Chapter 3: Japan’s Economic Challenges amid Ongoing Globalization

- Although Japan has run a current account surplus for many years, the breakdown of the current account has changed significantly; whereas trade surplus has decreased sharply, income receipts from the overseas investment, etc. has increased steadily. Under these circumstances, Japan has had a competitive advantage in the manufacturing of highly sophisticated products such as machinery and also improved competitiveness in service trade as evidenced by the increase in international technology transactions and the number of inbound tourists.
- Moreover, with an increasing number of Japanese companies making inroads into overseas markets, outward foreign direct investment (FDI) including acquisition of foreign corporations has grown. In addition to trade in goods and services, Japan has been increasing its ability to earn in the international arena, by boosting income received from overseas operating bases and companies having been acquired around the world.

(Note) Compiled based on Balance of Payments Statistics, MoF/BoJ, Araújo et al. (2018), data provided by JNTO, Survey of Research and Development, MIC, and Basic Survey of Japanese Business Structure and Activities and Basic Survey on Overseas Business Activities, METI.
World trade volume had increased significantly until the 2000s, spurred by trade liberalization including tariff reduction and global value chain (GVC) development. However, after a sharp increase in 2017, the pace of the growth has decelerated since 2018 due to China’s gradual economic slowdown and increasing uncertainty over the global economy.

In Asia, a supply chain in which China imports and processes parts and materials, and produces finished products has been developed and expanded rapidly over the past 20 years. Under these circumstances, Japan’s manufacturing, mainly that of IT-related goods, depends heavily on final demand from China. We have to keep an eye on U.S.-China trade issues and the Chinese economy going forward.
With regard to the effect of U.S.-China trade issues on Japanese-affiliated companies in Asia, the issues do not have a significant effect on those based in China, as they sell products mostly within China and more than half of their exports are directed to Japan. Meanwhile, it is pointed out that those based in other countries and regions in Asia that are closely related to China are negatively affected. With the future of the trade issues highly uncertain, we need to continue watching the situation.

The U.K. has established with the EU a strong supply chain. While some Japanese-affiliated companies in the U.K. have taken concrete measures to prepare for Brexit, many are not quick in responding to the issue due to great uncertainty surrounding it.

Some industries such as the automotive industry express concerns over the negative effect of the new agreement among the U.S., Mexico and Canada (USMCA).

(Note) Compiled based on data provided by JETRO, METI, JAMA, and Trade in Value Added (December 2018), OECD.
A look at benefits of globalization for business finds that companies engaging in export and FDI, although remaining a minority, are more productive, have a larger number of employees and pay employees more on average than those companies not engaging in export and FDI. Furthermore, starting to export and joint researches and personnel exchanges with foreign companies are likely to improve corporate productivity.

On the other hand, conducting trade increases demand for skilled labor within the industry, which may lead to a pay gap between highly skilled workers and low-skilled ones. It is crucial for companies to maintain competitiveness amid ongoing globalization of economy and at the same time, to enhance employee education and training programs, secure employee mobility and build a safety net for employees in order to overcome the pay gap.

Chart 72 Characteristics of Japanese Exporting Companies (FY2016)
- Share of export value accounted for by top exporters
- Premium of exporting companies (Comparison of average values with those of non-exporting companies)
- Average values of exporting companies are higher than those of non-exporting companies

Chart 74 Impact of Globalization on Domestic Employment
- Ratio of exporting companies’ and related companies’ employees in terms of numbers
- Employment increased by Japanese companies’ start of export

Chart 75 Globalization and Domestic Pay Gap
- Relative wage and supply volume of college-educated and high-school-educated workers
- Distribution of salaries paid by Japanese companies (FY2016)