affairs and Communications (MIC). Categories where elasticity of expenditure > 1. The elasticity of expenditure is an index showing how many percentage points spending categories change by for every 1% change in total consumer spending. Spending categories with an elasticity of expenditure of under 1.00 are classed as basic consumer spending (necessities), and include areas such as food, rent, utilities, and healthcare services. Spending categories of 1.00 or higher are classed as optional consumer spending (luxuries), and include areas such as education, durable goods for culture and entertainment, and various monthly fees.

By age bracket, consumers aged 40 and older comprise the bulk of total optional consumer spending, at 84.1% of total spending for 2007. Considering that the dipping birth rate and graying demographic means that the brackets responsible for so much optional consumer spending are expanding, such spending is therefore also likely to increase going forward. Comparing optional consumer spending between 2007 and 2000 shows that spending by the 60-and-over bracket grew by 1.8%, whereas spending by other age brackets declined, such that total optional consumer spending in Japan shrinking by 12.6%. This indicates characteristically solid optional consumer spending in the older age brackets.

Meanwhile, demand for optional consumer spending in the older age brackets is not necessarily higher than in the younger brackets. While the 40-and-over brackets do

indeed comprise the bulk of total optional consumer spending, the spending actually peaks in the 50s bracket, with the 70-and-older bracket comprising less of total optional spending than the 30s bracket (Figure III-3). Moreover, optional consumer spending as a percentage of total spending within each age bracket is lowest for the 60-and-over group at 32.2% in 2007, indicating less interest in optional consumer spending compared to other age brackets. Conversely, this percentage is highest for consumers between 40 and 59, with roughly half of total spending for this group going to optional consumer spending (for 2007 figures, 51.9% for those 40 to 49, 49.3% for those 50 to 59). This percentage is also on the rise for the 20s and 30s brackets.

However, there is room for increased optional consumer spending in the 60-and-over group, and a high net asset level is one reason for this (Figure III-4). This kind of wealth effect from savings generally arises when those age brackets receiving their retirement funds are expanding. Another factor of note is that mandatory spending [(3)] comprises a smaller percentage of total spending for the 60-and-over group than for other age brackets (Figure III-5). Mandatory spending as a percentage of actual expenditures (consumer spending + non-consumer spending) peaks in the 40s bracket, dropping to around half of the peak level for the 60-and-over group. Put another way, this indicates that the degree of freedom for consumption peaks in the later age brackets.

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3. This category is defined as: Mandatory spending = Non-consumer spending + Housing and land rent + Utilities + Education + Payment of debt for land and housing (paying down housing loans). Non-consumer spending is defined as according to the MIC (comprising mainly items such as direct taxes and social security payments).

Another reason for the increase in optional consumer spending is a change in lifestyle that increases free time. The Cabinet Office's Survey on Time Use and Leisure Activities for 2006 shows that time spent on tertiary activities (free-time activities) increases from around the 50s bracket, with more time spent on mass media consumption such as TV watching, relaxing, and similar activities as ages increase. This situation leads to growth prospects for those goods and services markets commonly described as time-intensive consumption, making it likely that optional consumer spending that includes such consumption will expand.

One typical example of this category is package tours. The 60-and-over group accounted for 57.9% of total package tour spending in 2007, and 64.0% of overseas package tour spending. Given that these percentages stood at 46.5% and 47.6% respectively in 2000, we can clearly see that spending in this category has increased for

the older age bracket. The older demographics are similarly more apt to demand goods and services in the cultural and entertainment category4, including such things as video games, various monthly fees (such as classes for sports or music), sporting events, and internet use.

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4. 57.4% of total cultural and entertainment spending for 2007 was optional consumer spending.

Growth in optional consumer spending primarily among the older age groups is thus likely to lead to a qualitative change in Japanese consumption patterns, even while there is little room for any quantitative growth. In as much as most countries will sooner or later face a declining birth rate and an aging population, the changes occurring in the Japanese market hold no small importance for the future. Meanwhile, as already seen, demand for optional consumption is actually higher among the lower age brackets. This is another important factor to consider when analyzing the consumer markets of newly emerging economies, which have relatively much larger young populations than the developed countries.

(2) Overseas consumer markets have much room for development

Worldwide consumer markets some 11.5x bigger than Japan's

Japan's population has been declining since a peak in 2005, whereas the global population will continue expanding over the medium to long term. According to the medium variant of the United Nations' 2006 population forecast, the global population is expected to grow from 6,515mn in 2005 to over seven billion by 2015, and reach nine billion by 2045. Populations are also aging, and the proportion of the global population aged 65 or older is projected to rise from 7.3% in 2005 to over 10% in 2025, climbing further to 16.2% by 2050. Examining the relation between demographic and consumption trends in the various economies of the world should reveal some useful hints in divining how Japanese companies may best develop their presence in overseas consumer markets.

Looking broadly at consumer markets worldwide, we see that the global consumer market in 2006 amounted to $29,201.3bn (nominal), some 11.5x larger than the Japan's consumer market of $2,537.7bn. Categorizing the data by developed or developing economy shows that consumer markets in the 31 developed economies amounted to $22,227.9bn or 76.1% of the global market, while emerging economies amounted to $6,973.4bn or 23.9% of the total (Figure III-6). Average annual growth rates over the 1990s stood at 4.3% for the developed economies and 4.0% for the developing

economies, but the pace of growth in the developing world overtook the developed world during 2000-2006, when growth rates came to 5.4% and 9.0% respectively, with the consumer markets of the developing world achieving noteworthy expansion (Figure III-7).

■ **Consumption patterns differ by income and age bracket**

Consumer spending trends in each country and region vary widely, depending on various factors such as the structure of local industry, household composition, saving rates, social security systems, and cultural backgrounds. That said, we have examined consumption patterns for the 70 countries for which we can compile consumer spending data by category, by classifying the data according to age bracket and income levels. Breaking the figures down by income levels, we grouped the lower end of the middle-income countries according to the World Bank's classification together with the lower-income countries in consideration of the number of data samples available. Breaking the figures down by age bracket, we divided the countries for which we had statistics almost equally based on the aging index (population ratio of those aged 65 and older compared to those aged under 15) calculated in the United Nations' population statistics (2005 medium variant), with 23 countries in the older group (aging index of at least 90), 24 in the middle-aged group (index of at least 20 but under 90), and 23 in the younger group (index of under 20) (refer to Figure III-9 for details on country classifications).

Looking at consumption patterns by income levels shows that food, clothing, and shoes comprise a large proportion of total spending in low-income countries, whereas the relative shares for housing, furnishings and household items, transportation, cultural and entertainment, lodging and eating out, and other such categories tend to increase as income levels rise. Looking at consumption by age bracket shows a lack of any clear trends in terms of broad categorizations (Figure III-8), aside from the finding that younger countries (mostly belonging to the lower income country group) tend to spend relatively more on food. The following shows the characteristics for each spending category upon analyzing based on detailed categorizations.

① Food (including alcohol and tobacco)

In the younger countries, households tend to have many children, and thus this category has a greater weighting among overall expenditures, with grains having a particularly heavy weighting. Older countries also tend to have a slightly heavier weighting for food than the middle-aged country group, as the variety of consumption

behaviors decreases. Alcohol and tobacco expenditures increase the older the population regardless of income level, as these become a form of time-intensive consumption.

② Clothing and shoes

This category has a high expenditure rating among countries in the middle-income or higher grouping that are also in the younger age bracket. This is likely due to the tendency for younger people to spend more on fashion as income levels increase beyond a certain level. In this same income level group, older countries have an even higher weighting than middle-aged countries, but this appears to be caused by a simplification of consumption behavior as populations age.

③ Housing

This share of the total increases the older the population, with imputed rent and utility fees showing this trend in particular. Imputed rent increases as homeownership rises, while utility fees increase as people age and spend more time at home. Middle-aged countries have a higher weighting for other house and land rents, while younger countries spend more on maintenance and improvements.

④ Furnishings and household items

This category sees the most spending by the middle-aged country group, while the older country group has the least weighting in this category for all income levels. The middle-aged group likely has a heavy weighting here due to household spending when couples first marry and set up their homes, and due to the large number of working households leading to increased use of housecleaning services.

⑤ Healthcare

While spending on healthcare, pharmaceuticals, and doctor fees increases the older the population for middle-income and higher countries, countries in the lower-income group also exhibit heavier weightings in the middle-age and younger brackets.

⑥ Transportation and telecommunications

Older countries in all income groups are increasing their spending to purchase and maintain automobiles and other vehicles, while conversely decreasing their spending on transportation services such as railroads and buses. For telecommunications expenditures, IT equipment purchases have a strong weighting in middle-aged countries, while IT service fees tend to increase their weighting as populations age and communications becomes a form of time-intensive consumption.

⑦ Cultural and entertainment, and education

Cultural and entertainment spending tends to increase at all income levels as populations age, with this trend particularly noticeable for cultural and entertainment goods (such as games, toys, audiovisual products and software, outdoor goods, and

gardening and pet goods), cultural and entertainment services (such as sporting match tickets, art and other museum entry fees, pinball and other amusement fees, and golf and ski resort fees), and package tours. Spending on cultural and entertainment durable goods (such as audiovisual equipment or computers) and other durable goods (such as musical instruments or outdoor sporting goods) has the heaviest weighting among middle-aged countries, with older countries having a somewhat low weighting. The relative weighting for educational expenses tends to increase the younger the country regardless of income level, suggesting an inverse relationship.

⑧ Lodging and restaurant spending

Although there is some variation seen in spending on lodging and restaurants between the different income levels, broadly speaking, the older the population, the greater the weighting, with this trend strengthening the higher the income.

⑨ Other consumer spending

This category has the heaviest weighting in the middle-aged country group at all income levels, with this trend most pronounced for individual services (beauty services and products), sundries (such as watches and accessories), insurance, and financial services. The working generations form the majority of the population of countries in the middle-aged group, and such people have more opportunity to go out, greater need for insurance to protect household incomes, and are more aggressive in taking risks with their assets, all of which is reflected in their consumption trends.

■ Attracting the key young working generations

Based on the above analysis and future projected changes in population composition, we now look at those areas of the world consumer markets that are likely to see growth.

The UN's population forecasts (medium variant) project the worldwide population increasing from roughly 6,514.75mn in 2005 to climb by a net increase of some 1,150mn by 2020, but they also show the youth population (those under 15) declining from around 2035, with overall demographics aging, and the elderly population comprising over 10% of the total and rising from 2025.

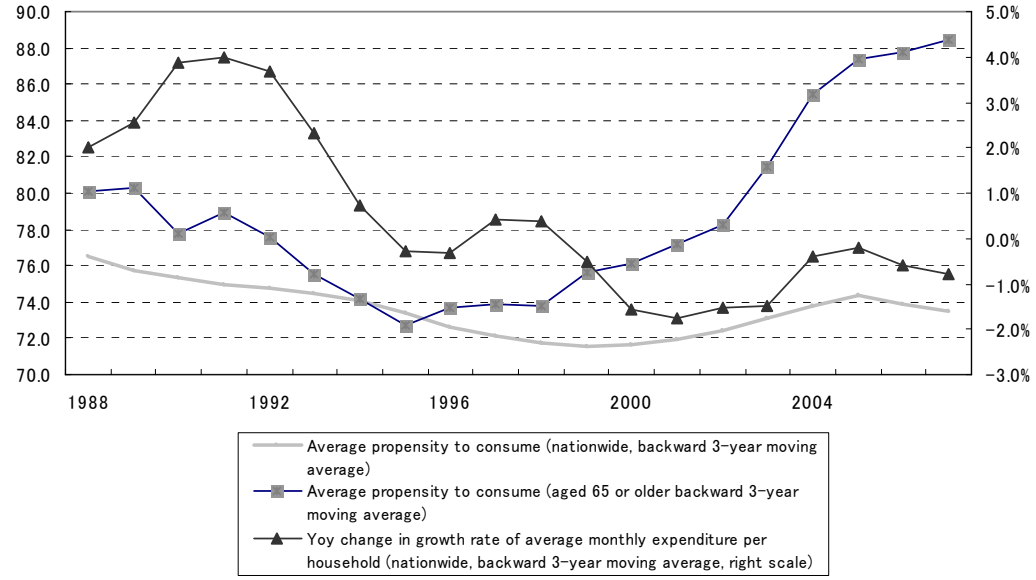
However, population aging will proceed differently in each country and region. East Asian countries, for instance, already tend to have shrinking youth populations and burgeoning elderly populations, and will likely see overall population begin to decline through around 2035-2040, whereas the Southeast Asian countries are likely to see working-age populations increase gradually even as their demographics age, with overall population maintaining a growth trend. In Africa, the Middle East, South Asia, and Central Asia, working-age populations are likely to continue to grow rapidly as

countries maintain overall population growth. Immigration is expected to keep North American populations expanding as well. In Europe, the overall population size will remain largely flat while the demographic ages and the working-age population shrinks, with total population in Eastern Europe, Russia, and the CIS countries sustaining a downward trend due mainly to a decline in the working-age population (Figure III-10).

Assuming changes in population composition in each region, we anticipate growth in the East Asian and European markets for products and services targeting older clientele, and in Africa, North America, and other areas, we see room to break into the consumer markets targeting the working-age population. East Asia and Europe in particular have many countries with incomes above a certain level, and these should likely be the main targets over the near term for Japanese companies, given that these can leverage their experience and expertise in responding to the graying population in Japan.

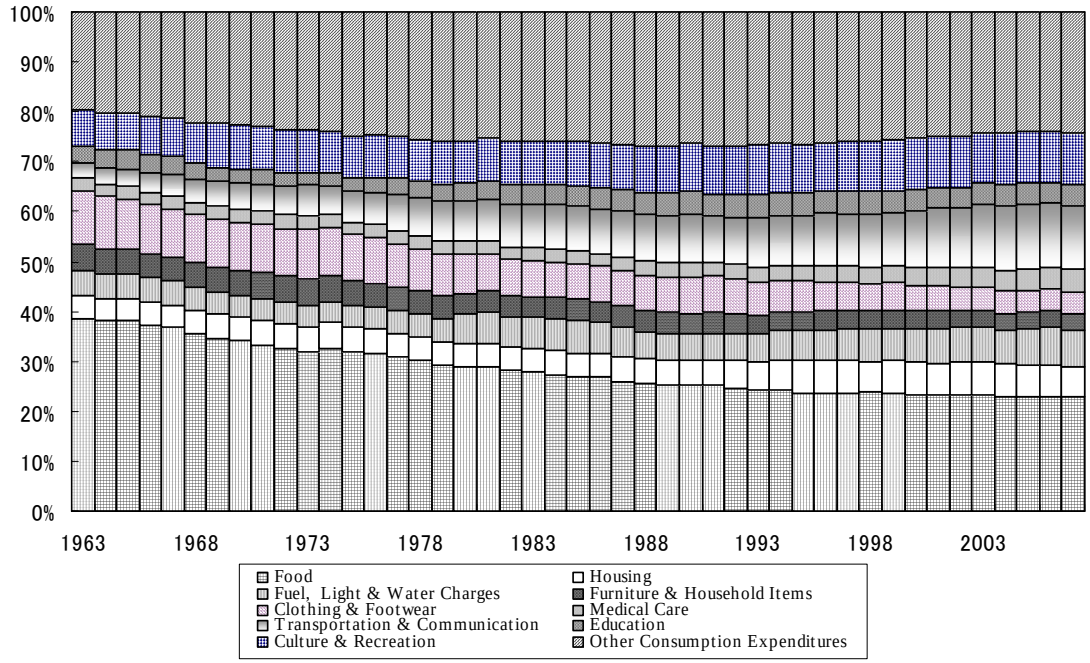
Naturally, the consumption patterns for each country and region vary according to factors such as household composition and income levels and savings rates by generation, and thus there are limits on how much consumer activities can be understood just on the basis of countrywide income levels and demographics. In fact, Russia's older age brackets have little presence in the consumer markets due largely to underdeveloped financial institutions and low savings rates, while younger generations with more disposable income are leading consumption. Similar situations can be seen in other emerging economies. As these emerging markets see improving income levels, and as the younger working generations grow older, an effective means of gaining ground in these emerging markets from a medium- to long-term perspective would be to push hard to gain acceptance among these demographic groups and build them up as an earnings generator.

Fig. III-1　Average propensity to consume and expenditure per household in Japan



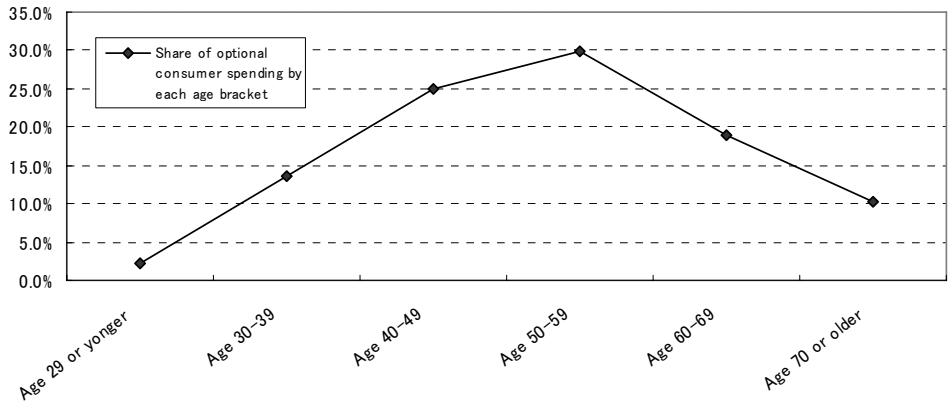
(Source) "Family Income and Expenditure Survey" (Ministry of Internal Affairs and Communications)

Fig. III-2　Percentage of consumption expenditure by item in Japan



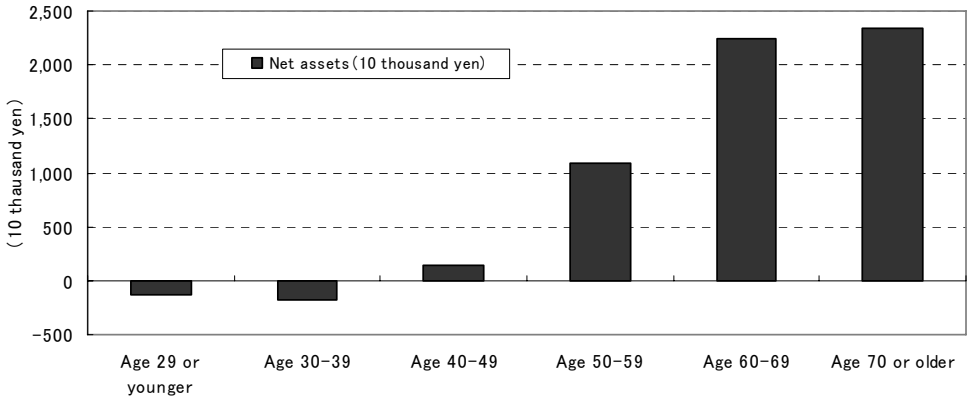
(Sources "Family Income and Expenditure Survey" (Ministry of Internal Affairs and Communications)

Fig. III-3 Share of optional consumer spending by age bracket (2007)



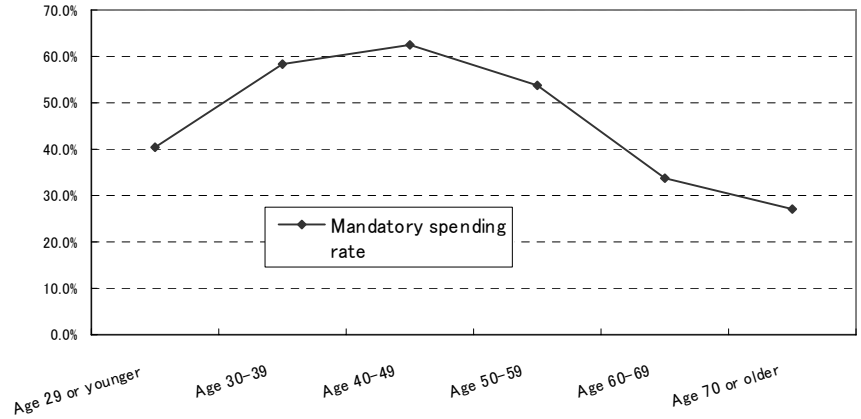
(Source) The MIC's "Family Income and Expenditure Survey, Savings and Liabilities".

Fig. III-4 Net assets by age bracket (2007)



(Source) The MIC's "Family Income and Expenditure Survey, Savings and Liabilities".

Fig. III-5 Mandatory spending by age bracket(2007)



(Source) The MIC's "Family Income and Expenditure Survey".

Fig. III-6　Share of the worldwide consumer market by country or region (2006)

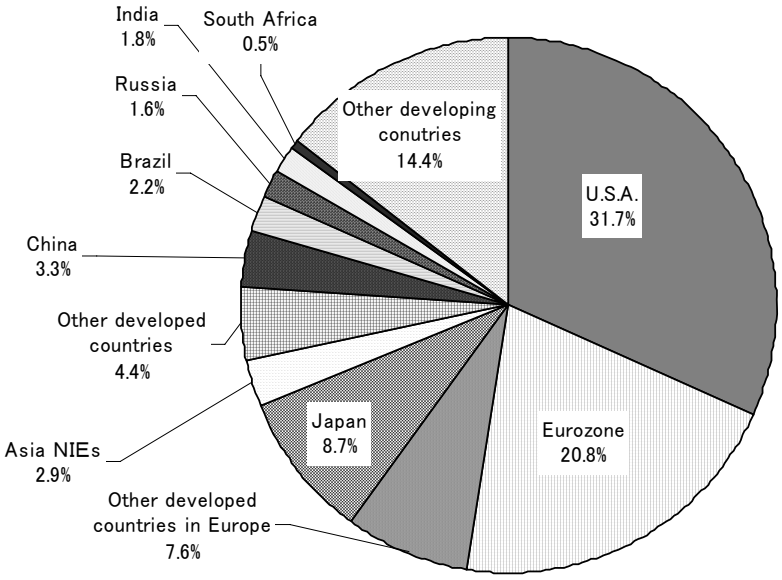
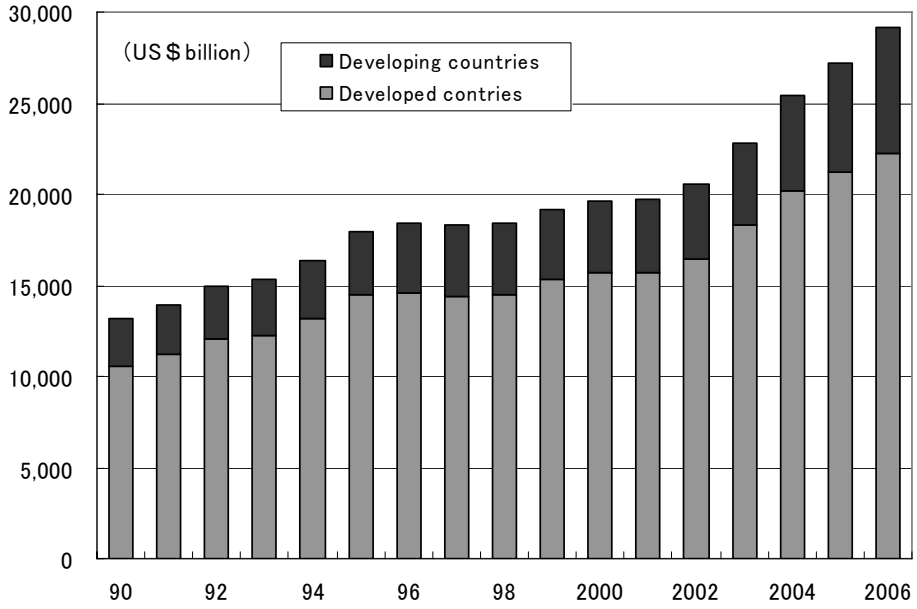


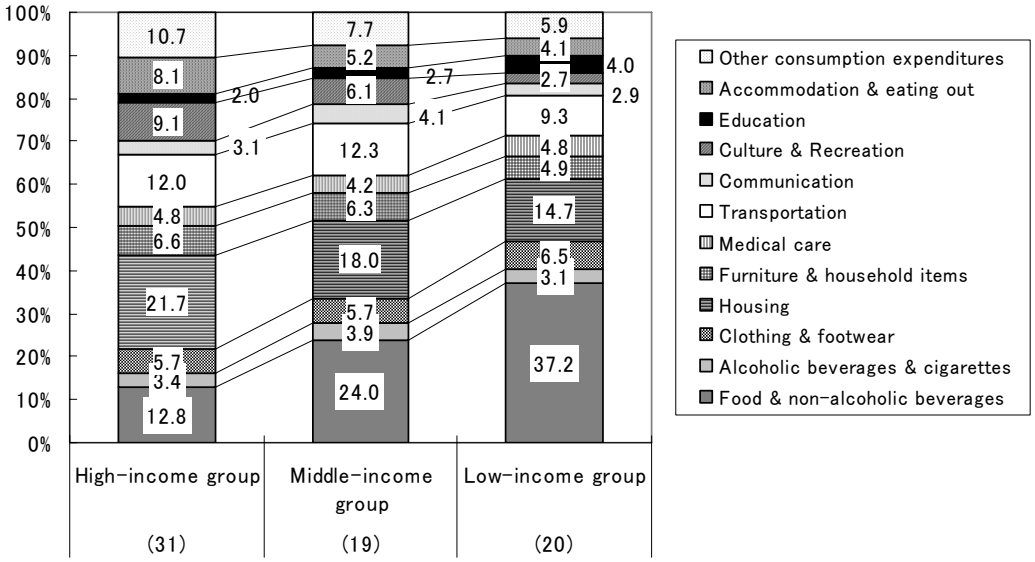
Fig. III-7　Worldwide consumer market trends (nominal, USD basis)



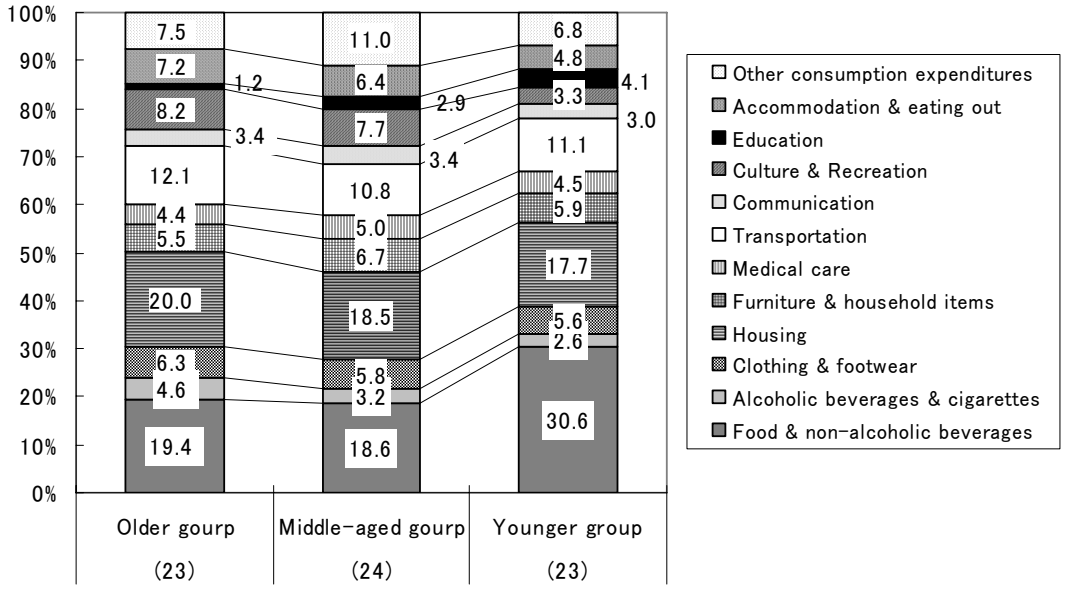
(Note) Categorization as developed or developing is according to WEO (IMF) data.
(Source) Together with Figure III-6, based on materials from the United Nations' National Accounts Main Aggregates Database (August 2007) and the Directorate General of Budget, Accounting and Statistics, Executive Yuan (Taiwan).

Fig. III-8 Consumption trends by income level and age bracket

(1) By income level



(2) By age bracket



(Note)

(1) The percentage of total spending for each spending category for each country or region, averaged for each grouping

(2) Figures in parentheses are the number of countries.

(3) Income levels are based on World Bank categories (per-capita GNI for 2006), with medium-low-income countries included in the low-income grouping (per-capita GNI of at least $906 but not more than $3,595) due to the number of data samples.

(Source) Both this Figure and Fig. III-9 are based on the UN's National Accounts Main Aggregates Database (August 2007) and World Population Prospects: The 2006 Revision (March 2007), the World Bank's World Development Indicators (WDI) 2008 (April 2008), and materials from Euromonitor International.

Fig. III-9 Percentage of expenditure by item, viewed by age and level of income (nominal)

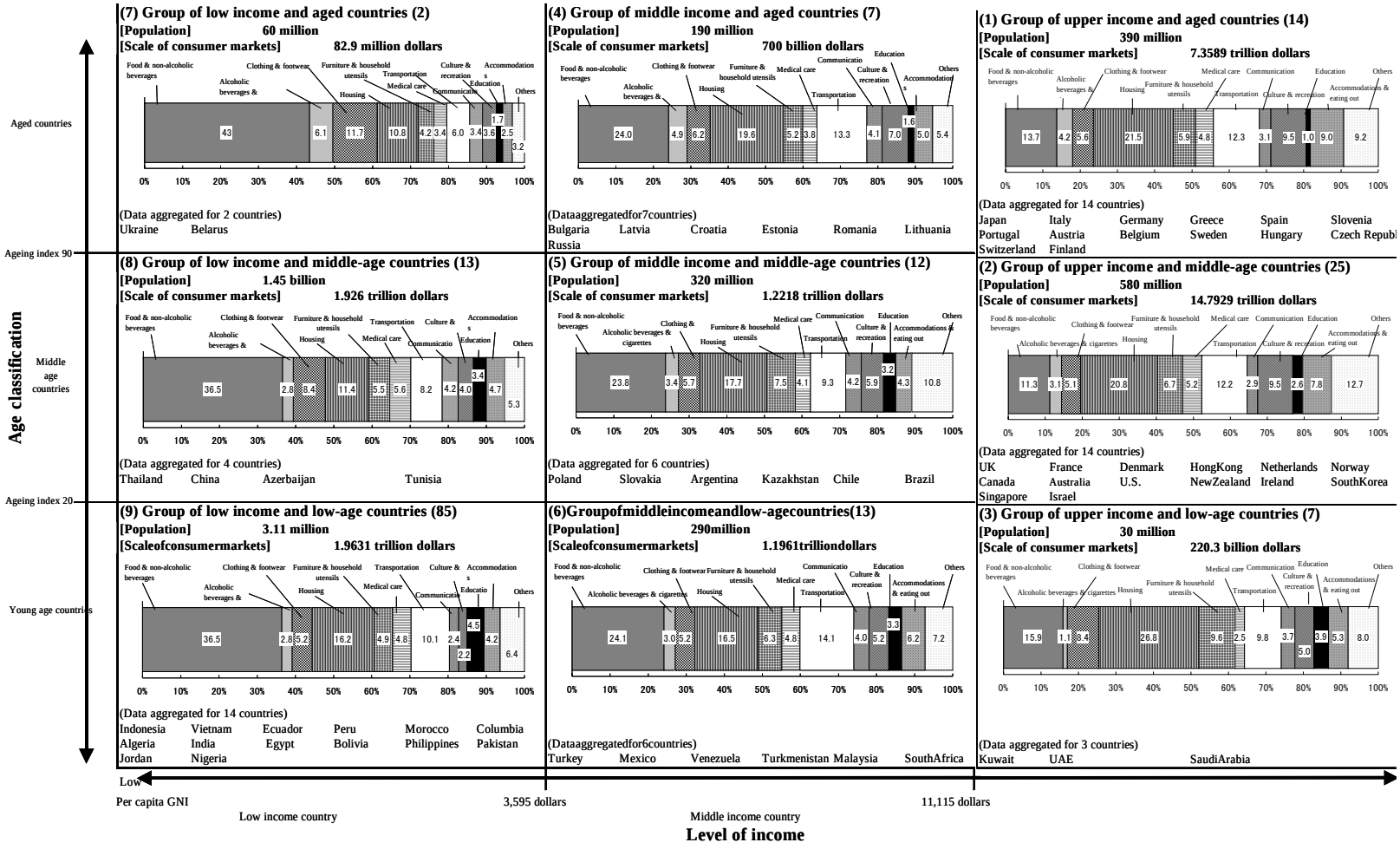
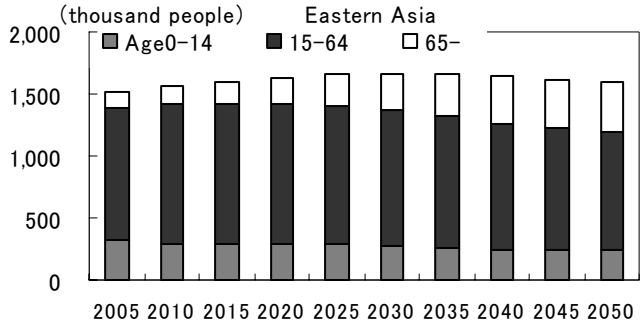


Table III-1 Consumption trends and composition features by age bracket

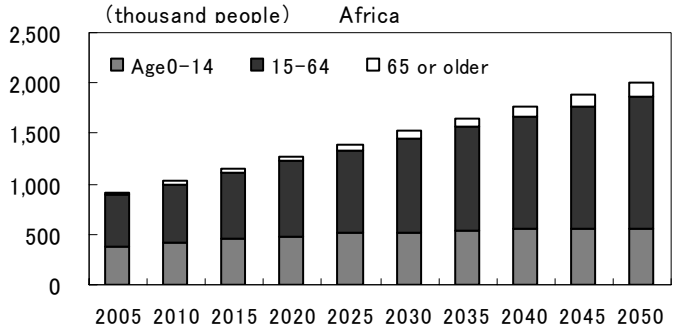
Category	Consumption trend / composition features
Older countries	• Older people have more limited consumption behaviors, and stay home longer (spending on food, clothing, utilities, and cultural and entertainment goods) • When going out, they use their own vehicles (purchasing and maintaining same) • Increasing weighting for time-intensive consumption (alcohol and tobacco, communications, cultural and entertainment services, package tours) • Increasing spending for pharmaceuticals and healthcare goods
Middle-aged countries	• Main consumers are working-age in their 30s and 40s (household services, insurance) • Often go out (beauty services, accessories) • Increase in marriages and household set-up (furniture, household goods, cultural and entertainment durable • Aggressive in their asset allocation (financial services)
Younger countries	• Have many young children (food, education) • For incomes above a certain level, young people spend more on fashion (clothing) • Much of the population does not have adequate assets, and people are more likely to use public transportation than to have their own vehicles (transportation services)

Fig. III-10 Population patterns by broad age bracket

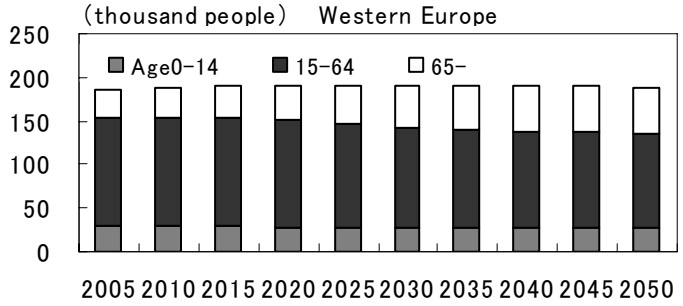
(1) Increase in elderly population, while overall population shrinks (Eastern Asia)



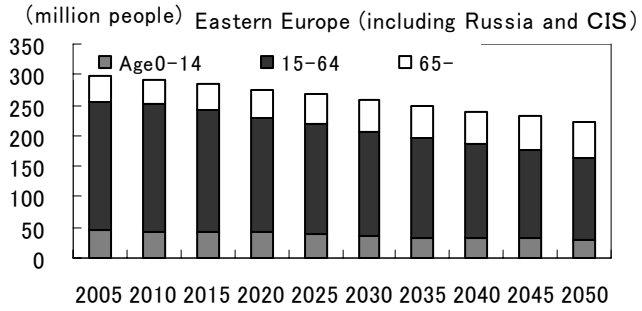
(2) Working-age population supports overall population growth
(Africa, Middle East, North America, South Asia, etc.)



(3) Older population increases as overall population size remains mostly flat
(Western Europe, Northern Europe)



(4) Decrease in working-age population, while overall population shrinks
(Eastern Europe, Russia and CIS countries, Southern Europe)



(Note) Regional classifications are according to UN materials.
(Source) Based on the UN's World Population Prospects: The 2006 Revision (March 2007).

2. Consumption Structure of the World and Responses by Japanese Companies

(1) Biggest consumers of Japanese products are Asia, the US and the EU

Data indicating what countries and regions have been consuming Japanese products is vital for over viewing Japan’s strategies for overseas. It means grasping the total overseas sales of Japanese companies (total consumption demand), that is exports plus overseas production of Japanese companies. To calculate this, we take the sum of overseas local sales from Japanese companies' local production and purchases from overseas Japanese subsidiaries, multiply that by the average percentage of ownership stake of Japanese companies in their overseas subsidiaries in order to estimate sales on a purely Japanese company basis, and then add to that Japanese exports of goods and services to the relevant regions (Table III-2).

Total overseas consumption demand for Japanese companies came to ¥211tn in 2005, amounting to roughly 40% of Japan's GDP. Exports from Japan amounted to ¥74tn, or 35% of the ¥211tn total. In other words, the remaining 65% or roughly twice the value of exports corresponds to local sales from local production together with purchases from Japanese companies in third-party countries. Local sales from local production are greater than exports in the US, the EU, Oceania, and the ASEAN 4 and NIES 3 countries.

Looking at the share of total overseas sales of Japanese products and services by region, Asia accounts for 36%, North America for 35%, and the EU for 20%. By country, the US comprises 33%, much higher than China's 13%. Consequently, the three biggest purchasers of Japanese products are the US, Asia, and the EU. Central and South America account for only 4%, the Middle East for 1%, Oceania for 3%, and Africa for 1%, with these areas all comprising only small shares. However, this shows that, including Eastern Europe, these regions could be viewed as good prospects to increase their share of consumption of Japanese products.

The US is certainly one of the major demand areas for Japanese companies, and the decoupling theory that the US economy is now having less of an impact does not seem to hold completely true for Japanese companies. That said, Asia is already the biggest sales areas for Japanese companies, and demand in the BRIC countries of Brazil, Russia, India, and China is growing substantially. Consequently, it is vital for Japanese companies to expand their sales channels in the consumer markets not only of the US and the EU, but also in the BRIC countries and the post-BRIC newly emerging economies.

(2) Biggest sales area for US products is Europe

The biggest purchasers of Japanese products have been Europe and the US, and the geographically near Asian Pacific region. Taking a similar view of the overseas sales locations of US companies, we see that, in 2004, the biggest purchaser of US products and services was Europe, which comprised almost half of the total at 47% (Table III-3). The UK was the biggest single country at 14% of the total.

Although the Asian Pacific region (including Japan) is geographically far from the US, the area comprises 24% of all US foreign sales, corresponding to the same relative weighting Europe has for Japan's products. This indicates how attractive the Asian Pacific consumer market is for the US, and how it has gained in purchasing power. Meanwhile, Canada and Central and South America comprise roughly 13% of US foreign sales, or roughly about the same weighting as China has for Japan.

Japanese sales in 2004 came to 8% of the worldwide total for US product sales, on a par with Germany (8%), France (6%), and Mexico (6%). Japan is therefore relatively much less important to the US than the US is to Japan, given that the US makes up 33% of Japan's foreign sales. Meanwhile, China (including Hong Kong) accounted for only 4% of worldwide US product and service sales. Central and South America comprised 12.4%, an expectedly large share, whereas the Middle East made up 1.7% and Africa accounted for 1.6%.

Total overseas consumption demand for US products and services amounted to $4tn in 2004, roughly double the size of Japan's. The US also has a relatively higher ratio than Japan of local sales from local production versus exports. This is likely due to the active M&A activities in Europe by US companies, leading to a more developed local presence.

As such, Japan's main overseas sales markets are centered around three focus areas roughly equally, while the US has the one main focus in Europe, which comprises roughly half of US overseas sales, with another quarter going to Japan and the rest of the Asian Pacific region, and another quarter going to Canada and Central and South America.

With the increasing impact of the newly emerging economies going forward, the main countries and regions for foreign sales by both Japan and the US will likely be diversified and more evenly distributed. In other words, for both Japan and the US, as the relative importance of Asia increases, we look for Europe and particularly Russia and Eastern Europe to likewise become more important. Then as the weightings for Central and South America, the Middle East, and Africa increase, the aggregate total market is expected to expand.

(3) Japanese companies showing more interest in newly emerging markets in 16 countries

The middle and upper classes are expanding rapidly in the newly emerging economies, backed by high economic growth rates, and purchasing power is growing faster than in the developed countries. Given considerable capital inflows, most newly emerging economies are subject to high inflation rates, but growing production and consumption are also leading to high real GDP growth. Strategically gaining ground in these newly emerging consumer markets is becoming vital for the business models of Japanese companies. This also holds true for companies that previously focused on domestic demand by prioritizing the domestic Japanese market.

There has been no hard and fast definition of newly emerging markets to date. The BRIC countries of Brazil, Russia, India, and China, the NEXT 11 countries of Turkey, Vietnam, Indonesia, Bangladesh, Egypt, the Philippines, Iran, South Korea, Mexico, Nigeria, and Pakistan, and the five VISTA countries of Vietnam, Indonesia, South Africa, Turkey, and Argentina are common examples. Thus, the term "newly emerging economy" is somewhat vague, and generally lumps together those developing countries undergoing rapid growth.

In this White Paper, our analysis of consumer markets looks at the world in the six regions of the Asian Pacific, Russia and Central and Eastern Europe, Central and South America, the Middle East and Africa, North America, and Western Europe, looking especially at the four BRIC countries and other emerging economies of rising interest. For the non-BRIC areas of interest, we made use of access logs of the overseas business data posted on the JETRO website (JETRO File, J-FILE [(5)]). There were 4.38mn access hits for the fiscal 2007 J-FILE, as of 21 March 2008. Breaking this down, our definition for emerging economies of increasing interest is based on (1) the top 50 J-FILE areas accessed after excluding the developed and BRIC countries, and of these, (2) those areas for which fiscal 2007 access hits were up by at least 30% over the previous year, or for which fiscal 2006 hits were up at least 20%, and (3) those countries and regions with per-capita GDP of at least $500.

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5. Comprehensive informational website providing data and the systems of the economy, trade, and investment of countries around the world, accessible at http://www3.jetro.go.jp/jetro-file/country.do

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The resulting group of countries and regions is shown in Table III-4, giving us 16 newly emerging countries of increasing interest for Japanese companies (the JETRO File Increasing-Interest Countries: the JFIC 16). The first feature of this list is the

regional distribution, with three of these 16 newly emerging countries located in Asia, three in the Middle East, four in Central and South America, three in Eastern Europe, and three in Africa. Japanese company interest is therefore broadly spread around the globe.

The second feature is that the area of most interest is Asia, as expected, followed in order by the Middle East, Central and South America, and Central and Eastern Europe. South Africa ranks seventh in terms of interest, reflecting the increased attention Africa has been garnering recently.

The third feature is that many of the JFIC 16 countries are rich in resources such as minerals, foods, and human resources (including those overseas remitting money back home), putting them in a position to benefit from rising prices on foods and natural resources. Even in countries where deteriorating terms of trade are causing incomes to move elsewhere, this can be offset by remittances from abroad, such as we see in Egypt.

(4) Shift to upper income levels in newly emerging countries, mainly in the BRICs countries, Russia, and Eastern Europe

In order to more closely examine the characteristics of different levels of disposable income in the countries and regions around the world, we regrouped the 15 income level categories from $500 through to over $75,000 into three main groups from lower to higher of five categories each, starting with the low-income group ($500-$4,999), the middle-income group ($5,000-$34,999), and the high-income group ($35,000+). The household breakdown for 2007 disposable income shows a large number of low-income households in the Asian Pacific, the Middle East, and Africa, with middle-income households numerous in Russia, Eastern Europe, and Central and South America. As expected, the high-income group was comprised mostly of Western Europe and the US.

The newly emerging countries have seen rising income levels in recent years, with consumption patterns diversifying and becoming more upscale. However, over 70% of households in the BRIC countries are still in the low-income group. While the 2007 figures alone are not enough to explain diversifying consumption, comparing income distributions between 2002 and 2007 clearly shows a major change. The middle-income group has grown dramatically in Russia and Brazil, with the low-income group shrinking from over 60% of the total to under 30%. Although China and India did not see as much change, the middle-income group expanded in China from 8% in 2002 to 20% in 2007, and in India, from 5% to 12%.

As to why there has been such a different shift in income levels between Russia and Brazil on the one hand and China and India on the other, it is likely due first to rapidly

rising energy resource prices boosting incomes considerably in Russia and Brazil. There are also differences in inflation, and greater increases in prices in Russia and Brazil have also acted to boost incomes from the low to the middle range. This has resulted in different growth rates in overall disposable income, with incomes in Russia rising from 2002 to 2007 by 214%, and by 162% in Brazil, compared to only 88% in China and 104% in India.

The shift to the higher-income group was also quite notable in the JFIC 16 countries. Overall, these countries reduced their weighting of low-income households, with sizable shifts to the high-income level in Pakistan, Thailand, Romania, Argentina, Venezuela, Egypt, Turkey, and South Africa, where inflation were relatively high. Mexico, the UAE, and Saudi Arabia decreased their weightings in the middle-income group, and increased them in the high-income group. Mexico and Saudi Arabia saw high-income households rise to 20% of the total, but the UAE pushed this to near 80%, making this one of the richest countries in the world.

In Eastern Europe, the shift to the higher-income group was seen due in part to direct investment by foreign companies primarily in the automotive sector, and to the ensuing increase in employment. Eastern Europe as a whole produced 2.44mn automobiles in 2006, with production in Poland rising considerably from 320,000 units in 2003 to 710,000 in 2006, Hungary rising from 130,000 to 190,000, and Romania rising from 100,000 to 210,000. Poland has become a manufacturing base for high-end consumer electronics destined for the European market, and the country currently produces 20% of flat-panel TVs for Europe, which is expected to increase to 70% by 2010. Romania has undergone a round of privatization, and reformed its tax code to implement a 16% flat tax rate from 2005, which appears to have led to increased disposable income.

Inflows of foreign investment have galvanized the local economies in Thailand, Turkey, and South Africa, lifting income levels. Disposable income in Thailand has risen substantially, with per-capita GDP reaching $4,000 in 2007. The social requirements for getting married are to have a house and a car, and high-end automobiles are apparently selling well.

European and Japanese companies are both making headway in Turkey, increasingly establishing local manufacturing bases to ship to markets in Europe and other Middle Eastern areas. South Africa, meanwhile, is a resource-rich country with not only diamonds and rare metals but also the sixth-largest reserves of coal in the world, with the number of households earning at least $15,000 rising to 1.37mn for black households in 2005, beating out the 1.19mn for white households. In Vietnam, high-end goods are selling better than the statistics due to factors such as rising stock and real

estate prices boosting the number of high-income earners, as well as increased overseas remittances and employment boosting household income levels.

Argentina is on a par with Turkey and Brazil in experiencing accelerated growth, since coming through its economic crisis in the early 2000s. Much as in Brazil, this has been backed largely by rising grain prices and an influx of foreign investment. Peru has seen an increase in middle-income households due to the country's enormous metal ore reserves, including copper, silver, lead, gold, iron ore, and even phosphorous and manganese. Similar to the situation in Mexico, the country has benefited significantly from money remittances from abroad, backing active middle-income level consumption that cannot be explained just on the basis of annual income statistics.

Excluding those Caribbean countries with small populations, Mexico ranks after Chile and Venezuela among Central and South American countries in terms of 2007 per-capita GDP. The country has many high-income households, numbering some 5.26mn in 2007 and accounting for 36% of all JFIC 16 high-income households. Turkey has 1.97mn high-income households, while Venezuela and Poland each have roughly 1.13mn. Among the BRIC countries, China has the most at 3.09mn, followed by Russia with 1.96mn. The US as a single country has 81.5mn high-income households, roughly 70% of Western Europe's 116mn.

Thus, we see that the JFIC 16 shift to higher incomes is occurring in other newly emerging countries and not just the BRIC countries, and also that some non-BRIC countries are even achieving higher incomes than the BRICs. The growing regions are widespread, and we look for Japanese companies to take a broad approach to these newly emerging markets.

(5) Big 3 consumption items are food and non-alcoholic beverages, housing, and transportation

The spread of credit cards and loans in the newly emerging countries has led to an increase in consumption. Countries such as Venezuela with high inflation rates that actually exceed interest rates effectively have negative interest rates, increasing the advantages of using loans. Rising employment has also increased the number of workers per family, and rising household incomes are another factor underlying growing consumption. Moreover, anticipations of further income growth are boosting consumer spending even more than increases in disposable income in some cases, buoying the propensity to consume.

According to Euromonitor, 2007 total worldwide consumer spending was up by 54% over 2002, amounting to $31,650bn. North America and Western Europe comprised

64% of the global total, followed by the Asian Pacific's 19%. The BRIC countries accounted for 10%, and the JFIC 16 for 8%. In terms of growth in consumer spending from 2002 to 2007, Russia and Eastern Europe were up the most by 172%, followed by Central and South America at 95%, the Middle East and Africa at 77%, and then Western Europe buoyed by a favorable economy to rise 72%. The BRICs were up by 89% to beat out the JFIC 16's 79%. This was due to the inclusion in the JFIC 16 of countries with growth rates under 60%, such as Mexico, Saudi Arabia, Peru, and Egypt. The countries with high growth rates tend to be resource-rich and have high inflation.

2007 consumer spending by country for the BRICs and JFIC 16 shows that China, Brazil, Russia, and India come out on top, followed by Mexico, Turkey, and Poland. Countries with high consumption growth rates from 2002 to 2007 were Russia (up 244%), Romania (272%), Nigeria (208%), Turkey (188%), Argentina (146%), and South Africa (159%).

Looking at consumption of goods and services by category, the three biggest spending items for the newly emerging countries are foods and non-alcoholic beverages, housing, and transportation (including vehicle purchases). The weighting for foods and non-alcoholic beverages was lower in Europe and the US, with heavier weightings for housing, cultural and entertainment, accommodation and food services, and other consumer spending (including beauty products and services, and entertainment). Health insurance spending also had a heavy weighting in the US.

2007 BRIC spending on foods and non-alcoholic beverages comprised 31% of the total, while housing accounted for 13% and transportation for 10%. China and India each spent almost 35% of their totals on foods and non-alcoholic beverages, and 10% of Chinese consumption went to telecommunications, for double the level in other BRIC countries. Conversely, transportation spending in China was quite low at only 3% of the total. The biggest weightings in the "other" category were Brazil's 14% and India's 10%. The JFIC 16 average 2007 weighting for foods and non-alcoholic beverages came to 26%, compared to 19% for housing and 13% for transportation. Egypt's foods and non-alcoholic beverages spending comprised 40% of the country's total, whereas in the UAE, this category only accounted for 9%, with the difference instead able to be spent on other items like transportation and education. Those countries with a weighting of around 40% for foods and non-alcoholic beverages were Pakistan, Vietnam, Egypt, and Nigeria. This weighting stood at a low 17% for Hungary and at around 20% for Poland, Argentina, and South Africa.

Housing expenditures in most JFIC 16 countries exceeded 10%, but in Vietnam, this category accounted for only 4%. Meanwhile, transportation costs had a low weighting

of 4% in Pakistan, and 7% in Egypt and Nigeria. Accommodation and food services accounted for a high 9% in Peru, while clothing and shoes was up to 10% in Saudi Arabia. The "other" category amounted to 13% in Poland, 10% in Argentina, and 11% in Mexico, Saudi Arabia, and South Africa, suggesting that income levels leave some room for luxuries.

Categories that posted high growth from 2002 to 2007 in both the BRIC and JFIC 16 groups were cultural and entertainment, telecommunications, transportation, and furniture and household items. Clothing and footwear also posted high growth in the JFIC 16 countries, while accommodation and food services as well as health insurance also grew substantially in the BRIC countries. Spending growth was surprisingly rapid for Russian telecommunications (718%), education (538%), and accommodation and food services (473%), and was also rapid for Indian telecommunications (198%) and Chinese transportation (187%). In the JFIC 16 countries, transportation spending rose higher than other categories in Pakistan (133%), Thailand (123%), and Turkey (345%). Countries with relatively rapid growth of the "other" category were Thailand (142%), Argentina (166%), and Poland (107%).

Russia is notable for not just increasing its disposable income, but also for its low weightings for saving, housing, and utilities, as most spending is going towards consumption. Compared to other countries of similar income levels, Russia has considerable purchasing power. In China, despite the demographics already leaning towards older ages, the one-child generation receives substantial family financial support from both parents and both sets of grandparents, and the resulting high purchasing power for housing or luxury goods is helping drive the Chinese consumer market.

Some examples of sales promotions for automobiles and other items are consumption tax exemptions in Venezuela, or lowered import tariffs and income taxes in Egypt. Imports of used automobiles into Mexico have been up sharply since the 2005 abolition of import restrictions for vehicles manufactured by NAFTA signatories. In Poland, the 2004 ascension to EU membership brought with it the end to used-car emissions gas regulations, and of the 1.29mn passenger automobiles sold in 2007, the share of new cars had declined to 20%. Due to higher insurance fees for used automobiles, more foreign insurance companies are entering the Polish market, such as French firm Axa.

Vietnam is set to liberalize its retail markets in 2009, and companies are eagerly anticipating the event. The markets have become more energetic, with foreign investment quintupling from 2005 to 2006, and the expected increases in both income levels and younger generations should be positive for future development. Of note in

Vietnam is the large number of motorbikes, but spending for high-end automobiles, golf fees, and other items are increasing. Meanwhile, many department stores and hypermarkets have set up shops in Thailand, leading to more diverse consumption. Automobile sales have also been firm, with the country posting a heavier weighting for automobile purchases than other countries.

Consumption in Turkey is typified by a preference for new items, brand goods, and visually attractive items. Meanwhile, more long-term planning backs some trends, as consumers tend to look beyond just the brand name for good after-sales service as well. South Korean products have come to the fore recently for automobiles and consumer electronics, threatening the dominance of Japanese brands.

(6) Younger shoppers more influential in newly emerging consumer markets

In China and Vietnam, younger people are shopping more, not just at high-end specialty shops but at supermarkets as well. Despite the advancement of graying demographics in China, the so-called "post-80" generation of those in their teens and twenties born after 1980 tend to lead consumption trends. The one-child generation is sometimes described as having six pockets money-wise, given their financial support from both parents and both sets of grandparents. The impact of such support from family members is considerable, aiding in the purchasing of not just condominiums, but also high-end handbags and automobiles.

In Russia, per-capita income is on the rise among the younger generations, and is already higher than the overall average. This is backed both by a declining unemployment rate, reflecting a strong economy, as well as higher educational achievements among younger people, all leading to an increase in income levels. Moreover, younger Russians can afford to buy automobiles as they have little need to spend on housing, allowing them to put large part of their disposable income towards consumption. Thus, a younger person with an annual income of some $20,000 is still able to buy a car. Paying for items such as cars and consumer electronics using loans is also gaining acceptance in the newly emerging countries, which likewise is bolstering consumer confidence among younger generations.

In Asia, Indonesia is notable for higher average income levels stands among 20th and 30th compared to other age groups, and these levels are increasing year by year. Vietnamese demographics lean heavily towards the younger generations, and rising employment is bringing about increased incomes, with overall purchasing power including for younger people on the rise, supported not just by family members in Vietnam, but also by remittances from family members living overseas.

Items where younger people (specifically, those under 30th) are leading consumption appear to be foods and non-alcoholic beverages, fashion, consumer electronics and IT products, furniture, household goods, telecommunications services, and education. As income levels in the emerging countries rise, this expands to include automobiles, housing, and high-end or brand furniture and other goods. The popularity of Japanese-made beverages in China appears to be due to an image of hip-ness expressed by the shape of the bottles and other factors. Younger generations are also more likely to go online to find information about products and fashions. Despite relatively low rates of PC ownership in Vietnam, younger people there still go online by frequenting internet cafes, where they research a broad swath of subjects from job prospects to the latest discount sales. Parents indirectly benefit as they glean such information from their children, such that younger generations influence the consumptions patterns of the whole family.

Not all of the newly emerging countries have the same "six pockets" situation as in China, but they do all, aside from Russia and Eastern Europe, demographically lean towards the younger generations. India, Pakistan, Vietnam, and other Asian countries; Turkey, Saudi Arabia, the UAE, and other Middle Eastern countries; Mexico, Venezuela, Peru, and other Central and South American countries; and Egypt, Nigeria, and other African countries all have heavier demographic weightings towards the younger end. Looking at 2007 population statistics for those aged 0-39 shows that this segment comprised roughly 50% in Europe and the US, but 65% in the BRIC countries, and 73% in the JFIC 16 (Figure III-19).

Larger young populations in the emerging countries imply that parental purchasing power is correspondingly more likely to be focused on their children. Even countries such as China, where the one-child policy has brought about a graying demographic and a smaller young population, spending on children does not tend to decrease. Instead, demand rises for baby products, milk, and other high-quality, high-end items.

Figure III-20 shows actual relative purchasing power (incomes) for younger generations. As shown in the graph, incomes for people under 40 comprise 38% of the total for the G7 countries, but 53% in the BRICs and 57% in the JFIC 16, clearly indicating higher income levels for younger people in the newly emerging countries. Higher relative incomes for younger people tend to translate to relatively more of an impact on consumption than for older generations, in a simple comparison. Considering also support from parents and grandparents for purchases of housing, automobiles, clothing, consumer electronics, and other items, the impact of younger consumers on the whole consumer market is even higher than the numbers suggest.

Incomes for younger people are sometimes put towards the whole household, and do not always go directly towards purchasing power. However, surveys show that roughly half of parent incomes in China are spent on their children, and thus consumption trends are expected to develop along similar lines in other emerging countries, with spending centered around education.

Aging demographic trends are beginning to be seen in emerging countries as well, as was seen in the developed countries, and the long-term picture suggests an increasing influence from older generations. That said, newly emerging countries are likely to maintain a heavier demographic and income weighting towards younger generations than in the developed countries. Upon factoring in greater abilities to use the internet for research, deeper understanding of product technological advancements, active use of loans, and the use of parental incomes, younger generations are expected to have a major impact on consumption trends in the markets of newly emerging countries. Japanese companies will therefore need sales strategies for the newly emerging countries, such as China, India and the other BRICs and JFIC 16, that take the consumption trends and influence of younger age brackets into account.

(7) Penetration rates for durable consumer goods in newly emerging countries expected to rise further

Table III-5 shows the 2007 penetration rates by region for ten types of durable consumer goods. In the chart, we see that North America and Western Europe are almost saturated for everything but air conditioners, game consoles, and motorcycles. Demand going forward will therefore be primarily based on replacement. For air conditioners, Western Europe has a penetration rate of only 10%, making growth in this area likely.

Another region with advanced market penetration is Eastern Europe. Color TVs, refrigerators, and washing machines have penetration rates of over 80%, and penetration rates for vacuum cleaners and passenger cars are close to those in the US and Europe. Penetration rates are rising for consumer electronics in the Asian Pacific region, and although they are not as high as in Eastern Europe, they are on a par with Central and South America. That said, there is still room for growth. Rates in the Middle East and Africa have not reached the levels seen in other regions, excluding a few richer countries, and these regions have the best prospects for growth going forward.

By country, China has extremely high penetration rates for color TVs, cellular phones, and refrigerators. India, meanwhile, has low rates overall for everything but color TVs, suggesting that a giant of a market lies sleeping. Much like India, Pakistan, Vietnam,

and Nigeria are also prospective high-growth markets. By product, penetration rates worldwide for air conditioners, cameras, PCs, and passenger cars are only some 30-40%, and would have to sell at double the current rate to achieve the same levels seen for refrigerators and washing machines.

Penetration rates for cameras and cellular phones are considerably low compared to other countries in India, Pakistan, and Nigeria, leaving ample room for growth. Passenger car penetration rates stood at 6.2% in China, 5.5% in India, and only 1.1% in Vietnam, leaving room to double or even increase by an order of magnitude to reach the 12.2% seen in Thailand.

Table III-2 Total consumption demand for Japanese goods and services by country and region (2005)

(Unit:billion yen, %)

	North America		Central and South America	Asia				Middle East	Europe		Oceania	Africa	World
		U.S.			China	ASEA N4	NIES3			EU			
Local sales by local subsidiaries (a)	54,926	52,173	3,021	29,960	9,948	9,271	9,412	243	17,787	17,340	2,684	704	109,325
Imports from Japanese companies in other countries (b)	9,843	9,056	2,830	19,012	6,759	5,447	6,133	264	17,421	17,073	2,484	663	52,517
a+b (c)	64,769	61,229	5,851	48,972	16,707	14,718	15,545	507	35,208	34,413	5,168	1,367	161,842
″c″ (d)	54,535	51,555	4,927	41,234	14,067	12,393	13,089	427	29,645	28,976	4,351	1,151	136,270
Exports from Japan of goods and services (e)	18,757	17,511	3,215	34,192	13,150	6,266	8,597	2,055	13,650	12,183	1,974	929	74,772
Total consumption demand (d+e)	73,292	69,066	8,142	75,426	27,217	18,659	21,686	2,482	43,295	41,159	6,325	2,080	211,042
Share of total consumption demand	34.7	32.7	3.9	35.7	12.9	8.8	10.3	1.2	20.5	19.5	3.0	1.0	100.0

(Note)

(1) "a" and "b" are local sales by local subsidiaries, and imports into the relevant regions from Japanese companies in other countries, respectively, both for fiscal 2005. "e" is exports of goods and services, for calendar 2005.

(2) "d" is calculated by multiplying "c" by the 84.2% average ownership stake by Japanese companies in their overseas subsidiaries (the average figure is calculated from METI's Survey of Overseas Business Activities).

(3) Imports from Japanese companies in other countries into China, the ASEAN4, and the NIES 3 (b) are calculated from the weightings of Asian regional sales.

(Source) Figures are calculated based on METI's Survey of Overseas Business Activities, and the Bank of Japan's balance of payments tables.

Table III-3 Total consumption demand for US goods and services by country and region (2004)

(Unit:billion dollars, %)

	Canada	Central and South America			Asia-Pacific			Middle East	Europe					Africa	Wolrd	China (incl. Hong Kong)
			Brazil	Mexico		Australia	Japan			France	Germany	Netherlands	UK			
Local sales by local subsidiaries (a)	309.9	220.7	57.1	82.7	467.5	71.0	164.1	10.8	1,005.8	122.0	163.8	61.4	310.2	26.4	2,041.1	71.7
Imports from US companies in other countries (b)	13.6	53.2	13.8	19.9	190.1	28.9	66.7	21.2	566.9	68.8	92.3	34.6	174.8	16.5	861.5	29.2
a+b (c)	323.5	273.9	70.9	102.6	657.6	99.9	230.8	32.0	1,572.7	190.8	256.1	96.0	485.0	42.9	2,902.6	100.9
Exports from US of goods and services (d)	219.9	230.2	18.7	128.7	313.4	20.9	88.4	36.9	330.7	34.4	50.4	32.8	77.2	21.1	1,152.2	61.7
Total consumption demand (c+d)	543.4	504.1	89.6	231.3	971.0	120.8	319.2	68.9	1,903.4	225.2	306.5	128.8	562.2	64.0	4,054.8	162.6
Share of total consumption demand	13.4	12.4	2.2	5.7	23.9	3.0	7.9	1.7	46.9	5.6	7.6	3.2	13.9	1.6	100.0	4.0

(Note) Chinese figures for local sales by local subsidiaries and for imports from US companies in other countries are each calculated by multiplying the respective totals for the Asian Pacific region by the sales weighting of Chinese subsidiaries relative to the Asian Pacific regional total.

Source: Based on the US Department of Commerce's "Survey of Current Business".

Table III-4 Markets in 16 emerging countries that attract growing interest, and the type of resource endowment

	JFIC16	Region	Number of J-FILE cases for FY2007			Per capita GDP (dollars)	Population (1,000 people)	Type of resource endowment			% of GDP (2006)	
			(1,000 cases)	Yoy change in 2007	Yoy change in 2006			Mineral resources	Food resources	Human resources	Trading gains/loss	Remittance from abroad
1	Vietnam	Asia	182	34.5		818	85,407	○	○	○	0.6	7.9
2	Thailand	Asia	159	32.9		3,882	63,137		○	△	△ 6.4	0.6
3	Turkey	Middle East	85	72.9	21.5	9,033	73,443		○		△ 5.0	0.3
4	UAE	Middle East	70	28.4	33.6	40,001	4,815	○			45.4	−
5	Pakistan	Asia	69	56.6		877	163,902			○	△ 4.9	4.0
6	Mexico	Central and South America	69	32		8,232	108,522	○		○	2.3	2.9
7	South Africa	Africa	65	31.2	24.4	5,625	50,250	○	○		0.0	0.3
8	Venezuela	Central and South America	64	69.3	23.2	8,647	27,339	○			49.9	0.1
9	Saudi Arabia	Middle East	54	22.4	22.3	15,192	24,735	○			34.6	−
10	Peru	Central and South America	53	56		3,826	28,573	○	○	○	3.5	2.0
11	Poland	Eastern Europe	52	17.7	32.6	11,006	38,102		○	△	1.4	1.3
12	Argentina	Central and South America	49	33.8		6,825	38,438	○	○		2.4	0.3
13	Romania	Eastern Europe	44	44.2		7,653	21,556			○	12.8	5.5
14	Hungary	Eastern Europe	41	33		13,759	10,058		○		△ 3.3	0.3
15	Nigeria	Africa	40	33.1		1,120	148,093	○		○	23.6	2.9
16	Egypt	Africa	40	40		1,742	73,971	○		○	△ 4.9	5.0
	JFIC16					4678	960,340					
	Worldwide		4,377	28.3	9.2	8,253	6,637,864					
	BRICs					2,563	2,789,649					
	Chian		378	23.6	6.5	2,585	1,315,302		○		△ 1.4	0.9
	India		172	13.2	28.2	1,005	1,140,503		○	○	△ 7.4	2.8
	Russia		126	35.8	42.2	9,078	142,054	○		△	20.5	0.3
	Brasil		113	27.7	48.6	6,852	191,791	○	○		△ 2.3	0.4

(Note)

(1) Emerging countries that attract growing interest: Countries that are ranked in the top fifty in terms of the number of J-FILE searches with the developed countries and the BRICs excluded, to which the number of hits rose 30% or more yoy in 2007 or rose 20% or more yoy in 2006 and of which the per capita GDP amounts to at least 500 dollars

(2) For J-FILE country and region, data as of March 21, 2008 was used, and for the per capita GDP and population, data as of 2007 was used.

(3) The "type mineral resources" means that "iron ores + mineral fuels" and "base metals and their products "are in the black, thereby benefitting from the trade.

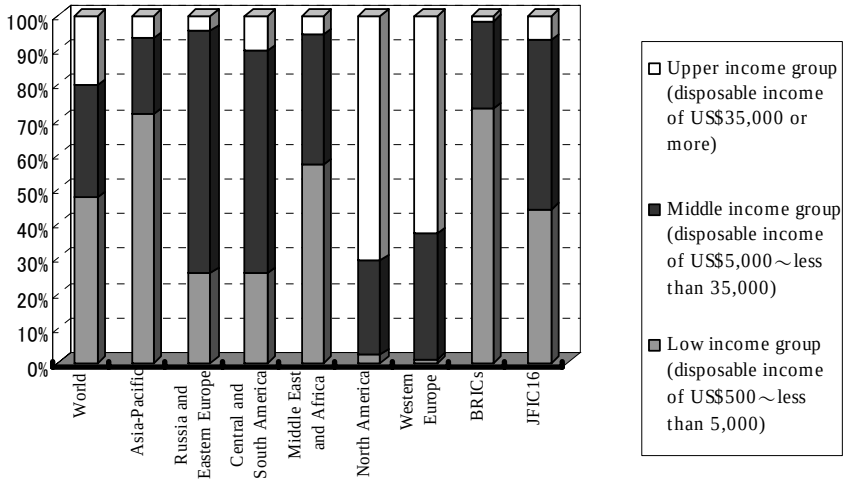
(4) Peru and South Africa are treated as mineral resources because the surplus in "base metals and their products" outpaces the deficit in "iron ores + mineral fuels."

(5) "Food resource type" are countries with trade surplus by Foods. Human resources type: countries whose remittance from overseas workers accounts for 2% or more of GDP are ○, less than 2% to 1% are △

(6) Profit on terms of trade against GDP is bsed on 1990 prices.

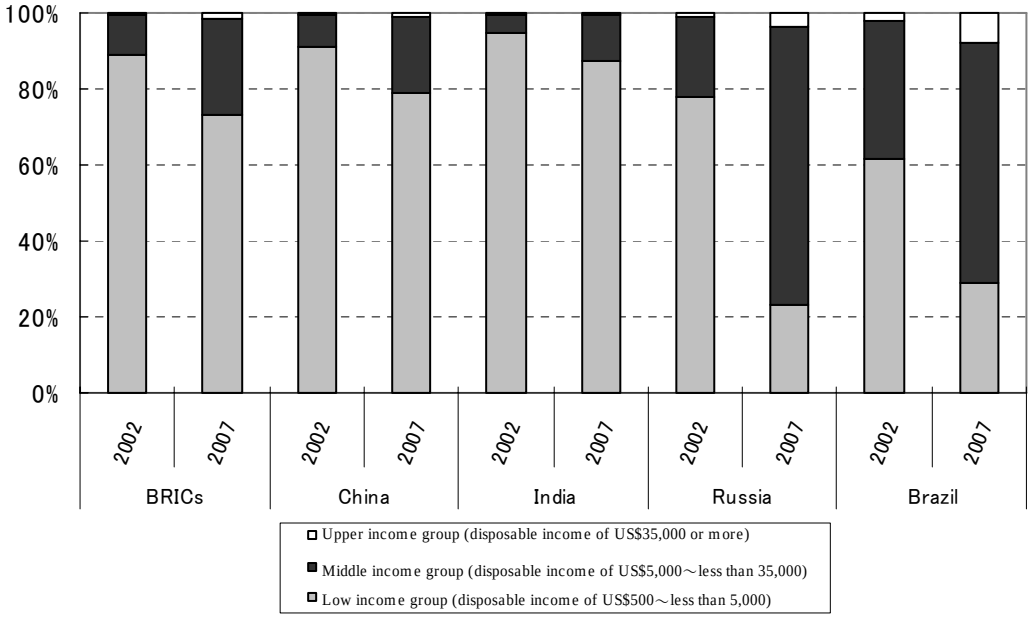
(Source) JETRO's internal information, Euromonitor International, and JETRO overseas information files and the number of accesses by country

Fig. III-11 Distribution ratio of number of households by disposable income group worldwide in 2007



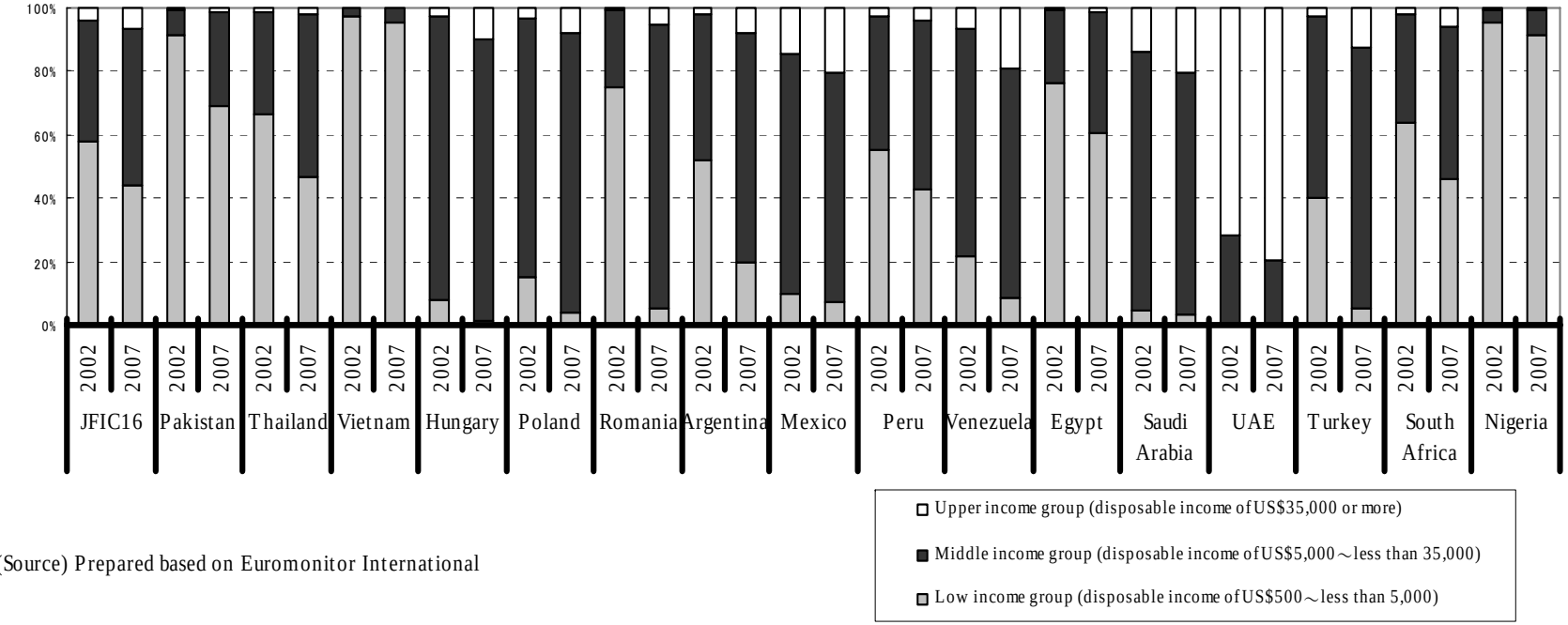
(Source) Prepared based on Euromonitor International

Fig. III-12 Distribution ratio of number of households by disposable income group in BRICs (2007/2002)



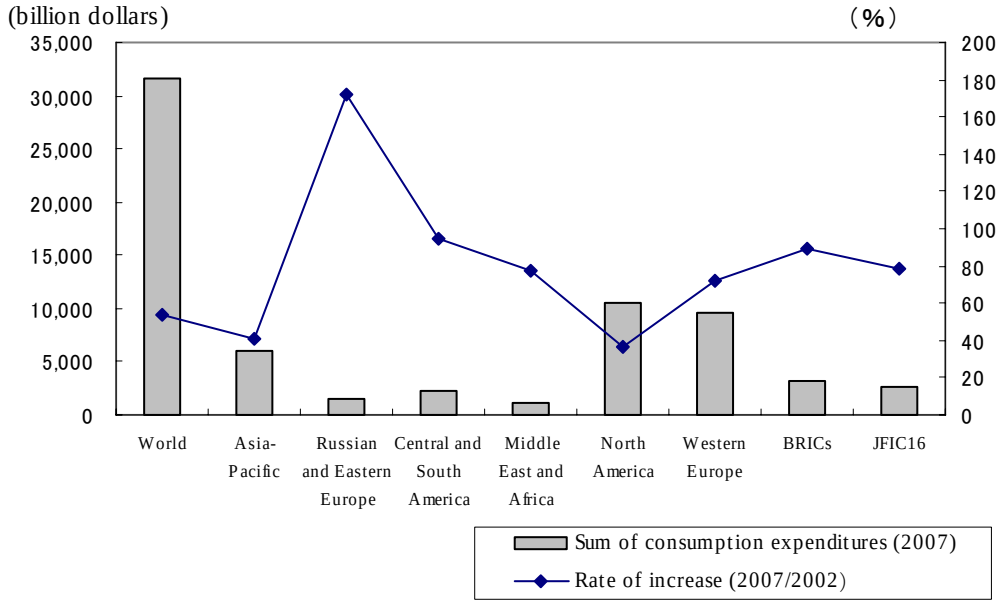
(Source) Prepared based on Euromonitor International

Fig. III-13 Distribution ratio of number of households by disposable income group in JFIC16 (2007/2002)



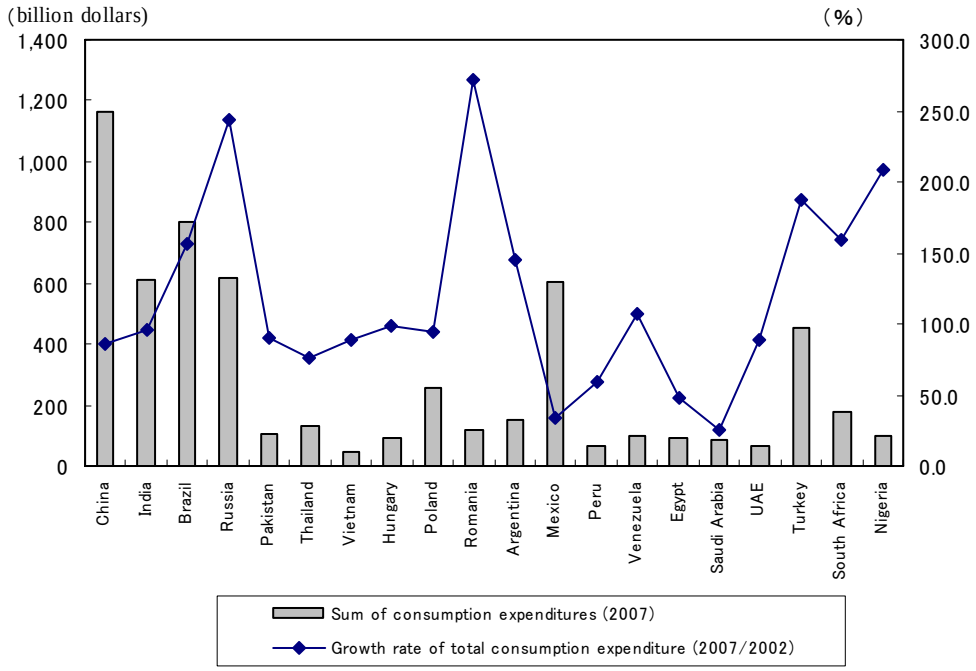
(Source) Prepared based on Euromonitor International

Fig. III-14　Consumption expenditure of world and rate of increase



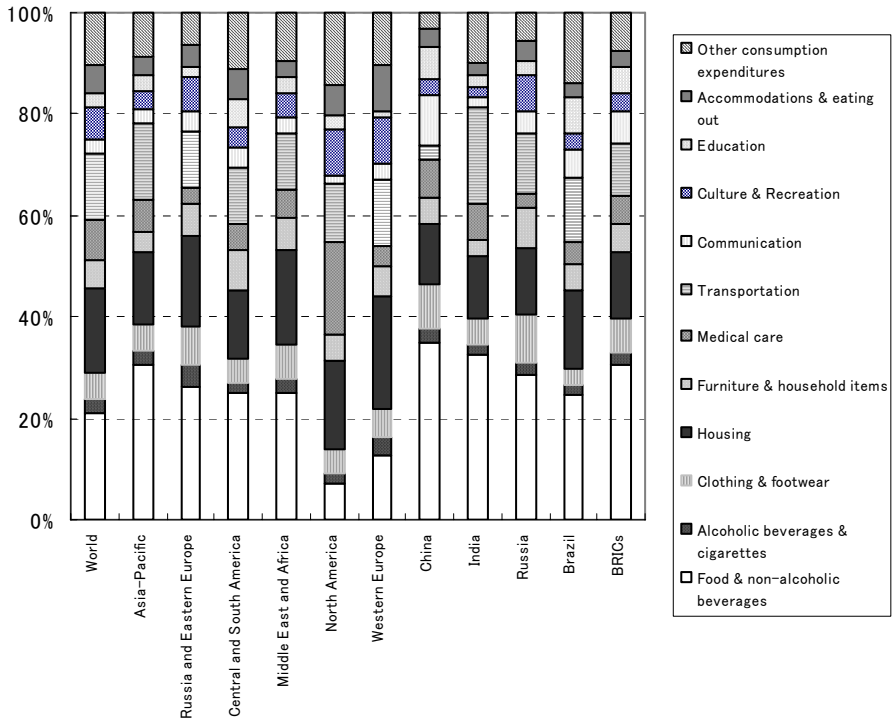
(Source) Prepared based on Euromonitor International

Fig. III-15　Consumption expenditure and rate of increase in BRICs and JFIC16



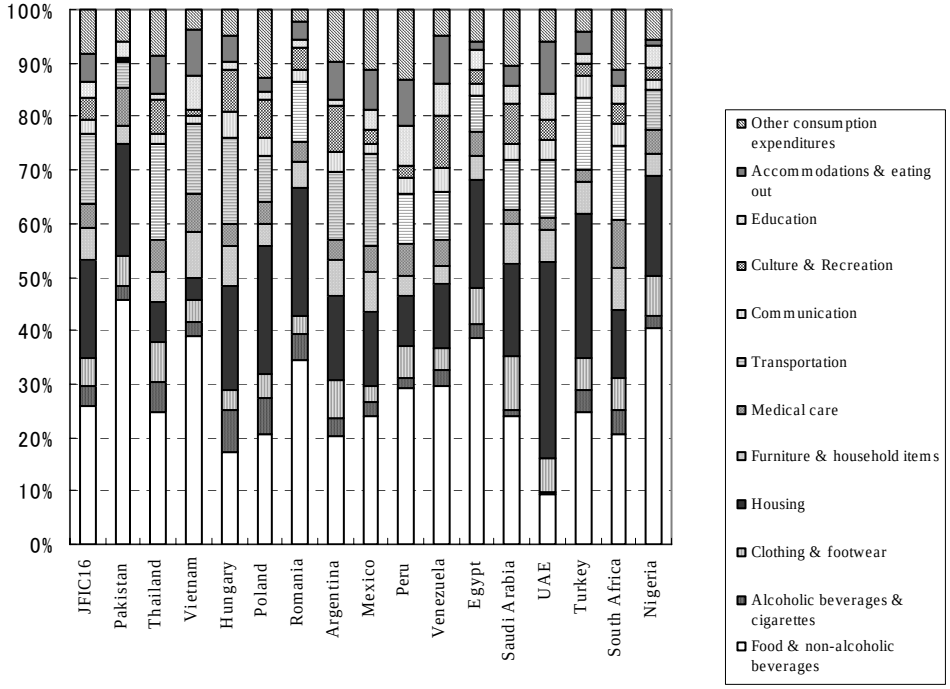
(Source) Prepared based on Euromonitor International

Fig. III-16　Distribution of consumption expenditure in world and BRICs in 2007



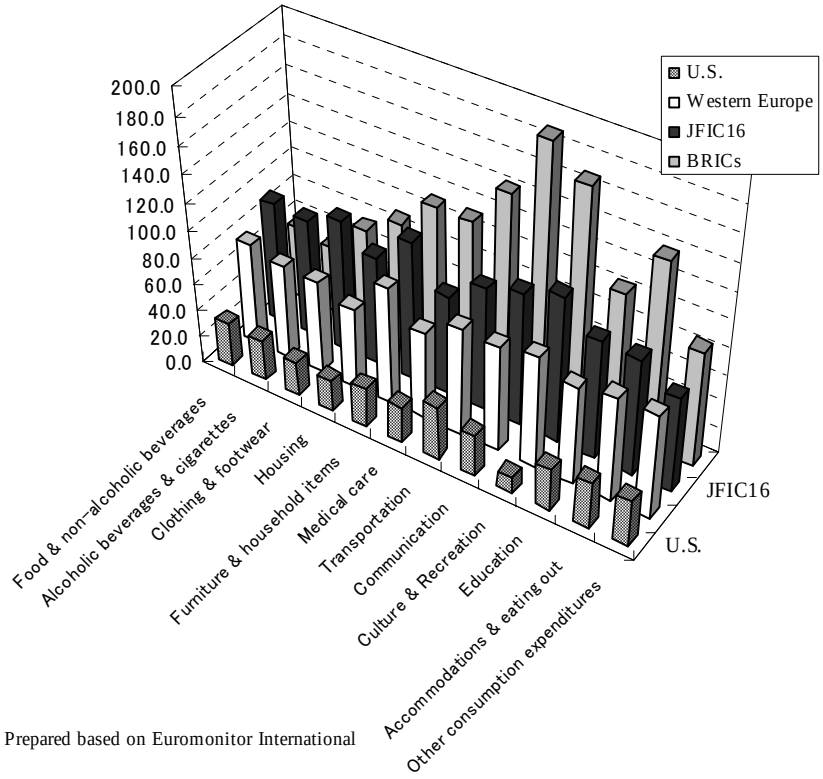
〔Source〕Euromonitor International

Fig. III-17　Distribution ratio of consumption expenditure in JFIC16 in 2007



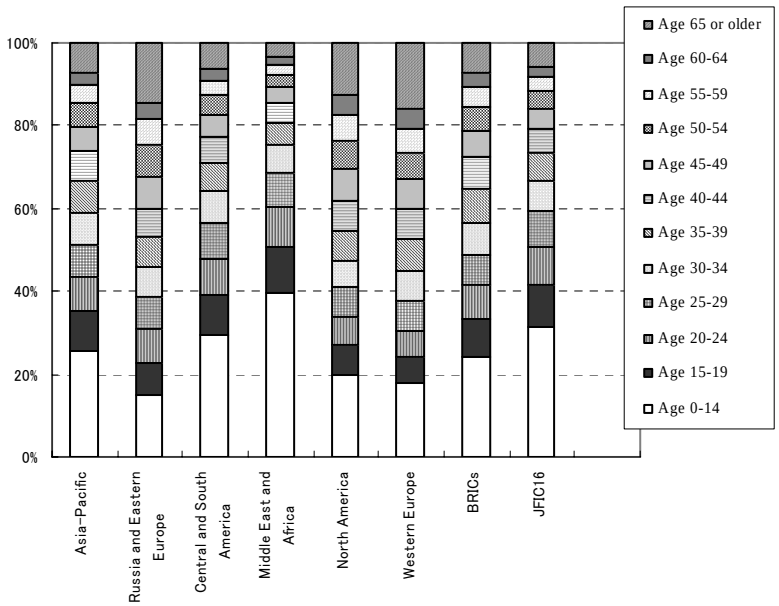
(Source) Prepared based on Euromonitor International

Fig. III-18 Rate of increase by item of consumption expenditure of world (2007/2002)



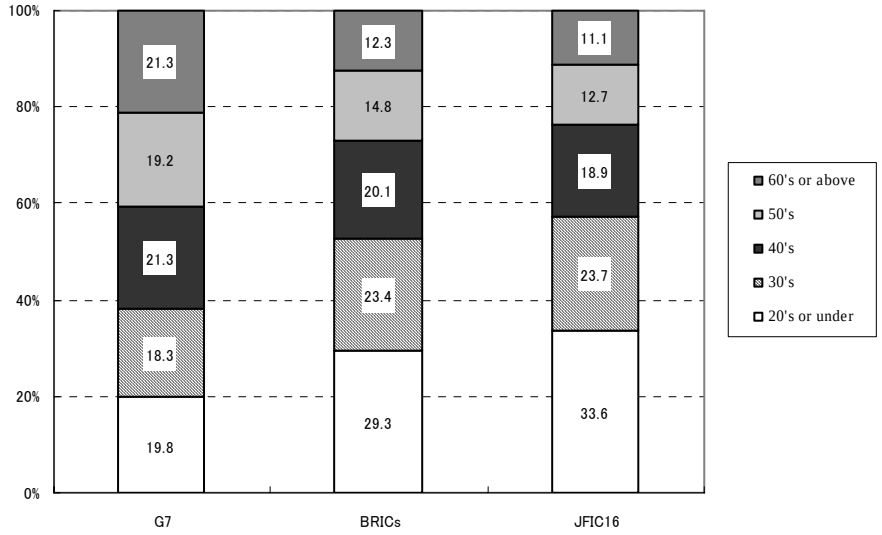
(Source) Prepared based on Euromonitor International

Fig. III-19 Distribution ratio of age by region in world



(Source) Prepared based on Euromonitor International

Fig. III-20 Distribution ratio of disposable income by age group



(Source) Prepared based on Euromonitor International

Table III-5 Penetration rate of durable goods per household in world, BRICs and JFIC16 (2007)

	Air-conditioner	Camera	Color TV	Mobile phone	Motocycle	Passenger car	PC	Refrigerator	Vacuum cleaner	Game machine	Washing machine
World	31.5	32.5	77.2	–	9.6	27.2	35.7	63.5	46.9	6.6	52.6
Asia-Pacific	45.8	23	82.9	–	10.5	11.6	35.6	58.1	40.0	3.4	46.4
Eastern Europe	2.6	38.9	88.2	–	10	37.5	33.8	85.3	75.0	4.5	80.8
Central and South	9.5	18.9	76.4	–	5.5	27.1	18.9	70.1	24.4	7.4	43.5
Middle East and Africa	4.5	4.1	22	–	4.6	9	4.7	20.2	8.2	1.4	15.7
North America	61.7	97.1	98.8	–	5	87.6	73.4	99.9	98.1	24.2	84.1
U.S.	63.2	97.7	98.8	81.2	4.9	87.8	73.1	100	98.3	24.2	84.3
Western Europe	9.8	73.8	97.1	–	17.3	74.9	62.5	98.5	90.7	16.8	94.1
BRICs											
China	–	22.9	98.6	93.3	9.5	6.2	53.7	92.2	47.1	1.4	68.1
India	1.6	4.4	78.9	9.5	5.2	5.5	13.4	18.1	28.6	0.9	18.2
Russia	2.8	43.1	95.1	67.5	17.3	38.3	38	96.1	84.7	3.6	96.1
Brazil	11.5	16.5	93.4	66.1	7.9	35.3	22.6	89.8	31.5	7.3	35.8
JFIC16											
Pakistan	1.5	3.4	67	9.6	15.2	4.7	10.2	16.4	28.1	0.6	14.6
Thailand	13.3	79.3	95.5	74.2	21.6	12.2	21.7	85	37.3	9.3	46.2
Vietnam	2.7	4.5	76.5	10.1	10.8	1.1	13.8	26.9	27.1	0.1	12.3
Hungary	3.4	70.5	98.9	84.8	14	59.5	55.5	39.6	93.1	10.4	80.6
Poland	3.2	57.3	98.7	79.7	3.4	49.6	45.5	97.6	93.5	8.1	80.9
Romania	1.8	40.3	88.3	49.8	1.2	30.2	30.2	86	55.8	3	75.2
Argentina	14.2	38.4	95.4	68.5	15.1	42.8	27.3	90.5	38.4	14.2	91.6
Mexico	12	27.9	93.9	66	1.6	40.2	24	80	28.4	12.5	81.7
Peru	14.7	28.6	60.1	22.2	3.6	18.5	12.9	42.1	25.1	2.5	17.7
Venezuela	17.6	22.9	88.9	80.3	9.9	19.7	23.5	96.8	28.5	8.5	59.7
Egypt	3.2	4.9	83.4	30.2	7.9	25.9	11.6	89.1	17	1	92.2
Saudi Arabia	80.2	35.2	97.7	84.5	16.2	80.6	37.5	97.9	95.4	11.8	96.4
UAE	90.7	16	99.8	93.1	12.2	97.1	47.3	99.9	98.4	15.1	99.3
Turkey	8.1	29.8	92.4	84.7	12	37.6	21.8	98.2	80.8	16.2	89.6
South Africa	16.5	13.2	64.5	44.2	11	33.2	15.6	52.5	39.1	6.8	45.7
Nigeria	1.8	4.9	35.3	10.8	17.6	12.4	4.8	21.9	8.5	0.8	11.3

(Source) Prepared based on Euromonitor International

3. Characteristics and Trends of Consumer Markets in Countries throughout the World

(1) Consumer markets maturing in developed countries

Consumer markets in the developed countries are growing more slowly than in the newly emerging countries, but consumption expenditure of the US and the three main countries in Europe (the UK, Germany, France) comprised 46% of the global total to maintain the leading position in terms of worldwide consumption.

In addition to the various factors leading to more diverse demographics and household composition, including falling birth rates, aging populations, people getting married later in life, and an increase in households with no children, rising environmental concerns are also having a major impact on consumption behaviors. As Japanese companies work to gain market penetration, it is important that they keep an eye on these trends and narrow their focus on target markets.

■ **Health, environment, and CSR all having major impact on consumption**

The main European countries of the UK, Germany, and France have many consumers that shop with a keen eye on the value of products or brands. As women have become more active participants in European societies and the number of single-person households has increased, lifestyles are more resembling the norm in the US, leading to increased demand for dining out and delivery services and the spread of take-out food establishments such as Starbucks. Meanwhile, consumers in Europe tend to be more concerned about the environment than their US counterparts (Table III-6).

In the UK, people are increasingly concerned about ethical behavior. An example of how this is materializing is how consumers are changing their behavior to buy more energy-efficient products and make more use of public transportation. Heightened health consciousness is leading to rapid growth in sales of organic foods and beverages that use no pesticides or other agricultural chemicals and are easier on the environment. Backed by active support to developing countries, sales of Fair-trade [(6)] foods and beverages in 2006 were up 46% from the year before. The Fair-trade label is recognized by a high 57% of UK adults.

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6. The fair trade movement aims for sustainable agricultural development and the improvement of standards of living by trading in the agricultural products of developing countries at a fair price, and thus fair trade products tend to be more expensive.

In Germany, consumers take environment into considerations in nearly all purchasing decisions (Roland Berger brand survey, in the economics publication Absatzwirtschaft). Roughly half of people in Germany view environmental and social harmony as extremely important when deciding on their food purchases, and are apparently willing

to pay more for clothes, shoes and services that environment friendly. Germans are also highly aware of Fair-trade products, and severely check damage on environment and child labor in manufacturing processes.

In France, consumers tend to base product purchase decisions on safety considerations. Cosmetics that use organic ingredients and are approved by the government to use the "BIO" [7] label are gaining ground in the market. Moreover, rising health and environmental awareness have made bicycles a common form of transportation in urban areas.

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7. Certifies that at least 95% of the constituents of a product are derived from either natural or organic sources.

Consumers that prioritize the environment and health over prices will be an important key in discerning future consumption trends in Europe.

In the US, recent years have seen the sizes of many different products increase. 2006 new car sales averaged 1.9 tons per vehicle, an increase of almost 20% from the 1.6 tons in 1996. The average screen size of TVs sold in 2006 was 26 inches, following ten years of screens growing by roughly one inch annually (US Consumer Electronics Association). From 1980, refrigerators have increased in size by 10% and washing machines by 25% (Association of Home Appliance Manufacturers). However, since 2007, rising crude oil prices and pessimism about the future of the US economy, among other factors, appear to have put the brakes on increasing product sizes, and smaller models are now preferred in the automobile market, for example. Sales of SUVs and large pickup trucks, with their poor fuel economy, have been declining sharply as consumers increasingly switch to hybrids and compacts. Consumers are also increasingly concerned about energy efficiency and environmental impact when shopping for other items such as consumer electronics and household goods, out of a growing awareness of maintaining their standard of living amidst rising prices. People are also more focused on health issues, leading to the rapid increase in sales of organic foods, primarily among high-income consumers.

In the US and European markets, consumers are ever more mature, and increasingly looking beyond just quality and performance to also factor in whether companies are maintaining corporate social responsibility (CSR), and making purchasing decisions based on comprehensive judgments. Establishing a positive brand image in this context is another important key to success in these markets.

(2) Newly emerging countries hold untapped potential for consumer markets

The BRIC countries are continuing their impressive growth backed by rising income levels, but consumption structures differ for each country. Consumption expenditure as

a percentage of GDP in 2007 stood at 80% in Brazil, 66% in Russia, 63% in India, and 40% in China. The remarkably low figure for China highlights how economic growth is led by investment rather than consumption. This could also be viewed as an indicator of room for further consumption growth.

Population projections by the UN show that, while Russia's population began shrinking in the mid-90s, China's will peak around 2030. On the contrary, Brazil and India are likely to see continued population growth until 2050. Broadly categorizing future targeted consumer groups by generation, the focus in India and Brazil will be broader and relatively younger than in China and Russia.

■ Young age groups leading consumption in China (case of Shanghai)

The driving force behind Chinese consumption is the age bracket from the mid-20s through the mid-30s. This bracket is very interested in improving their careers and standards of living on all levels, and is also very interested in foreign brands. In the near future, consumption will be led by the age group born after the introduction of the one-child policy in 1979, the so-called "post-80" generation. While income levels of “post 80” are not very high, these people are very adept at gleaning information online or via word of mouth, and are leading consumption in areas such as consumer goods, digital products, and fashion. Of particular note, women have considerable influence over purchasing decisions not only for themselves but also for men’s goods. (Table III-7).

Lifestyles are changing, primarily for people in the white-collar, high-income brackets. In Shanghai, many households have both husband and wife working, and fewer than 5% of households cooking every day at home (Survey by Shanghai Jiao Tong University, 2007). Frozen, reheatable, pre-packaged, and instant foods consequently have wide acceptance. The food service industry in China as a whole is continuing to grow by double digits, and numerous Japanese companies have entered the Chinese market.

There is considerable interest in food safety, and demand for foods in Shanghai is also changing to focus more on health and high quality. Large supermarkets have set up organic produce areas, and for beverages, middle- and high-income consumers are supporting the spread of vegetable juices and mineral water.

In major Chinese urban cities, including Shanghai, consumers are increasingly demanding high quality, while also having strong faith in the value of foreign brands and high-priced goods. Due to the redundancy of domestically produced goods, there is fierce competition for low-priced merchandise, and thus in gaining market share it is very important to enhance the value of brand and build up a favorable image for young consumers.

■ **Russian markets seeing overheating for high-end goods**

Rising income levels, buoyed by increasing resource prices since the mid-2000s, have been one major factor behind the rapid rise in Russian consumption. That said, we look at some of the social background of expanding consumption since the early 2000's, prior to the spike in resource prices. (1) Most households do not have sizable housing loans to repay, and utilities and other living expenses are low. (2) Russians are very distrustful of financial institutions, and are thus more prone to put any savings towards consumption. (3) Both the man and woman work in more than half of married couples. In addition, one more factor spurring consumption growth has been the rapid spread of sales on installment and consumer loans, making it easier for people to purchase automobiles and other big-ticket durable consumer goods. Compared to Europe, the average Russian new-car buyer is notably younger and has a notably lower average annual income (Table III-8). Russia has undergone major political and social changes during the 20 years of transition to a market economy, including the confusions brought on by economic structural reform by the IMF, and lifestyles have also gone through substantial changes. Some of these changes include: (1) instead of the conventional greengrocers, supermarkets and hypermarkets are more common; (2) shift from a vodka society to a cafe culture, and business lunch is now common; (3) daily diets are more oriented towards health than before. Structurally, Russia's economy is based on exporting resources and lacks accumulation of domestic industry. Thus, the current boisterous increase in demand is outstripping supply. Imports help offset the difference, with Russian consumers in high demand for high-priced foreign brands. Number of foreign passenger car sales for 2003 came to some 20% of total passenger car sales, but this had expanded to over half of the total by 2006, rising to some 70% by 2007 (Table III-9). The cellular phone market shows similar trends, with high-end handsets selling well. Credit card transaction balances for 2007 were up some 11 times over the 2003 level (Figure III-21). This is remarkable growth even among the newly emerging countries, and indicates that the consumer market might be overheating.

■ **Indian markets oriented more towards middle end market**

As of 2007, India's population stood at over 1.1bn and is projected to reach 1.447bn by 2025 to surpass China's and become the largest in the world (UN figures), making the country the next giant potential market after With an extremely large number of people living in poverty, the driver of consumption in India is the middle class. As described in section 2 (4), middle-income households (with annual disposable incomes of $5,000-35,000 or less) grew from 5% of the total population in 2002 to 12% in 2007. The high-income group (incomes of $35,000 or more) grew only marginally, from 0.4%

to 0.6%.

The market for the so-called five big-ticket items – color TVs, refrigerators, washing machines, air conditioners, and microwaves and other consumer electronics, has been expanding in recent years, and this is largely due to the rise of the middle class. Meanwhile, though the high-end US and European brands have been making inroads, primarily in apparel, with an eye towards the high-income group, this is limited to some of the urban areas. The fiscal 2007 (from April through the following March) passenger car market posted sales volume of over 1.5mn vehicles with a market share of only 3.3% for high-end models with vehicle lengths of over 4.5m, as the bulk of sales were of compact and mid-sized cars.

In the consumer electronics market, local and South Korean companies that have product lineups targeting middle-income consumers have the bulk of the market, while Japanese companies, which are stronger in high-value-added products for higher-end consumers, still have only limited market presence. The Japanese consumer electronics makers are therefore more cautious in their marketing efforts, and are taking a wait-and-see approach to making a full-scale market entry.

The spread of the internet has led to the rise of online business-to-consumer (B2C) business. Estimates by domestic industry groups suggest 50mn internet users as of March 2008. Fiscal 2007 B2C transactions were estimated to be up 30% from the year before to 92.1bn rupees (roughly $2.3bn), of which 70bn rupees were for travel agencies that offer flight ticketing, lodging reservation, and other travel arrangement services. The airline sector is seeing fierce competition from numerous new entries, and all companies are using e-tickets as a means to cut costs, which is also boosting online transaction volume. The spread of credit cards is yet another factor substantially contributing to growth in online transactions. Total credit card transaction volume for 2007 was up some times over the 2003 level, for the second-fastest growth rate among BRIC countries after Russia.

■ Installment sales dramatically increasing uptake of durable consumer goods in the Brazilian market

Following the success of economic reforms implemented in 2003, Brazil has benefited from rising prices for resources and foods, with 2007 domestic automobile sales posting a new record of 2.48mn units as the consumer market picks up the pace. The rapid spread of installment sales and credit cards in recent years has significantly boost consumer purchasing power. It has become a common scene for households with monthly incomes of 2,000 reais (roughly ¥120,000) to be able to purchase a new compact Fiat automobile for 25,000 reais (roughly ¥1.5mn) on a 72-payment installment plan. Coming into 2008, the upper limit for number of installments on new

car purchases was increased from 72 to 99, adding fuel to the rush of the middle-income group to own an automobile.

The adoption of durable consumer goods is also increasing at a rapid pace. The PC market in 2007 was up by 23% from the year before to 10.1mn units. The TV market has also more than doubled in three years from the 4.2mn units in 2004 to reach roughly 10mn TVs sold. High-value-added models such as LCD and plasma-screen TVs have been selling well, largely due to electronics chain stores issuing house-brand credit cards that can only be used at their own stores. Installment plans are common for durable consumer goods, much as for automobiles, and product price tags often show the monthly installment price in a bigger font than the price of products themselves.

Low-income consumers have never been the center of companies' marketing plans in the Brazilian market, but as purchasing power increases, businesses are expanding their marketing scope, as evidenced by Wal-Mart focusing on the northeast of the country, where low-income shoppers are the majority.

■ Consumption expanding in the JFIC countries

Consumption is growing in the JFIC countries as well, backed by favorable economic trends. Burgeoning high-income populations, the rise of middle classes that are able to purchase automobiles and other durable consumer goods, and increasing purchasing power on the spread of credit cards and consumer finance are some of the points in common with the BRIC countries. Retailers from Europe and the US have been opening stores in the JFIC countries that have targeted not just high-income levels but mid-level incomes as well, and a rush of new construction of shopping malls and electronics chain stores is bolstering consumer demand. Moreover, younger age brackets comprise more than half of the population in many of the JFIC countries, and consumer market prospects here are good.

■ Vietnam and Pakistan: Younger age bracket leading, with remittances from abroad also driving consumption

Vietnamese incomes are rising, backed by economic growth driven mainly by export processing, and per-capita GDP more than doubled from $402 in 2000 to $818 in 2007. Remittances from people working abroad comprised a high 7.9% of GDP in 2006, which is also one of the major factors boosting consumption (Figure III-22).

Purchases in Vietnam used to be all cash up-front, but stable and rising incomes have led to more common use of loans to make bigger purchases. Secured loans are the mainstream, but more financial institutions are offering lending services to meet individual needs, such as providing unsecured loans to borrowers with good credit.

Sales of retail and service have grown by 20% annually since 2005, and production

volumes for automobiles, motorbikes, TVs, and other durable consumer goods for the domestic market have increased by 2to 5 times from the 2000 levels (Table III-11). Furthermore, there were 18.5mn new telephone service subscriptions in 2007 (roughly in line with the total number of new subscriptions for the period of 2004-2006) and 1.18mn new internet subscriptions. As of December 2007, estimated total subscribers have reached 46mn for telephone and 18.55mn for internet, respectively.

People aged 30-45 comprised the main clientele for retail and service companies, affecting over 50% of all sales. However, 60% of the total population is under 30, age bracket of 18-30 is garnering attention as potential customers. Younger shoppers tend to be fickler than the older age brackets, making it more difficult to discern demand trends, but they do tend to use the Internet considerably and tend to like newer products. Companies are therefore embarking on advertising and sales promotion campaigns in a bid to bring in these newly targeted trend-setting younger consumers.

Despite considerable worries about the political situation and basic safety in Pakistan, individual consumption continues to climb steadily. The main factors behind this growth are rising wages and also remittances from workers abroad. Remittances from the booming Middle Eastern countries are rising firmly, comprising 4.0% of GDP in 2006 (Figure III-22). A bullish stock market and buoyant real estate prices have also stimulated consumption among higher-income households. A JETRO investment cost survey conducted in 2006 indicated that Karachi office rents in 2006 were up some 2-3 times over three years previously.

Passenger car sales volumes have also expanded, from 40,000 in fiscal 2000/01 (from July to the following June) to a record-high 180,000 in 2006/07.

Local automobile dealers state that market growth is backed by rising income levels, the spread of automobile loans, and a rapid increase in corporate demand. Domestically produced passenger cars are all Japanese makes, excluding one model produced by Hyundai, with Suzuki having a particularly large presence much as in India, capturing a 62.4% share of the passenger car market. Suzuki's compact cars are the first car purchase for many Pakistani consumers. Of these, production and sales of the Mehran model (800cc) has been at the top of the charts for six consecutive years. Despite declining tariffs on imported cars, they remain high at 90% for engine sizes of over 1800cc, and demand for high-end autos is thus limited to corporate cars. However, backed by firm foreign investment, Mercedes Benz, BMW, and other high-end car showrooms are beginning to pop up around Karachi, targeting foreign companies and high-income consumers.

■ **Development of consumer finance bolstering purchasing power in Mexico**

Looking at 2006 household income distributions, we find a very severe income

disparity, with the top 10% of households by income earning 35.7% of the total, and the bottom 10% earning only 1.8%. People under 30 comprised 58.4% of the total population, and those under 40 comprised 73.8%. Marketing that targets younger age brackets is thus important to success in Mexican markets.

Passenger car market penetration rose from 34.2% in 2002 to 40.2% in 2007. That said, complying with the NAFTA, in August 2005 the government abolished restrictions on the import for used cars produced more than 10 years before, opening the gates to major growth in used-car imports from the rest of North America. Thus, the bulk of the increase in market penetration is likely due to middle- and low-income consumers buying used cars. Elsewhere, market penetration of DVD player expanded rapidly from 4.0% in 2002 to 45.7% in 2006. This is partly due to DVDs being a common form of entertainment for low-income consumers, as the prevalence of pirated movies means that consumers can easily purchase a DVD for less than half the price of movie theater admission even right after the movie is released.

The spread of durable goods has been pushed along by growing consumer finance and the increased adoption of credit cards. Total credit card transactions roughly tripled from 2003 to 2007 (Figure III-21). The loan balance for consumer finance has also been expanding at a very rapid pace, growing by an annual average of 38.8% since 2000. This indicates that items previously out of reach for low-income consumers can now be purchased.

■ **Middle Eastern consumer markets polarizing**

Egypt has a total population of 73.97mn, of which 61.8% are under 30, and 74.4% are under 40, for a very sizable young population. Although the overwhelming majority of Egyptians fall under the low-income bracket, the middle- and upper-income groups have been increasing in recent years, and consumption is picking up. Multinational corporations are investing more in the country on domestic demand growth due to economic reforms begun in 2004, and on strengthened investment environment. Large-scale shopping malls and large suburban supermarkets (including hypermarkets such as the Carrefour) are beginning to appear, which are different from existing stores. Malls have strong support from younger shoppers, while supermarkets are popular among families. Malls have gained ground with younger shoppers for their wide array of foreign-brand stores, offering attractive apparel, furnishings, electronics, and cafés. Numerous stylish cafés similar to Starbucks have been springing up, offering not just coffee and tea, but also a wide variety of foods as well, and these establishments are growing popular primarily among more high-income younger people.

The spread of durable consumer goods is also increasing at a rapid pace. Automobile sales volumes have been continuously increasing since a major reduction in import

tariffs in 2004, with low-priced South Korean and Chinese makes seeing particularly rapid market share expansion. Banks have recently begun offering automobile loans, and middle-income and female consumers are making use of these loans to purchase cars, increasing the automobile purchaser base.

Local research agencies have also reported that market penetration for consumer electronics rose across the board from 1995 through 2005. This was likely backed by the rapid increase in the number of people having credit cards. The Herald Tribune newspaper reported that MasterCard cardholders in 2007 had increased by 40% over the previous year, marking the fastest increase in the world.

Egyptian consumers have very different consumption behavior depending on income level. High-income consumers tend to prioritize quality more than price, and prefer brands that have global presence. For cars and consumer electronics, for instance, Japanese and German products are viewed highly for their quality and durability. Younger consumers see driving a Japanese or German car as object of admiration. Japanese brand TVs are popular among consumers largely due to their good after-sales service programs.

Meanwhile, middle-income consumers trend strongly towards lower prices, with stringent demands for a balance between price and quality. It is the South Korean companies that are boosting their brand recognition in the market by following these trends. Products by Hyudai, Daewoo, and other carmakers, and by LG, Samsung, and other consumer electronics manufacturers boast high quality but reasonable prices, leading to quickly ballooning market share.

Saudi Arabia has a population of 24.74mn, of which 17.3mn or 70% are Saudis, and the remaining 6.4mn are foreigners. 62% of the population is under 30 and 79% is under 40, for a sizable younger age bracket. The average birth rate for 2000-2005 was 4.1, one of the highest in the world. Shopping malls sport a correspondingly large number of children's and baby clothing stores.

The economy continues to grow backed by high oil prices, and high consumer purchasing power is prompting construction of more and more shopping malls and hypermarkets, which sell primarily European and US brands.

2007 per-capita GDP came to $15,192, but given the large number of children earning no income that are still counted in population figures, we estimate that effective income levels for Saudi Arabians are considerably higher. The country also has no income tax, national schools and hospitals are free, and utility costs are low, all of which keep disposable incomes high. The lack of any consumption tax and the decision to boost salaries by 5% every year for the next three years for civil servants, which includes most Saudis, make it very likely that consumption will continue its steady expansion.

The United Arab Emirates (UAE) has a population of 4.82mn (2007), and a distinct demographics as only some 20% were citizens (2005 census), with the remaining 80% all foreigners. The country also has a large number of foreign visitors compared with its population size (roughly 7mn in 2007 on a hotel lodging basis). Some 80% of visitors went to the Emirate of Dubai, making visitors the next most important class of consumer after residents. Dubai's retail market is expected to exceed that of neighboring Saudi Arabia in 2009. Many foreign companies therefore view Dubai as an important market in the Middle East.

Younger age brackets comprise the bulk of the small citizen population, with those under 20 making up 51% of the total (2005 census). Large families are thus quite common, and given also high income levels, major home appliances and similar products also sell well. Consumer confidence is strong among UAE citizens, who have high disposable income levels thanks to generous public welfare programs, and among non-UAE Arabs from neighboring countries with low propensities to save. For automobiles, high-end cars and large SUVs are extremely popular. Various brands of European SUVs, such as Porsche, BMW, Volkswagen, and Rover, and Japanese high-end automobiles and mid-sized sedans all enjoy broad market penetration. It is regarded that UAE is the country where Ferrari is sold more than anywhere else it the worldwide.

For consumer electronics, larger products are selling well here, such as LCD TVs with screens of 100 inches or larger, or washing machines with capacities of at least 10kg. Japanese companies are facing notable competition from cheaper South Korean products, but almost no competition from Chinese automobiles, consumer electronics, or other products, due in part to very different income level targeting.

(3) US and European retailers accelerating their global expansions

Japanese companies' global expansions to date have been primarily limited to the automotive, consumer electronics, and other manufacturing sectors. Most manufacturers have established production bases in Asia, and have pursued business models whereby they process and assemble in Asia, and then sell the final product in Japan, the US, and other countries. Going forward, a different global business model is needed that goes beyond product supply type or export oriented to also work on capturing local consumer demand. As such, using such a new global business model that focuses also on local sales, domestic demand industries, primarily services are expected to become major players in global markets.

Column Ⅲ-1

◎ Example of a new car sales strategy in the Polish market

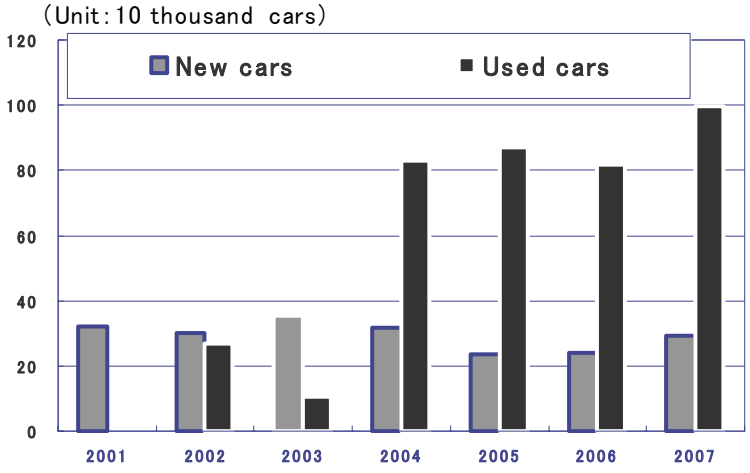
■ Alliance with financial services the key to spread of passenger cars

The countries of Central and Eastern Europe have developed as the production base for European automakers, and continuing improvements in income levels pushed 2007 per-capita GDP over $10,000 for Poland, Hungary, and the Czech Republic. Companies are thus increasingly interested in this area as a consumer market. Here, we look at the case of breaking into Poland's passenger car market.

Poland's passenger car sales volume has been gradually expanding, and of the 1.29mn units sold in 2007, new cars comprised only some 20%, with the vast bulk of sales made up of used cars. The risk of an influx of used cars has been a concern for some time, given the country's location right next to the European automobile production and consumption powerhouse of Germany. The Polish government therefore imposed strict regulations on used-car emissions to prevent any excess import of used cars. However, Poland's accession to the EU in May 2004 meant that the country's environmental regulations that singled out used cars and were not in accord with existing EU emissions regulations had to be scrapped, as they were deemed to be unfairly limited used car distribution within the EU.

Fig. Poland's passenger car market

- Since joining EU, used cars comprise most of the market -



Source:New cars: Poland's Automotive Market Research Institute SAMAR.
Used cars: Poland's Ministry of Finance.

The passenger car companies that have succeeded in securing a share of Poland's new-car sales are also putting their efforts into installment sales. Many of Poland's passenger car showrooms also include service desks for directly managed automobile

financing companies like Toyota Bank and Volkswagen Bank. South Korean automaker Hyundai Motor, a latecomer to the Polish market, allied with US consumer finance company GE Money Bank in September 2007 to bolster its automobile financing in Poland. The diversification and declining premium of auto insurance are other important factors for passenger car sales. Numerous foreign insurers such as French company Axa and US company Liberty Direct are entering the Polish market, and are gaining popularity by offering various services (such as roadside assistance services in case of accident) and discount plans. These companies are strong allies as automakers push for growing new-car sales, and insurers also commonly set up insurance agent desks in passenger car showrooms. In addition, the automobile leasing business is expanding, backed mainly by corporate demand. Leased automobiles are particularly popular for financially weak Polish corporations, as they can lower vehicle maintenance costs by switching to fixed leasing fees. As such, rather than simply focusing on selling consumer goods such as passenger cars, it is more effective in the emerging markets to also offer other services that support the purchaser, in particular by partnering with financial products in boosting sales.

The retail sector has tended towards domestic demand, but European and US companies have been rapidly expanding their global business operation (Table III-13). French company Carrefour spent the early 1970s building up its presence in Europe, and the later 1970s expanding in North, Central, and South America. German company Metro also built up in Western Europe in the 1970s, moving into Eastern Europe in the 1990s. UK company Tesco also expanded into Eastern Europe in the 1990s. US company Wal-Mart opened stores in Canada and Central and South America in the 1990s. The US and European retailers have also been expanding in Asia at a high pace, but this movement did not become apparent until the late 1990s or early 2000s.

The globalization of retail has come later than for manufacturing, with regional expansions into the newly emerging countries and other areas occurring only recently. As retailers do not manufacture, there was less impetus to quickly establish bases in low-wage countries, and they had to wait to develop global sales bases for rising consumption demand in the newly emerging economies.

Although European and US companies have been prompted to expand overseas by saturation of domestic markets and increasing competition, their overseas development has not been solely in response to such passive factors, and has also involved deliberate and active globalization strategies with an eye to rising income levels in the newly emerging countries. By comparison, Japanese companies have been more passive in

their efforts, sticking mainly to Asia and making moves only when requested by partners. However, some retailers have already made clear and aggressive developments in Asia, mainly in China, and despite saturation of domestic markets, active globalization efforts are about to begin. While the Japanese retailers have focused mainly on Asia, US and European retailers have been broader in their global strategy. Even within this group, different companies have been moving into different regions. Tesco has been expanding more in Central and Eastern Europe than in Western Europe, and has also opened stores in Asia, expanding at the same pace in both areas. Metro has focused on Western Europe, Russia, and Central and Eastern Europe, and recently has been increasing its new openings in China and Vietnam. The Vietnamese retail industry is not set for liberalization until 2009, but Metro has been approved already to open a store by applying for a joint venture membership wholesale business. Carrefour has pulled out of the US, Japan, and South Korea, but is moving forward in Europe, Central and South America, and the rest of Asia. Wal-Mart is quite active in opening stores in Asia, adding to its stores in China and Japan, and also has plans to open a cash-and-carry type of stores from 2009 in India, where retailer regulations are rather strict.

Most of European companies' overseas store openings have focused on lower prices and foodstuffs, and have tended to be large-scale hypermarkets, with all checkout counters clustered near the entrances. By contrast, Japanese retailers have generally opened general merchandise stores, focusing on apparel but also offering foods, sundries, and consumer electronics, among other items. These stores have emphasized not so much on low prices as quality and service, and checkout counters are located in each section of the stores. This business model eschews the low-cost strategy taken by the hypermarkets and aims instead to capture demand from Asia's upper-middle classes.

China has become a fierce battleground for the retail companies. Carrefour has focused on urban locations that consumers can reach on foot or by bicycle, while Wal-Mart has focused on suburban openings where consumers drive or take shuttle buses, and both have outstripped the Japanese companies in terms of the pace of new openings.

■ Examples of expanding in the BRICs countries by major region

The retail market in China is the scene of stiff competition between local and foreign retailers employing various store formats. The advance of foreign-affiliated department stores includes a large number of Asian companies, such as Taiwan's Pacific Department Store or Malaysia's Parkson, but few Japanese department stores. Japanese company Isetan has five stores in China, including two in Shanghai, and has plans to open a store in Beijing in late 2008. Women are the main target, and the stores carry a lot of Japanese

apparel brands. The company finds that apparel is difficult to differentiate, and so uses high-end foods as a tool for better differentiation. Locally based companies include high-end department stores that extensively carry high-end European and US brands, and department store competition in urban areas is intense.

Among general merchandise stores, Aeon has 33 stores (including in Hong Kong), and opened a mall-type shopping center in the Beijing suburbs in summer 2008. The company agreed to a partnership with major Chinese developer Shanghai Industrial Investment (Holding), and plans on further active development of other mall-type shopping centers. Ito-Yokado has seven stores in Beijing and three in Chengdu, and plans to open stores in these areas as dominant position of the shopping malls. The company also has two high-end supermarkets in Beijing. Management's policy is summed up in its slogan of "ten stores, ten colors", implying that stores in each region should meet local customer needs. Meanwhile, Izumiya has announced openings in Suzhou and UNY will be opening in Shanghai, as other new openings also increase. However, these plans are still small in scale compared to Wal-Mart (206 stores), Carrefour (112), and other European and US hypermarkets.

Japanese convenience store chain Lawson operates 282 stores in Shanghai, followed by Family Mart's 144 stores in Shanghai, Guangzhou, and Suzhou, and then Seven-Eleven Japan's 64 stores in Beijing. There are numerous local convenience store chains, but even just looking at convenience store chains above a certain size in Shanghai, there are more than 4,000 stores currently in operation, and despite Japanese chains gaining favorable reputations among consumers, competition is stiff. As well, there are some constraints such as restrictions on trucks entering downtown areas during the day, required temperature ranges for prepared foods, and restrictions on the sale of tobacco products. Moreover, the chains face the challenge of reduced benefits from operating a franchise, as tax and finance matters are not allowed to be handled by the corporate headquarters. Lawson carries numerous products imported from Japan, and has vendor plants that specialize in prepared home meal replacement foods, aiming to distinguish itself through original products such as rice balls and bento box lunches. Chain stores also advertise and send out mobile-phone email information of sales promotions. Family Mart is putting its energy behind these home meal replacement foods, while also working to build up its image as exemplified by its "SQC" slogan, short for "service, quality, cleanliness". Seven-Eleven is the only chain that prepares food within its stores. Its bento box meals, prepared in-store, have garnered a favorable reputation, and convenience store daily bento sales volume in Japan amounts to around 70, compared to an average of 300 at Seven-Eleven Beijing.

Many foreign firms have been moving into Russia's retail market since 2000, including Auchan Group (France), Metro (Germany), and Rewe (Germany), and it has

become common to see consumers at large suburban shopping centers buying large volumes of food and other daily sundries. Major European and US retailers have plans to move into Russia starting from 2008. With solid consumer confidence, Russia is one of the markets viewed as most promising, but when it comes to new store openings, there have been cases of government officials delaying the needed land-use permits. Metro Group started construction of a Metro Cash and Carry in the city of Voronezh in March 2005, but the Voronezh Oblast government announced in June that the opening would be delayed. The reason given was that the site would obstruct the take-off and landing route for a runway owned by a local airplane manufacturer. That July, Metro and the manufacturer reached an agreement on supplying finance for the runway. It was reported that this agreement resulted in a payment of 10.5mn rubles, but the details of the deal have not been disclosed. The company's Voronezh store opened in August 2005.

As we see in this example, there are risks connected with business expansion that require due diligence in gathering information and making preparations.

In the Brazilian retail market, Casino Group (France) affiliate CBD, Carrefour, and Wal-Mart hold a combined market share of roughly 40%, indicating the very strong market presence of foreign retailers. Carrefour entered the Brazilian market in 1975, followed much later by Wal-Mart in 1995, and both companies have been expanding by acquiring local retailers. Brazil has a very large poor population, but a strong economy has been boosting purchasing power even in the low-income group. In order to boost earnings in the fiercely competitive domestic market, Wal-Mart has been the first to adopt a strategy of expanding its presence in the relatively undeveloped northeast of the country. The company operates a large-scale supermarket chain in the region under the name of "Todo Dia" (meaning "every day"). Management plans to bolster its operations in the Brazilian northeast by leveraging the business expertise in selling to low-income consumers in Mexico and other countries.

Foreign companies face restrictions when entering the retail sector in India. Investments by foreign companies in local retailers is limited by law just to those specialty retailers which sell a single brand (maximum 51% ownership stake allowed), and no investment is allowed in retail chains that sell multiple brands. Wal-Mart has established a cash-and-carry 50-50 joint venture with a local company, and plans to open stores from 2009. Carrefour, Tesco, and Metro are also making preparations to enter the market. Each company appears to be building up its purchasing and distribution networks within the limits of the current foreign capital restrictions, preparing for a future deregulation of the retail sector. Another possibility that has arisen is for local companies to operate chains under the names of the foreign companies as franchisees.

■ Progress of foreign retailers in the JFIC 16 countries

Foreign retailers are making real inroads in the JFIC 16 countries as well. Carrefour and Tesco are increasing their presences in Central and Eastern Europe and Asia, while Wal-Mart is expanding mainly in South and Central America, and also in China. Alliances and M&As among local retailers are increasing in these areas as they position themselves to fight back.

Wal-Mart moved into Mexico in 1991, followed by Carrefour in 1994. However, Carrefour has been unable to topple Wal-Mart from its leading position in the Mexican retail market. In 2004 Carrefour headquarters put forth a policy of restructuring unprofitable operations, under which the company sold its Mexican operations to local supermarkets and withdrew from the Mexican market.

Some of the factors behind Wal-Mart's success include expanding its store network through acquisition of the biggest local supermarket chain and aggressive investment, as well as negotiating purchasing prices with internationally famed food manufacturers like Coca Cola and Nestlé, putting the company in a solid competitive position by keeping purchasing costs down and thereby keeping selling prices low as well. Another factor is that Wal-Mart has also established new IT-technology-based distribution systems and distribution centers that use these systems to process over 80% of the merchandise sold in Mexican stores, allowing for reduced distribution costs.

Carrefour, Tesco, and other European retailers are gaining ground in the ASEAN and Middle Eastern countries. In Thailand and Indonesia in particular, the past ten years have seen accelerated expansion of foreign-affiliated hypermarkets, and they are the main players in retail markets.

In Thailand, hypermarkets account for 50% of total retail market sales. All of the hypermarkets are foreign-based, and Carrefour has a notable presence in this area with 27 stores. European hypermarket chains are taking the tack of accelerating their small-store operations focusing on foods and daily sundries, which will likely increase competition with the Japanese retailers that focus on foods.

In Pakistan, foods sold in local markets and supermarkets tend not to be very fresh, and often look poor as well. This market thus has ample opportunity for foreign retailers that pay careful attention to product quality. Membership wholesaler Metro opened its first store in the country in October 2007, and now has four stores. Management plans to expand to ten stores over the medium term. Dutch-based Macro has partnered with local conglomerate Macro-Habib, and now operates four membership wholesale stores.

In Turkey, of the largest four supermarket chains, Migros is the biggest, followed by Carrefour and then Tesco. Migros management decided in February 2008 to sell the company to Moonlight Capital, a subsidiary of UK investment fund BC Partners. Swedish furniture giant Ikea and high-end outlet Harvey Nichols have also invested.

There have recently been a notable number of electronics chain stores moving into the country, including UK company Darty, German company Media Markt, and UK company Electro World, making this market one of the toughest with competition among foreign firms.

Among the Persian Gulf countries, Saudi Arabia and the UAE both prohibit any 100% foreign capital ownership, and thus foreign businesses operate here by means of franchises or joint venture with local companies.

In Saudi Arabia, Carrefour is active in hypermarkets and US Saks Fifth Avenue and UK company Marks & Spencer are active in high-end department stores, and there is little competition among foreign retailers

Japanese retailer and ¥100 Shop operator Daiso is entering by franchising. The company opened numerous stores in the Gulf Cooperation Council region in 2004-05, and opened its first Saudi Arabian store in March 2008 to cover all six of the GCC countries. The product lineup is mostly the same is in Japan, selling ¥100 merchandise for local prices of some ¥150 - ¥170 and targeting middle- and low-income consumers, including migrant workers from overseas. There are also one-price low-end US and European shops as well, but Daiso is distinguishing itself from the competition with higher product quality.

(4) Japanese brands garnering high reputation for quality and after-sales service

Reports from JETRO overseas offices (Table III-15) indicate that Japanese products are well regarded for high quality and dependable after-sales service, in both developed and newly emerging countries.

To boost their product brand image, Japanese companies adopted the strategy of boosting their image first in the developed countries of the US and Europe. For TVs, they established an image of advanced technology and high quality with their launch of flat-panel TV models. The same approach was followed for the launch of digital cameras and Blue-Ray disc recorders, and the implementation of hybrid engine technology in automobiles also garnered a favorable reputation for advanced technology, energy savings, and environmental friendliness.

Japanese products have gained high reputations not just for automobiles and consumer electronics, but also for robots, semiconductor production equipment, forklifts, and other fields such as measurement devices and other precision instruments. Their broad-ranging manufacture and integral production design that adjusts the functioning of intra-components is what has allowed these companies to build such high-quality products.

The strong reputation of Japanese brands is spreading to the newly emerging countries too, and Japanese products have high brand recognition. In Indonesia and

Uzbekistan, Japanese products have a better reputation than European and US products. In the Middle Eastern countries of Saudi Arabia and Turkey, Japanese brand image is very favorable, and consumers have firmly-rooted faith in the quality of Japanese brands. Since the creation of the Japan-Mexico Economic Partnership Agreement, Japanese cars have garnered high marks in Mexico, and a customer satisfaction survey found that Japanese cars came in at the top of four out of nine categories.

Competition with South Korean and Chinese products is increasing of late, and Japanese brands cannot rest on their laurels. South Korean products are increasing their recognition in Turkey and stealing market share from Japanese companies, and the same is occurring in Egypt. In Thailand, an automobile sales and after-sales service customer satisfaction survey found that Ford was ranked best, as US companies also catch up.

Japanese brands have established a strong position in automobiles and consumer electronics, but they do not have as strong of an image in other product and service categories as compared to European and US companies. While Japanese companies are increasing their profile, such as with Issey Miyake and Shiseido in the UK and UNIQLO in China, they still need to do more to bolster their image.

In China and other newly emerging countries, companies can establish strong brand images by implementing effective market strategies. One Japanese food manufacturer has apparently been able to change eating habits in Shanghai by introducing raw tofu. Another manufacturer of children's goods has gained the strong support of Chinese parents and grandparents by making their stores more convenient for customers by placing their high-priced but high-quality baby products together with related products on the sales floor. The baby products market sees little competition from US and European companies, and Japanese companies have also gained market share based on their reputations for safety in products such as powdered milk, with a favorable brand image taking root.

(5) Examples of Japanese companies expanding

Looking at examples of Japanese companies expanding overseas shows that they adopt different pricing and branding strategies depending on the country. What all these examples have in common is that the companies are operating their businesses in tune to local needs, using their base of strong technology and high quality. Such moves overseas show that companies are moving to capture the business opportunities present in various markets around the world.

■ **Expanding earnings base by developing mid-priced products for local markets**

Electronics is often described as a traditional external demand sector, and

manufacturers have already established a brand image in the US and European markets of high quality and high prices. They have also secured a certain share of the market for high-end products, and the high profit margins gave them little incentive to aggressively pursue the market for mid-priced products. Of particular note, large-scale discounters and electronics chain stores in the US market have a strong grip on price levels, and Japanese manufacturers have been loath to enter the mid-priced product market for fear of damaging their brands or getting sucked into price competition. However, it is vital that they develop products meeting market needs if they are to seize the earnings opportunities present in the rapidly expanding mid-priced products market (Table III-16).

Sony made a move in this direction in 2007 when it put a group of its US engineers together to lead development of its Bravia line of flat-panel TVs. These have slightly lower resolution than other higher-end models and a price point of some $200 lower, and are being sold on the mass market through Wal-Mart and other outlets, putting Sony into play in the affordable flat-panel TV arena for the first time.

There is a considerable market for high-margin, high-priced products in the US, leaving less incentive to target the mid-priced product market as compared to the newly emerging countries. That said, a strategy like Sony's is needed if companies are to break into markets in the newly emerging countries, where there is less room for high-end products. Sony has also developed and is selling TV models designed specifically for India, where income levels are low and consumers are extremely price-conscious. High movie and music consumption prompted the company to develop models that emphasize sound quality, and sales are growing.

■ Europe a place where brands can be established

Japanese companies have been making a notable move into the European market in fields such as apparel and cosmetics. The consumer electronics case above is one where a company that had already established a high-end brand moved its focus down to the mid-priced product market. In contrast, companies like clothing manufacturer and retailer UNIQLO and cosmetics maker Shiseido are moving into Europe in the aim of building up their brand image and then leveraging that to boost earnings in the emerging countries. In fact, products that have sold well in Europe and the US tend to have a major impact on consumers when marketed in the newly emerging markets.

■ Image of high quality for Japanese foods, sundries, and apparel

For products that come into direct contact with the body, such as foods, cosmetics, and clothing, companies are effectively leveraging the positive image of Japanese brands as high quality, safe, and reassuring in the newly emerging countries as well.

Baby product company Pigeon has captured over 30% of the market in China. Local companies hold 60% of the market, but the company imports raw materials from Japan to maintain its high quality and does not lower prices to boost sales volume, opting instead to maintain its higher prices. The company is also avoiding selling via chain stores, keeping its image as a high-end product by selling mainly through department stores and specialty retailers.

In the Saudi Arabian market in 2005, Unicharm acquired a 51% stake in Gulf Hygienic, with which the company had been in a technological and material supplier partnership, marking its full-scale entry into the country. Since then, the company has brought in high-quality merchandise that it has been selling in Japan, and put forward a marketing campaign of "Japanese Technology, Made in Saudi Arabia". This combination has garnered high marks from consumers in neighboring countries as well, and the company has captured the number-two spot in the domestic market, while also exporting roughly 25% of local production and solidifying its position, aided in part by large family sizes in the region.

The commonalities between these two cases are introducing products and quality of the same level as is sold in Japan, leveraging Japanese brands to the utmost effect. Even in the newly emerging countries, with their sizable populations of very price-conscious middle-income consumers, aiming to present quality on a par with Japan in the course of building up their brands has been a vital strategy in differentiating from cheaper competing products.

As shown in section 2 (6), Kirin Beverage in China is succeeding in building up an image for its “Afternoon Tea” product that is at once traditional and high quality, while also modern and premium in line with the times. The price is set high, on a par with local beers. The product is targeted at female consumers in their teens and early 20s, and based on the opinions of this group, the company designed the plastic bottles to express an elegant high-end product similar to a woman's silhouette, while also fitting easily into a man's hand. The advertising strategy sets its sights on women born in 1980 or later, and makes use of both word of mouth and the media. By developing a product that goes beyond just the high-end image of Japanese brands to also reflect local sensibilities, the company has been able to bring in late-teens female customers while maintaining its existing customer base.

For foods, Japan's high-quality fruit such as apples and melons have been selling well to the well-to-do of Asia, but amidst rising awareness about food safety issues, Japanese foods are becoming well regarded not just for their high quality, but also for their safety. In Thailand, MOS Food Services has opened three stores in major department stores in Bangkok, and has plans to open ten more. 90% of the customer base is Thai, and in addition to meeting the taste of local Thai people who like fast food, the company has

apparently also succeeded in building up its brand image of Japanese food being both safe.

Column Ⅲ-2

◎ Case of a market entry attuned to changing needs in Europe

The EU expanded to 27 countries with the 2007 entry of Bulgaria and Romania, and it has been drawing attention for the high potential as a single market of nearly 500mn people. However, breaking into the European market is not easy, given factors such as (1) stiff competition from European, US, Japanese, and South Korean companies, (2) the need for advanced technology to meet stringent environmental regulations implemented to combat global warming, and (3) high quality being viewed as too much (too costly). We now look at how industrial machinery part maker THK broke into the auto parts market as an example of how to meet the market's demands for products that are both high-value-added and low-priced.

■ Capturing market demand by leveraging technical abilities

THK was first in the world to commercialize linear motion guides in 1972, and its products are widely used in everything from machine tools and industrial robots, to semiconductor production equipment and LCD production lines. More prosaically, its technology is used in subway platform screen doors, apartment building seismic isolators, and CT scanners. The company is moving into new business fields by applying its technology, and has begun making auto parts. Its mainstay products are link balls, joints for connecting stabilizers and suspensions. Link balls are aluminum die-cast single-part pieces, lighter than the conventional steel but also more durable against corrosion and wear. THK Europe, based in Germany, has stated that European-made cars using its link balls include Daimler's B and C classes, BMW's 1 and 3 series and four-wheel-drive vehicles, Peugeot's Picasso, and Renault's Megane, and apparently the company cannot keep up with high demand. The company entered the US market with the aim of supplying Japanese automakers there, after which it began supplying to Ford, and later moved sideways into Europe. Japanese companies began manufacturing link balls in the 1980s, followed by European companies in the 1990s, but this area requires massive capital investment, and none but the major Western European companies were able to afford it. Other companies copy THK's efforts, but management explains that its patented technology and economies of scale make it more competitive in terms of product quality and price, or in other words, the realization of a high-value-added but lower-cost product.

The source of THK's competitiveness appears to be (1) its technology, forming the

basis for its product development, (2) the ability to beat competitors in putting its technology into product line, and (3) large-scale production, all of which generate synergies that make it difficult for others to imitate. That said, market needs must also be keenly understood to break into the market. European automakers are very much in demand of alternative parts as a bid to reduce costs as competition heats up. THK accurately read those market demands. THK has been successful in its entry into the European market thanks to its innovative new product development, acute discernment of specific auto parts market demands, clarification of existing and potential customers, and accurate grasp of the possibilities for product supply.

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(6) Intellectual property issues

When expanding overseas, two major risk factors are possible intellectual property right infringements, and how to handle them. Most of the copied goods in circulation in the newly emerging countries are manufactured in China or Southeast Asia. The problems of copies and pirated products can be broadly classed as (1) domestically produced items distributed domestically, (2) domestically produced items shipped overseas, and (3) items produced overseas and imported. The situation in some countries is a combination of these scenarios (Table III-17).

It requires fairly advanced technology to produce products domestically, and China and Thailand are the typical examples given their development backed by introduction of foreign capital. As we have seen in Vietnam and India, items that require significant technology or expense to produce are often brought in from China or elsewhere, with the imported copies often sold under counterfeited labels. The Middle Eastern countries have little manufacturing capacity, and thus almost all copied goods are brought in from overseas.

According to a Japanese electronics maker operating in Egypt, Chinese-made copies have been on the rise, as seen by the case where many customers claim about the defects in products sold under the company's brand. However, the company has not sold the brand in the area for some ten years. With the cooperation of the local police, the counterfeiter was tracked down in September 2006. Companies are bolstering their response to copies in the newly emerging countries, but enforcement is still inadequate, due to factors such as a lack of manpower at the relevant government agencies. Given also the low income levels, consumers do not care much about buying copied products so long as they are cheaper, and there is very little awareness of intellectual property issues. Protection systems are being put into place, but many problems still remain, such as lack of enforcement and the need to educate consumers. It is extremely important that companies entering these markets be able to fend for themselves.

Table III-6 Features and trends of consumer markets in the US and the main European countries

	Demographics and household composition	Consumption trends	Growing products and services, response to health and environmental issues
U.S.	・ Aging population, late marriage, increase in childless households. ・ Those 21 or older comprise roughly 70% of total population. Childless (including single-person) households comprise 68.4% of the total (end-2007 population statistics).	・Increase in multitasking, leading to more emphasis on easy, convenient, and fast. For take-home meals, consumers prioritize ease over flavor or nutrition (private-sector survey). ・More workers are off-site, with some 4.2mn people in the US working at home; this trend is stronger among entrepreneurs and those with high academic education. ・Consumer electronics consumers prioritize the environment and energy efficiency. Sturdy and long-lived products are popular. ・Increasing consciousness on prices. → Leading to more use of Wal-Mart by high-income people.	・Strong sales of hybrid vehicles. 2007 Prius sales were up 70% over the year before. ・Market expanding rapidly for organic foods. Market doubled from 2001 to 2005. 39% of fruits and vegetables are organic. ・ Light beer is more popular amidst more interest in health and diet. Bud Light ranked the top-selling beer in 2007. ・ The energy drink market grew by 8 times from 2002 to 2007.
UK	・Birth rate gradually dipping as demographic grays, and number of marriages declines. ・・ Population 16 years old or less has declined from 26% of the total in 1971 to 19% in 2006. Population 65 years or older has likewise increased from 13% to 16%. ・・ The number of marriages was at its lowest level since 1895. (England and Wales)	・A prolonged favorable economy has boosted spending on dining out and leisure, and increased ownership of high-end automobiles ・Increasing US cultural influence. Rise of cafés similar to Starbucks. ・Consumers more concerned about corporate social responsibility. Growth in "Fairtrade" foods and beverages. ・The top household expenses are now for items such as second cars, dining out, and package tours.	・The top household expenses are now for items such as second cars, dining out, and package tours. ・Department store chain Marks & Spencer recommends clothing with the Fairtrade cotton label. ・Tesco sells high-energy-efficiency light bulbs at half-price. ・Major supermarket chain Sainsbury's changes the packaging on 500 of its private brand items to compostable materials.
Germany	・Market expanding rapidly for old consumers. Overall population peaked in 2005, and now declining. ・Population 60 years or older comprise roughly 25% of the total. ・Childless and single-person households comprise 69% of the total.	・Female-targeted marketing on the rise. Backed by high education levels, career desires, later marriages, and rising divorce rate. ・Increased health awareness leading to a boom in health and function foods. In the yogurt drink market, French company Dannon is expanding its market share, followed by Yakult. ・Moral-conscious consumers are on the rise. Focus on Fairtrade and other products that do not cause environmental destruction during manufacture.	・Increase in compact car purchases since 2004. ・Unilever's Becel Pro-Activ cholesterol-lowering margarine. ・・ Dannon's Actimel-brand LC1 lactobacillus-culture yogurt. ・Major café chain Tchibo and major supermarket chain Lidl apply Fairtrade labels to merchandise.
France	・Despite people having children later in life, the birth rate is still around 2.0. ・・ Institutionnal development leads to out-of-wedlock children comprising more than half of all births (2006).	・Spending increasing for children's clothing and baby goods. ・35-hour workweek the norm. Shorter working days mean an increase in demand for convenient and quick fast food and delivery services.	・Increasing awareness of food safety issues prompts spread of government-certified-organic "Bio" labeling. ・Health boom sparks corresponding bicycling boom in Paris and other urban areas.

(Source) Based on data from reports submitted by overseas JETRO offices.

Table III-7 Features of China's "post-80" generation

・More than half still live with parents after finding employment.
・Over 10% still receive allowances after finding employment.
・ Credit card holders aged 23 and over tend to be female more than male.
・Over 80% responded that the internet is more indispensable than TV.
・Those responding that they intend to spend their money on themselves even after marrying were 23.5% for women and 7.5% for men.
Roughly 60% of men responded that women' opinions have impacts when making purchasing decisions.

(Source) Based on a JETRO survey administered to 400 unmarried internet users (half men, half women) living in Shanghai and between the ages of 18 and 27.

Table III-8 Characteristics of Russian new-car (passenger car) buyers

	Russia	Europe
Age	30	46.7
Average annual income ($)	20,800	46,300
Male/female ratios	Male 84%／Female 16%	Male 69%／Female 31%
Average family size	3.3	2.8

Source: Association of European Businesses in the Russian Federation (AEB) automobile division materials (September 2006).

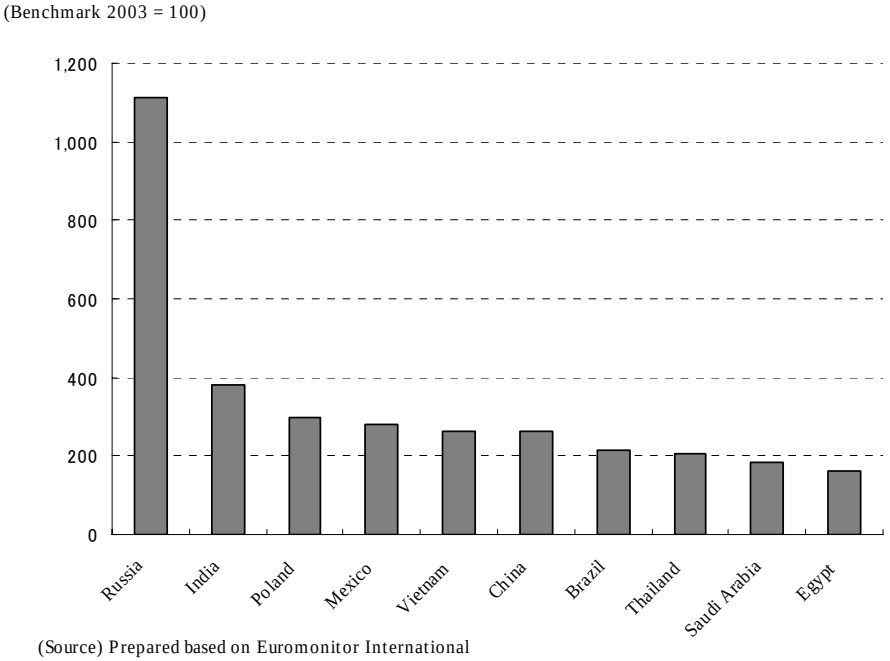
Table III-9 Russian passenger car sales volume

(Unit: 1,000 cars)

	2003	2004	2005	2006	2007
Russian makes	**883.1**	**876.8**	**832.2**	752.5	756.2
Foreign makes	216.5	408.2	614.3	**1020**	**1649.8**
Total	1099.6	1285	1446.5	1772.5	2406

Source: Based on materials from ASM Holdings and Ernst & Young.

Fig. III-21 Rate of increase in transaction value of credit cards in major emerging countries (2007/2003)



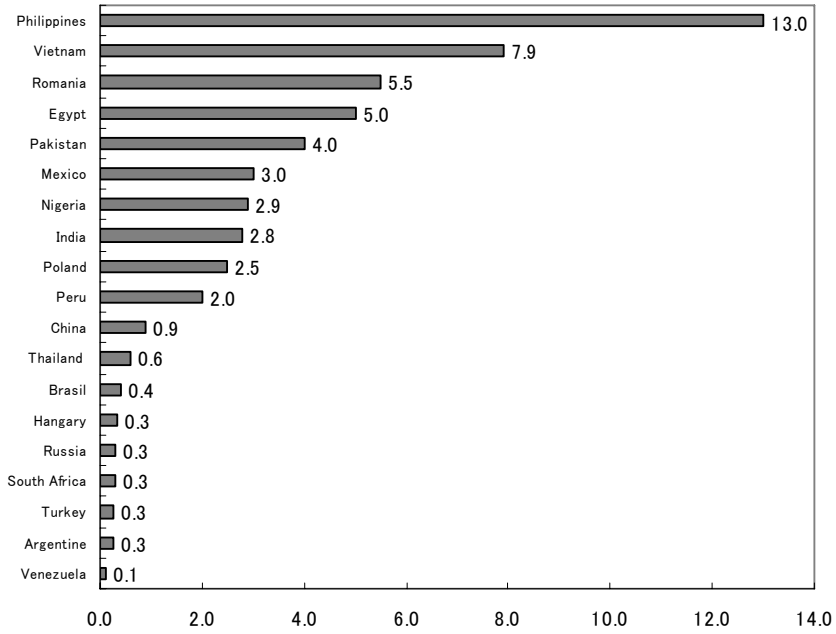
(Source) Prepared based on Euromonitor International

Table III-10 Characteristics and trends of consumer markets in BRICs

	Characteristics and trends, and background of expanding consumption	Leades in consumption
China	○Word-of-mouth advertising and the Internet have a strong influence. ○Growing awareness of health and food safety. Japanese products have high credibility, such as diapers and powdered milk. ○There are many dual-income households, and eating out and frozen pouch-packed foods are popular.	○People who are about thirty years of age play the strongest leading role in consumption. ⇒In the future, the generations "born in the 1980 or after" will play the leading role in consumption mainly of products such as consumer goods and digital products. ○Women have a very strong influence on consumption.
Russia	○The social background of expanding consumption is as follows: ①Very little payment of housing loans, and living expenses, such as fuel and light charges, are cheap. ②People prefer consumption to saving due to their extreme mistrust of financial institutions. ③Other factors such as the rapid popularization of consumer financing	○People in their thirties or early forties play a leading role in consumption.
India	○There are more people able to buy small cars and household electric appliance thanks to a rapidly decreasing poverty group and a rising middle class. ○Credit cards have been rapidly popularized.	○The middle class is emerging. The explosive growth of household electric appliances. South Korean and local companies dominate the market, which are targeting this class.
Brazil	○The determining factors for consumers to buy are (1) prices, (2) products diversity and(3) the site location. ○Installment payment and credit cards have been rapidly popularized. ・When buying durable consumer goods, consumers put priority on monthly amount of installment payment rather than commodity prices.	○Women have a growing importance.

(Source) Prepared based on reports from JETRO overseas offices

Fig. III-22 Ratio of remittance from abroad to GDP in major emerging countries (%) (2006)



〔Source〕Development Prospects Group, Migration and Remittances Team (World Bnak)

Table III-11 Features and trends of consumer markets in the JFIC countries (1)

	Rapidly-growing goods and services	Reasons and factors for rising consumption	Leading consumers	Changes in trends and lifestyles
Vietnam	・Retail and service sales rising by 20% annually since 2005. ・Automobile, motorbike, and TV production volume for domestic consumption expanded by 2-5 times over 2000 levels. ・18.5mn new telephone subscribers in 2007 (equal to total new subscribers for 2004-2006). ・Internet users estimated at 18.55mn (December 2007).	・Joined WTO in January 2008, with retail and distribution markets to be opened up from January 2009. ・Sizable remittances from abroad. 7.9% of GDP in 2006. ・Credit cards and consumer loans spreading.	・Those aged 30-45 are leading consumption. ・60% of population under 30, with the 18-30-year-old, the focus going forward. ・Women increasing their purchasing power. In Hanoi, half of household income comes from women.	・Ho Chi Minh City is the center of consumption. ・Vehicles considered "luxurious" shifting from motorbikes to automobiles. ・Golf booming among high-income consumers. ・More couples are double-income, with prepackaged and fast foods on the rise.
Pakistan	・Passenger car sales volumes have also expanded, from 40,000 in fiscal 2000/01 to a record-high 180,000 in 2006/07. ・Production and sales of Suzuki's Mehran model (800cc) ranked the top for six consecutive years since 2002. Toyota Corolla (1300cc) ranked second.	・Sizable remittances from abroad. 4.0% of GDP in 2006. ・Auto loans spreading ・Bullish stock and real estate markets stimulating high-income consumption. ・Karachi office rents in 2006 up some 2-3 times over three years previously (JETRO investment cost survey conducted in 2006).	・Automobile sales growing, backed by corporate demand. ・Those aged 24 and younger comprise roughly 60% of total population, with younger consumers to take the lead.	・Color TVs rapidly gaining market penetration, mainly from South Korean and Chinese manufacturers.
Poland	・Used car sales ballooned from 270,000 in 2002 to 1mn in 2007. Used cars comprise the bulk of the market (80%).	・Upon joining the EU in May 2004, emissions gas regulations targeting used cars were abolished, leading to an increase in used car sales. ・Bolstering automobile financing (installment sales) one point for success. Setting up auto loan and insurance desks right in the showroom. Passenger car leasing also popular among corporations.	・Strong consumer confidence among the new riches and higher income levels that can purchase a passenger car.	・Since 2000, opening of numerous joint-use shopping centers that include movie theaters and other entertainment facilities. Now common for the whole family to go and spend long time.

Source: Based on data from reports submitted by overseas JETRO offices.

Table III-12 Features and trends of consumer markets in the JFIC countries (2)

	Rapidly growing goods and services	Reasons and factors for rising consumption	Leading consumers	Changes in trends and lifestyles
Mexico	・In 2006, the mobile phone household penetration rate (47.6%) beat out that for fixed phones (46.7%) for the first time. ・DVD players are seeing rapid adoption. Penetration rate jumped from 4.0% in 2002 to 45.7% in 2006. Backed in part by easy access to pirated movies	・Total 2007 credit card transactions were up a high 2.8 times over the 2003 level. Spread of automobiles and consumer electronics contributing. ・Remittances from family members working in the US is supporting purchasing power for low- and middle-income households.	・Population under 30 years old comprises 57.4% of total, those under 40 comprise 73.8%. Average household size is 3.9 people. Marketing targeting younger consumers is important. ・Big income disparities. Top 10% of households by income level earn 35.7% of total. Bottom 10% earn 1.8% of total (2006).	・Convenience stores expanding rapidly. (Euromonitor figures show number of stores rising from 5,242 in 2004 to 8,140 in 2007). Shifting away from family-run stores. ・ Conveyor-belt fast-food sushi is popular.
Egypt	The consumer electronics penetration rate changed as follows from 1995 through 2005. TVs 78.8%→92.8%, Refrigerators 55.9%→85.7%, Washing machines 74.9%→92.1%	・Credit card ownership is increasing rapidly. MasterCard cardholders in 2007 had increased by 40% over the previous year, marking the fastest increase in the world (Herald Tribune newspaper).	・Population stands at 72mn and is growing. Young people aged 6-24 comprise 1/3 of the population. Very large low-income group. Economic reforms in recent years have prompted expansion of new riches.	・Large shopping malls are appearing in urban areas and Carrefour and other hypermarkets in the suburbs, with foreign brands popular for consumer electronics, apparel, cafés, and other categories. ・Starbucks-type cafés expanding quickly.
Saudi Arabia	・High-end watches and perfumes popular products targeting richer classes. ・Mobile phones.	・Rising crude oil prices. ・Low tax rates, no consumption tax. Car-based society; most shoppers travel by car. Long night-time business hours.	・Men leading consumption. ・Total population of 23.7mn, of which 40% is under 14. Household size of roughly six people. The average birth rate for 2000-2005 was 4.1. ・Large families are quite common, and shopping malls have a large number of children's and baby clothing stores.	・Women are achieving higher levels of education (women comprise roughly 60% of college graduates).
UAE	・High-end automobiles and large SUVs are extremely popular. These include European models such as Porsche, BMW, Volkswagen, and Rover. Ferrari is also regarded as one of the best-selling brands worldwide.	・Dramatic economic growth backed by rising oil prices. ・ Some 80% of the total population of 4.22mn is made up of foreigners, mainly guest workers.	・Of the small citizen population, those under 20 make up 51% of the total (2005 census). Large families and high income levels mean strong consumer appetite. ・Foreign travelers numbered some 7mn (2007). Travelers are the next most important consumers after residents.	・High-end and super-luxury hotels mainly targeting rich foreign travelers are doing well. Rush of new construction.

Source: Based on data from reports submitted by overseas JETRO offices.

Table III-14 Major patterns of international expansion by retail trade

Department store	Sale with a comprehensive merchandise line consisting of commodities such as jewelry, precious metals and luxury brands
Supermarket	A business category born in the United States, whereby frequently consumed foodstuffs and daily necessities can be bought through self-services
Warehouse store	A business category that utilizes large vacant stores or the empty lots of warehouses to sell low-price products such as food through self-services
Cash and carry (C&C)	A business category of wholesale that uses the takeaway method to sell food and non-food commodities for business use on a cash basis (typical company: Metro, etc.)
Membership wholesale	A membership system that sells commodities to businesses and consumers (similar to C&C)
Box store (hard discount store)	Characterized by selling at a complete discount, centering on private brands, and displaying commodities in cardboard box
Hypermarket (supercenter)	Characterized by a large store space to sell commodities with a high purchase frequency, mainly foodstuffs, and other daily necessities, groceries and drugs, by putting up low prices everyday, basically with one-floor store space equipped with concentrated cash registers and large parking facilities (typical companies: Carrefour of France and Tesco of UK).
Japanese-style hypermarket	A business category commonly seen in the international expansion by Japanese companies, which comprehensively deals in clothing as well as other commodities, like foodstuffs, daily necessities, household electric appliances and furniture, in a 3-6 story building that has retail spaces individually equipped with cash registers and large parking facilities (it is different from the hypermarket in that (1) it has clothing as the main commodity, (2) it attaches more importance to quality and services instead of low prices, and (3) it has no concentrated cash registers)
Convenience store	Characterized by centering on commodities that are consumed right after purchase, and providing convenience in terms of site location, business hours and commodity lineup

(source) Prepared with reference to various kinds of materials

Table III-13 Number of international stores for retail trade in Japan, the United States and Europe

	Carrefour (France, as of Dec. 31, 2007)		Tesco (UK, as of Feb. 24, 2007)		Metro (Germany, as of Oct. 31, 2007)		Aeon (Japan, as of Feb. 20, 2007)	Ito Yokado (Japan, as of Jun. 3, 2008)	Wal-Mart (U.S., as of May 2008)	
	Number of hypermarkets	Number of hard discount stores	Number of stores	Year that business expansion started	Number of stores	Year that business expansion started	Number of stores	Number of stores	Number of stores	Year that business expansion started
Europe and Russia	406	4,299	639		394				353	
France			1	1992	86	1971				
UK					33	1971			353	1999
Ireland			95	1997						
Belgium	56				9	1970				
Spain	161	2,912			34	1972				
Greece	28	397			7	1992				
Italy	59				48	1972				
Denmark					5	1971				
Netherlands					16	1969				
Portugal		471			10	1990				
Russia					36	2001				
Ukraine					16	2003				
Poland	72		280	1995	25	1994				
Czech			84	1996	12	1997				
Hungary			101	1994	19	1994				
Romania	11				23	1996				
Slovak Rep			48	1996	5	2000				
Turkey	19	519	30	2003	10	1990				
North America, and Central and South	255	695	60						2,197	
US			60	2007						
Canada									305	1994
Mexico									1,037	1991
Argentina	59	395							23	1995
Brazil	150	300							315	1995
Columbia	46									
Other Central and South American countries									517	1992, 2005
Asia	238	275	626		51		58 (since 1996)	12 (since 1997)	598	
China	112	275	47	2004	34	1996	33(including Hong Kong)	12	206	1996
Indonesia	37									
Malaysia	12		19	2002	3	2004	18			
Singapore	2									
Taiwan	48						1			
Japan			109	2003	3	2002			392	2002
ROK			81	1999						
Thailand	27		370	1998			6			
Vietnam					8	2002				
India					3	2003				2009 (C&C store to be opened)
Total	899	5,269	1,325		445		58	12	3,148	

(Note) In addition to this, Carrefour has expanded its international business of supermarket and convenience stores, but that is mainly in Western Europe and is omitted here.

(Source) Prepared based on the data of individual retailers' homepages

Table III-15 Japanese product brand image

	Automobiles	Consumer electronics, apparel, game consoles, others
UK	A 2007 UK automobile customer satisfaction survey (conducted by J.D. Power) found that Lexus was ranked first, VW and Czech maker Škoda tied for second, Honda came in third, then Toyota in fourth and Daihatsu as fifth.	Japanese brands are favorably viewed for attention to detail, and that they have designer brands establishing an independent image.
Germany	Japanese cars are viewed favorably, second only to German cars. The image for German cars is high quality and good service, but high price. Japanese cars are seen as more reasonably priced and reliable, and as using advanced technology.	The household penetration rate for flat-panel TVs is 32% for Japanese-made, 12% for Philips, and 8% for Samsung.
Russia	2007 sales volume stood at 21,000 for Volvo, 15,000 for Mercedes Benz, 13,000 for Lexus, and 6,000 for Infiniti. In terms of brand recognition, BMW did best at 88%, followed by Lexus at second with 79%, then Infiniti at third with 72% (Association of European Businesses in the Russian Federation).	-
China	-	Japanese products are viewed favorably for similar body types, good taste, and high quality.
India	In a customer satisfaction survey conducted by IMRB International and Business Week, for passenger cars, Ford and Honda ranked as tied for the top, followed by multiple Japanese companies for second, and Hyundai for third.	In this same customer satisfaction survey, for TVs, Samsung ranked first, followed by LG in second, and Sony in third, and for air conditioners, Hitachi came in first, with LG in second, and Samsung in third. For apparel, the top was Allen Solly (UK), then Provogue (India), and Louis Philippe (UK) in third.
Mexico	A J.D. Power customer satisfaction survey showed that for nine categories, Japanese cars were in the top three for six of them, and ranked number one for four.	-
Uzbekistan	-	A JETRO questionnaire found that, in terms of an image of high-quality products, Japan ranked first (Sony, Panasonic, Sharp, Pioneer, and others), Europe second (Indesit, Ariston, Nokia), South Korea third (LG, Daewoo, Samsung), and China in fourth.
Indonesia	A JETRO questionnaire found that the best-known automobiles were Japanese with 88% recognition, followed by European and US makes at 33%, and then South Korean cars at 29% (multiple responses).	The best-known TV makers were Japanese at 83%, then South Korean at 41%, and then European and US at 17%. The best-known mobile phone makers were European and US at 67%, then Japanese at 38%, and then South Korean at 25%. Products people would buy again were Japanese at 78%, European and US at 35%, Chinese at 12%, Indonesian at 9%, and South Korean at 9%. For good after-sales service, 78% of respondents chose Japan, then South Korea at 22%, and then Europe and the US at 22%.
Malaysia	Including the country's second-largest automaker Perodua (owned in part by Daihatsu and Mitsui), Japanese cars have 62.2% of the market in 2007, and their brand image is one of high reliability.	Interviews with consumer electronics retailers found that high-end shoppers buying high-priced items such as flat-panel TVs tend to choose Japanese products.
Egypt	For cars and consumer electronics, Japanese and German brands have good recognition. Japanese products are seen as having high quality, high prices, and good after-sales service.	US brands have good recognition for restaurants and apparel. South Korean cars and consumer electronics are gaining better recognition. Chinese products are also burnishing their image.

Source: Based on data from reports submitted by overseas JETRO offices.

Table III-16: Examples of Japanese companies expanding

	Company name	Targeted country / market	Product details
Product development targeting the local market	Sony	India	Development and sales of models for the local market that emphasize sound by including large speakers
		U.S.	Development and sales of Bravia line of flat-panel TVs with lower resolution, but lower price, targeting the mass market
	Consumer electronics manufacturers	UAE	Development and sales of large washing machines to suit the larger families of the Middle Eastern market
	Acecook	Vietnam	Development and sales of instant noodle products that meet local sensibilities and tastes. Company name becoming synonymous with "instant noodles".
Entry by selling image of Japanese product safety, quality, and after-sales service	Honda	Mexico	Gained consumers' trust in the passenger car market with quick and polite "Japanese-style" after-sales service.
	Toshiba	Brazil	Expanding sales of low-priced but high-quality TVs with warranties of over four years (one-year warranties are more common), with after-sales support another selling point.
	Pigeon	China	Maintaining image of high-quality high-end baby goods, and expanding market share
	Unicharm	Saudi Arabia	Bringing products into the market from Japan, becoming second brand in the country.
	Kirin Beverage	China	Boosting sales while keeping image as traditional and high-end by matching products to the tastes of local young women.
	MOS Food Services	Thailand	Successful with Japanese foods image of high quality and safety

Source: Based on data from reports submitted by overseas JETRO offices.

Table III-17 Intellectual property issues in the main newly emerging countries

China	・The manufacture of copies is becoming more sophisticated, involving division of labor, smaller production lots, and applying for foreign trademarks in advance, among other measures. Tougher domestic law enforcement is boosting exports of copies to Southeast Asia and the Middle East. While exquisitely produced copies are on the rise, there are also numerous ongoing incidents of inferior-quality copies causing to accidents and injuries. ・The Chinese government promulgated its National Intellectual Property Strategy in June 2008, setting forth a medium- to long-term national policy aiming to attain the highest global standards in the creation, utilization, and protection of intellectual property rights by 2020. The government also frequently implements national campaigns to smoke out counterfeiters and various other events.
Russia	・There have been some problems related to pirated DVDs and beverages, but these have not extended to manufacturing in general. ・By registering trademarks with the customs authorities, the system can inhibit the importation of copies and parallel imports, and Japanese companies have been increasingly interested in this system over the past year and more.
India	・There are many cases of copies being imported from China and the Middle East. There are many cases of infringement on trademarks and designs, which are more easily copied. ・A JETRO questionnaire sent to Japanese companies active in the country in August 2006 confirmed that 14 of 38 companies suffered damages. That said, only a few companies have done anything specific to combat the problem, suggesting that the damages are not enough to seriously impact operations.
Brazil	・The legal system is adequately in place, but enforcement is inadequate. There is a veritable flood of pirated or smuggled CDs and software, and the government's enforcement efforts have had little effect. There are many copied products even of laptop PCs and DVD players. ・Trademark applications take a very long four to five years, and patent registrations take even longer from five to seven years. Infringement is not unusual even after registering. Any lawsuit brought will only see slow progress in the courts, and any plaintiff must be willing to spend significant time and money to prosecute the case.
Vietnam	・Pirated DVDs and foreign brand-name handbags and clothes are on sale at low prices. Most of these are apparently brought in from China. There are also many copied brand-name motorbikes, and Japanese manufacturers state that at least assembly, if not more, is being undertaken in Vietnam. ・The government is making efforts, such as its new IP law enacted in July 2006. However, a lack of people with the specialized expertise and other factors are hampering implementation
Thailand	・Illegal media (DVDs and CDs) are estimated at some 40-50% of total media sales. copies can be found in everything from auto parts, motorbikes and parts, and electronics, to office equipment and other areas.
Egypt	・Chinese-made copies sometimes show up in the market.
Saudi Arabia	・Following the country's December 2005 accession to the WTO, the government has been working to protect IP rights, but a shortage of manpower at the relevant authorities means that copies can be found even in the cities. Japanese companies have also been damaged by the spread of copies for items such as auto parts, plant equipment, and printer ink cartridge.
UAE	・Japanese companies have suffered the most from copies of auto parts, tools, small electronics, and computer products. Some Japanese companies have also been successful in ferreting out copied textiles for apparel. ・The government authorities are strengthening their response, but are still far from making any major improvement. Several Japanese companies have also joined with agents to put advertisements warning against copies, and further diligent efforts are still required.

Source: Based on data from reports submitted by overseas JETRO offices.

4. Future Global Market Strategies for Japanese Companies

(1) 90% of responding companies plan to either begin selling overseas or boost ongoing overseas sales

Japanese companies are increasingly interested in expanding overseas, including in the newly emerging countries, and are increasing their reliance on overseas earnings. Export industries are further boosting their sales in overseas markets, and even more domestic-demand sectors such as retail, daily sundries, construction, agriculture, and processed foods are also actively building up their overseas presence.

In order to better understand the situation and the impact of the changes, JETRO conducted a questionnaire survey of 3,495 member companies between 18 April and 14 May 2008. 947 companies responded for a reply rate of 27.1%. 60% of the respondents were in manufacturing, breaking down to general machinery companies comprising 8% of all respondents, while 7% were in foods and beverages, and 6% were automobile or auto parts companies. 40% of respondents were non-manufacturing, with roughly half of these in wholesale. 37% were large companies, and 60% were small and medium-sized enterprises (SMEs).

The questionnaire asked about current and future overseas sales, with 87% of all the 947 respondents answering either that they currently sell overseas and could see or already project sales growth, or that they do not sell overseas yet but might do so or are already planning to expand overseas. Of particular note, 16% of all SMEs replied that they have no overseas presence yet but might or are planning to expand overseas, a much higher ratio than the 2% recorded for large companies. That said, the vast majority of large companies at 85% replied that they are already operating overseas, suggesting that the domestic market is close to saturated.

Future plans to expand overseas were most often indicated in the fields of textiles and apparel; lumber, wood products, paper, and pulp; petroleum and plastic products; construction (residential); transportation; agriculture, forestry and fisheries; and specialty services (such as consulting and legal). These are sectors that have operated primarily within Japan, and the questionnaire results show strong interest in expanding overseas by these domestic-demand businesses. Meanwhile, no plans to expand overseas were most often indicated in the sectors of retail (38%), transportation (37%), finance and insurance (89%), and specialty services (40%), with the vast majority comprised of non-manufacturing sectors.

The top active reason given for selling overseas from among the 824 replies to this question was the growth potential of the newly emerging markets, at 55% of respondents. This was followed at 51% by concerns that the domestic market is mature

or saturated. However, only 14% replied that they are changing their focus from domestic demand to overseas markets, highlighting that companies are not giving up on domestic demand, but rather strategically seeking to capture demand in expanding overseas markets. 23% of companies also replied that they intend to move into markets in developed countries, for the fourth answer, clearly showing that the developed markets of the US and Europe remain attractive targets.

Companies answering that they were concerned about the maturity and saturation of the domestic market were mostly in the sectors of foods and beverages, cement and ceramics, steel and non-ferrous metals, general machinery, construction (residential), and agriculture, forestry and fisheries. Those replying that they are attracted by high overseas rates of return were mostly in the fields of retail, specialty services, cement and ceramics, and IT equipment and electronics. One reading of these results is that intensifying competition is compressing domestic rates of return, prompting the business strategy of offsetting this by expanding overseas.

(2) Countries and markets targeted for sales growth

Of the 839 companies that replied to a question about which countries are the most important targets for sales over the next three years, 440 or 52% answered, "China". The US was the next biggest target at 32% (272 companies), followed by India at 25% (206), Thailand at 22%, and Russia at 20%. The top picks were not just the BRIC and ASEAN countries, but including South Korea, Taiwan, Thailand and Vietnam, but also Germany, the UK, France, and other Western European countries, as companies target both the developed and newly emerging markets for sales growth.

Of the newly emerging JFIC 16 countries, Thailand ranked fourth, followed by Vietnam in seventh, then Saudi Arabia as 19th, and Mexico as 20th. Interest in selling in the JFIC 16 countries is rising, and we expect their relative ranking as target markets to increase as time goes by.

Looking just at the top ten countries, the SME replies were similar to the large company replies, with many indicating China, the US, and India as target markets, but 20% of SMEs also indicated South Korea, more than the 16% of large companies, and SMEs were also more likely to target Vietnam, Taiwan, and Germany than the large companies were. This is probably due to these areas being important consumers of intermediate goods supplied by SME manufacturers. Filtering by sector, most companies in almost all sectors chose China as the most important target, but India was also chosen by many companies in specialty services such as consulting and legal.

The most common means of supplying products and services to the chosen target

markets was by exports, (China was the top target at 53% of replies, and Germany was ranked tenth at 30%). The most common countries for local production bases were China (33%), Thailand (18%), the US (17%), Taiwan (10%), Indonesia (9%), and South Korea (8%).

In reply to a question about target demographics for the next three years, 389 or 46% of respondents answered that they were targeting high-end product sales to high-income consumers, and 323 or 39% answered that they were targeting mid-priced product sales to middle-income consumers. The companies targeting wealthier consumers were in the sectors of textiles and apparel (71%), pharmaceuticals and cosmetics (67%), foods and beverages (64%), retail (90%), and finance and insurance (67%). Meanwhile, sectors targeting middle-income consumers were precision instruments (52%), foods and beverages (50%), ICT equipment and electronics parts (42%), agriculture, forestry and fisheries (44%), wholesale (43%), and specialty services (42%).

These results show that Japanese companies are targeting both the upper and middle classes, while those targeting the wealthy are emphasizing branding strategies, and those targeting middle-income consumers are aiming for a larger population of potential customers.

(3) Problems faced in selling overseas

The most numerous replies to a question about the problems and risks in selling overseas, by region, mentioned the difficulties of getting information about regulations and permissions, of finding good sales channels, of finding good partners, and of understanding local business customs. Asia was most often cited for problems in protecting intellectual property (IP) and securing human resources, while the developed countries of Europe, the US, and the Pacific were most often noted for rising customer demands.

Regions most faulted for the difficulty in learning about regulations and permissions were Russia and the CIS countries, the Middle East, and Africa. Asia ranked next, indicating that it is still not easy to get accurate information about regulations and permissions even in the Asian countries. Unexpectedly, large companies were more likely than SMEs to answer that regulation and permission information was difficult to come by, indicating the high level of demand for this type of information.

The top countries cited for difficulties in finding sales channels and partners were the non-Asian developing regions of Central and Eastern Europe, the Middle East, Africa, Russia and the CIS countries, and Central and South America. The troubles of finding sales channels and partners are an age-old problem, and one that companies have

worked on starting in the developed countries and then mainly in Asia. History is likely to follow similar lines as businesses expand their efforts outside of Asia in other developing regions.

The top two regions noted for difficulty in understanding business customs were developing regions, but Asia was ranked third for this category. That said, Asia was ranked last for the challenge of not understanding consumer tastes, showing that Asian consumers are not a problem for Japanese companies. Even so, Asia's third-worst ranking for difficulty in understanding business customs is a clear indication of the complexity of business negotiations in the region.

(4) Progress in developing products and services for the local market, and in human resource development

Of the 839 responses to a question about whether companies were developing products and services for the local market, 60% (502 companies) answered in the affirmative, and 36% (299) in the negative. In a follow-up question to those saying "yes" as to development strategies, 52% or 262 companies replied that the parent company was developing products for the local market, and 43% or 214 replied that the parent company was developing and providing global strategic merchandise. The parent company is developing products for the local market at most manufacturers, but numerous companies in the sectors of steel and non-ferrous metals, IT equipment and electronics parts, precision instruments, and general machinery replied that they were instead developing strategic products for the global market. Meanwhile, 31% of respondents (156 companies) replied that subsidiaries are developing products for the local market. The sectors with the most such responses were foods and beverages, textiles and apparel, chemicals, and printing. Foods and beverages go without saying, but the heavy leaning in this direction for apparel companies was due to subsidiaries taking the initiative in product development. Daily sundries also appear to fall into this category, but local company interviews revealed that parent companies are developing various types of products, from which the products best suited to the local market are selected and sold.

Only 11% of respondents answered that they outsource development to local partners or other local companies, but this number is likely to increase as companies further expand their businesses in the newly emerging countries. Among specialized services, a high 42% of respondents are making use of local universities and research facilities.

Making use of local human resources is vital for developing locally optimal products and boosting competitiveness. So far, Japanese companies have sourced employees

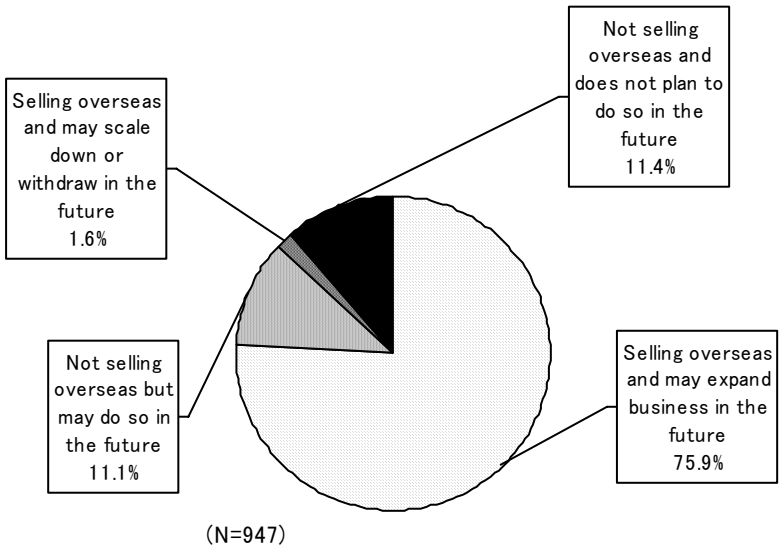
more from within their groups than their US and European counterparts, but human resources strategy that brings in people from more global perspective is getting increasingly necessary.

When asked about how they were actually making use of employees overseas, the most common replies were that hiring was the responsibility of a local HR manager, that the company had introduced its own earnings targets, that the pay scale was performance-based, and that the company had established its own specialist system with a separate pay scale. Of particular note, large companies were more likely than SMEs to respond that they had implemented specific policies for employee placement and training in order to boost overseas competitiveness.

Meanwhile, many companies in the sectors of IT equipment and electronics parts, lumber and paper pulp, retail, transportation, agriculture, forestry and fisheries, and specialty services answered that they view Japanese language ability of local employees as important. That said, only 7-8% of respondents noted that they employ exchange students in Japan as management candidates, or that they have promotion systems in place leading to management positions overseas or at headquarters. While Japanese companies are clearly evolving in their approach to local recruitment and training, it is also clear that a good number of companies are still heavily reliant on Japanese nationals at their overseas operations.

11% of respondents answered that they have the same employee evaluation systems in place overseas as in Japan, with the most globalized companies in the sectors of ceramics and cement, and automobiles. While having the same evaluation systems in place both in Japan and abroad might not be necessary, Japanese companies will likely be increasingly pushed to undertake efforts such as implementing their own specialist systems and setting up promotion systems leading to management position for both local affiliates and the headquarters.

Fig. III-23 Forecast of overseas sales for the current stage and the future



(Source) Figures and Tables of this sub-section are based on "JETRO Survey on Global Market Strategies for Japanese Companies" released in August, 2008.

Fig. III-24 Reasons for actively conducting sales activities overseas

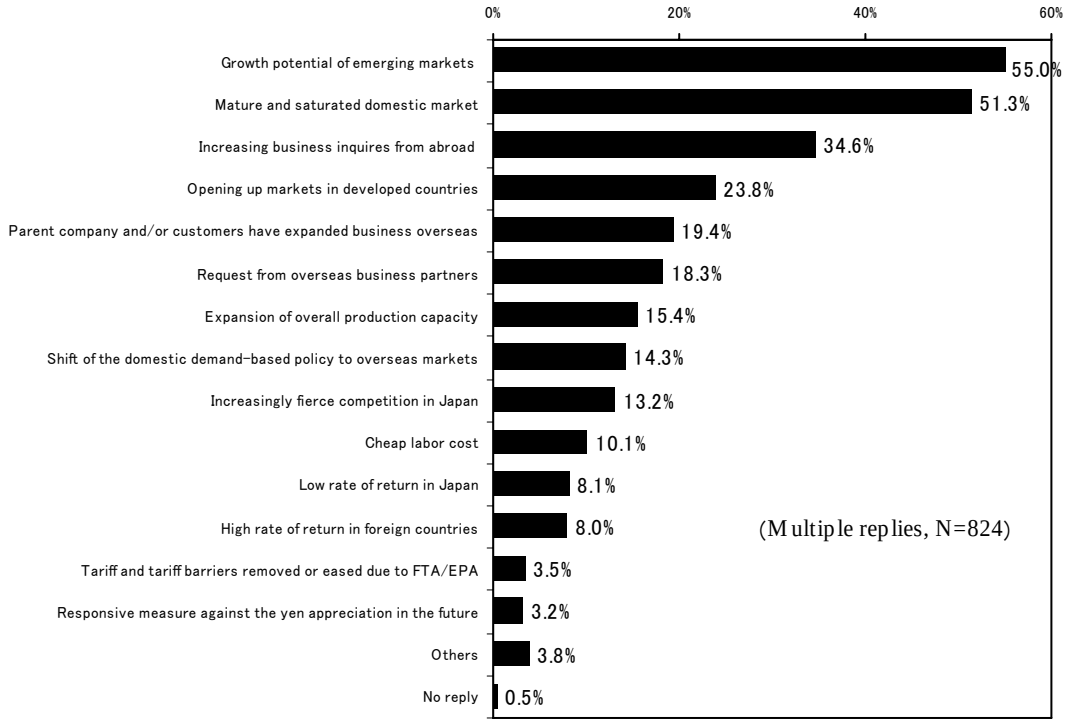


Fig. III-25 Countries with the highest sales priority in the coming three years

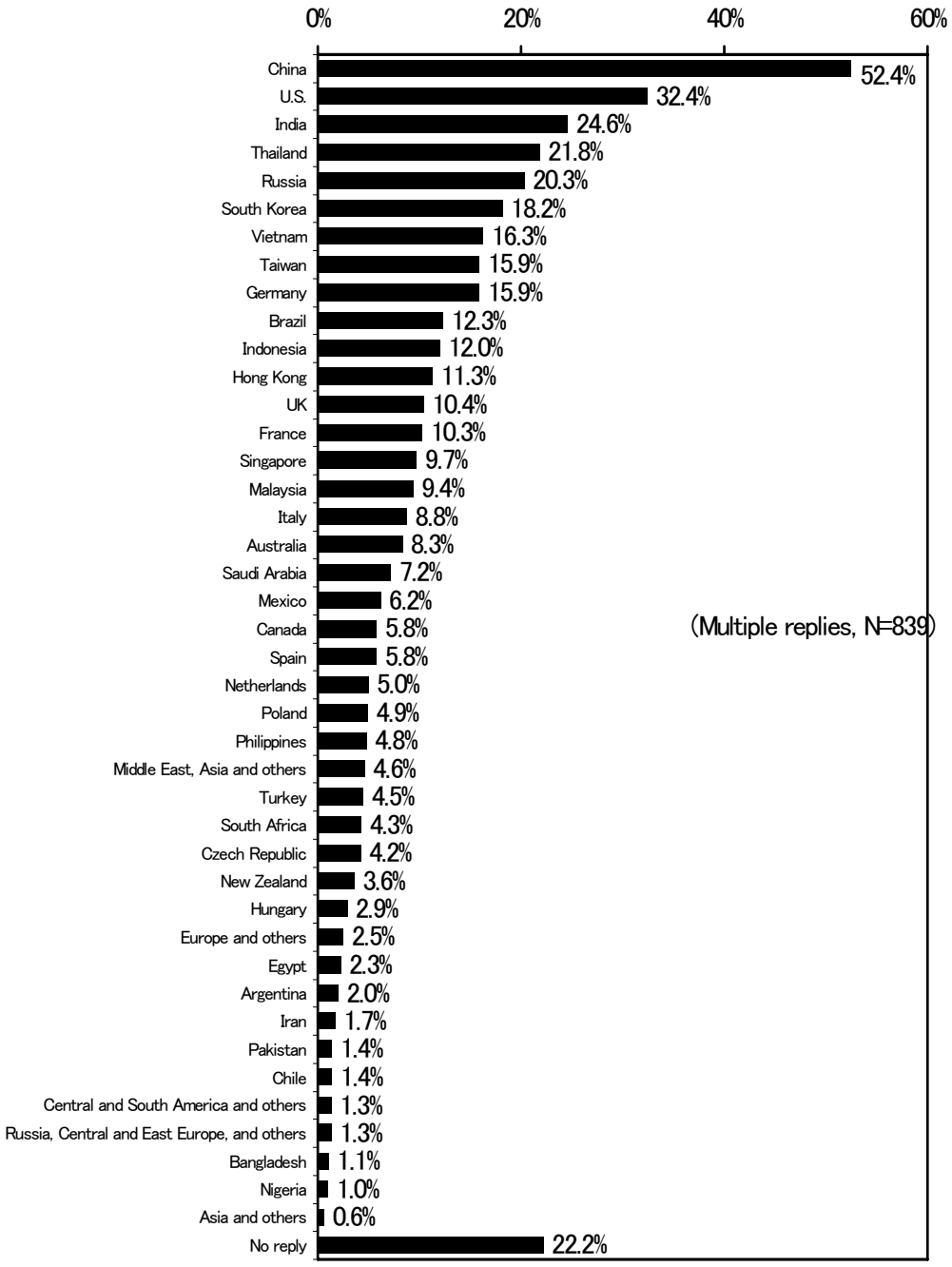


Fig. III-26 Targets in overseas markets

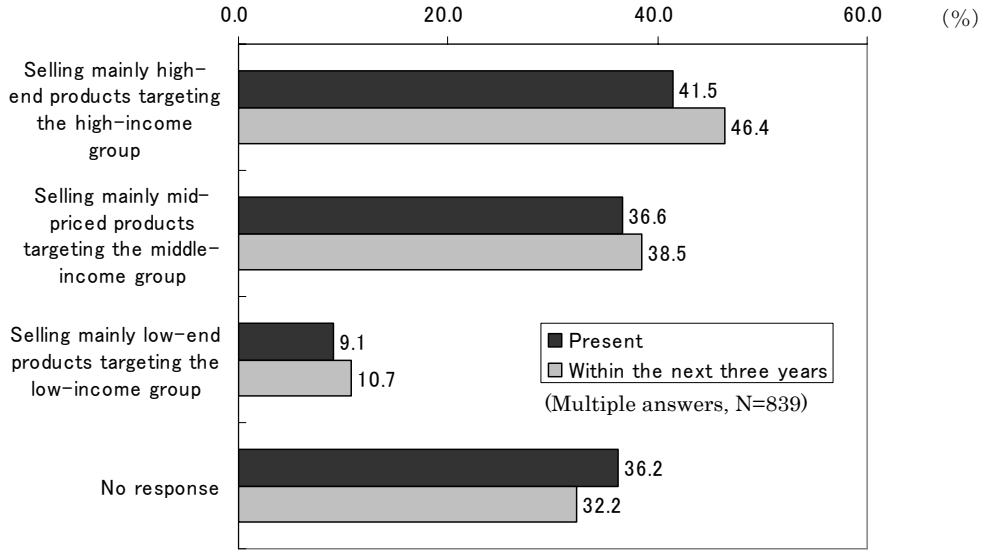


Table III-18 Problems with and risks of overseas sales activities (by item)

(Unit: %)

Difficult to obtain information on regulations and licensing procedures		Difficult to find sales channels		Difficult to find partners		Difficult to understand the region's business practices	
Russia and CIS	48.3	Central and Eastern Europe	42.5	Middle East and Africa	46.0	Middle East and Africa	36.6
Middle East and Africa	40.4	Russia and CIS	39.1	Russia and CIS	44.4	Russia and CIS	32.9
Asia	36.6	Middle East and Africa	38.5	Central and Eastern Europe	38.4	Asia	30.6
Central and South America	35.7	Central and South America	35.7	Central and South America	34.4	Central and Eastern Europe	19.9
Central and Eastern Europe	35.6	Oceania	32.6	Western Europe	25.6	Central and South America	15.6
Western Europe	22.0	Western Europe	30.8	Asia	24.5	Oceania	7.9
North America	11.8	North America	30.5	North America	24.3	North America	6.2
Oceania	9.0	Asia	23.6	Oceania	23.6	Western Europe	6.2

Difficult to catch consumers' preferences		Difficult to secure a stable source of manpower		There are problems with intellectual property protection		Customers' requirements are rising (quality, price, delivery deadline, etc.)	
Middle East and Africa	14.3	Asia	27.2	Asia	45.8	North America	46.6
Central and Eastern Europe	10.3	Central and Eastern Europe	19.2	Central and South America	9.7	Western Europe	43.6
Russia and CIS	8.2	Russia and CIS	18.4	Russian and CIS	9.7	Oceania	32.6
Oceania	7.9	North America	18.0	Central and Eastern Europe	8.9	Asia	28.4
North America	6.2	Central and South America	16.9	Middle East and Africa	6.2	Central and Eastern Europe	19.2
Western Europe	6.2	Middle East and Africa	16.1	North America	4.9	Middle East and Africa	16.8
Central and South America	5.2	Western Europe	14.1	Oceania	2.2	Central and South America	13.0
Asia	5.2	Oceania	6.7	Western Europe	0.9	Russian and CIS	11.6

Multiple answers, N= 305 (North America), 154 (Central and South America), 640 (Asia), 89 (Oceania), 227 (Western Europe), 146 (Central and Eastern Europe), 207 (Russia and CIS), 161 (Middle East and Africa)

Fig. III-27 Strategy of product, commodity and service development

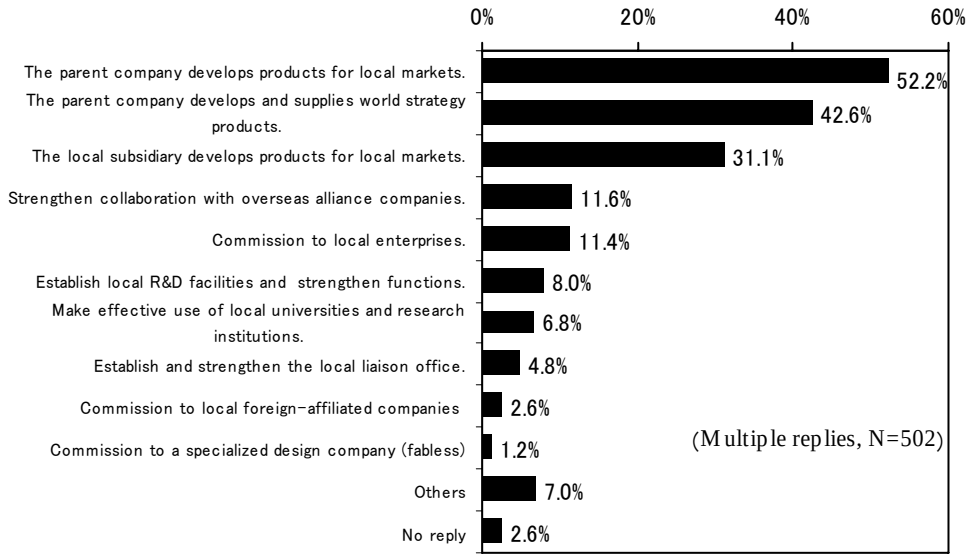
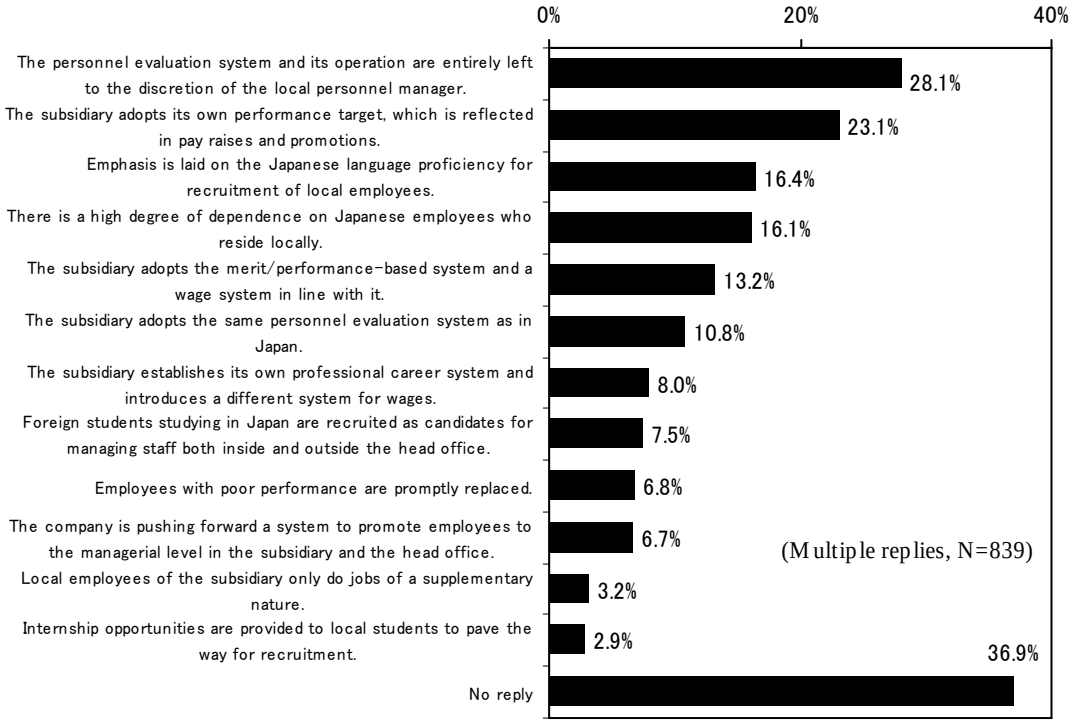


Fig. III-28 Measures for personnel utilization and nurturing to enhance competitiveness in overseas markets



IV. Japanese Economy Headed for Further Globalization both Domestically and Abroad (Conclusion)

■ Rising downward risk for global economy

The world economy expanded by 4.9% in 2007 over the previous year, mostly in line with the high growth posted in 2006 (in real terms, on a purchasing power parity basis). However, there is a rising risk that global economic growth in 2008 will fall short of this level, due to a deteriorating financial environment and inflation in the developed countries of Europe and the US and the resource-consuming countries of the developing world. Total worldwide export value for 2007 (JETRO estimate, visible trade) came to $13,759.7bn for a 15.0% increase over the previous year, maintaining double-digit growth for the fifth consecutive year. However, export volume grew by only 5.6% as the pace of growth fell by half. This was largely due to export volume growth being constrained by 2007 export prices on a dollar basis rising by more than 9% from the year before. Prices on primary products surged coming into 2008, further dampening growth in world trade.

■ Japan offsetting income transfer due to high resource prices with trade investment profits

Rising prices for imports of crude oil and other resources are causing a decline in the ratio of import volume over export volume for resource-consuming countries. Calculating the impact of this change in terms of trade (export prices / import price) shows that resource-rich countries among the newly emerging markets, such as Malaysia, are seeing trading gains as export price increases outstrip import price increases (8.9% of GDP in 2007), while at the same time, a net-export balance of trade (trade surplus) is boosting incomes (16.9% of GDP in 2007). However, in newly emerging countries with few natural resources, income tends to flow abroad. Japan, meanwhile, has seen its terms of trade deteriorate substantially, and the country's 2007 trading gain against GDP was -3.4%, but net amounts received from overseas (remittances and investment earnings from overseas) came to 3.2%, and net exports came to 4.7%, for a grand sum of a positive 4.6% to more than offset the flow of income out of the country.

■ Direct investment in 2008 headed for an unavoidable slowdown

Worldwide inward direct investment in 2007 beat out the previous peak of $1.6tn in 2000 to come in over the $2tn mark for the first time. This was largely due to active cross-holder M&As, an increase in reinvestment from earnings growth at companies that had expanded overseas, and the relatively weak US dollar. Cross-holder M&As increased not just in Europe and the US, but also in the newly emerging countries. Newly emerging countries tend to have many SWFs and state-owned enterprises, and total such assets were estimated at roughly $2-3tn in 2007, and are expected to climb to $12tn in 2012. The leading sectors for M&As were financial, and resources and energy. The impact of the subprime mortgage implosion in the latter half of 2007 has put the brakes on growth, and this slowdown has become more visible coming into 2008. Results for 1H of 2008 show a 14.5% decline from the year before, making a major full-year decline likely unavoidable.

■ **Working around a decline in share of exports to the US by changing target regions and sectors**

Japanese trade in 2007 posted record highs for both imports and exports. Export volume broke above the $700bn level for the first time, and exports as percentage of GDP reached an all-time high of 16.3%. Yen-based exports were slow in the first quarter of 2008 due to the strong yen and high crude oil prices. However, exports on a dollar basis continued to increase, and the slowdown in exports to the US was offset by increases in exports to the EU, ASEAN, the Middle East, and Central and South America. While Japanese exports are becoming less reliant on the US market, they are becoming more reliant on China and other emerging countries. Exports to China exceeded those to the US in 2007, making China Japan's biggest trading partner in total value terms for both imports and exports. There were also changes in targeted sectors, with less going to electrical and general machinery and more going to the automobile, base metal products, petroleum refining, and precious metal (gold, silver, platinum) sectors.

■ **Good opportunity to expand Japan's external M&A**

Japan's 2007 foreign direct investment value hit a record high, climbing 46.5% over the previous year to reach $73.5bn. This growth was buoyed by increased M&A to boost international competitiveness, investment to secure supplies of crude oil and metal ores, increased reinvestment of earnings, and other factors. Amidst rising investment in most areas, there was some sign of a slowdown in the second half of 2007,

but investment resumed a growth track coming into 2008. This was a reflection of favorable corporate earnings, ample cash flow, and a declining reliance on interest-bearing debt, among other factors. The impact of the subprime mortgage implosion has been limited in Japan compared to Europe and the US, leaving Japanese companies in a position that much more favorable for cross-holder M&A. As a result, we look for Japanese companies to take this opportunity to forge aggressively ahead with their M&A strategies.

■ **Promoting investment in Japan to invigorate economy**

Japanese inward investment in 2007 posted a record high of $22.2bn. This was largely backed by recognition of the Japanese market as an attractive target in Asia, and a favorable view of an improved investment environment, including business cost, government red tapes, and the openness of the market. Business sectors around the world are also reorganizing, including finance, automobiles, and pharmaceuticals, and this is also having an impact on M&A activities in Japan. Large M&As have led investment in Japan, such as Citigroup's acquisition of Nikko Cordial Corporation. If this globalization of the Japanese economy through foreign investment in Japan proceeds, it could both invigorate the economy and add impetus to Japanese companies' overseas expansions.

■ **High expectations for utilization of ASEAN+1 FTAs**

The Japanese government is making progress establishing FTAs mainly with countries in the Asian Pacific region, with agreements already in effect with Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia and Brunei. Moreover, an agreement between ASEAN and Japan (the ASEAN-Japan Comprehensive Economic Partnership, AJCEP) would allow Japanese firms operating in ASEAN countries to import flat panels and other high-value-added components from Japan and then export the finished products to other ASEAN countries without incurring any tariffs. Japanese firms can expand their business opportunities still further by utilizing not just the AJCEP, but also the ASEAN-plus-one FTAs. For example, many Japanese firms are keenly interested in the ASEAN-China Free Trade Area (ACFTA). Substantive tariff reductions and elimination are set to begin from January 2009, with most categories of goods no longer subject to tariffs by 2010, leading to expectations of increased activity among firms that have looked forward to this change. The establishment of any extensive FTAs must consider how to make trade easier for firms. One part of this is harmonizing rules of

origin within the region. It is also desirable that firms can make use of a choice of criteria type allowing the choice to be of three criteria; i.e. change in tariff classification criterion, value-added content criterion, and manufacturing process criterion. Furthermore, procedures of origin certification include Asian-type third-party certification system and NAFTA-type self-certification system, but another option is to implement an EU-type approved exporter system that would compensate for the disadvantages of both other systems.

■ **Further liberalization of services, investment, and government procurement**

Liberalization under the so-called WTO-Plus is producing substantial advantages, such as the establishment in Mexico of a Credit Suisse First Boston Bank subsidiary, cross-border truck transportation between the US and Mexico, and an increase in both branch locations and ATMs at Citibank Singapore. In addition, Japan's unique scheme of “Committee on Improvement of the Business Environment” has already been successful with numerous points of taxes and customs procedures, and it is hoped that the committee will also help work on FTA issues in future. As Europe and the US clarify their FTA strategies for Asia, Japan must proceed with comprehensive FTAs with the Asian Pacific countries to ensure that Japanese companies are not placed at a disadvantage. Depending on the circumstances, the demands of negotiating countries could lead to more liberalization for goods trading in categories that are sensitive for Japan. Some countries have responded to local industries not doing well after an FTA has been enacted by providing subsidies or otherwise rescuing those industries. As compensation for liberalizing trade under an agreement with newly emerging countries, the Japanese government may have to offer support and cooperation to help boost Japanese companies' export competitiveness.

■ **Supporting companies in searching for sales channels and partners in newly emerging countries**

A questionnaire to JETRO members received replies from 947 companies, of which 87% answered that they might or already plan to expand their overseas sales. The main reason given at 55% of replies was the high growth potential of the newly emerging markets. Roughly half of the replies mentioned concerns about the saturation of the domestic market, but only 14% of companies indicated a shift in policy from domestic-demand focus to a focus on overseas markets, indicating that they have not necessarily given up on domestic demand, and instead have opted to move into overseas

markets in anticipation of opportunities for exploring earnings growth. Many companies also noted problems in newly emerging markets, specifically difficulties in finding sales channels and partners. Japanese companies have been able to overcome these challenges in the developed countries and in East Asia, but these issues and lack of local information are major hurdles for Japanese companies operating in the Middle East, Africa, Central and Eastern Europe, and Central and South America.

■ The broad approach required for resource-rich newly emerging countries

Based on access data by country of the JETRO File, we compiled a list of the 16 non-BRIC newly emerging countries for which interest is increasing (JETRO File Increasing interest Countries: the JFIC 16). These emerging countries spread around the world, in Asia, the Middle East, Central and South America, Central and Eastern Europe, and Africa. As income levels have increased, there has been a substantial shift from middle to high incomes. Factors behind rising incomes in these countries include rising prices for foods and resources, increased employment by influx of foreign capital, and more money remitted from abroad, among others. In the world economy, there are concerns that the subprime mortgage crisis and rising food and resource prices could cause slowdown in demand not just in the developed world but in the newly emerging markets as well. Share prices have fallen off considerably in the newly emerging countries of China and Vietnam, where the governments have adopted tight monetary policy to curb inflation, making it difficult for the economies to maintain the same high pace of growth seen to date. However, most of the JFIC 16 countries have ample mineral, food, and human resources (including money remitted from abroad), making them more likely to benefit from rising food and resource prices. These resource-endowed countries are consequently strategic overseas targets for Japanese companies.

■ Targeting the younger age bracket in newly emerging countries

Unlike China, Russia, and Central and Eastern Europe, the older age brackets in the BRICs and JFIC 16 countries are still quite limited, with younger people forming a larger percentage of the total population. The bracket of people aged 39 and younger comprises roughly 50% of the population in Europe and the US, but 65% in the BRICs and 73% in the JFIC 16 countries. Moreover, this bracket has 57% of total disposable income in the JFIC 16, well above the 38% in the G7 countries. This suggests that younger consumers have a stronger influence on consumption in the newly emerging

countries, and considering also income transfers from parents, they are considered to have an even greater impact than the figure indicates. Even in China, where the one-child policy has led to a graying demographic shift, the younger "post-80" generation is expected to lead consumption. Japanese companies need sales strategies for these newly emerging countries that factor in the consumption behavior and influence of this younger age bracket.

Appendix

Note 1: Definition of products

1. Products

Name of products	HS
Total Value	00～99
Machinery and equipment	84～91
Genral equipment	84
Air conditioners	8415
Electrical equipmet	85
Transport equipment	86～89
Automobiles	8702～8705
Passenger vehicles	8703
Motorcycles	8711
Automotive parts	8707～8708 8407.31～8407.34
Precision instruments	90～91
Chemicals	28～40
Industrial chemicals	28～38
Pharmaceuticals and medical supplies	30
Plastics and rubber	39～40
Foodstuffs	1～11, 16～24
Seafood	03
Grains	10
Wheat	1001
Corn	1005
Rice	1006
Processed food products	16～24
Ethanol (Ethyl alcohol)	2207.10
Oils, fats, and other animal and vegetable products	12～15
Soybeans	1201
Animal and plant fats	15
Miscellaneous manufactured goods	64～67, 92～97
Iron ore	2601
Mineral fuels, etc.	27
Mineral fuels	2701～2705 2708～2713, 2715
Coal	2701
LNG	2711.11
Petroleum and petroleum products	2708～2710 2712～2713, 2715
Crude oil	2709
Textiles and textile products	50～63
Synthetic fibers and textiles	54～55
Clothing	61～62
Base metals and base metal products	72～83
Steel	72～73
Primary steel products	72
Steel products	73
Copper	7403
Nickel	7502
Aluminum	7601
Lead	7801

2. IT products

Name of products	HS No.
①Computers and peripherals	8443.31, 8471, 8473
Multifunctional digital equipment	8443.31
Computers and peripherals	8471
Parts for computers and peripherals	8473
②Office equipment	8469, 8470, 9009
③Telecommunications equipment	8517, 8525.10, 8525.20, 8526
④Semiconductors and electronic components	8540～8542
Electron tubes and semiconductors	8540～8541
Integrated circuits	8542
⑤Other electronic components	8504, 8518, 8522, 8523, 8529, 8532～8536
Flat panel displays	8529.90
⑥Video equipment	8521, 8525.30, 8525.40, 8528, 9006
Digital cameras	8525.80
Reception apparatus for television	8528.71, 8528.72
⑦Audio equipment	8519～8520
Portable audio players	8519.81
⑧Measuring and testing equipment	8543, 9014～9015, 9024～9027, 9030～9032
⑨Machines and apparatus for the manufacture of semiconductor devices	8486
IT parts	8473, 8486.90, ④, ⑤
Finished IT products	8443.31, 8471, 8486.10, 8486.20, 8486.30, 8486.40, ②, ③, ⑥, ⑦, ⑧
Total IT equipment	Parts + finished products

Note 2: Estimates of world trade in 2007

The value of world trade in 2007 was estimated by aggregation based on the trade statistics of 53 countries and regions from which the data was available in July 2008, and then obtaining a grand total for the following three categories. The trade value by products is the aggregation of (1) and (2).

(1) The total export and import value of the 53 countries and regions.

(2) For countries from which custom statistics were not available (mainly developing countries and regions, approximately 120), the value of exports from those area was extracted from the imports statistics (CIF basis) of the 53 countries and regions and converted to FOB basis(for imports, the export values (FOB basis) were converted to CIF basis).

(3) For trade among countries and regions from which trade statistics were not available, data was extracted from "Direction of Trade Statistics" May 2008 (IMF).

<53 countries and regions>

Japan, US, Canada, Belgium, Netherlands, Luxemburg, Germany, France, Italy, Ireland, Denmark, Greece, Spain, Portugal, Austria, Finland, Sweden, UK, Norway, Switzerland, Australia, New Zealand, South Korea, Taiwan, Hong Kong, Singapore, Thailand, Malaysia, Indonesia, Philippines, China, India, Vietnam, Mexico, Argentina, Brazil, Chile, Columbia, Costa Rica, Panama, Peru, Venezuela, Czech Republic, Hungary, Poland, Slovakia, Slovenia, Lithuania, Russia, Ukraine, Romania, Turkey and South Africa

Note 3: Estimates of global direct investment value in 2007

Global inward direct investment was estimated as below.

(1) Collected figures of 82 countries and regions from which the data for 2006 and 2007 was available.

i) For the following countries, each country or region's balance of payments statistics were used: the United States, Canada, Australia, New Zealand, United Kingdom, Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Portugal, Luxemburg, Netherlands, Spain, Denmark, Sweden, Cyprus, Czech Republic, Estonia, Slovakia, Slovenia, Hungary, Latvia, Lithuania, Malta, Poland, Bulgaria, Norway, Switzerland, China, Taiwan, Hong Kong, South Korea (ROK), Malaysia, the Philippines, Singapore, Thailand, India, Argentina, Brazil, Chile, Columbia, Mexico, Venezuela, Russia, Israel, and Turkey. For countries that released two types of statistic values, i.e., one including transactions via special purpose enterprises (SPEs) and the other not including such transactions, the former was used. The data based on the local currency was converted to US dollar according to the IMF's annual average rate.

ii) For Japan, the balance of payments statistics released by the Bank of Japan were converted to the US dollar at the average quarterly Bank of Japan interbank rate.

iii) For the following 22 countries, the data of the IMF's Balance of Payments Statistics (BOPS, June 2008) was used: Armenia, Azerbaijan, Bangladesh, Belize, Bosnia and Herzegovina, Cape Verde, Costa Rica, Croatia, Dominica, Georgia, Iceland, Indonesia, Kazakhstan, Moldova, Pakistan, Panama, Romania, Sao Tome and Principe, South Africa, Uganda, Ukraine, and Uruguay.

iv) For the following nine countries, the data of the Economic Commission for Latin America and the Caribbean (ECLAC) was used: Peru, El Salvador, Trinidad and Tobago, Honduras, Bahamas, Guatemala, Nicaragua, Ecuador and Bolivia. (Inward direct investment only)

(2) For 59 developing countries from which the data for 2007 was not available and of which the data for 2006 was listed in the BOPS (June 2008), the data of the said statistics was obtained as the data for the estimation.

(3) As a result of the above operations, the inward direct investment value data of the following countries and regions was available: 23 developed countries (Industrial Countries based on the IMF's classification: the United States, Canada, Japan, New Zealand, Australia, EU15, Iceland, Norway and Switzerland) (an aggregate sum of US$1.4422 trillion), and 59 developing countries and regions (countries other than the23 developed countries) (an aggregate sum of US$600.4 billion). The aggregate sum for the 59 countries in 2006 accounted for a percentage of 90.3% in the aggregate sum for 118 developing countries from which the data for 2006 was available.

(4) The aggregate sum for the 23 developed countries was used as the inward direct investment value for developed countries in 2007, and that for the 59 developing countries was divided by the percentage of 90.3% for 2006 to obtain an estimated 100% value, which was used as the direct investment value for developing countries in 2007. The aggregate sum for developed and developing countries was used as the total global inward direct investment value.

Incidentally, the same method was used for the outward FDI value: From the 23 developed countries (a sum of US$1.869 trillion) and 45 developing countries (US$270.3 billion, with the aggregate sum for the 45 countries accounting for a percentage of 95.4% in the aggregate sum for 84 countries from which the data for 2006 was available), the sum was estimated respectively for developed countries, developing countries and the world total.

Table 1 GDP growth rate and contribution rate by country and region

(%)

	2004		2005		2006		2007	
	Growth rate	Contribution	Growth rate	Contribution	Growth rate	Contribution	Growth rate	Contribution
US	3.6	16.9	3.1	15.7	2.9	12.8	2.2	9.7
EU27	2.7	13.5	2.1	11.3	3.3	15.3	3.1	14.4
Japan	2.7	4.0	1.9	3.1	2.4	3.4	2.1	2.9
East Asia	8.3	26.2	8.1	29.5	8.8	29.3	9.1	32.0
China	10.1	17.7	10.4	21.3	11.1	21.2	11.4	23.4
ROK	4.7	1.8	4.2	1.8	5.1	1.9	5.0	1.9
ASEAN10	6.3	4.7	5.6	4.8	6.0	4.5	6.4	5.0
Thailand	6.3	1.0	4.5	0.8	5.1	0.8	4.8	0.8
Singapore	9.0	0.6	7.3	0.5	8.2	0.5	7.7	0.5
Malaysia	6.8	0.7	5.0	0.6	5.9	0.6	6.3	0.7
Vietnam	7.8	0.5	8.4	0.6	8.2	0.5	8.5	0.6
India	7.9	6.3	9.1	8.4	9.7	8.2	9.2	8.3
Australia	3.8	1.0	2.8	0.8	2.8	0.7	3.9	0.9
New Zealand	4.5	0.2	2.8	0.1	1.5	0.1	3.0	0.1
Latin America	6.2	10.1	4.6	8.5	5.5	8.9	5.6	9.4
Brazil	5.7	3.3	3.2	2.1	3.8	2.1	5.4	3.1
Central and Eastern Europe	6.9	5.4	6.1	5.3	6.6	5.2	5.8	4.7
Russia	7.2	4.3	6.4	4.3	7.4	4.5	8.1	5.1
Middle East	5.9	4.3	5.7	4.8	5.8	4.3	5.8	4.4
Africa	6.5	3.8	5.7	3.8	5.9	3.5	6.3	3.8
World	4.9	100.0	4.4	100.0	5.0	100.0	4.9	100.0
For reference								
Developed countries	3.2	34.7	2.6	34.7	3.0	35.0	2.7	31.1
Developing countries	7.5	64.5	7.1	64.5	7.8	64.2	7.9	67.8
Asia Pacific	6.6	40.2	6.5	40.2	7.2	40.0	7.4	42.4
ASEAN + 3	6.5	31.0	6.3	31.0	7.0	31.0	7.2	33.2
BRICs excluding South Africa	8.3	36.8	8.3	36.8	9.0	36.8	9.5	40.6
BRICs including South Africa	8.5	36.0	8.4	36.0	9.2	36.1	9.6	39.9

(Notes)
(1) The world growth rate was calculated by the IMF using purchasing power parity weighting.
(2) Each country or region's contribution rate was calculated using 2006 prices and purchasing power parity weighting.
(3) Figures may differ from those found elsewhere due to revisions, differing source data, and other factors.
(4) East Asia includes the ASEAN10, China, the ROK (South Korea), Hong Kong, and Taiwan.
Asia Pacific includes ASEAN10, Japan, China, the ROK, Australia, New Zealand and India.
(5) Developed and developing countries are as defined by WEO (IMF).
(Sources) WEO(IMF), national statistics.

Table 2 World Export matrix (2007)

(US$ million)

	World	NAFTA	US	Japan	EU27	ASEAN + 6	East Asia	China	ASEAN	APEC
World	13,747,700	2,473,552	1,861,730	557,223	5,403,560	2,854,002	2,557,150	880,944	751,630	5,887,824
NAFTA	1,829,061	925,784	521,117	73,900	292,930	299,150	228,094	76,966	65,223	1,254,880
US	1,162,600	384,978	–	62,665	247,788	262,778	204,479	65,238	60,560	674,635
Japan	707,134	163,443	142,486	–	103,480	272,694	330,993	110,245	85,984	509,325
EU27	5,315,140	421,880	356,719	59,737	3,600,480	341,101	252,604	98,381	73,370	868,701
ASEAN + 6	3,487,566	650,110	569,023	246,882	560,126	1,363,551	1,371,839	330,651	467,550	2,337,478
East Asia	3,006,209	487,352	460,947	244,582	471,192	1,237,135	1,220,547	388,794	370,787	2,068,927
China	1,219,690	268,737	237,822	101,697	246,147	293,877	359,347	–	92,930	763,291
ASEAN	883,748	120,813	109,796	87,611	109,567	493,375	423,735	93,191	220,203	634,599
APEC	6,141,634	1,661,333	1,163,696	364,789	1,087,488	1,975,310	1,882,944	627,923	541,194	4,044,920

(Notes)
(1) Exports from each country/region to Taiwan were converted to FOB figures by multiplying 0.9 to Taiwan's CIF imports.
(2) ASEAN + 6 includes ASEAN10, Japan, China, the ROK, Australia, New Zealand and India.
(3) East Asia consists of China, ROK, Taiwan, Hong Kong, and ASEAN10
(4) APEC includes Japan, U.S., ROK, Taiwan, Hong Kong, Singapore, Thailand, Malaysia, Indonesia, Phillippines, China, Canada, Mexico, Chile, Vietnam, Papua New Guinea, Australia, New Zealand, Brunei Darussalam, Peru, and Russia (21 countries/regions).
(Sources) "Direction of Trade Statistics", May 2008 (IMF) and Taiwan's trade statistics.

Table 3 World trade by country and region

(US$ million, %)

	Exports						Imports					
	2005		2006		2007		2005		2006		2007	
	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate
North America	1,266,632	11.5	1,424,845	12.5	1,582,764	11.1	1,988,076	14.0	2,203,834	10.9	2,336,989	6.0
US	905,978	10.7	1,036,635	14.4	1,162,479	12.1	1,673,455	13.9	1,853,938	10.8	1,956,962	5.6
Canada	360,655	13.6	388,211	7.6	420,284	8.3	314,621	14.7	349,895	11.2	380,027	8.6
Europe	4,575,316	9.6	5,196,327	13.6	6,051,771	16.5	4,516,562	10.4	5,202,372	15.2	6,128,980	17.8
EU15	3,721,963	7.5	4,164,740	11.9	4,786,136	14.9	3,714,639	9.2	4,206,257	13.2	4,854,614	15.4
Germany	969,884	6.7	1,109,183	14.4	1,327,670	19.7	775,553	8.4	907,678	17.0	1,059,704	16.7
France	462,968	2.5	495,875	7.1	553,710	11.7	503,744	7.0	541,964	7.6	615,927	13.6
Netherlands	405,806	13.5	464,000	14.3	552,296	19.0	363,191	13.6	417,213	14.9	492,434	18.0
Italy	372,689	5.4	417,329	12.0	492,241	18.0	384,533	8.2	442,719	15.1	504,960	14.1
UK	394,090	13.4	447,163	13.5	443,675	△ 0.8	502,143	7.6	566,086	12.7	635,501	12.3
Belgium	334,237	9.0	367,039	9.8	430,979	17.4	318,551	11.6	352,017	10.5	413,728	17.5
Spain	192,526	5.4	213,765	11.0	241,225	12.8	288,479	11.7	328,906	14.0	373,100	13.4
Sweden	130,220	5.7	147,911	13.6	169,288	14.5	111,340	10.9	127,724	14.7	151,501	18.6
Austria	124,998	5.7	136,902	9.5	163,124	19.2	127,137	6.0	137,356	8.0	162,579	18.4
Ireland	109,604	4.7	108,800	△ 0.7	120,987	11.2	68,525	10.8	73,163	6.8	82,569	12.9
Denmark	84,951	10.3	92,636	9.0	103,611	11.8	75,439	10.7	85,580	13.4	99,773	16.6
Finland	65,969	7.1	77,130	16.9	89,776	16.4	58,941	14.6	68,957	17.0	81,552	18.3
Portugal	38,137	6.7	43,365	13.7	51,471	18.7	61,165	11.5	66,703	9.1	78,288	17.4
Greece	17,169	12.1	20,783	21.0	23,621	13.7	54,077	2.6	63,638	17.7	75,535	18.7
Luxembourg	18,715	15.1	22,860	22.1	22,464	△ 1.7	21,819	8.8	26,554	21.7	27,463	3.4
Poland	89,246	19.1	110,925	24.3	139,093	25.4	101,402	13.1	127,240	25.5	163,065	28.2
Czech Republic	77,976	13.1	95,053	21.9	122,711	29.1	76,332	9.2	93,352	22.3	118,203	26.6
Hungary	62,801	13.0	75,390	20.0	94,792	25.7	66,405	9.8	78,386	18.0	95,203	21.5
Slovakia	31,950	16.1	41,968	31.4	58,336	39.0	35,279	19.8	44,949	27.4	60,424	34.4
Romania	27,642	17.5	32,487	17.5	40,362	24.2	40,346	23.3	51,341	27.3	70,100	36.5
Slovenia	19,212	17.5	23,259	21.1	30,098	29.4	20,285	14.3	24,186	19.2	31,606	30.7
Lithuania	11,763	26.4	14,157	20.4	17,191	21.4	15,487	25.0	19,418	25.4	24,254	24.9
Switzerland	130,795	10.2	147,884	13.1	171,916	16.3	126,440	13.1	141,468	11.9	161,110	13.9
Norway	103,741	25.8	122,125	17.7	137,857	12.9	55,474	14.4	64,267	15.9	79,634	23.9
Asia	2,906,697	15.1	3,400,183	17.0	3,939,596	15.9	2,694,158	15.6	3,120,414	15.8	3,580,931	14.8
Japan	598,215	5.9	647,290	8.2	712,735	10.1	518,638	14.1	579,294	11.7	621,084	7.2
East Asia	2,167,332	17.4	2,581,248	19.1	3,025,892	17.2	1,975,063	14.5	2,295,051	16.2	2,656,196	15.7
China	761,999	28.4	969,073	27.2	1,218,015	25.7	660,119	17.6	791,614	19.9	955,818	20.7
ROK	284,419	12.0	325,465	14.4	371,327	14.1	261,238	16.4	309,383	18.4	356,453	15.2
Hong Kong	292,328	10.0	322,664	10.4	349,663	8.4	300,635	10.0	335,753	11.7	370,733	10.4
Taiwan	188,963	8.4	213,004	12.7	234,710	10.2	181,743	7.7	202,038	11.2	218,648	8.2
ASEAN	639,623	14.3	751,043	17.4	852,177	13.5	571,327	15.0	656,264	14.9	754,544	15.0
Singapore	229,681	15.5	271,916	18.4	299,404	10.1	200,075	15.2	238,900	19.4	263,247	10.2
Thailand	109,848	13.1	130,621	18.9	163,529	25.2	118,112	24.1	128,652	8.9	151,759	18.0
Malaysia	140,979	12.0	160,845	14.1	176,311	9.6	114,626	8.9	131,223	14.5	147,065	12.1
Indonesia	85,660	19.7	100,799	17.7	114,101	13.2	57,701	24.0	61,065	5.8	74,473	22.0
Phillippines	41,007	3.6	47,037	14.7	50,270	6.9	44,052	0.0	51,533	17.0	55,317	7.3
Vietnam	32,447	22.5	39,826	22.7	48,561	21.9	36,761	15.0	44,891	22.1	62,682	39.6
India	99,651	31.8	121,259	21.7	147,564	21.7	138,370	42.2	172,876	24.9	217,543	25.8
Oceania	134,676	19.7	153,885	14.3	177,440	15.3	156,275	15.4	171,146	9.5	204,509	19.5
Australia	105,891	22.6	123,478	16.6	141,338	14.5	118,610	14.4	132,778	11.9	157,887	18.9
New Zealand	21,738	6.9	22,449	3.3	26,958	20.1	24,541	13.0	24,788	1.0	29,082	17.3
Central and South America	538,228	19.4	637,574	18.5	716,298	12.3	520,082	17.6	620,689	19.3	733,685	18.2
Mexico	214,233	14.0	249,997	16.7	272,044	8.8	221,820	12.7	256,130	15.5	283,234	10.6
Brazil	118,308	22.6	137,470	16.2	160,649	16.9	73,551	17.2	91,396	24.3	120,621	32.0
Chile	38,598	24.9	55,884	44.8	65,788	17.7	29,788	33.3	34,750	16.7	42,714	22.9
Argentina	40,387	16.8	46,546	15.3	55,780	19.8	28,687	27.8	34,154	19.1	44,707	30.9
Colombia	21,092	28.3	23,730	12.5	29,076	22.5	21,131	28.1	25,468	20.5	32,587	28.0
Peru	17,001	37.4	23,431	37.8	27,588	17.7	12,502	23.6	15,327	22.6	20,464	33.5
Venezuela	12,222	79.7	15,774	29.1	14,284	△ 9.4	21,920	44.3	30,636	39.8	41,908	36.8
Costa Rica	7,151	16.5	8,453	18.2	9,569	13.2	9,173	13.9	12,740	38.9	14,095	10.6
Panama	955	7.6	985	3.1	1,079	9.6	4,111	14.8	4,657	13.3	6,729	44.5
Russia, CIS	257,147	29.7	317,293	23.4	395,395	24.6	169,753	28.5	229,788	35.4	327,288	42.4
Russia	184,916	35.0	226,524	22.5	279,724	23.5	91,481	34.3	128,151	40.1	189,619	48.0
Ukraine	34,287	4.9	38,368	11.9	49,248	28.4	36,141	24.6	45,035	24.6	60,670	34.7
Middle East	454,205	31.2	569,397	25.4	640,812	12.5	405,084	19.8	468,218	15.6	582,765	24.5
Turkey	73,389	15.9	85,535	16.6	107,215	25.3	116,542	19.8	139,576	19.8	170,057	21.8
Africa	263,980	27.8	323,472	22.5	371,491	14.8	236,175	16.6	275,675	16.7	345,235	25.2
South Africa	51,870	12.8	57,897	11.6	69,868	20.7	55,029	15.5	68,157	23.9	79,924	17.3

(Notes)

(1) Processed from national trade statistics available.

(2) Figures of Europe, Asia, Oceania, Central and South Africa, Russia and CIS, Middle East and Africa are estimated. See Reference Section "Note 2" for the estimating method.

(3) Figures of ASEAN include Singapore, Thailand, Malaysia, Indonesia, Phillippines and Vietnam.

(4) Figures of East Asia include China, the ROK, Hong Kong, Taiwan and the 6 ASEAN countries.

(Sources) National trade statistics.

Table 4 World exports by major products (2007)

(US$ million, %)

	World		US		EU15		Japan		China		ASEAN4		Asia NIES	
	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate
Total value	13,759,746	15.0	1,162,479	12.1	4,786,136	14.9	712,735	10.1	1,218,015	25.7	504,211	14.8	1,255,105	10.8
Machinery and equipment	5,598,140	13.0	603,883	8.7	2,054,598	12.1	486,955	8.5	623,439	28.0	204,664	2.9	764,299	9.7
General machinery	1,816,339	14.3	198,910	9.1	764,999	17.6	139,246	10.6	228,599	22.5	74,784	7.2	167,284	△ 0.8
Air conditioner	31,642	26.3	2,305	0.6	7,900	25.5	1,586	23.5	8,220	44.0	4,710	44.6	2,324	2.3
Electrical equipment	1,804,765	10.0	148,563	1.8	441,360	0.1	135,003	5.5	300,340	32.0	98,313	△ 4.2	433,659	11.9
Transport equipment	1,545,411	16.9	189,297	15.0	696,753	16.7	179,172	13.0	54,996	43.1	23,066	26.1	94,200	17.8
Automobiles	753,808	17.0	60,658	26.2	358,198	15.6	121,025	15.3	7,402	113.2	9,933	35.3	39,119	12.6
Passenger vehicles	616,165	15.5	44,860	28.7	298,995	13.8	108,180	14.6	2,811	82.8	5,215	48.0	36,265	12.1
Motorcycles	20,433	11.3	1,405	29.5	6,849	18.4	6,283	△ 1.7	3,827	19.8	487	30.7	836	8.8
Automotive parts	323,138	13.8	40,558	4.3	137,216	14.1	31,833	10.1	13,387	39.0	7,168	29.4	16,828	18.9
Precision instruments	431,624	7.6	67,114	7.1	151,486	5.3	33,534	△ 7.8	39,504	14.1	8,502	2.7	69,156	13.7
Chemicals	1,770,803	17.3	183,433	13.0	891,023	17.6	82,793	11.6	87,638	30.0	58,182	19.6	134,707	14.3
Industrial chemicals	1,190,494	18.2	124,692	13.5	637,420	17.8	50,297	10.9	51,115	35.4	20,536	26.8	69,616	15.4
Pharmaceuticals and medical supplies	345,013	19.3	29,243	15.4	238,923	19.0	2,463	△ 0.5	2,052	34.0	606	36.4	7,178	24.3
Plastics and rubber	580,310	15.7	58,742	11.9	253,603	17.3	32,496	12.6	36,523	23.2	37,646	16.1	65,091	13.1
Foodstuffs	819,553	18.4	74,602	24.6	375,667	17.6	3,605	15.8	33,249	17.5	31,977	22.6	14,223	16.6
Seafood	68,033	6.2	3,869	0.7	17,765	8.8	1,161	17.3	4,753	0.2	5,242	13.9	2,705	7.3
Grains	68,557	44.4	21,099	56.7	13,575	39.0	10	△ 4.4	1,967	89.5	3,903	33.9	36	21.7
Wheat	28,986	45.1	8,332	98.0	6,572	32.4	0	–	481	198.2	17	322.1	0	50.5
Corn	20,161	54.8	10,108	39.3	2,262	22.9	0	△ 98.5	874	112.0	130	71.1	0	△ 21.2
Rice	11,080	24.0	1,389	9.7	1,263	21.5	10	2.0	479	17.1	3,736	44.4	34	23.1
Processed food products	364,710	17.2	24,366	13.1	189,080	17.7	2,041	13.2	16,477	19.4	17,179	23.7	8,189	15.5
Ethanol (Ethyl alcohol)	3,905	11.4	51	12.8	1,246	77.6	1	△ 3.7	53	△ 87.6	39	46.0	4	85.1
Oils, fats, and other animal and vegetable products	107,290	35.9	16,121	38.3	25,832	21.0	258	6.1	2,222	15.5	22,650	59.0	1,094	14.2
Soybeans	22,914	42.5	10,004	44.0	627	27.2	4	4336.2	196	34.7	13	57.9	5	△ 9.5
Animal and plant fats	59,856	38.5	3,036	43.2	16,821	18.4	92	4.3	327	△ 16.3	22,191	60.4	582	32.0
Miscellaneous manufactured goods	403,667	17.4	29,113	18.1	141,509	16.8	7,779	21.3	100,953	22.3	12,255	7.5	33,210	7.5
Iron ore	42,112	23.7	719	13.1	3,060	31.3	0	14.0	9	1458.4	185	△ 15.2	1	△ 93.2
Mineral fuels, etc.	1,799,402	11.2	42,248	21.1	268,091	9.2	9,297	57.7	19,944	12.2	62,903	9.9	80,367	17.7
Mineral fuels	1,716,608	11.4	39,644	22.7	225,326	9.4	8,601	58.8	18,725	11.4	61,870	9.9	79,164	18.4
Coal	53,860	6.4	4,150	17.3	2,888	13.1	1	22.4	3,295	△ 10.5	6,737	10.7	1	90.5
LNG	57,724	12.4	132	△ 17.0	129	214.6	0	150.2	0	△ 11.9	17,395	6.4	0	12.5
Petroleum and petroleum products	1,452,237	12.0	30,609	21.3	200,541	11.4	8,221	65.4	11,816	9.8	35,547	11.1	78,337	18.5
Crude oil	955,658	10.6	1,114	30.7	46,508	8.9	0	–	1,687	△ 38.4	20,381	8.7	63	△ 18.9
Textiles and textile products	609,438	9.9	22,100	△ 2.7	165,108	12.1	8,439	4.2	165,821	20.1	21,994	△ 0.9	68,469	△ 0.1
Synthetic fibers and textiles	72,731	8.1	3,745	1.5	22,018	9.9	3,794	6.9	14,160	16.7	5,577	8.5	12,439	0.5
Clothing	342,344	11.6	3,619	△ 14.9	85,637	15.0	365	4.7	108,652	22.6	12,161	△ 6.6	31,808	△ 0.0
Base metals and base metal products	1,191,227	22.5	63,523	15.6	469,078	23.3	59,792	14.3	115,526	35.4	28,560	28.4	83,812	15.8
Steel	672,429	26.0	32,038	22.8	285,363	27.0	42,195	14.1	76,613	47.5	12,399	24.5	49,666	17.5
Primary steel products	418,864	28.0	17,124	36.1	173,702	28.9	30,107	16.0	39,944	58.9	6,169	36.0	32,410	19.0
Steel products	253,565	22.9	14,914	10.4	111,660	24.2	12,088	9.6	36,669	36.9	6,230	14.8	17,256	14.7
Copper	55,965	11.5	417	△ 11.1	7,566	4.2	3,303	42.9	953	△ 35.4	3,208	36.7	1,852	△ 6.3
Nickel	23,967	57.3	243	65.0	4,438	63.0	43	159.9	536	33.2	1	△ 30.0	995	18.4
Aluminum	56,273	7.9	1,089	△ 0.4	11,567	6.2	76	18.8	1,338	△ 52.9	670	3.5	1,366	59.5
Lead	5,549	67.3	83	26.8	1,334	77.8	76	398.2	607	△ 14.7	36	21.9	432	69.1
IT products														
Total IT equipment	1,977,008	14.4	189,853	16.3	454,210	9.5	142,983	20.1	378,800	31.1	135,416	26.9	463,204	36.9
IT parts	988,354	7.2	98,755	8.5	192,576	4.0	85,013	11.9	130,095	10.7	81,133	16.1	328,232	26.2
Finished IT products	988,654	7.2	91,098	7.8	261,633	5.5	57,970	8.1	248,704	20.4	54,283	10.8	134,972	10.8
Computers and peripherals	445,452	3.2	40,362	3.5	110,580	2.3	9,015	1.3	133,045	10.9	51,136	10.1	64,940	5.2
Multifunctional digital equipment	16,792	0.1	331	0.0	5,086	0.1	1,166	0.2	6,801	0.6	153	0.0	2,429	0.2
Computers and peripherals	277,753	2.0	24,347	2.1	71,996	1.5	4,173	0.6	93,482	7.7	34,392	6.8	23,622	1.9
Parts for computers and peripherals	150,907	1.1	15,684	1.3	33,498	0.7	3,676	0.5	32,762	2.7	16,590	3.3	38,889	3.1
Office equipment	5,006	0.0	471	0.0	877	0.0	114	0.0	1,460	0.1	616	0.1	895	0.1
Telecommunications equipment	306,954	2.2	20,159	1.7	79,089	1.7	8,441	1.2	80,836	6.6	7,196	1.4	68,813	5.5
Semiconductors and electronic components	443,735	3.2	50,413	4.3	58,508	1.2	44,526	6.2	34,984	2.9	46,201	9.2	191,423	15.3
Electron tubes and semiconductors	77,846	0.6	8,570	0.7	13,686	0.3	11,159	1.6	11,103	0.9	8,229	1.6	20,509	1.6
Integrated circuits	365,890	2.7	41,843	3.6	44,822	0.9	33,367	4.7	23,882	2.0	37,972	7.5	170,914	13.6
Other electronic components	387,879	2.8	30,841	2.7	99,216	2.1	34,881	4.9	62,195	5.1	18,334	3.6	97,496	7.8
Flat pnel displays	61,338	0.4	3,692	0.3	8,837	0.2	8,939	1.3	9,489	0.8	3,421	0.7	21,770	1.7
Video equipment	186,447	1.4	5,997	0.5	32,726	0.7	15,771	2.2	54,866	4.5	7,112	1.4	23,312	1.9
Digital cameras	39,356	0.3	1,412	0.1	7,515	0.2	11,779	1.7	10,645	0.9	992	0.2	5,286	0.4
Reception apparatus for television	60,138	0.4	1,809	0.2	12,090	0.3	995	0.1	11,402	0.9	811	0.2	2,707	0.2
Audio equipment	9,330	0.1	839	0.1	2,555	0.1	155	0.0	2,845	0.2	405	0.1	2,077	0.2
Portable audio players	7,262	0.1	676	0.1	2,034	0.0	121	0.0	2,148	0.2	4	0.0	1,959	0.2
Measuring and testing equipment	159,402	1.2	31,597	2.7	62,878	1.3	17,171	2.4	8,101	0.7	4,402	0.9	12,165	1.0
Machines and apparatus for the manufacture of semiconductor devices	32,802	0.2	9,175	0.8	7,780	0.2	12,909	1.8	466	0.0	13	0.0	2,083	0.2

(Notes)
(1) See Reference Section"Note 1" for the definition of products. (2) Value of world exports based on JETRO estimates. (3) Asia NIES include the ROK, Hong Kong, Singapore and Taiwan.
(4) As to the IT products, due to the revision of HS Codes in 2007, growth rates are not available. (5) Figures of IT products exports of Japan do not correspond with the figures of Chapter I.
(Sources) National trade statistics.

Table 5　World imports by major products (2007)

(US$ million, %)

	World		US		EU15		Japan		China		ASEAN4		Asia NIES	
	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate
Total value	14,236,939	15.4	1,956,962	5.6	4,854,614	15.4	621,084	7.2	955,818	20.7	428,615	15.1	1,209,081	11.3
Machinery and equipment	5,117,487	12.4	796,725	4.3	1,820,987	13.5	174,240	4.1	487,037	16.6	180,510	3.7	577,122	8.5
General machinery	1,621,105	12.5	249,925	2.5	615,183	16.3	55,585	1.7	124,218	13.8	57,992	14.7	151,263	5.3
Air conditioner	26,902	23.8	3,841	7.6	11,609	34.5	1,455	5.5	582	7.4	691	38.3	1,851	15.1
Electrical equipment	1,793,960	11.3	248,869	8.6	466,627	9.3	73,647	8.8	256,830	17.3	93,442	△ 3.9	340,788	10.0
Transport equipment	1,285,783	16.0	239,673	1.4	609,301	16.8	21,774	10.6	35,014	17.8	20,046	12.8	34,366	20.6
Automobiles	674,172	16.0	155,252	△ 0.7	312,648	17.8	7,880	0.4	10,906	45.2	4,908	23.5	8,807	15.9
Passenger vehicles	554,512	14.4	134,321	△ 1.2	264,721	16.8	7,686	0.4	9,838	41.7	2,972	19.8	7,653	16.2
Motorcycles	17,425	10.1	3,156	△ 15.0	9,239	16.0	586	15.5	5	15.0	449	3.7	383	20.0
Automotive parts	304,383	15.0	53,218	5.5	135,502	16.1	5,824	18.4	11,852	18.1	5,789	10.0	6,483	11.2
Precision instruments	416,639	6.9	58,259	6.9	129,876	1.9	23,234	△ 8.1	70,975	18.4	9,030	6.0	50,705	0.9
Chemicals	1,661,930	16.4	192,560	8.6	753,246	18.8	54,425	10.3	123,434	20.4	50,549	17.6	112,740	10.7
Industrial chemicals	1,132,684	17.5	139,390	11.2	531,755	19.1	39,975	11.7	68,523	21.9	32,714	19.6	75,636	13.1
Pharmaceuticals and medical supplies	328,281	19.0	48,948	16.0	186,656	20.7	8,312	9.6	3,458	44.0	2,653	19.0	6,910	16.4
Plastics and rubber	529,245	14.2	53,171	2.4	221,491	18.0	14,449	6.8	54,911	18.7	17,835	14.0	37,104	6.1
Foodstuffs	737,724	17.2	81,534	7.6	380,115	18.3	51,711	4.5	13,178	15.4	24,161	29.3	39,145	17.3
Seafood	72,091	7.3	10,660	4.5	31,758	8.9	10,220	△ 5.8	3,443	9.1	2,473	18.7	5,606	10.4
Grains	48,665	42.1	1,640	45.0	17,750	57.2	6,635	40.4	515	△ 37.3	4,441	29.6	4,633	33.7
Wheat	17,923	34.7	501	61.3	6,983	43.4	1,632	27.4	21	△ 80.8	2,210	24.1	1,229	34.3
Corn	18,215	55.4	257	43.8	5,657	86.3	3,842	48.7	7	△ 43.5	828	11.7	2,785	36.5
Rice	6,326	25.4	385	21.2	1,745	27.7	363	19.5	217	△ 24.6	1,380	55.5	547	21.4
Processed food products	323,975	16.4	39,928	5.0	166,755	19.2	19,624	2.3	4,543	11.5	10,203	26.0	15,114	12.9
Ethanol (Ethyl alcohol)	3,395	2.4	886	△ 40.5	1,856	52.1	262	0.6	2	△ 64.2	7	4.4	123	1.3
Oils, fats, and other animal and vegetable products	93,686	32.8	5,628	19.7	36,405	26.6	5,577	18.0	20,017	63.9	3,203	35.9	4,443	28.8
Soybeans	24,315	47.7	97	71.8	5,899	40.2	1,664	29.9	11,472	53.2	1,352	55.1	1,280	30.8
Animal and plant fats	46,627	30.8	3,421	22.4	20,238	19.9	1,075	25.3	7,575	93.2	1,310	24.1	1,873	40.9
Miscellaneous manufactured goods	413,348	17.0	110,952	9.0	170,232	20.7	19,833	10.0	4,520	35.1	3,020	19.0	31,111	15.4
Iron ore	63,940	38.3	535	△ 14.0	11,156	20.5	8,830	23.2	33,796	61.5	513	△ 0.5	4,206	22.1
Mineral fuels, etc.	1,827,439	10.3	365,073	9.8	606,341	6.5	173,026	7.0	104,882	17.7	72,687	12.6	204,122	14.5
Mineral fuels	1,745,434	10.0	360,366	9.5	544,196	4.5	172,131	7.4	103,144	17.3	71,804	12.6	200,373	14.0
Coal	65,420	14.2	1,723	△ 2.4	21,072	10.3	14,808	6.8	2,422	49.6	1,584	26.3	11,279	20.3
LNG	63,982	12.1	5,598	30.3	10,858	△ 10.9	26,748	17.0	604	423.0	3	1332.7	16,946	8.1
Petroleum and petroleum products	1,450,584	10.7	321,163	9.7	434,409	7.2	121,514	5.5	97,602	17.2	66,520	11.5	167,098	14.0
Crude oil	1,032,827	9.6	245,771	9.2	295,542	6.5	104,136	5.3	79,771	20.1	42,176	11.0	107,409	7.5
Textiles and textile products	504,032	7.2	99,222	3.1	211,041	12.3	29,350	1.0	25,376	△ 1.2	8,172	7.4	47,056	1.7
Synthetic fibers and textiles	51,943	3.2	4,018	6.8	19,187	10.1	1,110	14.8	6,565	△ 0.9	2,153	6.5	5,265	0.3
Clothing	301,369	9.3	75,554	2.9	139,398	13.1	22,595	0.9	1,812	14.3	862	23.2	25,626	3.3
Base metals and base metal products	1,067,602	21.5	115,991	1.5	472,010	25.9	37,821	23.5	77,694	29.9	46,083	23.4	99,079	19.7
Steel	583,204	23.6	57,307	0.0	266,581	30.0	13,954	25.0	31,056	15.1	28,461	24.9	53,431	29.5
Primary steel products	370,776	24.9	25,665	△ 11.1	179,206	31.9	8,272	34.8	23,019	14.9	19,942	30.9	41,913	30.8
Steel products	212,428	21.4	31,642	11.4	87,375	26.2	5,682	13.0	8,038	15.7	8,519	12.7	11,518	25.0
Copper	52,107	11.4	5,913	△ 11.7	19,698	△ 0.9	753	47.5	10,716	94.9	3,586	18.9	8,444	6.6
Nickel	25,718	50.7	3,950	47.7	10,804	50.2	1,943	82.3	3,863	77.2	135	89.9	3,082	16.2
Aluminum	57,614	8.2	8,290	△ 9.0	25,340	18.3	7,999	6.2	630	△ 36.9	2,446	12.7	5,477	△ 6.2
Lead	5,279	59.9	575	39.1	2,117	67.2	85	26.1	88	32.0	482	82.0	768	45.8
IT products														
Total IT equipment	1,975,624	13.9	288,417	14.7	521,009	10.7	87,669	14.1	283,366	29.6	105,799	24.7	376,754	31.2
IT parts	1,046,101	7.3	87,584	4.5	201,350	4.1	46,449	7.5	218,277	22.8	85,842	20.0	269,611	22.3
Finished IT products	929,522	6.5	200,833	10.3	319,658	6.6	41,220	6.6	65,089	6.8	19,957	4.7	107,143	8.9
Computers and peripherals	432,280	3.0	84,081	4.3	154,988	3.2	19,441	3.1	37,879	4.0	21,590	5.0	46,969	3.9
Multifunctional digital equipment	16,628	0.1	4,022	0.2	6,818	0.1	1,356	0.2	387	0.0	83	0.0	1,646	0.1
Computers and peripherals	264,394	1.9	57,778	3.0	103,106	2.1	12,819	2.1	20,012	2.1	5,917	1.4	19,707	1.6
Parts for computers and peripherals	151,259	1.1	22,281	1.1	45,064	0.9	5,265	0.8	17,480	1.8	15,590	3.6	25,616	2.1
Office equipment	4,945	0.0	1,136	0.1	1,284	0.0	250	0.0	200	0.0	350	0.1	626	0.1
Telecommunications equipment	286,057	2.0	56,755	2.9	92,310	1.9	9,352	1.5	19,235	2.0	5,703	1.3	38,976	3.2
Semiconductors and electronic components	512,447	3.6	26,485	1.4	59,498	1.2	24,130	3.9	145,087	15.2	50,765	11.8	171,727	14.2
Electron tubes and semiconductors	73,358	0.5	5,395	0.3	18,085	0.4	2,781	0.4	16,415	1.7	4,475	1.0	18,826	1.6
Integrated circuits	439,088	3.1	21,090	1.1	41,413	0.9	21,349	3.4	128,671	13.5	46,290	10.8	152,901	12.6
Other electronic components	377,049	2.6	37,768	1.9	94,654	1.9	16,523	2.7	55,215	5.8	19,475	4.5	71,254	5.9
Flat pnel displays	67,568	0.5	3,270	0.2	12,651	0.3	4,262	0.7	7,661	0.8	3,188	0.7	12,694	1.0
Video equipment	173,006	1.2	52,643	2.7	63,042	1.3	5,222	0.8	5,073	0.5	1,725	0.4	14,743	1.2
Digital cameras	40,580	0.3	9,557	0.5	13,769	0.3	1,602	0.3	3,046	0.3	341	0.1	6,282	0.5
Reception apparatus for television	66,017	0.5	25,945	1.3	25,957	0.5	910	0.1	160	0.0	57	0.0	1,538	0.1
Audio equipment	11,556	0.1	2,592	0.1	4,338	0.1	666	0.1	126	0.0	119	0.0	1,718	0.1
Portable audio players	9,142	0.1	2,223	0.1	3,378	0.1	533	0.1	84	0.0	46	0.0	1,582	0.1
Measuring and testing equipment	151,450	1.1	22,480	1.1	46,936	1.0	9,165	1.5	14,751	1.5	6,017	1.4	21,467	1.8
Machines and apparatus for the manufacture of semiconductor devices	26,834	0.2	4,476	0.2	3,959	0.1	2,920	0.5	5,800	0.6	56	0.0	9,274	0.8

(Notes)
(1) See Reference Section"Note 1" for the definition of products. (2) Value of world exports based on JETRO estimates. (3) Asia NIES include the ROK, Hong Kong, Singapore and Taiwan.
(4) As to the IT products, due to the revision of HS Codes in 2007, growth rates are not available. (5) Figures of IT products imports of Japan do not correspond with the figures of Chapter I.
(Sources) National trade statistics.

Table 6 FDI of major economics (net flows based on balance of payment)

(US$ million, %,)

	Inward FDI					Outward FDI				
	2006	2007	Growth rate	Share	contribution	2006	2007	Growth rate	Share	contribution
US	241,961	237,542	△ 1.8	11.3	△ 0.8	241,244	333,271	38.1	15.5	16.0
Canada	62,765	108,655	73.1	5.2	8.1	39,117	53,818	37.6	2.5	2.6
EU27	763,316	1,092,864	43.2	51.9	58.0	918,702	1,349,387	46.9	62.7	75.1
EU15	693,129	1,001,850	44.5	47.5	54.3	886,226	1,305,846	47.3	60.7	73.2
Belgium	63,912	39,058	△ 38.9	1.9	△ 4.4	56,171	51,845	△ 7.7	2.4	△ 0.8
Luxembourg	124,903	118,798	△ 4.9	5.6	△ 1.1	110,614	181,848	64.4	8.4	12.4
Austria	2,533	30,939	1121.5	1.5	5.0	5,623	31,730	464.3	1.5	4.6
Danmark	4,322	9,314	115.5	0.4	0.9	9,249	15,192	64.3	0.7	1.0
Finland	5,481	8,476	54.6	0.4	0.5	3,161	8,623	172.8	0.4	1.0
France	78,154	157,970	102.1	7.5	14.0	121,370	224,650	85.1	10.4	18.0
Germany	55,168	51,812	△ 6.1	2.5	△ 0.6	94,700	169,886	79.4	7.9	13.1
Greece	5,364	1,918	△ 64.3	0.1	△ 0.6	4,167	5,338	28.1	0.2	0.2
Ireland	△ 937	25,891	n.a.	1.2	4.7	14,735	22,048	49.6	1.0	1.3
Italy	39,239	40,202	2.5	1.9	0.2	42,068	90,780	115.8	4.2	8.5
Netherlands	105,446	251,564	138.6	11.9	25.7	208,391	110,539	△ 47.0	5.1	△ 17.1
Portugal	11,305	5,632	△ 50.2	0.3	△ 1.0	6,971	6,217	△ 10.8	0.3	△ 0.1
Spain	26,889	53,385	98.5	2.5	4.7	100,250	119,605	19.3	5.6	3.4
Sweden	23,162	20,952	△ 9.5	1.0	△ 0.4	21,993	37,707	71.4	1.8	2.7
UK	148,189	185,941	25.5	8.8	6.6	86,764	229,839	164.9	10.7	24.9
12 new EU members	70,187	91,014	29.7	4.3	3.7	32,477	43,541	34.1	2.0	1.9
Czech Republic	6,077	9,285	52.8	0.4	0.6	1,479	1,355	△ 8.4	0.1	△ 0.0
Hungary	12,653	31,912	152.2	1.5	3.4	17,546	33,102	88.7	1.5	2.7
Poland	19,198	17,580	△ 8.4	0.8	△ 0.3	9,161	3,353	△ 63.4	0.2	△ 1.0
Slovakia	4,165	3,265	△ 21.6	0.2	△ 0.2	368	384	4.3	0.0	0.0
Slovenia	646	1,426	120.9	0.1	0.1	902	1,569	73.9	0.1	0.1
Estonia	1,674	2,482	48.3	0.1	0.1	1,105	1,531	38.5	0.1	0.1
Latvia	1,664	2,173	30.6	0.1	0.1	173	232	34.3	0.0	0.0
Lithuania	1,840	1,934	5.1	0.1	0.0	290	600	107.3	0.0	0.1
Cyprus	1,504	2,079	38.2	0.1	0.1	855	1,064	24.4	0.0	0.0
Malta	1,865	959	△ 48.6	0.0	△ 0.2	△ 1	19	n.a.	0.0	0.0
Bulgaria	7,507	8,429	12.3	0.4	0.2	175	265	51.7	0.0	0.0
Romania	11,393	9,492	△ 16.7	0.5	△ 0.3	422	67	△ 84.1	0.0	△ 0.1
Norway	6,475	3,388	△ 47.7	0.2	△ 0.5	21,143	12,501	△ 40.9	0.6	△ 1.5
Switzerland	26,275	40,391	53.7	1.9	2.5	69,854	50,968	△ 27.0	2.4	△ 3.3
Australia	25,736	22,266	△ 13.5	1.1	△ 0.6	22,638	24,209	6.9	1.1	0.3
New Zealand	8,013	2,871	△ 64.2	0.1	△ 0.9	374	2,811	651.3	0.1	0.4
Japan	△ 6,789	22,181	n.a.	1.1	5.1	50,165	73,483	46.5	3.4	4.1
East Asia	181,801	258,703	42.3	12.3	13.5	100,455	129,460	28.9	6.0	5.1
China	78,095	138,413	77.2	6.6	10.6	17,830	16,995	△ 4.7	0.8	△ 0.1
ROK	3,586	1,579	△ 56.0	0.1	△ 0.4	8,127	15,276	88.0	0.7	1.2
Taiwan	7,424	8,161	9.9	0.4	0.1	7,399	11,107	50.1	0.5	0.6
Hong Kong	45,060	59,877	32.9	2.8	2.6	44,979	53,160	18.2	2.5	1.4
ASEAN 5	47,635	50,673	6.4	2.4	0.5	22,120	32,923	48.8	1.5	1.9
Thailand	9,010	9,575	6.3	0.5	0.1	1,032	1,756	70.1	0.1	0.1
Malaysia	6,047	8,462	39.9	0.4	0.4	6,041	11,017	82.4	0.5	0.9
Indonesia	4,914	5,571	13.4	0.3	0.1	2,703	4,407	63.0	0.2	0.3
Philippines	2,921	2,928	0.2	0.1	0.0	103	3,442	3241.7	0.2	0.6
Singapore	24,742	24,137	△ 2.4	1.1	△ 0.1	12,241	12,300	0.5	0.6	0.0
India	19,352	22,300	15.2	1.1	0.5	10,389	11,861	14.2	0.6	0.3
Argentina	5,037	5,720	13.6	0.3	0.1	2,119	1,196	△ 43.5	0.1	△ 0.2
Brazil	18,822	34,585	83.7	1.6	2.8	28,202	7,067	△ 74.9	0.3	△ 3.7
Chile	7,358	14,457	96.5	0.7	1.2	2,876	3,830	33.2	0.2	0.2
Colombia	6,464	9,028	39.7	0.4	0.5	1,098	370	△ 66.3	0.0	△ 0.1
Mexico	19,291	24,686	28.0	1.2	0.9	5,758	8,256	43.4	0.4	0.4
Venezuela	△ 590	646	n.a.	0.0	0.2	2,076	2,237	7.8	0.1	0.0
Russia	32,387	52,475	62.0	2.5	3.5	23,151	45,652	97.2	2.1	3.9
Israel	14,694	10,576	△ 28.0	0.5	△ 0.7	14,992	7,064	△ 52.9	0.3	△ 1.4
South Africa	△ 184	5,746	n.a.	0.3	1.0	6,536	3,156	△ 51.7	0.1	△ 0.6
Turkey	19,989	22,029	10.2	1.0	0.4	924	2,106	127.9	0.1	0.2
Developed Countries	1,061,613	1,442,179	35.8	68.4	66.9	1,336,115	1,869,022	39.9	86.8	92.9
Developing Countries	477,188	665,260	39.4	31.6	33.1	242,614	283,155	16.7	13.2	7.1
World	1,538,801	2,107,439	37.0	100.0	100.0	1,578,729	2,152,177	36.3	100.0	100.0

(Notes)
(1) JETRO estimates for "World" and "Developing Countries" figures.
(2) For countries and regions of which dollar-based data are not released, conversion is made by using annual (for Japan, quarterly) average exchange rate.
(3) "East Asia" stands for the sum of China, the ROK (South Korea), Taiwan, Hong Kong and five ASEAN countries. ASEAN5 consists of Thailand, Malaysia, Phillipines, Indonesia and Singapore.
(4) "Developed countries" consists of 23 countries based on classification by the IMF. "Developing countries" are defined as all the other countries and regions.
(5) If figures including special purpose companies (SPEs) and excluding SPEs are both available, JETRO adopts figures including FDI via SPEs.
(Sources) National and regional balance of payments statistics, BOPS (IMF) and UN Economic Commission of Latin America Countries (ECLAC).

Table 7 World cross-border M&A (by country and region)

(US$ million, %, number of cases)

		2004	2005	2006	2007				first half year of 2008			
		Value	Value	Value	Value	Growth rate	Share	No. of cases	Value	Growth rate	Share	No. of cases
	World	455,834	847,707	1,013,217	1,555,926	53.6	100.0	9,878	597,335	△ 14.5	100.0	4,198
Target country and region	US	84,740	109,247	188,237	319,315	69.6	20.5	1,569	135,259	0.3	22.6	670
	Canada	22,398	29,490	74,174	122,633	65.3	7.9	502	20,770	△ 46.8	3.5	208
	EU27	237,394	521,899	508,031	763,210	50.2	49.1	4,020	266,525	△ 22.6	44.6	1,662
	EU15	228,119	496,589	485,246	744,558	53.4	47.9	3,591	254,209	△ 23.8	42.6	1,462
	UK	73,297	206,464	215,324	219,886	2.1	14.1	917	108,256	△ 20.2	18.1	451
	France	25,901	35,862	47,806	63,970	33.8	4.1	405	14,121	△ 69.4	2.4	138
	Germany	48,622	65,330	63,307	84,898	34.1	5.5	633	24,437	△ 51.1	4.1	216
	Netherlands	19,265	33,547	36,241	186,722	415.2	12.0	256	16,812	△ 28.0	2.8	98
	Italy	15,296	51,803	35,659	33,991	△ 4.7	2.2	237	20,401	8.0	3.4	94
	Spain	9,293	26,451	14,054	64,990	362.4	4.2	264	36,947	85.7	6.2	110
	12 new EU members	9,275	25,310	22,785	18,651	△ 18.1	1.2	429	12,316	14.6	2.1	200
	Czech Republic	578	11,187	1,775	1,574	△ 11.3	0.1	81	5,280	507.2	0.9	49
	Hungary	528	3,227	3,444	6,285	82.5	0.4	54	2,806	△ 45.2	0.5	18
	Poland	1,881	2,652	5,032	3,340	△ 33.6	0.2	84	2,117	6.9	0.4	35
	Switzerland	4,978	10,689	13,962	21,558	54.4	1.4	165	15,195	△ 3.7	2.5	54
	Norway	1,897	8,395	6,475	10,517	62.4	0.7	114	4,451	8.1	0.7	54
	Australia	15,429	11,930	17,477	66,111	278.3	4.2	424	15,327	△ 5.1	2.6	202
	Japan	10,386	3,596	4,354	22,584	418.8	1.5	151	12,719	△ 27.8	2.1	65
	East Asia	25,842	52,473	59,423	59,453	0.0	3.8	1,059	26,981	△ 11.3	4.5	461
	China	9,203	14,678	16,032	10,964	△ 31.6	0.7	361	3,891	△ 28.5	0.7	165
	ROK	6,039	8,889	3,665	2,582	△ 29.6	0.2	35	867	△ 3.8	0.1	15
	Taiwan	622	3,173	6,481	6,679	3.0	0.4	34	1,118	△ 65.9	0.2	18
	Hong Kong	4,113	9,858	15,906	10,849	△ 31.8	0.7	208	3,845	△ 14.5	0.6	69
	ASEAN 6	5,864	15,875	17,339	28,380	63.7	1.8	421	17,259	5.9	2.9	194
	Singapore	1,352	5,753	7,812	10,633	36.1	0.7	153	9,485	90.1	1.6	69
	Thailand	1,429	443	5,121	3,132	△ 38.9	0.2	51	99	△ 87.0	0.0	21
	Malaysia	993	1,632	2,681	5,036	87.8	0.3	106	2,526	△ 30.1	0.4	37
	Indonesia	1,699	7,488	885	4,280	383.3	0.3	63	2,463	13.2	0.4	31
	Phillippines	311	552	619	4,684	656.3	0.3	20	2,037	△ 56.1	0.3	18
	Vietnam	81	7	220	615	178.9	0.0	28	649	412.7	0.1	18
	India	2,560	5,881	8,455	21,135	150.0	1.4	237	3,583	△ 78.8	0.6	109
	Mexico	6,675	5,425	2,489	11,439	359.5	0.7	121	1,260	△ 67.5	0.2	36
	Brazil	8,018	9,870	10,947	19,393	77.2	1.2	163	8,333	△ 30.8	1.4	92
	United Arab Emirates	29	213	80	1,740	2077.2	0.1	24	687	266.8	0.1	19
	South Africa	2,255	6,693	6,980	9,331	33.7	0.6	58	6,783	45.9	1.1	27
	Russia	6,768	9,100	9,122	26,284	188.2	1.7	151	10,816	△ 4.1	1.8	93
Acquirer country and region	US	133,673	157,058	221,060	284,971	28.9	18.3	2,057	74,862	△ 49.9	12.5	863
	Canada	35,842	23,902	39,471	66,741	69.1	4.3	590	41,353	57.7	6.9	225
	EU27	200,183	487,730	442,600	814,784	84.1	52.4	4,175	290,971	△ 11.6	48.7	1,814
	EU15	199,033	485,249	434,167	810,969	86.8	52.1	4,028	288,139	△ 12.3	48.2	1,742
	UK	73,968	120,968	92,545	304,643	229.2	19.6	1,232	86,141	0.3	14.4	488
	France	24,023	94,779	70,702	112,208	58.7	7.2	577	37,453	0.1	6.3	243
	Germany	16,919	39,135	54,233	113,401	109.1	7.3	475	53,954	21.8	9.0	213
	Netherlands	7,051	93,817	23,471	32,361	37.9	2.1	314	53,716	233.4	9.0	160
	Italy	7,056	33,534	18,569	76,742	313.3	4.9	210	20,609	△ 43.5	3.5	89
	Spain	34,257	31,297	101,366	55,045	△ 45.7	3.5	198	7,629	△ 80.1	1.3	81
	12 new EU members	1,150	2,481	8,433	3,815	△ 54.8	0.2	147	2,832	303.5	0.5	72
	Switzerland	8,604	18,280	49,039	27,743	△ 43.4	1.8	230	16,041	21.1	2.7	115
	Norway	4,849	10,428	10,351	11,502	11.1	0.7	138	1,238	△ 78.4	0.2	60
	Australia	15,225	37,089	54,829	52,872	△ 3.6	3.4	472	16,147	△ 47.1	2.7	133
	Japan	5,892	11,285	21,183	41,025	93.7	2.6	262	22,168	△ 33.1	3.7	112
	East Asia	21,255	36,816	48,158	73,330	52.3	4.7	798	54,189	149.4	9.1	319
	China	2,361	8,746	14,389	18,190	26.4	1.2	108	27,185	398.1	4.6	50
	ROK	218	329	2,589	9,444	264.7	0.6	57	3,157	45.0	0.5	25
	Taiwan	1,016	593	427	1,753	310.3	0.1	26	963	160.5	0.2	16
	Hong Kong	3,242	11,896	10,562	9,341	△ 11.6	0.6	194	2,053	△ 61.6	0.3	56
	ASEAN6	14,418	15,252	20,191	34,602	71.4	2.2	413	20,831	148.8	3.5	172
	Singapore	11,961	9,582	14,878	28,199	89.5	1.8	213	17,148	156.7	2.9	81
	Thailand	75	220	102	267	162.7	0.0	14	955	347.2	0.2	8
	Malaysia	2,027	2,856	4,604	5,061	9.9	0.3	165	2,529	88.0	0.4	72
	Indonesia	108	620	363	906	149.7	0.1	6	188	318.3	0.0	6
	Phillippines	247	1,974	236	169	△ 28.4	0.0	14	11	△ 88.0	0.0	5
	India	854	2,159	7,311	31,383	329.3	2.0	192	8,616	△ 67.8	1.4	115
	Mexico	2,096	3,144	3,803	19,990	425.7	1.3	34	429	△ 90.3	0.1	14
	Brazil	8,598	2,441	19,881	10,999	△ 44.7	0.7	48	3,030	△ 36.9	0.5	30
	Saudi Arabia	79	6,688	5,681	13,207	132.5	0.8	12	1,083	0.9	0.2	7
	United Arab Emirates	394	8,480	25,724	24,050	△ 6.5	1.5	85	24,419	234.8	4.1	48
	South Africa	637	2,458	11,418	2,232	△ 80.4	0.1	49	2,879	99.3	0.5	25
	Russia	2,414	6,801	4,257	20,920	391.4	1.3	95	13,985	85.6	2.3	71

Notes
(1) Data as of July 7, 2008. (2) ASEAN 6 consists of Thailand, Malaysia, Indonesia, the Philippines, Singapore and Vietnam.
(Source) Thomson Reuters

Table 8 World cross-border M&A (by industry)

(US$ million, %, number of cases)

	2004	2005	2006	2007				first half year of 2008			
	Value	Value	Value	Value	Growth rate	Share	No. of cases	Value	Growth rate	Share	No. of cases
Industry Total	**455,834**	**847,707**	**1,013,217**	**1,555,926**	**53.6**	**100.0**	**9,878**	**597,335**	**△ 14.5**	**100.0**	**4,198**
Primary industries	**29,910**	**134,985**	**102,409**	**123,365**	**20.5**	**7.9**	**847**	**59,639**	**3.6**	**10.0**	**396**
Oil and Gas; Petroleum Refining	21,476	119,132	39,299	80,201	104.1	5.2	319	22,954	△ 51.8	3.8	148
Agriculture, Forestry, and Fishing	1,422	2,043	2,406	5,311	120.8	0.3	75	1,210	5.4	0.2	39
Mining	7,013	13,810	60,704	37,853	△ 37.6	2.4	453	35,476	304.6	5.9	209
Manufacturing	**131,890**	**243,036**	**250,618**	**492,295**	**96.4**	**31.6**	**2,965**	**210,903**	**△ 2.4**	**35.3**	**1,288**
Food・Tobacco	23,292	56,158	27,787	70,795	154.8	4.6	331	50,174	58.7	8.4	136
Food and Kindred Products	22,360	50,589	25,877	48,654	88.0	3.1	320	26,964	154.9	4.5	133
Tobacco Products	932	5,569	1,910	22,141	1059.3	1.4	11	23,209	10.3	3.9	3
Textile and Apparel Products	5,048	3,532	3,608	10,302	185.5	0.7	102	1,764	△ 61.4	0.3	49
Wood and paper products	4,439	8,235	6,451	13,711	112.6	0.9	155	4,062	△ 58.7	0.7	66
Wood Products, Furniture, and Fixtures	907	4,047	4,597	5,026	9.3	0.3	66	802	△ 81.2	0.1	28
Paper and Allied Products	3,532	4,188	1,854	8,685	368.5	0.6	89	3,260	△ 41.4	0.5	38
Stone, Clay, Glass, and Concrete Products	5,617	15,220	12,030	48,911	306.6	3.1	169	25,837	159.2	4.3	51
Chemicals	44,586	63,508	70,282	129,146	83.8	8.3	623	61,386	△ 9.0	10.3	259
Chemicals and Allied Products	14,211	30,913	30,226	26,628	△ 11.9	1.7	268	31,660	202.9	5.3	95
Drugs	22,320	27,904	30,479	89,469	193.5	5.8	233	22,589	△ 55.1	3.8	98
Metal and Metal Products	5,261	31,426	18,007	112,916	527.1	7.3	311	18,410	△ 50.2	3.1	156
Machinery and equipment	31,937	48,751	86,693	86,498	△ 0.2	5.6	1,064	44,213	△ 5.1	7.4	498
Machinery	5,296	4,950	19,427	24,311	25.1	1.6	307	6,516	△ 38.8	1.1	164
Electronic and Electrical Equipment	11,727	12,796	19,215	21,023	9.4	1.4	281	10,978	5.9	1.8	129
Computer and Office Equipment	1,326	3,190	2,047	2,548	24.5	0.2	49	166	△ 88.9	0.0	15
Communications Equipment	2,871	1,913	19,601	4,090	△ 79.1	0.3	66	1,003	△ 61.8	0.2	25
Transportation Equipment	3,685	8,060	7,294	9,703	33.0	0.6	123	10,949	109.5	1.8	66
Aerospace and Aircraft	489	3,114	9,673	11,967	23.7	0.8	30	122	△ 98.4	0.0	4
Measuring, Medical, Photo Equipment; Clocks	6,543	14,728	9,437	12,855	36.2	0.8	208	14,478	63.8	2.4	95
Printing, Publishing, and Allied Services	10,865	11,462	23,665	18,844	△ 20.4	1.2	143	4,079	△ 52.0	0.7	50
Miscellaneous Manufacturing	843	4,742	2,096	1,173	△ 44.0	0.1	67	977	59.7	0.2	23
Service	**294,034**	**469,686**	**660,191**	**940,266**	**42.4**	**60.4**	**6,065**	**326,778**	**△ 23.1**	**54.7**	**2,512**
Electric, Gas, and Water Distribution	27,121	67,256	52,641	150,271	185.5	9.7	252	47,170	△ 25.7	7.9	115
Transportation	9,562	36,943	66,269	47,732	△ 28.0	3.1	382	13,654	△ 21.8	2.3	162
Transportation and Shipping (except air)	6,141	30,056	29,318	42,022	43.3	2.7	324	10,218	△ 21.9	1.7	137
Air Transportation and Shipping	3,421	6,887	36,952	5,710	△ 84.5	0.4	58	3,436	△ 21.6	0.6	25
Telecommunications	33,977	72,801	116,523	61,184	△ 47.5	3.9	235	29,552	△ 32.3	4.9	73
Construction Firms	1,781	7,778	18,102	15,002	△ 17.1	1.0	198	1,387	△ 86.1	0.2	65
Retail	30,465	33,492	34,512	72,943	111.4	4.7	802	23,689	△ 49.6	4.0	359
Wholesale Trade	7,491	8,622	8,450	19,186	127.1	1.2	505	10,131	25.9	1.7	230
Retail Trade, Eating and Drinking Places	22,974	24,870	26,062	53,757	106.3	3.5	297	13,558	△ 65.2	2.3	129
Real Estate; Mortgage Bankers and Brokers	47,552	60,955	77,931	94,379	21.1	6.1	515	26,441	△ 39.4	4.4	173
Finance, insurance	100,551	103,060	164,517	354,502	115.5	22.8	1,077	111,790	△ 4.7	18.7	423
Commercial Banks, Bank Holding Companies	36,144	60,264	76,300	178,657	134.2	11.5	234	53,575	44.0	9.0	83
Investment & Commodity Firms,Dealers,Exchanges	28,949	21,772	42,129	127,646	203.0	8.2	561	39,928	△ 30.2	6.7	215
Insurance	18,490	15,091	37,679	43,295	14.9	2.8	204	16,424	△ 21.2	2.7	89
Hotels and Casinos	5,872	8,969	25,427	18,412	△ 27.6	1.2	120	5,343	△ 46.9	0.9	47
Other service	37,152	78,430	104,269	125,840	20.7	8.1	2,484	67,752	△ 6.6	11.3	1,095
Advertising Services	754	1,595	2,068	2,855	38.1	0.2	62	420	△ 83.5	0.1	29
Broadcasting Services	2,826	18,980	17,340	31,497	81.6	2.0	120	5,867	△ 69.3	1.0	42
Leisure related Services	1,887	3,712	6,830	4,984	△ 27.0	0.3	83	1,104	△ 65.7	0.2	37
Film related Services	169	852	1,132	2,700	138.6	0.2	43	410	△ 84.0	0.1	20
Business Services	19,445	25,422	28,357	44,844	58.1	2.9	1,397	35,822	47.3	6.0	603
Prepackaged Software	5,807	18,364	20,110	16,089	△ 20.0	1.0	448	19,688	123.2	3.3	219
Others	－	－	－	－	**n.a.**	**n.a.**	**1**	**15**	**n.a.**	**0.0**	**2**
IT	67,497	135,639	209,472	153,394	△ 26.8	9.9	1,748	67,823	△ 29.1	11.4	733

(Note)
(1) Data as of July 7, 2008. (2) Based on industries of sellers.
(3) IT consists of computer and accessory equipment hardware, communications equipment, software, telecommunication services.
(Source) Thomson Reuters

Table 9 Japanese trade by country and region

(US$ million, %)

	Exports						Imports					
	2005		2006		2007		2005		2006		2007	
	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate
Asia	289,661	5.8	307,779	6.3	343,113	11.5	230,383	12.2	252,506	9.6	267,926	6.1
China	80,340	8.8	92,852	15.6	109,060	17.5	109,105	15.8	118,516	8.6	127,644	7.7
ROK	46,880	6.1	50,321	7.3	54,199	7.7	24,536	11.4	27,345	11.4	27,252	△ 0.3
Taiwan	43,910	4.7	44,152	0.6	44,780	1.4	18,187	9.1	20,345	11.9	19,809	△ 2.6
Hong Kong	36,132	2.1	36,469	0.9	38,818	6.4	1,580	△ 2.6	1,521	△ 3.7	1,448	△ 4.8
ASEAN 10	76,074	4.4	76,349	0.4	86,990	13.9	73,076	8.4	79,990	9.5	86,898	8.6
Thailand	22,601	11.6	22,924	1.4	25,553	11.5	15,667	11.2	16,896	7.8	18,275	8.2
Malaysia	12,608	0.4	13,223	4.9	15,027	13.6	14,778	4.8	15,488	4.8	17,368	12.1
Indonesia	9,297	2.6	7,378	△ 20.6	9,047	22.6	20,937	12.1	24,149	15.3	26,445	9.5
Philippines	9,117	△ 4.9	9,015	△ 1.1	9,458	4.9	7,771	△ 5.6	7,963	2.5	8,704	9.3
Singapore	18,545	3.3	19,360	4.4	21,784	12.5	6,744	7.4	7,485	11.0	7,031	△ 6.1
Vietnam	3,610	13.6	4,142	14.7	5,673	37.0	4,560	18.3	5,295	16.1	6,125	15.7
India	3,539	16.4	4,457	25.9	6,152	38.0	3,216	23.2	4,058	26.2	4,153	2.4
Oceania	15,617	5.5	15,502	△ 0.7	17,891	15.4	28,182	24.2	31,765	12.7	35,529	11.9
Australia	12,492	5.9	12,509	0.1	14,199	13.5	24,609	26.7	27,947	13.6	31,161	11.5
New Zealand	2,455	7.3	2,096	△ 14.6	2,489	18.7	2,528	2.6	2,534	0.2	2,686	6.0
North America	143,762	6.9	155,614	8.2	153,903	△ 1.1	73,543	3.7	77,757	5.7	80,857	4.0
US	134,889	6.4	145,651	8.0	143,383	△ 1.6	64,497	3.3	68,071	5.5	70,836	4.1
Canada	8,873	16.2	9,963	12.3	10,520	5.6	8,976	6.9	9,623	7.2	9,957	3.5
Cental and South America	25,112	16.0	30,574	21.8	35,063	14.7	16,107	17.2	20,411	26.7	24,117	18.2
Mexico	6,921	33.5	9,283	34.1	10,221	10.1	2,552	17.6	2,823	10.7	3,153	11.7
Panama	7,426	22.7	8,096	9.0	8,594	6.1	44	△ 61.7	35	△ 20.8	13	△ 62.3
Brazil	2,728	16.4	3,049	11.8	3,989	30.8	4,435	21.8	5,089	14.8	5,981	17.5
Chile	947	31.4	1,088	14.9	1,581	45.3	5,161	23.6	7,256	40.6	8,133	12.1
Europe	93,952	△ 0.6	100,835	7.3	112,492	11.6	65,974	2.4	67,001	1.6	72,510	8.2
EU15	82,644	△ 1.9	87,619	6.0	96,355	10.0	57,542	1.9	58,082	0.9	62,745	8.0
Germany	18,761	△ 1.0	20,433	8.9	22,581	10.5	17,966	5.3	18,463	2.8	19,388	5.0
France	7,817	△ 6.4	7,628	△ 2.4	8,365	9.7	8,564	2.7	8,972	4.8	10,015	11.6
UK	15,174	1.4	15,238	0.4	16,268	6.8	6,754	1.5	6,718	△ 0.5	7,520	11.9
Italy	5,776	△ 10.5	6,428	11.3	6,709	4.4	6,924	0.5	7,037	1.6	7,234	2.8
Danmark	873	6.8	886	1.5	766	△ 13.6	2,396	△ 14.3	2,037	△ 15.0	2,020	△ 0.8
Ireland	1,946	△ 2.0	1,638	△ 15.8	1,599	△ 2.4	3,793	0.0	3,494	△ 7.9	4,090	17.1
Netherlands	13,203	△ 1.3	14,740	11.6	18,513	25.6	2,143	7.8	2,176	1.5	2,799	28.6
Belgium	7,175	△ 0.5	7,155	△ 0.3	7,895	10.4	2,137	2.5	1,848	△ 13.5	1,926	4.2
Luxembourg	227	5.7	202	△ 11.0	193	△ 4.8	43	△ 16.2	33	△ 23.7	46	40.0
Spain	5,113	5.5	5,633	10.2	5,574	△ 1.1	1,747	1.8	1,926	10.3	1,971	2.4
Portugal	747	△ 20.6	768	2.7	819	6.7	197	△ 0.6	188	△ 4.7	169	△ 10.2
Greece	886	△ 32.9	1,420	60.4	1,300	△ 8.5	118	△ 5.3	77	△ 35.2	56	△ 26.8
Austria	1,080	△ 13.7	1,194	10.6	1,292	8.2	1,334	2.2	1,543	15.7	1,597	3.5
Sweden	1,972	6.2	1,848	△ 6.3	1,962	6.2	2,182	3.4	2,215	1.5	2,235	0.9
Finland	1,894	9.8	2,407	27.1	2,519	4.7	1,242	△ 10.4	1,355	9.1	1,680	24.0
Switzerland	2,172	△ 0.7	2,420	11.4	3,019	24.8	5,064	5.3	5,106	0.8	5,210	2.1
Central and Eastern Europe	4,858	25.3	5,638	16.1	7,661	35.9	1,544	19.7	1,711	10.8	2,009	17.4
Poland	1,011	21.5	1,057	4.6	1,637	54.8	229	8.8	263	14.8	379	44.3
Czech Republic	1,443	15.8	1,943	34.7	2,618	34.7	393	43.2	424	7.7	479	13.2
Slovakia	233	119.1	487	109.3	437	△ 10.3	108	△ 14.2	168	55.0	204	21.3
Hungary	1,830	25.5	1,758	△ 4.0	2,380	35.4	569	11.9	579	1.8	620	7.1
Bulgaria	33	16.2	82	150.1	134	63.5	39	40.9	50	28.7	53	7.2
Romania	180	104.4	188	4.7	256	35.9	156	49.1	184	17.7	223	21.5
Russia, CIS	5,191	37.9	8,315	60.2	12,482	50.1	6,825	10.4	7,369	8.0	11,514	56.2
Russia	4,485	44.2	7,065	57.5	10,738	52.0	6,205	9.0	6,658	7.3	10,554	58.5
Middle East	16,575	14.6	19,194	15.8	26,184	36.4	87,667	39.8	109,190	24.6	113,824	4.2
Iran	1,347	20.6	1,174	△ 12.8	1,329	13.2	10,354	25.4	11,113	7.3	12,678	14.1
Saudi Arabia	4,192	14.2	4,641	10.7	6,711	44.6	28,739	55.7	37,215	29.5	35,350	△ 5.0
Kuwait	1,185	26.8	1,190	0.4	1,665	40.0	7,667	33.5	9,105	18.8	9,928	9.0
United Arab Emirates	4,868	5.7	6,050	24.3	8,053	33.1	25,324	38.2	31,590	24.7	32,298	2.2
Oman	1,393	20.0	1,731	24.3	2,524	45.8	2,741	69.1	2,673	△ 2.5	3,578	33.9
Qatar	994	67.9	1,460	46.8	1,842	26.2	10,692	35.8	14,814	38.6	16,942	14.4
Israel	1,226	5.6	1,206	△ 1.6	1,896	57.3	842	7.0	834	△ 1.0	899	7.9
Africa	8,253	7.8	9,459	14.6	11,602	22.7	9,934	14.2	13,266	33.6	14,770	11.3
Egypt	792	4.0	1,140	43.9	1,287	12.9	118	105.8	397	235.8	839	111.2
Nigeria	522	35.8	565	8.1	732	29.6	999	△ 29.9	811	△ 18.8	674	△ 16.9
Liberia	1,112	19.4	873	△ 21.5	1,190	36.2	0	215.6	8	3084.1	0	△ 98.3
South Africa	3,287	13.2	4,062	23.6	4,599	13.2	5,541	20.4	6,635	19.7	7,709	16.2
World	598,215	5.9	647,290	8.2	712,735	10.1	518,638	14.1	579,294	11.7	621,084	7.2
APEC	454,562	6.7	488,067	7.4	527,354	8.1	341,916	11.2	374,233	9.5	402,149	7.5
NAFTA	152,472	7.9	166,556	9.2	165,942	△ 0.4	77,358	4.3	81,877	5.8	85,316	4.2
Mercosur 4	3,375	17.2	3,831	13.5	4,984	30.1	4,862	16.4	5,715	17.6	6,910	20.9
EU27	88,249	△ 0.9	94,139	6.7	105,270	11.8	59,261	2.3	60,064	1.4	65,009	8.2
SAARC	5,986	16.9	7,272	21.5	8,773	20.6	3,726	18.2	4,662	25.1	4,802	3.0

(Note) Exchange rates are converted to US$ based on applicable customs rate.
(Source) Ministry of Finance, *Trade Statistics*.

Table 10 Japan's exports by products （2007）

(US$ million, %)

	World		US		EU27		China		ASEAN10		Asian NIEs	
	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate
Food	3,548	15.3	572	10.8	134	13.5	395	△ 6.7	416	29.6	1,775	19.9
Raw material	8,879	14.7	446	△ 10.3	717	23.2	3,864	20.0	845	12.8	2,530	9.0
Mineral fuels	8,744	57.6	1,737	49.7	723	53.2	1,785	29.4	1,817	351.4	2,564	74.8
Chemicals	65,749	12.5	6,999	1.4	7,334	5.9	15,342	25.7	7,710	13.5	25,096	9.8
Organic chemicals	20,007	11.9	1,664	△ 2.1	2,325	2.4	6,490	31.7	1,621	6.6	6,238	3.3
Medical products	3,171	△ 0.9	1,081	△ 11.3	1,011	1.4	194	34.8	103	15.8	405	11.4
Plastic materials	19,868	13.1	1,497	△ 0.0	1,596	11.0	5,213	19.4	2,584	12.0	8,077	9.9
Manufactured goods	83,822	12.3	8,422	△ 2.4	6,825	18.2	16,828	11.7	15,979	16.8	24,672	12.5
Iron and steel products	34,303	14.4	1,908	△ 6.1	1,033	21.8	6,501	9.2	7,898	20.8	11,777	18.7
Nonferrous metals	13,195	22.7	751	3.7	832	41.5	3,456	33.0	2,838	23.2	4,844	12.8
Manufactures of metals	9,525	5.6	1,964	△ 1.8	1,269	8.7	1,708	10.3	1,936	6.9	1,677	1.4
Textile yarn, fabrics	6,982	2.3	515	1.4	607	16.8	2,991	△ 1.1	931	4.8	1,340	1.2
Non-metallic mineral ware	8,037	8.5	968	9.8	943	3.4	1,004	15.7	1,001	5.9	3,511	6.6
Rubber manufactured	8,825	11.8	1,841	△ 6.9	1,928	24.9	553	15.1	741	16.7	714	1.4
Paper & paper manufactures	2,737	7.0	463	△ 6.7	205	7.1	517	3.7	604	13.9	742	7.4
Machinery	141,167	10.9	30,025	△ 4.1	27,725	19.0	20,290	7.1	18,046	15.4	28,326	9.4
Power generating machine	22,027	10.4	5,864	△ 4.4	4,599	17.5	2,594	13.8	3,289	36.1	1,829	△ 1.5
Computers and units	7,590	7.5	3,065	△ 0.4	2,184	5.2	555	21.9	290	△ 19.4	1,134	14.7
Parts of cumputer	15,887	3.8	4,462	△ 0.3	5,208	12.5	2,049	△ 17.7	2,207	5.1	2,293	13.0
Metalworking machinery	10,745	△ 6.9	2,255	△ 16.1	2,093	37.7	2,271	△ 0.1	1,340	△ 14.1	1,637	△ 44.1
Pump and centrifuges	10,671	17.3	1,704	△ 3.7	2,690	17.3	1,246	8.0	1,354	25.7	1,694	9.0
Construction machines	11,386	17.0	1,938	△ 33.8	2,499	41.9	652	35.1	1,111	54.8	1,214	16.0
Mechanical handling equip	7,166	12.7	1,158	△ 9.3	1,092	26.8	881	5.9	1,143	32.5	1,166	△ 9.2
Heating or cooling machine	4,917	△ 6.7	532	△ 32.8	1,407	25.4	722	△ 23.9	527	2.8	948	△ 33.5
Textile machines	2,697	12.9	133	20.0	145	17.4	1,255	23.2	260	26.2	324	15.9
Bearings	3,232	6.9	595	△ 5.2	749	22.0	456	20.5	523	3.9	704	△ 2.1
Electrical machinery	143,952	4.1	22,432	△ 3.1	21,776	4.2	29,903	18.6	22,164	2.0	41,181	△ 1.2
Semiconductors etc	44,505	6.6	3,193	4.2	3,862	1.1	10,114	23.5	10,598	3.5	18,910	1.2
Integrated circuits	29,902	9.4	2,016	9.1	1,829	2.2	7,517	34.7	6,482	4.8	14,443	1.3
Visual apparatus	14,429	△ 5.4	4,205	△ 13.0	4,470	△ 6.4	1,392	38.7	747	△ 13.5	1,997	△ 2.1
Video rec or repro app	12,308	12.6	3,650	15.1	3,971	5.8	1,339	49.5	628	2.7	1,634	14.6
Television recivers	2,121	△ 36.4	555	△ 56.3	499	△ 33.8	53	47.2	120	△ 39.8	363	△ 23.3
Audio apparatus	709	△ 12.9	277	△ 20.0	179	△ 8.4	53	△ 21.5	45	△ 7.7	88	△ 1.5
Parts of audio,visual app	9,803	△ 26.4	1,100	△ 23.4	2,336	△ 8.2	2,055	△ 29.0	1,091	△ 26.1	1,319	△ 51.5
Electrical power machinery	7,379	9.7	1,721	13.8	1,022	9.8	1,396	3.9	1,133	25.2	1,415	△ 2.8
Telephony,telegraphy	8,719	104.6	1,986	16.4	1,205	68.6	1,898	576.3	788	115.3	1,950	306.4
Electrical measuring	11,148	2.3	2,715	1.9	1,934	11.5	1,628	5.7	1,176	△ 0.0	3,047	△ 7.1
Electrical apparatus	17,129	3.9	1,930	△ 8.3	1,848	8.4	4,493	13.5	2,948	△ 0.0	5,171	△ 3.2
Batteries and accumulators	3,602	10.7	555	30.6	336	△ 12.5	1,499	13.0	319	△ 1.8	667	10.8
Transport Equipment	177,030	12.8	58,526	△ 0.6	27,391	15.2	7,030	30.9	9,257	26.2	7,692	11.4
Motor vehicles	121,667	15.0	45,049	△ 0.7	18,481	17.2	2,764	77.5	3,891	26.4	3,003	10.6
Passenger motor cars	107,780	14.3	44,172	0.2	17,732	16.5	2,465	81.6	1,876	18.0	2,375	15.8
Buses and trucks	13,016	21.2	870	△ 31.4	748	37.3	285	50.5	1,654	37.3	545	8.7
Parts of motor vehicles	28,499	9.6	8,518	△ 1.6	4,459	20.2	4,065	22.9	3,388	16.5	1,797	0.2
Cycles with engines	6,275	△ 1.9	2,173	△ 19.8	2,676	9.1	1	64.9	120	13.8	205	14.5
Ships	14,846	8.9	0	−	1,008	△ 20.4	18	420.8	1,461	69.3	1,881	29.0
Other	79,844	6.0	14,224	△ 2.7	12,644	2.8	13,622	23.5	10,757	11.0	25,745	△ 0.1
Scientific,optical inst	17,760	△ 16.4	2,943	△ 20.5	2,968	4.2	3,906	△ 3.5	1,496	△ 9.3	5,484	△ 33.5
Photographic supplies	4,675	△ 0.7	858	△ 7.8	793	△ 10.9	446	4.5	305	△ 1.4	1,866	4.3
Blank/recorded media	5,187	9.9	1,615	13.7	1,171	6.5	358	0.0	960	6.2	1,089	11.1
Total	712,735	10.1	143,383	△ 1.6	105,270	11.8	109,060	17.5	86,990	13.9	159,581	6.2

(Source): Same as Table 9.

Table 11 Japan's imports by products （2007）

(US$ million, %)

	World		US		EU27		China		ASEAN10		Asian NIEs	
	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate
Food	51,270	4.4	13,984	8.5	6,023	13.3	7,813	△ 2.8	5,803	1.8	2,288	△ 2.3
Fish	12,746	△ 5.8	1,168	△ 7.0	444	△ 6.2	2,694	△ 14.5	2,657	△ 4.3	1,119	△ 7.5
Shrimps	1,923	△ 9.9	11	△ 22.0	11	2.2	152	△ 6.5	1,050	△ 9.5	5	△ 15.6
Meat	8,729	3.8	1,779	21.5	1,146	0.2	1,064	4.4	531	0.4	31	△ 21.8
Cereals	7,713	33.7	5,174	41.2	335	10.0	558	26.0	227	△ 1.9	85	△ 6.8
Vegetabls	3,567	△ 2.5	645	1.5	243	22.7	1,843	△ 6.8	195	△ 3.1	232	△ 2.3
Fruits	3,594	4.6	873	△ 2.0	180	8.9	642	5.5	775	7.2	98	△ 0.6
Raw material	48,061	18.0	4,838	20.7	2,263	3.5	1,728	△ 1.2	10,518	23.7	1,584	18.2
Wood	4,780	△ 4.4	672	△ 5.2	1,001	6.7	291	△ 3.6	480	△ 9.6	24	0.2
Ore of nonferrous	18,086	25.8	553	28.0	75	45.1	106	15.5	4,974	31.6	3	133.1
Iron ore and concentrates	8,815	22.9	0	—	0	△ 88.4	0	38.2	457	22.6	7	30.2
Soy beans	1,662	29.6	1,298	32.5	0	—	72	△ 8.7	0	–	0	–
Mineral fuels	172,009	7.2	947	△ 1.1	380	152.9	2,574	△ 9.6	24,073	12.2	3,705	△ 18.6
Petroleum	104,609	5.4	0	—	0	–	114	△ 75.7	4,988	10.9	43	△ 46.8
Petroleum products	16,865	5.0	649	23.6	366	165.2	679	22.8	3,398	13.2	3,620	△ 18.1
Petroleum spirits	13,272	11.0	166	85.5	325	247.3	606	30.4	1,715	11.3	2,387	1.1
Liquefied natural gas	26,705	16.7	278	△ 23.7	0	—	0	—	13,364	12.6	0	—
Liquefied petroleum gas	8,428	4.3	18	3105.7	2	△ 21.7	3	△ 14.6	113	△ 25.2	40	△ 18.0
Coal	14,779	6.5	1	△ 98.3	0	–	1,202	△ 19.7	2,209	14.0	0	△ 2.7
Chemicals	46,414	9.9	9,520	8.7	15,675	9.5	6,810	27.3	4,129	0.8	4,869	△ 5.1
Organic chemicals	12,418	7.1	1,503	7.0	4,963	11.9	1,399	14.9	772	0.3	1,214	△ 9.2
Medical products	9,145	7.3	1,430	△ 1.1	5,381	7.9	397	31.0	106	33.3	231	17.3
Manufactured goods	62,827	11.4	4,306	3.3	6,017	7.0	15,806	6.7	7,978	4.3	7,593	12.0
Iron and steel products	8,317	27.6	182	△ 1.6	466	7.0	1,869	16.9	204	51.3	3,069	21.8
Nonferrous	22,209	19.4	1,343	6.6	1,765	27.6	1,988	△ 3.3	1,319	34.8	1,281	24.1
Manufactures of metals	8,448	10.5	871	12.4	868	5.3	3,974	14.9	1,137	8.3	1,410	3.7
Textile yarn,fabrics	6,237	1.5	235	△ 14.4	673	△ 3.7	3,436	2.3	822	8.3	665	3.3
Non-metallic mineral ware	6,121	△ 1.1	596	△ 5.3	979	△ 5.5	2,134	5.8	848	△ 1.5	608	△ 6.0
Wood manufactured	6,943	2.3	202	13.9	484	9.8	1,237	0.0	2,605	△ 8.2	57	△ 11.5
Machinery	55,262	3.0	10,878	△ 2.2	9,026	22.4	21,175	5.8	7,191	△ 5.0	6,616	△ 10.7
Power generating machine	8,068	17.4	4,425	5.0	1,854	38.5	782	49.7	491	36.5	316	24.8
Computers and units	15,840	△ 12.4	1,055	△ 33.6	785	△ 9.3	9,902	△ 4.2	3,126	△ 13.6	1,543	△ 32.1
Parts of computer	6,754	△ 7.7	462	△ 39.1	230	△ 12.2	3,736	9.2	880	△ 31.0	1,582	△ 12.3
Electrical machinery	79,030	6.3	11,697	△ 3.5	6,245	△ 1.3	26,052	13.1	16,110	6.4	18,474	6.1
Semiconductors etc	24,200	△ 2.1	4,181	△ 10.6	987	△ 10.1	2,219	1.1	5,093	△ 3.9	12,522	2.6
Integrated circuits	21,151	△ 2.3	3,887	△ 10.2	854	△ 8.3	1,515	△ 0.6	3,783	△ 6.2	11,883	2.7
Audio and visual apparatus	12,441	△ 7.2	1,198	13.4	227	△ 21.9	6,540	△ 7.5	2,827	△ 9.6	1,569	△ 10.5
Video rec or repro app	2,952	29.2	72	82.3	58	36.5	2,041	45.7	635	△ 5.1	118	△ 2.2
Electrical power machinery	4,954	3.3	333	11.0	629	△ 11.4	2,618	6.1	910	4.5	353	2.8
Telephony,telegraphy	9,415	126.6	1,067	117.7	414	35.3	4,079	143.0	1,661	171.5	1,904	100.5
Electrical measuring	5,017	△ 2.7	1,957	△ 14.7	1,442	2.1	678	9.0	450	9.7	197	8.8
Transport equipment	21,507	10.6	6,521	11.8	8,935	9.3	2,290	17.5	1,230	26.2	972	4.3
Motor vehicles	7,882	0.0	573	△ 9.1	6,138	3.5	25	22.8	71	△ 1.6	39	△ 32.9
Parts of motor vehicles	5,348	18.5	575	△ 11.9	1,727	25.7	1,202	23.7	1,019	31.4	540	2.9
Aircraft	5,952	18.8	5,050	18.6	725	29.7	5	71.9	15	40.4	42	65.1
Other	84,705	2.2	8,146	△ 1.0	10,445	△ 1.4	43,395	6.6	9,865	10.9	9,440	△ 12.5
Scientific, optical inst	13,744	△ 11.3	4,047	△ 4.0	2,686	△ 5.2	2,600	△ 4.6	1,268	4.8	2,331	△ 36.8
Clothing and accessories	23,734	0.3	195	△ 24.8	1,640	△ 1.1	19,584	1.0	1,485	5.6	336	△ 23.6
Furniture	5,296	3.4	151	△ 19.9	644	△ 1.0	2,865	6.8	1,014	1.2	310	△ 8.7
Bags	4,330	6.2	62	△ 19.2	1,667	1.5	2,397	10.6	109	8.3	51	△ 4.4
Total	621,084	7.2	70,836	4.1	65,009	8.2	127,644	7.7	86,898	8.6	55,541	△ 2.0

(Source): Same as Table 9.

Table 12　Japan's Foreign Direct Investment by Country and Region
(Based on Balance of Payments, net)

(US$ million, %)

Outward	2005	2006	2007	Share	Growth Rate
Asia	16,188	17,167	19,388	26.4	12.9
China	6,575	6,169	6,218	8.5	0.8
Hong Kong	1,782	1,509	1,131	1.5	△ 25.0
Taiwan	828	491	1,373	1.9	179.4
ROK	1,736	1,517	1,302	1.8	△ 14.2
Singapore	5,002	6,923	7,790	10.6	12.5
ASEAN 10	2,125	1,984	2,608	3.5	31.4
Thailand	1,185	744	1,030	1.4	38.4
Indonesia	524	2,941	325	0.4	△ 88.9
Malaysia	442	369	1,045	1.4	183.3
Philippines	557	375	2,233	3.0	495.9
India	154	467	475	0.6	1.7
Vietnam	266	512	1,506	2.0	193.9
Oceania	943	723	4,204	5.7	481.2
Australia	640	466	4,140	5.6	789.0
New Zealand	62	125	−22	n.a.	n.a.
Guam	−24	98	41	0.1	△ 57.9
Marshall Islands	262	20	19	0.0	△ 8.9
North America	13,168	10,188	17,385	23.7	70.6
US	12,126	9,297	15,672	21.3	68.6
Canada	1,042	892	1,713	2.3	92.0
Central and South America	6,402	2,547	9,482	12.9	272.3
Mexico	629	−2,603	501	0.7	n.a.
Brazil	953	1,423	1,244	1.7	△ 12.6
Cayman Islands	3,915	2,814	5,838	7.9	107.4
Panama	451	558	791	1.1	41.9
Bermuda	151	−305	−428	n.a.	n.a.
Dutch Antilles	108	0	−	n.a.	n.a.
British Virgin Islands	−98	255	1,120	1.5	340.1
Peru	95	64	50	0.1	△ 22.2
Argentina	29	11	82	0.1	659.2
Puerto Rico	39	−	−	n.a.	n.a.
Western Europe	7,509	18,029	20,456	27.8	13.5
EU	7,872	17,925	19,934	27.1	11.2
Germany	270	1,128	880	1.2	△ 22.0
UK	2,903	7,271	3,026	4.1	△ 58.4
France	541	842	479	0.7	△ 43.1
Netherlands	3,315	8,497	12,440	16.9	46.4
Italy	44	51	45	0.1	△ 10.7
Belgium	−195	133	796	1.1	499.0
Luxembourg	25	−478	2,291	3.1	n.a.
Sweden	82	416	254	0.3	△ 38.9
Spain	363	136	10	0.0	△ 92.4
Denmark	82	6	−2	n.a.	n.a.
Ireland	−111	−229	−600	n.a.	n.a.
Austria	8	41	3	0.0	△ 92.6
Cyprus	−30	−11	16	0.0	n.a.
Malta	−61	−1	−2	n.a.	n.a.
Switzerland	56	183	61	0.1	△ 66.7
Norway	128	17	−91	n.a.	n.a.
Turkey	73	7	−26	n.a.	n.a.
Eastern Europe, Russia, etc.	721	367	509	0.7	38.7
Russia	95	160	99	0.1	△ 38.0
Poland	275	234	206	0.3	△ 11.8
Hungary	191	−102	27	0.0	n.a.
Czech	150	−18	87	0.1	n.a.
Middle East	542	242	958	1.3	296.0
Saudi Arabia	494	254	746	1.0	194.1
United Arab Emirates	19	−56	60	0.1	n.a.
Egypt	25	21	55	0.1	167.9
Africa	25	899	1,101	1.5	22.5
South Africa	−17	466	82	0.1	△ 82.4
Liberia	−284	−99	−70	n.a.	n.a.
Mauritius	309	533	1,026	1.4	92.7
World	45,461	50,165	73,483	100.0	46.5

Inward	2005	2006	2007	Share	Growth Rate
Asia	1,565	−852	1,605	7.2	n.a.
China	11	12	15	0.1	24.9
Hong Kong	960	−2,136	47	0.2	n.a.
Taiwan	−26	110	36	0.2	△ 66.9
ROK	31	108	221	1.0	104.0
ASEAN 10	592	1,063	1,283	5.8	20.7
Thailand	−6	1	1	0.0	11.2
Indonesia	0	3	2	0.0	△ 49.4
Malaysia	0	1	−1	n.a.	n.a.
Philippines	1	−1	1	0.0	n.a.
Singapore	598	1,062	1,282	5.8	20.7
India	1	−1	3	0.0	n.a.
Oceania	−114	36	215	1.0	500.9
Australia	−113	35	207	0.9	491.9
New Zealand	1	0	7	0.0	n.a.
North America	−636	−2,666	12,709	57.3	n.a.
US	308	105	13,270	59.8	12567.8
Canada	−944	−2,771	−561	n.a.	n.a.
Central and South America	1,278	566	2,831	12.8	399.8
Mexico	−	0	−	n.a.	n.a.
Brazil	1	−	−	n.a.	n.a.
Cayman Islands	1,069	−82	1,480	6.7	n.a.
Panama	14	9	3	0.0	△ 67.3
Bermuda	−38	428	309	1.4	△ 27.7
British Virgin Islands	205	181	883	4.0	387.0
Wetern Europe	1,123	−3,938	4,785	21.6	n.a.
EU	1,858	−4,274	642	2.9	n.a.
Gemany	237	−542	−813	n.a.	n.a.
UK	132	1,807	540	2.4	△ 70.1
France	−78	274	504	2.3	83.6
Netherlands	2,541	−7,583	−390	n.a.	n.a.
Italy	6	48	62	0.3	30.6
Belgium	−1,188	884	148	0.7	△ 83.3
Luxembourg	363	−12	484	2.2	n.a.
Sweden	−63	669	368	1.7	△ 45.0
Spain	41	40	−44	n.a.	n.a.
Ireland	−123	128	−211	n.a.	n.a.
Austria	−1	40	−8	n.a.	n.a.
Switzerland	−748	317	1,162	5.2	265.9
Eastern Europe, Russia, etc.	−	−4	1	0.0	n.a.
Russia	−	−	−	n.a.	n.a.
Middle East	9	−1	3	0.0	n.a.
Saudi Arabia	−	−	1	0.0	n.a.
United Arab Emirates	−1	0	−	n.a.	n.a.
Israel	10	−1	4	0.0	n.a.
Africa	1	63	33	0.1	△ 47.9
South Africa	−	−	0	0.0	n.a.
Mauritius	0	63	32	0.1	△ 48.4
World	3,223	−6,789	22,181	100.0	n.a.

(Note)
(1) Figures were first released in Japanese yen and quarterly converted into US dollars using Bank of Japan average inter-bank rates.
(2) "−"indicates net outflow.
(3) "0"indicates an amount of less than one million US dollars; "." indicates no investment recorded during the corresponding period.
(4) EU includes the 10 accession states from the second quarter of 2004, and also includes Bulgaria and Romania from the first quarter of 2007
(5) "World" includes countries those are not classified into each region. Therefore, "World" is not necessarily equal to the sum of regional component.
(Sources) Ministry of Finance Balance of Payments Statistics and Bank of Japan foreign exchange rates.

Table 13 Japan's Foreign Direct Investment by Industry (Based on Balance of Payments, net)

(US$ million, %)

	Outward					Inward				
	2005	2006	2007	Share	Growth Rate	2005	2006	2007	Share	Growth Rate
Manufacturing (total)	26,146	34,513	39,515	53.8	14.5	−2,191	254	1,381	6.2	443.2
Food	1,685	1,025	12,776	17.4	1146.2	−211	−717	365	1.6	n.a.
Textile	416	180	371	0.5	106.6	188	58	109	0.5	87.5
Lumber and pulp	826	420	745	1.0	77.3	−22	−23	3	0.0	n.a.
Chemicals and pharmaceuticals	3,363	4,413	3,744	5.1	△ 15.2	−1,168	1,538	−1,010	n.a.	n.a.
Petroleum	531	2,921	−280	n.a.	n.a.	−44	37	935	4.2	2424.2
Rubber and leather	831	1,107	835	1.1	△ 24.6	1	35	35	0.2	1118.5
Glass and ceramics	258	2,759	837	1.1	△ 69.7	103	193	663	3.0	244.1
Iron, non-ferrous and metals	1,331	1,795	2,202	3.0	22.7	−34	60	230	1.0	284.8
General machinery	1,296	1,663	2,642	3.6	58.9	164	−24	−22	n.a.	n.a.
Electric machinery	4,377	7,041	4,691	6.4	△ 33.4	−1,195	32	−391	n.a.	n.a.
Transportation equipment	8,611	8,597	8,671	11.8	0.9	32	−1,408	331	1.5	n.a.
Precision machinery	1,419	1,420	1,293	1.8	△ 9.0	−59	598	20	0.1	△ 96.6
Non-manufacturing (total)	19,315	15,652	33,968	46.2	117.0	5,414	−7,043	20,800	93.8	n.a.
Farming and forestry	23	42	93	0.1	123.3	−1	11	41	0.2	274.3
Fishery and marine products	−44	28	64	0.1	128.2	0	−39	−33	n.a.	n.a.
Mining	1,372	1,577	4,053	5.5	156.9	0	1	−	n.a.	n.a.
Construction	148	−64	490	0.7	n.a.	41	37	19	0.1	△ 49.6
Transportation	824	1,507	2,133	2.9	41.6	2,108	28	−288	n.a.	n.a.
Communications	1,712	−3,368	−331	n.a.	n.a.	912	−9,715	−633	n.a.	n.a.
Wholesale and retail	4,623	5,483	4,792	6.5	△ 12.6	1,157	−387	1,660	7.5	n.a.
Finance and insurance	9,227	5,562	19,458	26.5	249.8	645	2,265	17,661	79.6	679.6
Real estate	−851	−811	162	0.2	n.a.	15	72	1,413	6.4	1868.0
Services	1,086	188	1,406	1.9	648.7	178	122	295	1.3	140.8
Total	45,461	50,165	73,483	100.0	46.5	3,223	−6,789	22,181	100.0	n.a.

(Notes)
(1) Figures were first released in Japanese yen and quarterly converted into US dollars using Bank of Japan average inter-bank rates.
(2) "−"indicates net outflow.
(3) "0"indicates an amount of less than one million US dollars.
(4) Figures by industry are released since 2005.
(Sources) Ministry of Finance Balance of Payments Statistics and Bank of Japan foreign exchange rates.

Table 14 Japan's Foreign Direct Investment Stock by Country and Region (Based on Balance of Payments, net)

(US$ million, %)

	Outward				Inward			
	end of 05	end of 06	end of 07	Share	end of 05	end of 06	end of 07	Share
Asia	88,187	107,653	132,986	24.3	6,702	8,247	9,390	7.0
China	24,655	30,316	37,797	6.9	102	100	125	0.1
Hong Kong	6,715	7,776	9,129	1.7	2,612	1,928	2,301	1.7
Taiwan	5,932	6,328	7,742	1.4	1,391	1,475	1,534	1.1
ROK	8,251	10,669	12,103	2.2	313	423	694	0.5
ASEAN 10	40,478	49,837	61,435	11.2	2,264	4,310	4,721	3.5
Thailand	11,677	14,839	19,776	3.6	42	42	44	0.0
Indonesia	7,681	7,457	8,315	1.5	6	8	9	0.0
Malaysia	4,803	7,763	8,184	1.5	13	13	1	0.0
Philippines	3,496	4,253	5,780	1.1	44	43	46	0.0
Singapore	11,810	14,270	17,586	3.2	2,159	4,205	4,620	3.5
Vietnam	n.a.	n.a.	1,711	0.3	n.a.	n.a.	0	0.0
India	1,802	2,315	4,218	0.8	10	9	13	0.0
Oceania	12,961	13,794	19,617	3.6	478	492	779	0.6
Australia	10,618	12,181	17,940	3.3	472	485	764	0.6
New Zealand	900	994	951	0.2	3	3	11	0.0
North America	156,189	163,230	183,776	33.6	47,729	44,273	45,947	34.3
US	150,152	156,411	174,199	31.9	43,888	41,989	44,795	33.5
Canada	6,037	6,818	9,577	1.8	3,841	2,284	1,152	0.9
Central and South America	33,064	39,291	54,749	10.0	8,218	12,123	15,227	11.4
Mexico	3,635	1,773	1,469	0.3	4	4	5	0.0
Brazil	6,001	7,829	11,028	2.0	31	30	32	0.0
Cayman Islands	18,071	21,440	32,038	5.9	5,599	8,400	10,469	7.8
Europe	92,453	118,657	145,884	26.7	38,101	42,367	62,341	46.6
EU	92,140	118,852	145,280	26.6	35,758	39,625	55,117	41.2
Germany	6,197	7,415	9,524	1.7	5,904	4,582	3,811	2.8
UK	24,264	31,613	32,021	5.9	3,033	4,983	5,962	4.5
France	11,325	13,064	12,415	2.3	10,777	11,549	12,776	9.5
Netherlands	34,591	45,419	63,941	11.7	11,654	12,175	26,025	19.4
Italy	845	807	837	0.2	559	495	509	0.4
Belgium	7,774	9,630	12,071	2.2	474	1,901	1,947	1.5
Luxembourg	763	1,128	3,537	0.6	1,632	1,635	2,267	1.7
Sweden	1,563	2,199	2,956	0.5	352	742	709	0.5
Spain	1,390	1,348	1,736	0.3	111	195	102	0.1
Switzerland	869	985	1,118	0.2	2,264	2,640	3,942	2.9
Eastern Europe, Russia, etc.	1,824	2,315	2,864	0.5	47	47	46	0.0
Russia	157	258	373	0.1	46	46	48	0.0
Middle East	1,685	2,038	3,066	0.6	14	14	20	0.0
Saudi Arabia	1,439	1,753	2,585	0.5	2	2	3	0.0
United Arab Emirates	185	183	254	0.0	1	1	1	0.0
Iran	5	4	5	0.0	−	−	−0.442	n.a.
Africa	1,332	2,701	3,895	0.7	1	63	99	0.1
South Africa	793	1,125	852	0.2	−	−	0	0.0
OECD nations (Note 4)	273,584	309,275	363,214	66.4	86,553	87,463	106,484	79.5
TOTAL	388,197	449,680	546,839	100.0	101,322	107,663	133,888	100.0

(Notes)
(1) Figures were first released in Japanese yen and converted to US dollars using Bank of Japan average inter-bank rates.
(2) "−" indicates net outflow.
(3) "."indicates no investment recorded during the corresponding period.
(4) OECD member countries include the EU15, Australia, Canada, Iceland, New Zealand, Norway, Switzerland, Turkey, U.S.A., Mexico, Czech Republic, Hungary, ROK, Poland and Slovakia (29 countries in total). However, Slovakia is included since 2007.
(5) EU figures are based on EU25 for ends of 2005 and 2006, and EU27 for end of 2007.
(Sources) Ministry of Finance and Bank of Japan balance of payment and cross-border investment statistics and Bank of Japan foreign exchange rates.

Table 15　Worldwide FTA

Area	Name	Date of the agreement	Area	Name	Date of the agreement
Europe, Russia and the NIS, Middle East, Africa	European Union	1958/1/1	Americas	Central American Common Market（CACM）	1961/10/12
	European Free Trade Association (EFTA)	1960/5/3		Caribbean Community（CARICOM）	1973/8/1
	EU－Switzerland	1973/1/1		Asociacion Latinoamericana de Integracion（ALADI）	1981/3/18
	EU－Algeria	1976/7/1		Andean Community (CAN)	1988/5/25
	EU－Syria	1977/7/1		Common Market of the South（Mercado Comun del Cone Sur）	1991/11/29
	Gulf Cooperation Council (GCC)	1981/5/1		North American Free Trade Agreement（NAFTA）	1994/1/1
	EU－Andorra	1991/7/1		Costa Rica－Mexico	1995/1/1
	EFTA－Turkey	1992/4/1		Canada－Chile	1997/7/5
	Economic Cooperation Organization (ECO)	1992/11/1		Mexico－Nicaragua	1998/7/1
	Central European Free Trade Agreement (CEFTA)	1992/12/21		Chile－Mexico	1999/8/1
	Economic Community of West Afarican States (ECOWAS)	1993/7/24		Mexico－El Salvador	2001/3/15
	EFTA－Israel	1993/1/1		Guatemala－Mexico	2001/3/15
	Armenia－Russia	1993/3/25		Honduras－Mexico	2001/6/1
	Kyrgyzstan－Russia	1993/4/24		Chile－Costa Rica	2002/2/15
	Faroe Islands－Norway	1993/7/1		Chile－El Salvador	2002/6/1
	European Economic Area (EEA)	1994/1/1		Canada－Costa Rica	2002/11/1
	Georgia－Russia	1994/5/10		Panama－El Salvador	2003/4/11
	Common Market for Eastern and Southern Africa (COMESA)	1994/12/8		United States－Chile	2004/1/1
	Commonwealth of Independent States (CIS) economic union	1994/12/30		United States－the Dominican Republic＋Central America（5）(CAFTA-DR)	2006/3/1
	Faroe Islands－Switzerland	1995/3/1		Chile－Panama	2008/3/7
	Kyrgyzstan－Armenia	1995/10/27	Asia-Pacific	Asia-Pacific Trade Agreement	1976/6/17
	Kyrgyzstan－Kazakhstan	1995/11/11		Papua New Guinea－Australia	1977/2/1
	Armenia－Republic of Moldova	1995/12/21		South Pacific Regional Trade and Economic Cooperation Agreement（SPARTECA）	1981/1/1
	EU－Turkey	1996/1/1		Australia/New Zealand Closer Economic Relations Trade Agreement（ANZCERTA	1983/1/1
	Georgia－Ukraine	1996/6/4		Lao People's Democratic Republic－Thailand	1991/6/20
	Armenia－Turkmenistan	1996/7/7		ASEAN Free Trade Area（AFTA）	1992/1/28
	Georgia－Azerbaijan	1996/7/10		Melanesian Spearhead Group (MSG)	1993/7/22
	Kyrgyzstan－Republic of Moldova	1996/11/21		New Zealand－Singapore	2001/1/1
	Armenia－Ukraine	1996/12/18		India－Sri Lanka	2001/12/15
	EU－Faroe Islands	1997/1/1		Japan－Singapore	2002/11/30
	Turkey－Israel	1997/5/1		Singapore－Australia	2003/7/28
	EU－Palestinian Territories	1997/7/1		China－Macau	2004/1/1
	Eurasian Economic Community (EAEC)	1997/10/8		China－Hong Kong	2004/1/1
	the Pan Arab Free Trade Area	1998/1/1		ASEAN－China（Framework Agreement）	2003/7/1
	Kyrgyzstan－Ukraine	1998/1/19		Thailand－India	2004/9/1
	EU－Tunisia	1998/3/1		Thailand－Australia	2005/1/1
	Kyrgyzstan－Uzbekistan	1998/3/20		Pakistan－Sri Lanka	2005/6/12
	Georgia－Armenia	1998/11/11		Thailand－New Zealand	2005/7/1
	Economic and Monetary Community of Central Africa (CEMAC)	1999/6/24		India－Singapore	2005/8/1
	EFTA－Palestinian Territories	1999/7/1		South Asian Free Trade Area（SAFTA）	2006/1/1
	Georgia－Kazakhstan	1999/7/16		ROK－Singapore	2006/3/2
	EFTA－Morocco	1999/12/1		Japan－Malaysia	2006/7/13
	EU－South Africa	2000/1/1		India－Bhutan	2006/7/29
	Georgia－Turkmenistan	2000/1/1		ROK－ASEAN	2007/6/1
	Western African Economic and Monetary Union (WAEMU/UEMOA)	2000/1/1		China－Pakistan	2007/7/1
	EU－Morocco	2000/3/1		Japan－Thailand	2007/11/1
	EU－Israel	2000/6/1		Pakistan－Malaysia	2008/1/1
	East African Community（EAC）	2000/7/7		Japan－Indonesia	2008/7/1
	Turkey－Macedonia	2000/9/1		Japan－Brunei	2008/7/31
	Southern African Development Community（SADC）	2000/9/1	Cross-Regional	EU—Overseas Countries and Territories (OCTs)	1971/1/1
	EFTA－Macedonia	2001/1/1		Protocol relating to Trade Negotiations among Developing Countries (PTN)	1973/2/11
	EU－Macedonia	2001/6/1		United States－Israel	1985/8/19
	Armenia－Kazakhstan	2001/12/25		Global System of Trade Preferences among Developing Countries (GSTP)	1989/4/19
	EFTA－Jordan	2002/1/1		Canada－Israel	1997/1/1
	EFTA－Croatia	2002/1/1		Israel－Mexico	2000/7/1
	EU－Croatia	2002/5/1		EU－Mexico	2000/7/1
	EU－Jordan	2002/5/1		EFTA－Mexico	2001/7/1
	EU－Lebanon	2003/3/1		United States－Jordan	2001/12/17
	Turkey－Bosnia And Herzegovina	2003/7/1		EFTA－Singapore	2003/1/1
	Turkey－Croatia	2003/7/1		EU－Chile	2003/2/1
	EU－Egypt	2004/6/1		United States－Singapore	2004/1/1
	Southern African Customs Union（SACU）	2004/7/15		ROK－Chile	2004/4/1
	EFTA－Tunisia	2005/6/1		EFTA－Chile	2004/12/1
	Turkey－Palestinian Territories	2005/6/1		United States－Australia	2005/1/1
	Turkey－Tunisia	2005/7/1		Japan－Mexico	2005/4/1
	Turkey－Morocco	2006/1/1		Jordan－Singapore	2005/8/21
	Faroe Islands－Iceland	2006/11/1		United States－Morocco	2005/12/31
	EU－Albania	2006/12/1		Trans-Pacific Strategic Economic Partnership Agreement（P4）	2006/5/28
	Turky－Syria	2007/1/1		Panama－Singapore	2006/7/24
	EFTA－Lebanon	2007/1/1		United States－Bahrain	2006/7/31
	Turkey－Egypt	2007/3/1		EFTA－ROK	2006/9/1
	EFTA－Egypt	2007/8/1		China－Chile	2006/10/1
	EU－Montenegro	2008/1/1		Japan－Chile	2007/9/3
	Turkey－Albania	2008/5/1			
	EU－Bosnia and Herzegovina	2008/7/1			

(Notes)
(1) EEA has only made report based on GATS Agreement, but the agreement contains GATT elements.
(2) Based on the data reported by member countries to WTO except ROK-ASEAN, Thailand-India and Japan-Brunei.
(Source) WTO website (http://www.wto.org/english/tratop_e/region_e/region_e.htm) as of July 18, 2008.

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