

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.

Chart 54 Breakdown of Current Account

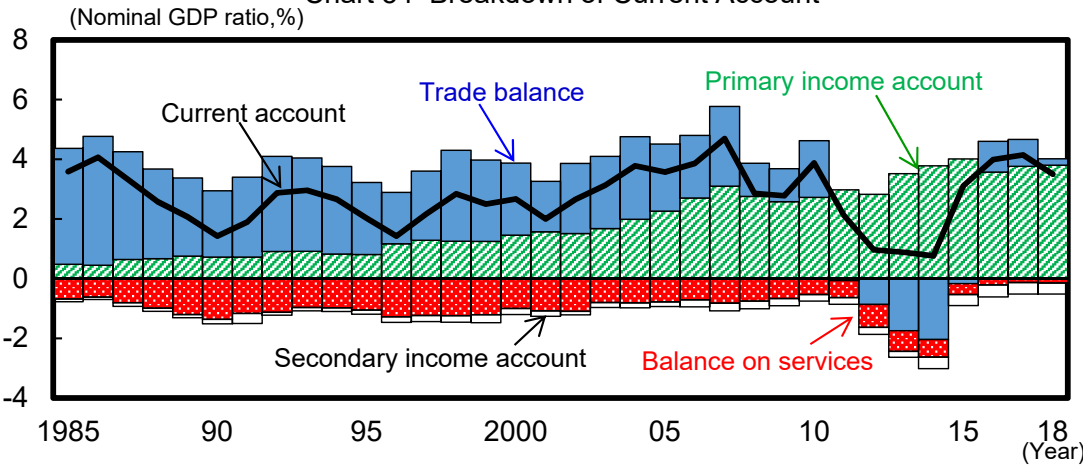
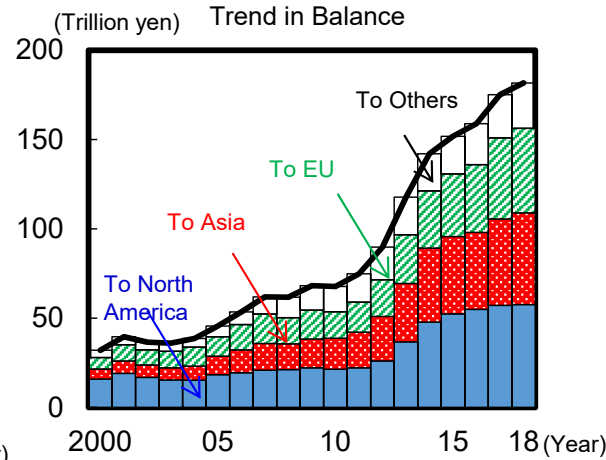


Chart 57 Outward FDI



Composition Ratio by Investment Purpose (2017)

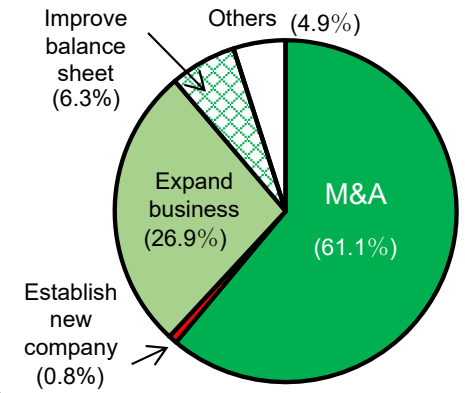


Chart 55 Export Value Share of Highly Sophisticated Products (2010-15)

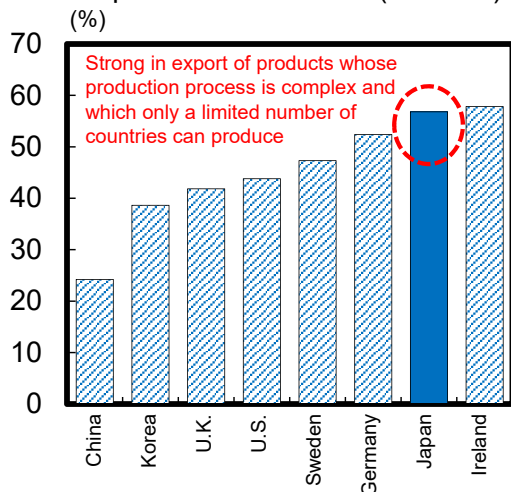


Chart 56 International Technology Transactions and Inbound Tourists

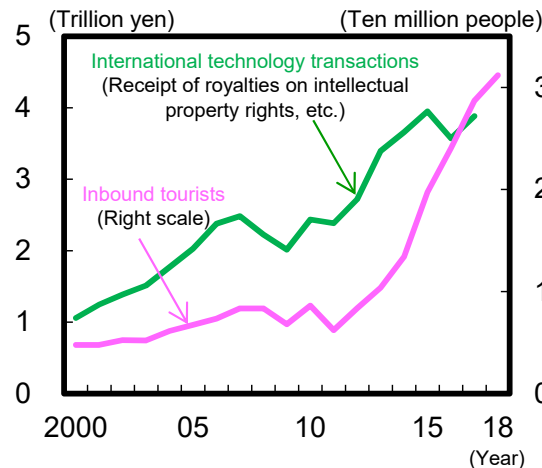


Chart 58 Japanese Companies' Cross-border Intra-company Transactions

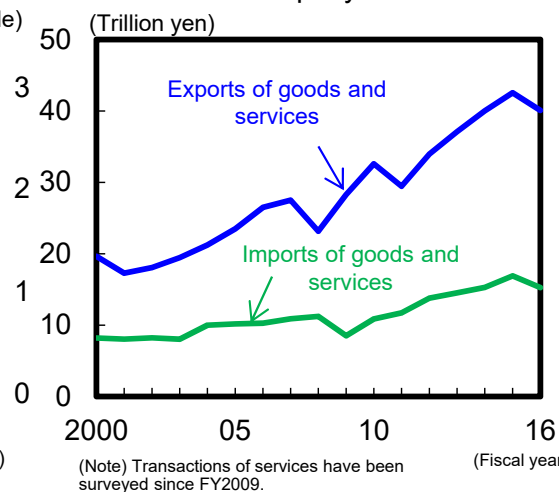
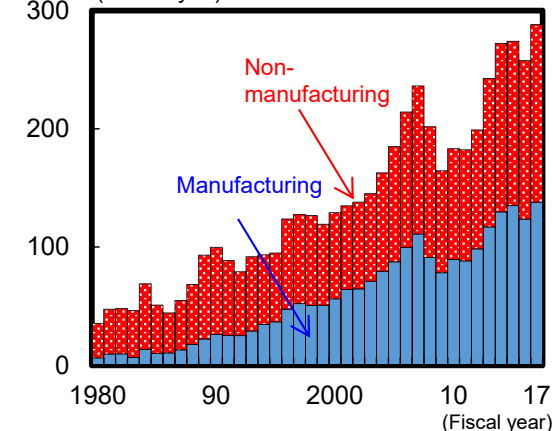


Chart 59 Japanese Companies' Overseas Subsidiary Sales



- 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.

Chart 60 World Trade Volume and Global GDP

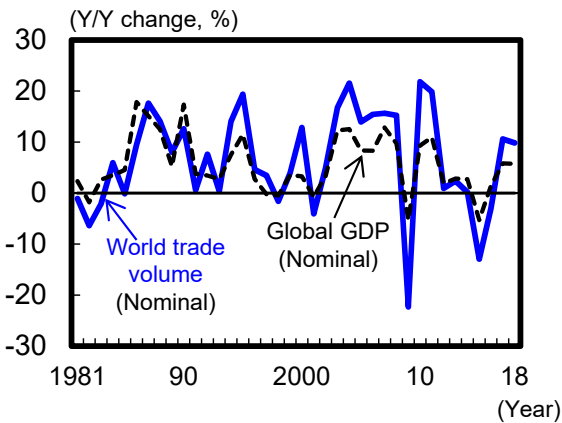


Chart 61 Average Tariff Rate and Rate of Participation in GVC

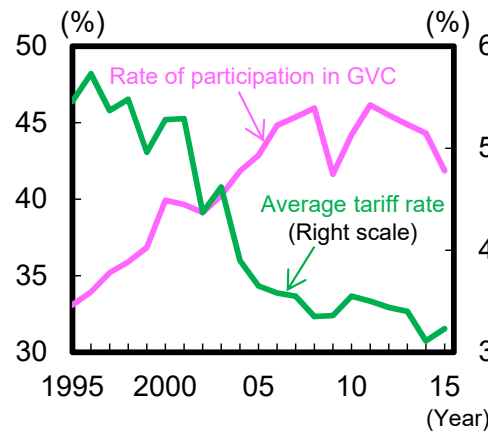


Chart 63 Nominal Import Value of Asian Countries and Regions and U.S.

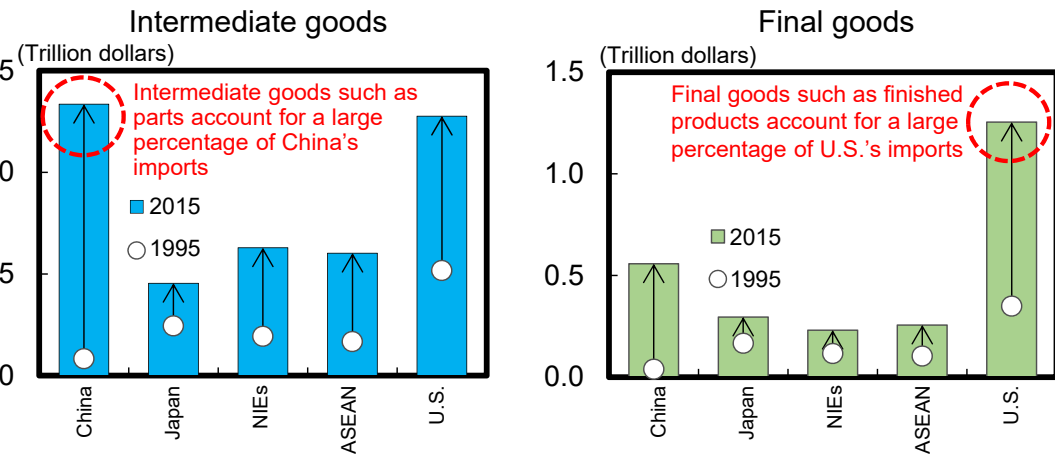


Chart 62 Increasing Uncertainty over Global Economy (Japan Economic Policy Uncertainty Index)

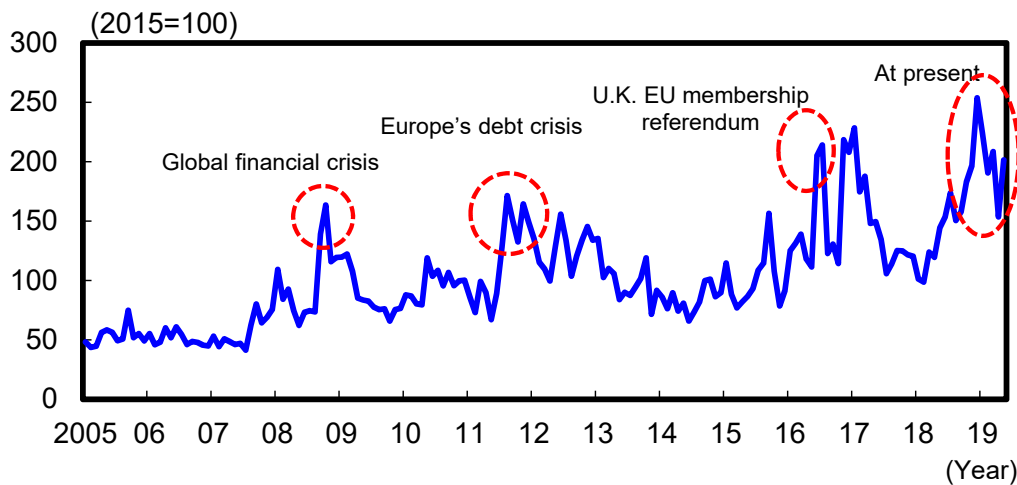


Chart 64 Composition of Added Value of Industrial Products Exported from China (2015)

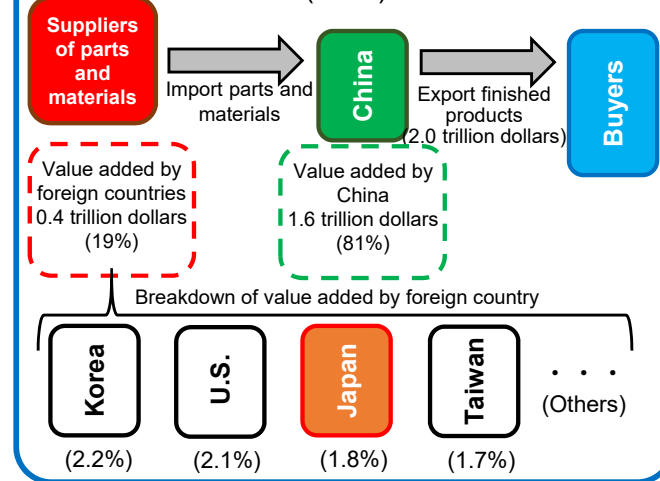
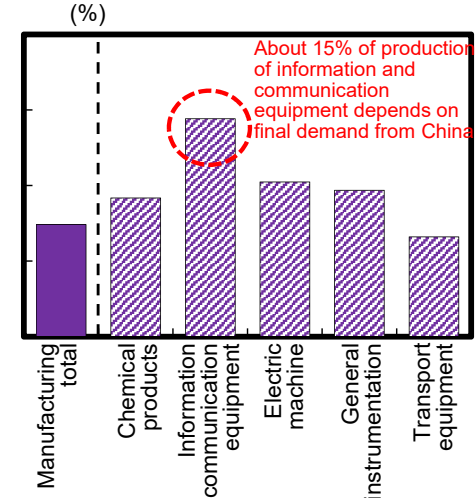


Chart 65 Rate of Dependency of Japan's Production Value on Final Demand from China

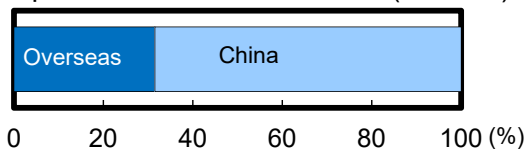


(Note) Compiled based on data provided by WTO and IMF (2019), Inter-Country Input-Output Tables and Trade in Value Added (December 2018, December 2016), OECD and data provided by Bloomberg.

- 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).

Chart 66 Business Activities of Japanese-affiliated Companies in China

Composition of sales destination (FY2018)



Composition of export destination (FY2018)

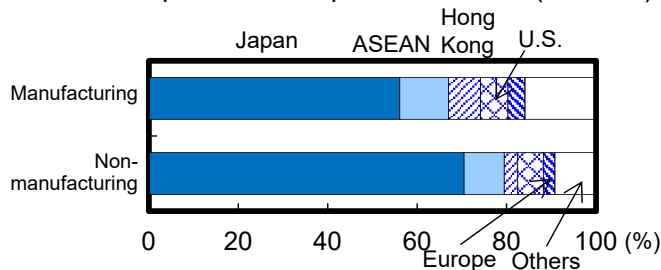


Chart 67 Opinions of Japanese-affiliated Companies in Asia about Effect of U.S.-China Trade Issues (%)

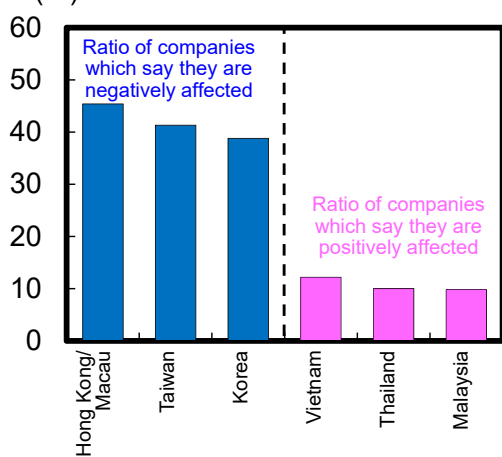


Chart 68 Automotive Supply Chain Centering on U.K. (2015)

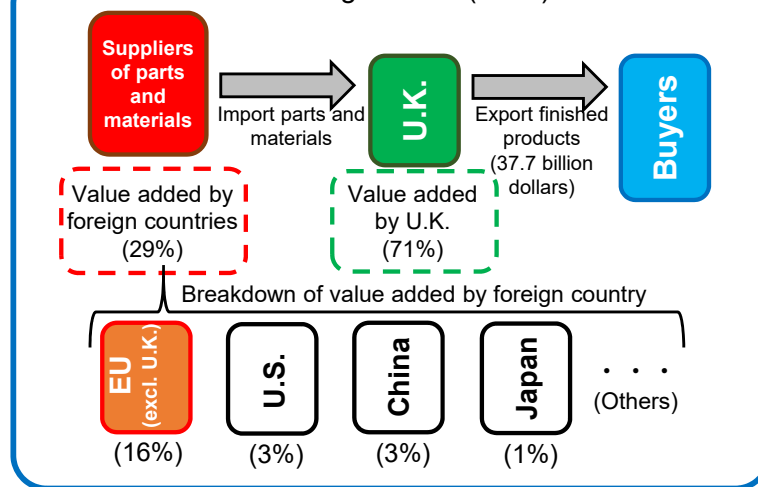


Chart 70 Sales, Local Production and Imports of Japanese Cars in U.S. Market (2017)

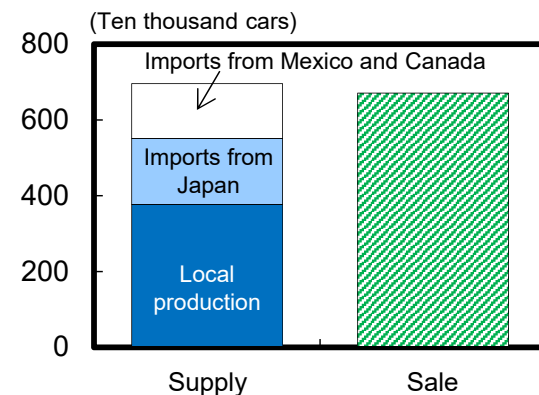


Chart 69 Response to Brexit by Japanese-affiliated Companies in U.K.

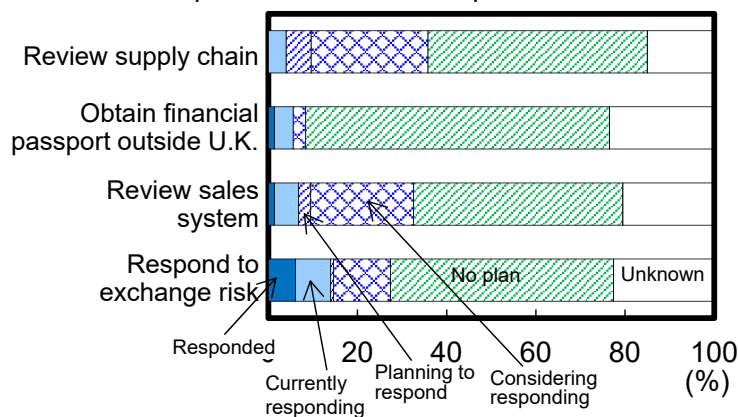
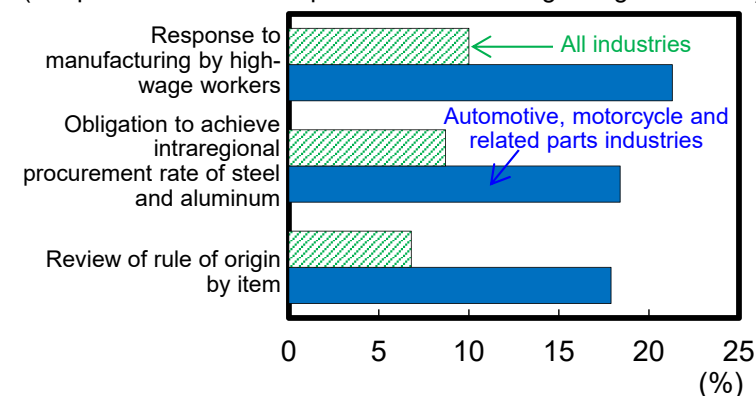


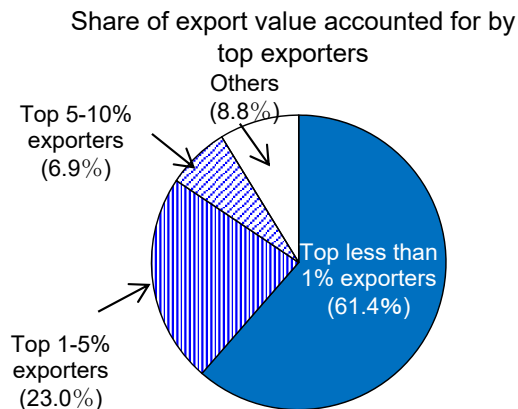
Chart 71 Opinions of Japanese-affiliated Local Companies about Enforcement of USMCA (Response ratio of items pointed out as having a negative effect)



(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)



Premium of exporting companies (Comparison of average values with those of non-exporting companies)

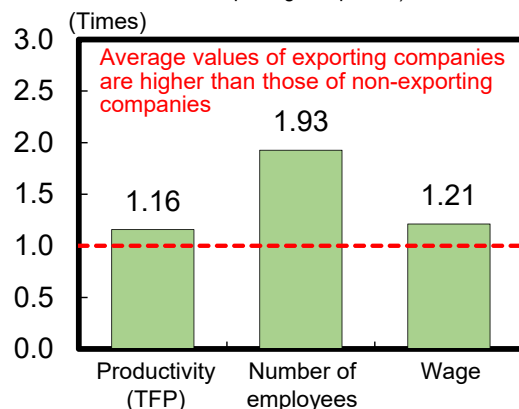
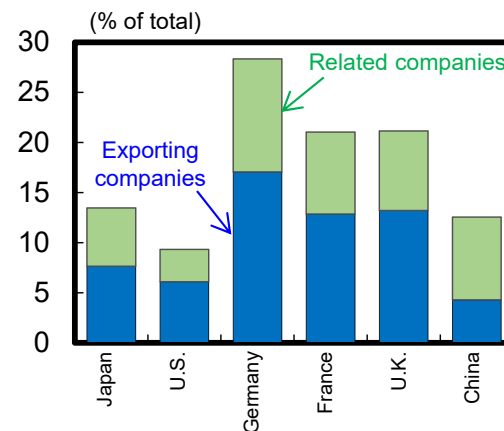
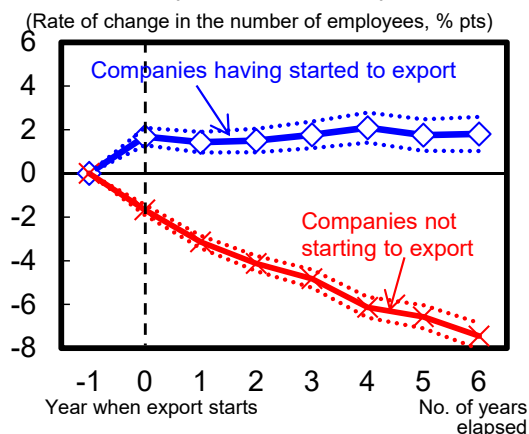


Chart 74 Impact of Globalization on Domestic Employment

Ratio of exporting companies' and related companies' employees in terms of numbers

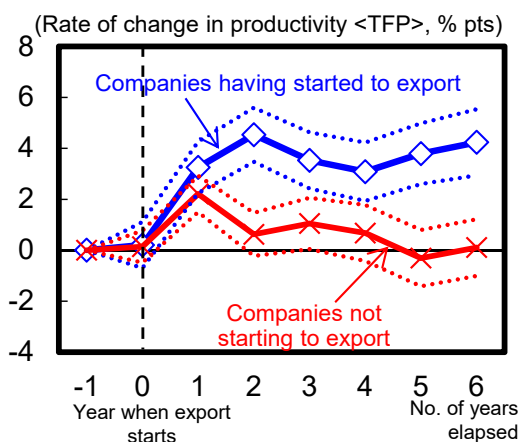


Employment increased by Japanese companies' start of export



Chapter 73 Increasing Productivity of Japanese Companies Due to Globalization

Effect of start of export



Effect of joint researches and personnel exchanges with foreign companies

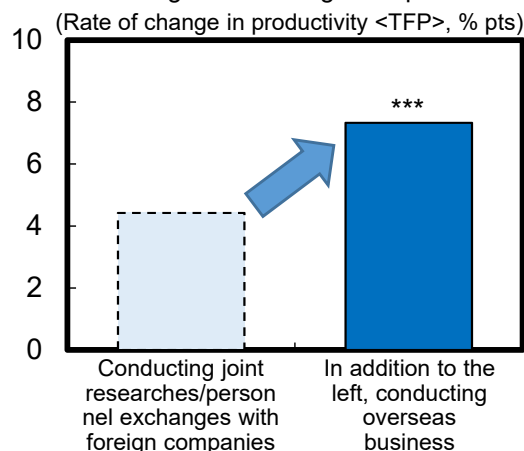
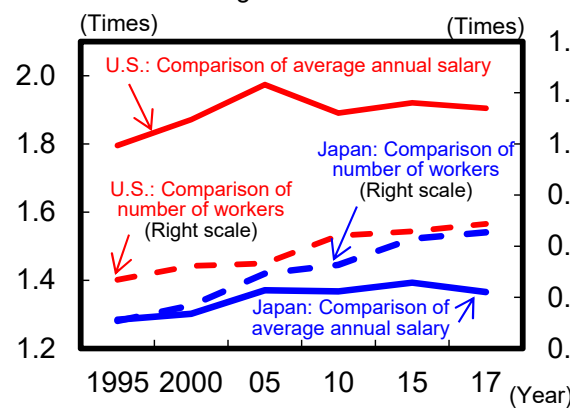


Chart 75 Globalization and Domestic Pay Gap

Relative wage and supply volume of college-educated and high-school-educated workers



Distribution of salaries paid by Japanese companies (FY2016)

