



# World Economic Trends II <The 2023 Autumn/Winter Report>

—Balance Sheet Adjustment in China /  
Global Development of Trade in Services—

(Summary)

February 2024

Director General for Economic Research  
Cabinet Office, Government of Japan

# Contents

---

## Chapter 1: World Economic Trends in the Latter Half of 2023

### Section 1: Economic Trends in the U.S. and Europe

1. Economic trends in the U.S.
2. Economic trends in Europe
3. Trends of prices and monetary policies in the U.S. and Europe, and their impacts on financial markets

### Section 2: Economic Trends and Balance Sheet Adjustment in China

1. Economic trends in China
2. Balance sheet adjustment and its spillover

### Section 3: Risk Factors for the World Economy

## Chapter 2: Structural Changes in Global Trade and Investment

### Section 1: Trends in Merchandise Trade

1. Stagnation of merchandise trade and backgrounds
2. Trends in merchandise trade from the perspective of value-added trade

### Section 2: Background to the Development of Services Trade and Digital Trade

### Section 3: Trends in FDI

1. Major economic theories on FDI
2. Stagnation of FDI and backgrounds
3. Inducing and constraining FDI from an economic security perspective

### Section 4: Future Prospects

“World Economic Trends”: This report surveys and analyzes the trends of the world economy since 2002. This is the 43rd issue.

# 1-1 World Economy (1) (Economic Trends in the U.S.)

- The U.S. economy shows continuous recovery mainly driven by private consumption (Figure 1). In the background to robust consumption, there is a sound household balance sheet, and the ratio of debt to total asset is at the lowest level in the past 20 years (Figure 2).
- As for capital investment, structures investment (construction of plants, etc.) has been increasing since the enactment of the CHIPS and Science Act. Construction of new semiconductor plants has also been becoming active (Figure 3).
- In the housing market, housing starts (new homes) is at a turning point to recover in response to the supply shortage of existing homes (Figure 4).

Figure 1. Real GDP growth rate in the U.S.

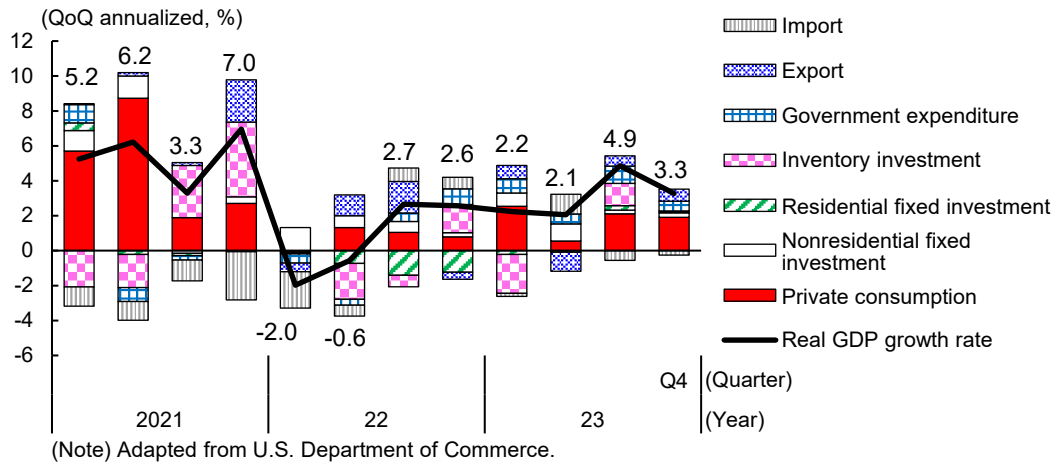


Figure 2. Debt ratio to total assets (by income status)

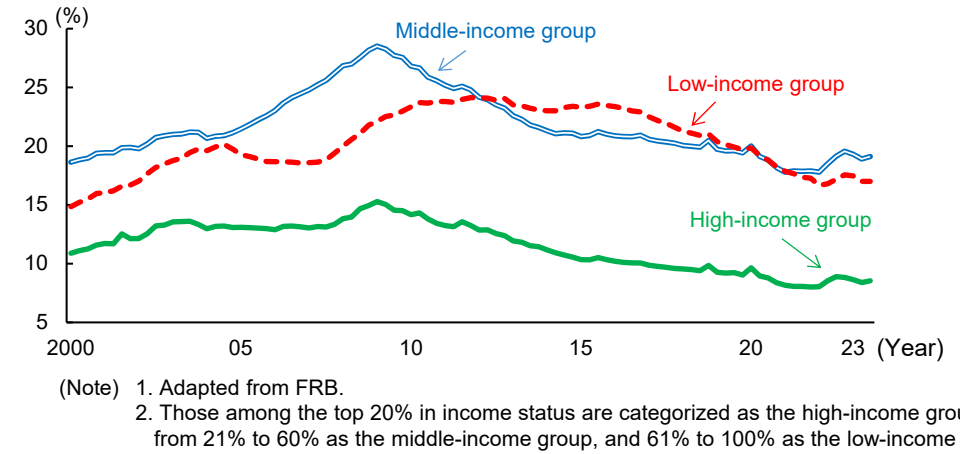
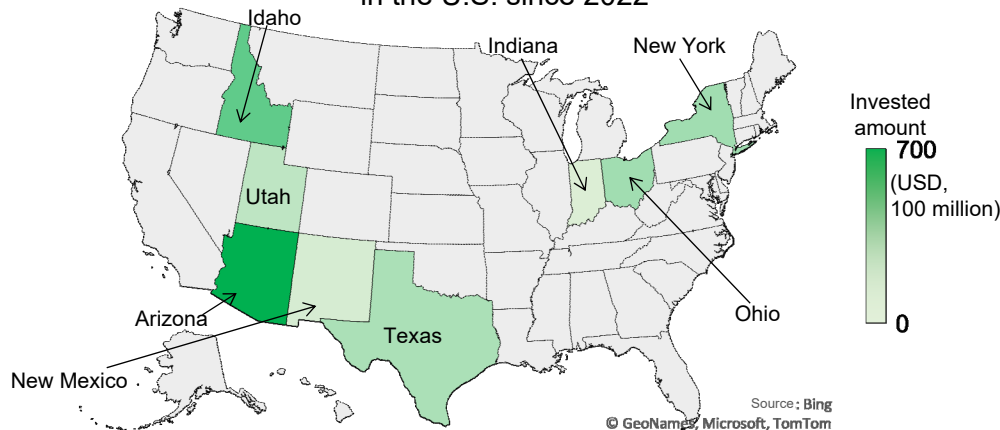
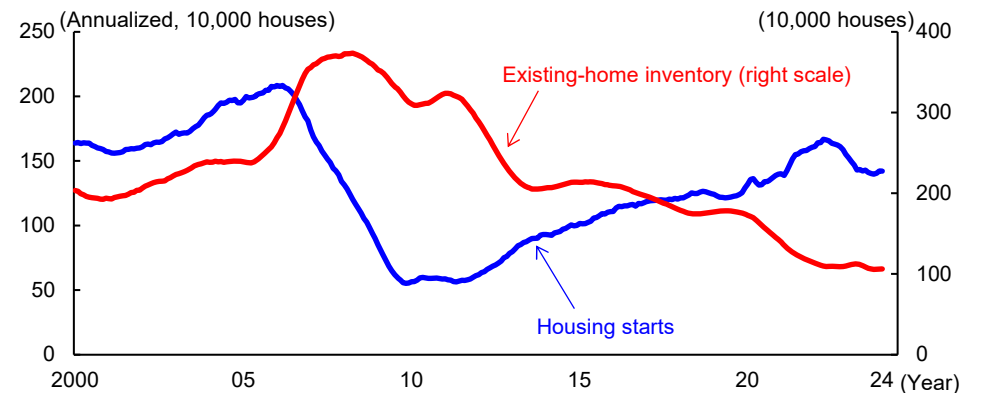


Figure 3. Trend of the new construction of semiconductor plants in the U.S. since 2022



- (Note) 1. Amount of investment in the construction plan of semiconductor plants announced or being implemented from 2022 to 2023 is calculated from the website of each company.  
2. Based on the information as of December 19, 2023.

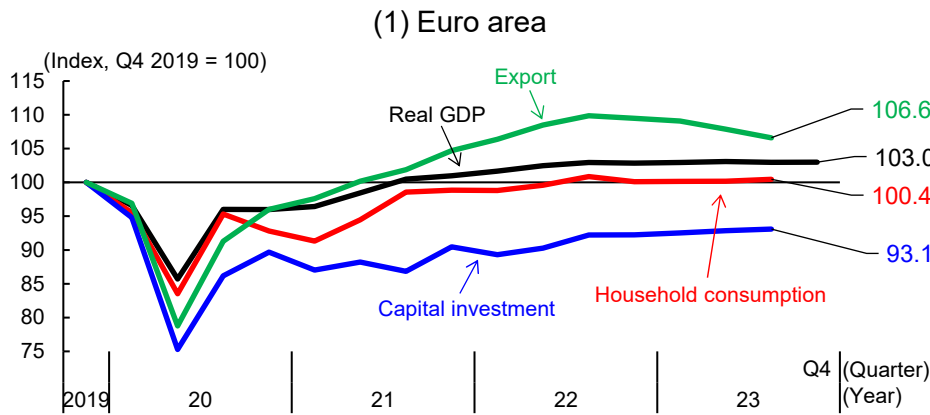
Figure 4. Number of housing starts and existing-home inventory



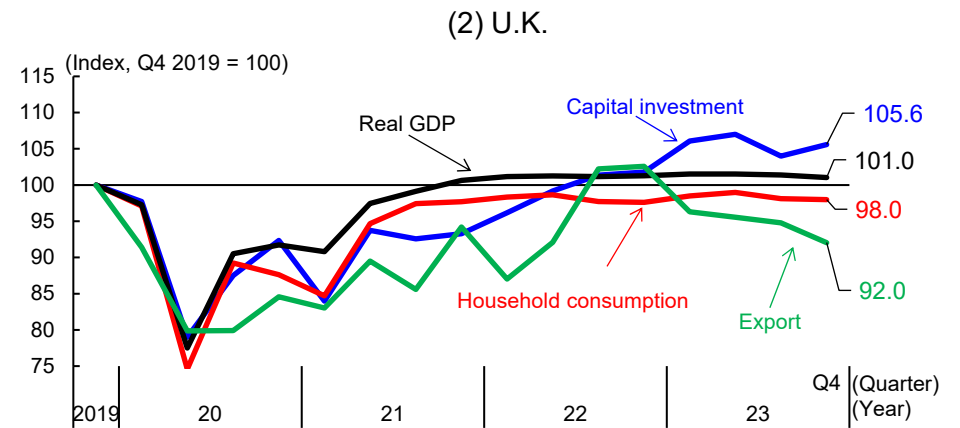
# 1-2 World Economy (2) (Economic Trends in Europe)

- While the real GDP in the Euro area and the U.K. recovered to the level before the pandemic, it peaked and decreased slightly in the latter half of 2023, and the economic trend is weak. Especially in the U.K., the recovery of household consumption is lagging behind (Figure 1).
- As the background to this trend, consumer confidence is weakening (Figure 2). Especially in the U.K., rising concern on the outlook of the economy after the Brexit decision in 2016 and concern on the increase of interest payments due to the interest rate rise are contributing to the deterioration of consumer confidence (the ratio of short-term refinanced housing loans is large in the U.K.) (Figure 3).

Figure 1. Real GDP in the Euro area and the U.K., trend by category of demand

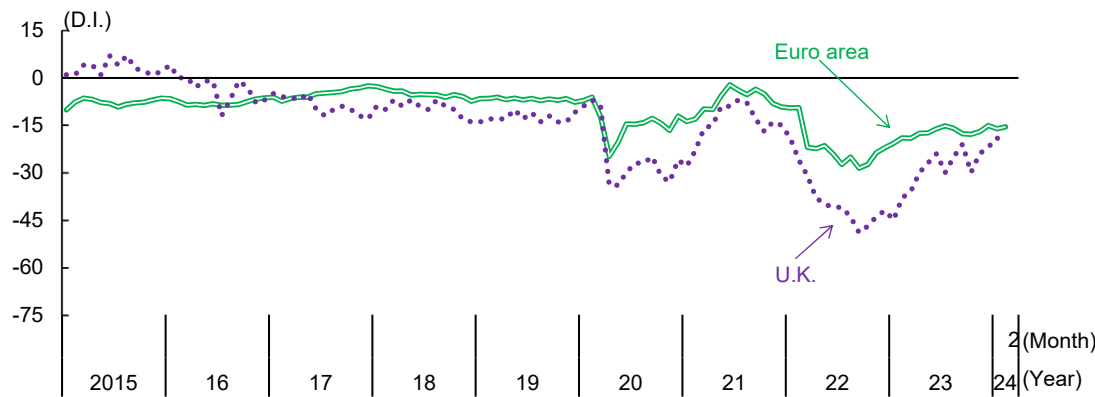


(Note) 1. Adapted from Eurostat.  
2. Seasonally adjusted. Capital investment is non-residential capital investment including the public sector.



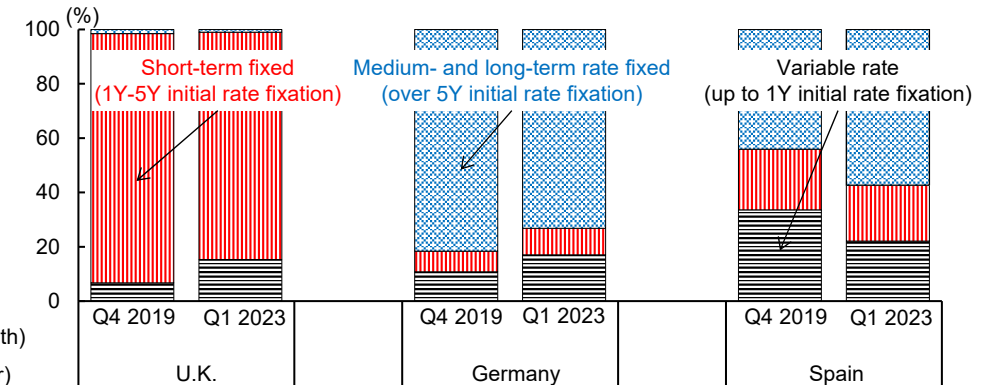
(Note) 1. Adapted from U.K. Office for National Statistics.  
2. Seasonally adjusted. Capital investment is private non-residential capital investment.

Figure 2. Changes in consumer confidence



(Note) Adapted from European Commission and GfK.

Figure 3. Ratio of new housing loans by type of interest in European countries

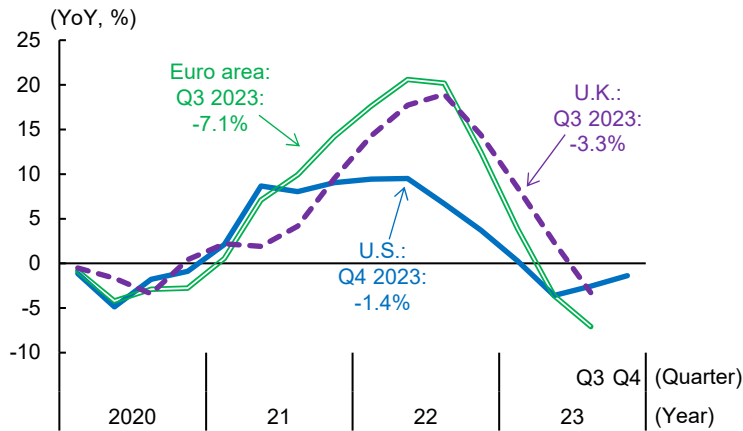


(Note) 1. Adapted from materials released from European Mortgage Federation.  
2. Actual figures of the new housing loans concluded in Q4 2019 and Q1 2023.

# 1-3 World Economy (3) (Prices and Financial Policies in the U.S. and Europe)

- In the U.S. and Europe, inflation rates are decreasing with the weakening import inflation pressure, caused by the drop in energy and food prices (Figures 1 and 2).
- Central banks in the U.S. and Europe have been maintaining the policy interest rates and quantitative tightening since the autumn of 2023 (Figure 3). In the U.S., the pace of decline in FRB securities holdings is outpacing the previous quantitative tightening round (Figure 4).

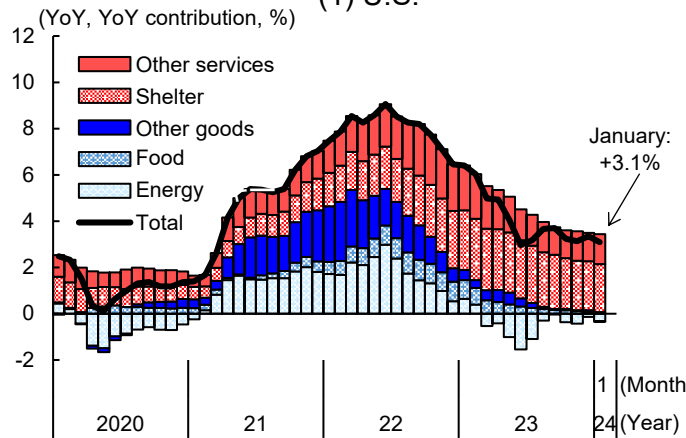
Figure 1. Import prices



(Note) Adapted from OECD Stat.

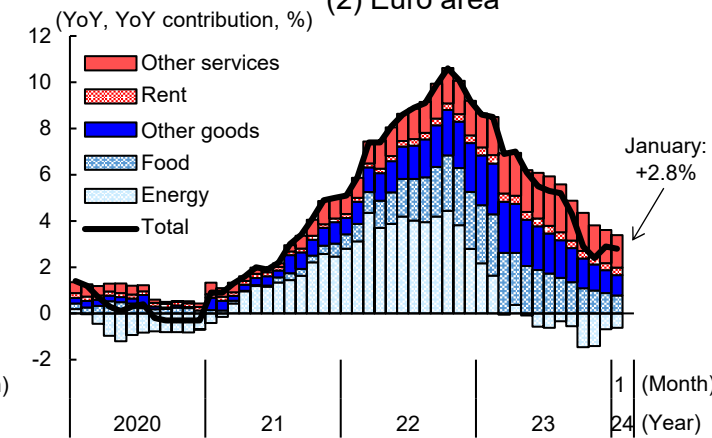
Figure 2. Consumer price index

(1) U.S.



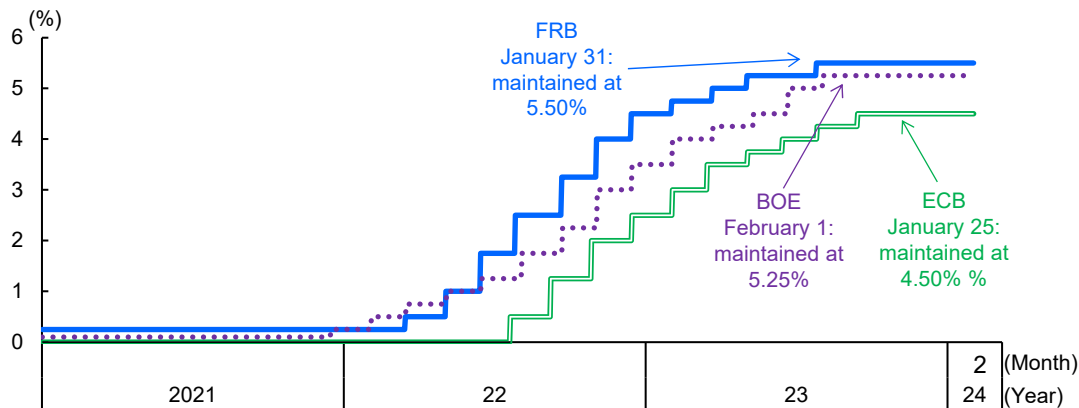
(Note) 1. Adapted from the U.S. Department of Labor.  
2. Shelter includes the owner's equivalent rent.

(2) Euro area



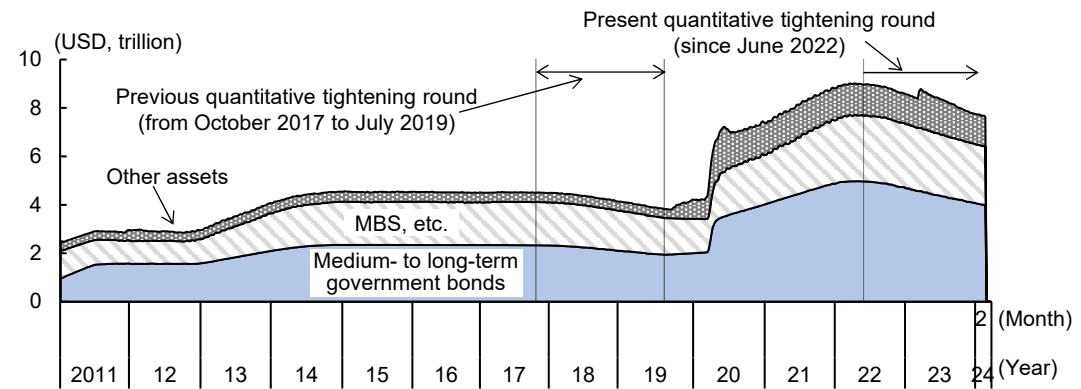
(Note) 1. Adapted from Eurostat.  
2. Rent does not include the owner's equivalent rent.

Figure 3. Policy interest rates in the U.S. and Europe



(Note) Adapted from FRB, BOE and ECB.

Figure 4. Balance sheet of FRB (asset side)

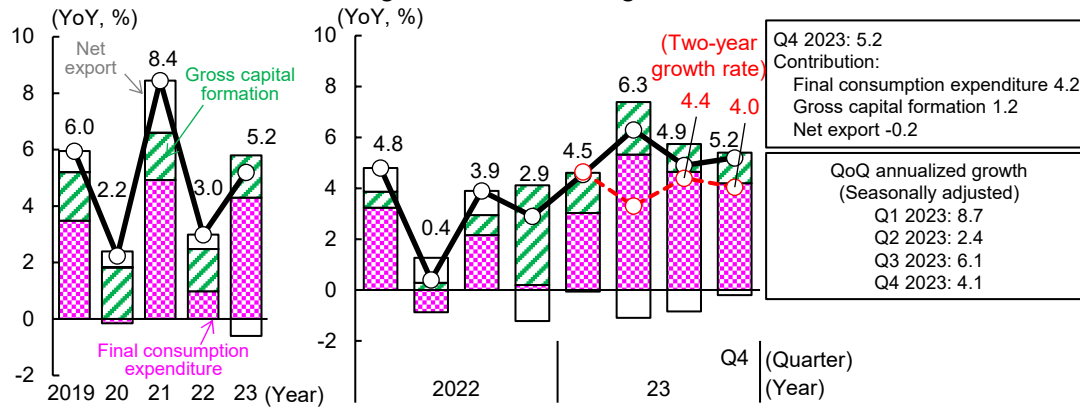


(Note) 1. Adapted from FRB.  
2. Other assets include loans and treasury bills.

# 1-4 World Economy (4) (Economic Trends and Balance Sheet Adjustment in China)

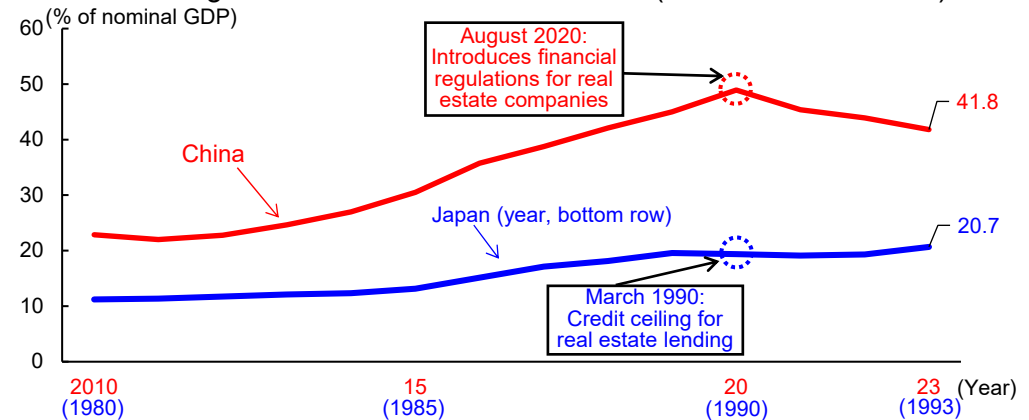
- While the economic trend showed movements of picking up in China after the COVID-19 pandemic, it appears to be pausing for picking up in the latter half of 2023 (Figure 1).
- Stagnation of the real estate market is in the background, which is not a temporary economic factor but a structural problem. Real estate loans peaked in 2020, when financial regulations were introduced, and started to decrease thereafter (Figure 2). Property sector has been in the process of balance sheet adjustment, under prioritizing debt reduction and holding down investments (Figure 3). It has been spilling over into household sector, dragging down disposable income and expenditure per capita (Figure 4).

Figure 1. Real GDP growth rate



- (Note) 1. Adapted from National Bureau of Statistics of China.  
2. Two-year growth rate (values to exclude the impact of the pandemic in 2022, annualized), and QoQ annualized growth are the estimates by the Cabinet Office.

Figure 2. Real estate loan balances (ratio to nominal GDP)



- (Note) 1. Data for China was adapted from National Bureau of Statistics of China and People's Bank of China.  
2. Data for Japan was adapted from "National Accounts of Japan" by Cabinet Office, and "Loans and Bills Discounted by Sector" by Bank of Japan.

Figure 3. Balance sheet adjustment by real estate companies

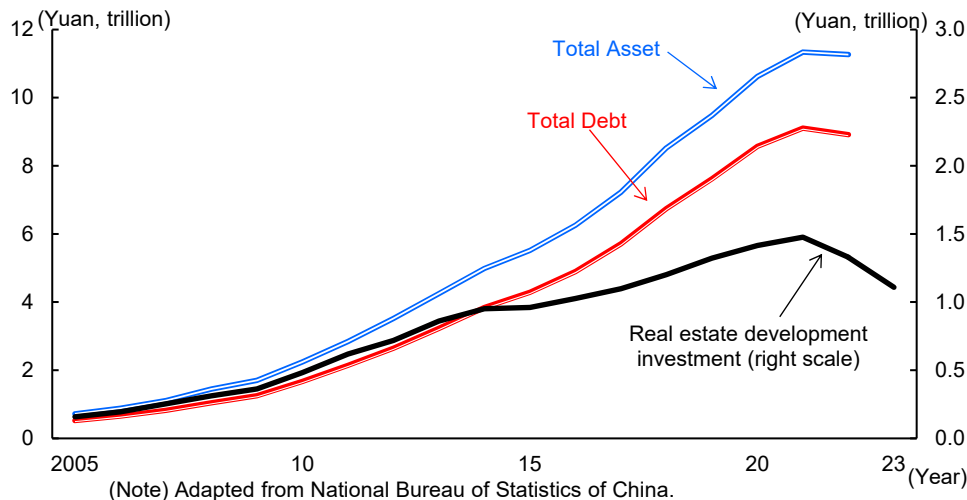
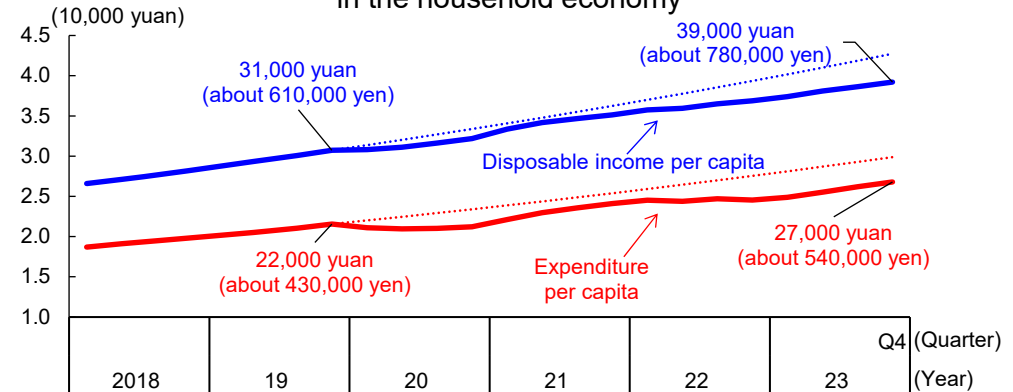


Figure 4. Disposable income and expenditure per capita in the household economy



- (Note) 1. Adapted from National Bureau of Statistics of China. Figures are quarterly (annual rate) as a moving average for four quarters later.  
2. The trend line for each category since Q1 2020 shows the level calculated according to the average growth from Q1 2018 to Q4 2019. 1 yuan = about 20 yen.

# 1-5 World Economy (5) (World Economic Risks)

- In China, the largest risk is the stagnation of the real estate market. Asset Backed Security (ABS) of Non-Performing Loans (NPL), such as housing loans, might diffuse risks (Figure 1).
- In the U.S., commercial real estate prices are decreasing, reflecting the monetary tightening. If delinquencies and defaults increase, it would affect the assets of mid- to small-sized banks (Figure 2).
- With the ongoing tension in the Middle East, more and more companies are bypassing the Suez Canal and going around the Cape of Good Hope, which is driving up logistics costs (Figure 3).
- Elections are scheduled in various countries in 2024. It is necessary to monitor the potential risks of the changes in the international political situation affecting the world economy through trade and investment (Figure 4).

Figure 1. The amount of the issuance of the ABS of NPL in China

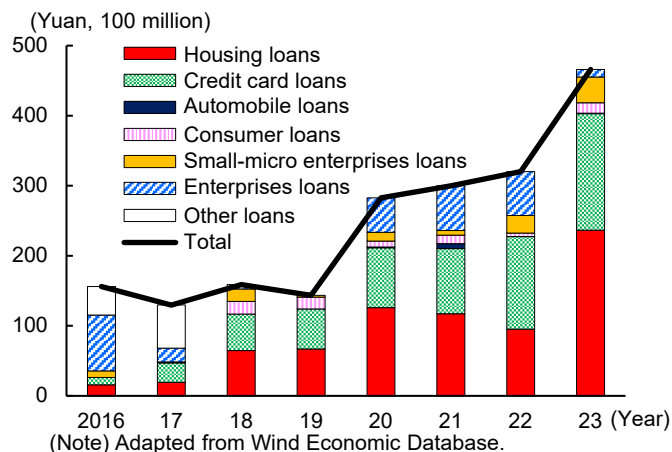


Figure 2. Commercial real estate price index



Figure 3. Transit Trade Volume going through the Suez Canal and the Cape of Good Hope

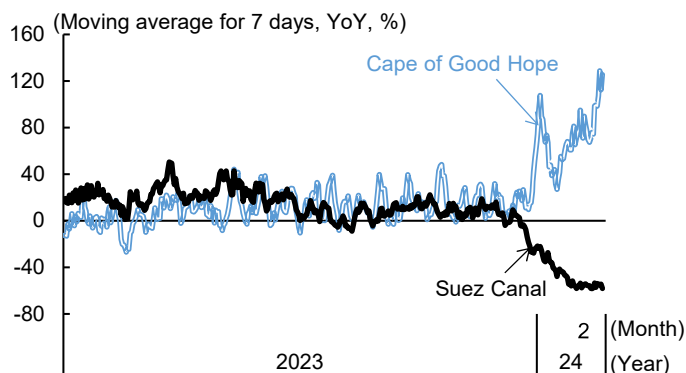


Figure 4. Schedule of major election-related events in 2024 around the world

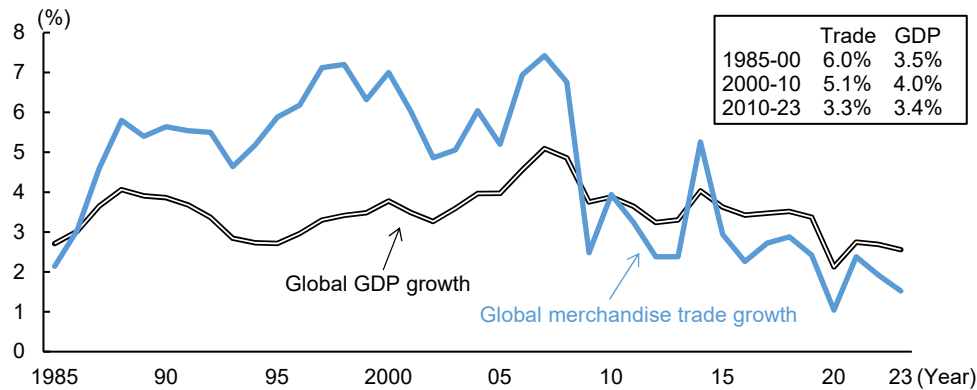
Date	Details
January 13, 2024	Presidential election in Taiwan
February 14, 2024	Presidential election in Indonesia
March 17, 2024	Presidential election in Russia
April 10, 2024	General election in South Korea
June 2024	Termination of the term of the members of the lower house of parliament (Lok Sabha) in India
June 2, 2024	Presidential election in Mexico
June 6-9, 2024	Election of the members of the European Parliament
November 5, 2024	Presidential election in the U.S.
December 2024	Termination of the terms of the members of the House of Commons in the U.K.

(Note) Adapted from official information.

## 2-1 Structural Changes in Trade and Investment (1) (Merchandise Trade)

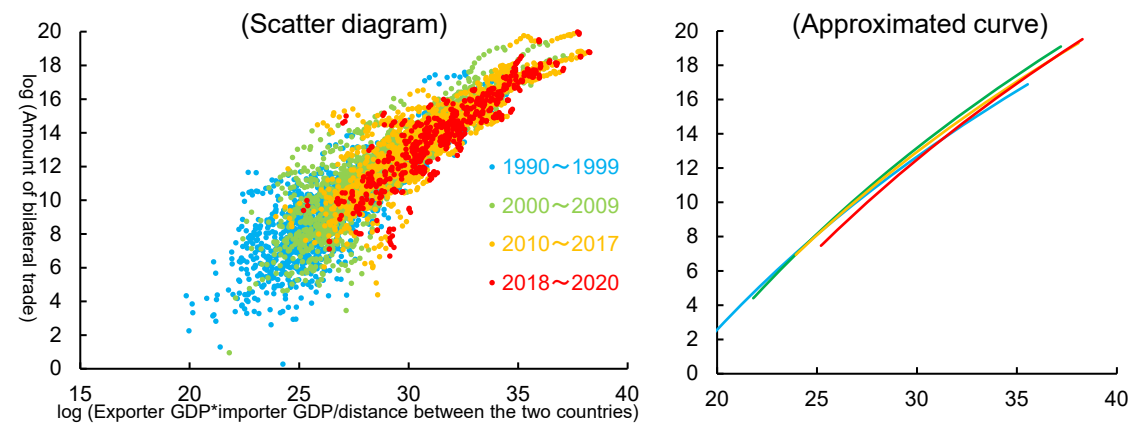
- Growth in global merchandise trade has been lower than the GDP growth rate since 2010 due to reasons such as the progress of domestic internalization of production (Figure 1).
- In the trend of trade in China and the world, no large effect of U.S.-China trade friction is seen (Figure 2). As for U.S. trade deficit with China, compared to the ordinary figure based on trade statistics, the figure based on value-added statistics (reflecting the actual production activities within China) is smaller (Figure 3).
- ASEAN maintains relationships with multiple major economic powers and economic zones, and it increases importance while U.S.-China trade friction continues (Figure 4).

Figure 1. Growth of global merchandise trade and real GDP



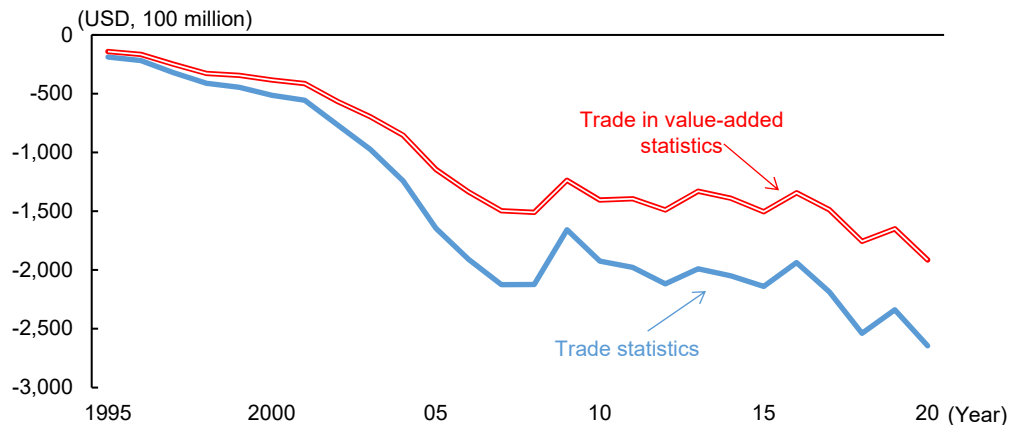
(Note) 1. Adapted from WTO Stats and IMF (2023).  
2. The chart shows the moving average of growth for five years.

Figure 2. Gravity equation of trade amount in China and the world



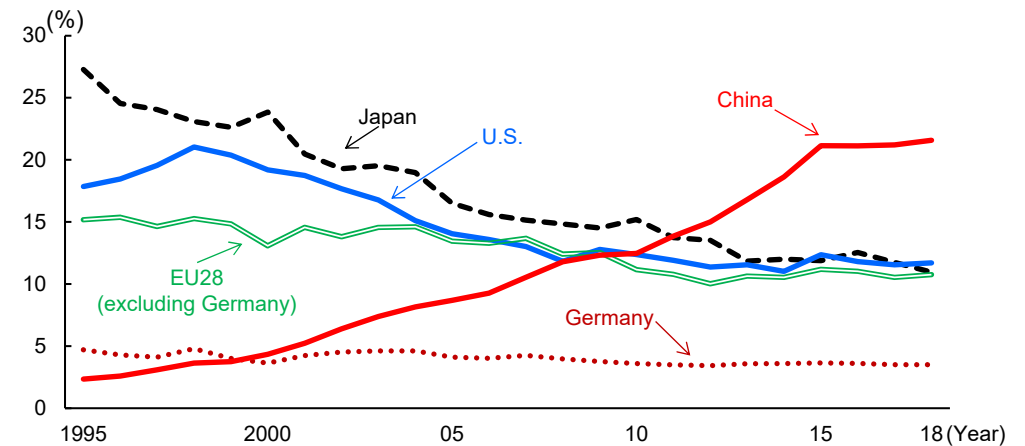
(Note) Adapted from CEPII.

Figure 3. U.S. trade deficit with China



(Note) Adapted from OECD Stat.

Figure 4. Ratio of added values from overseas among exports from ASEAN



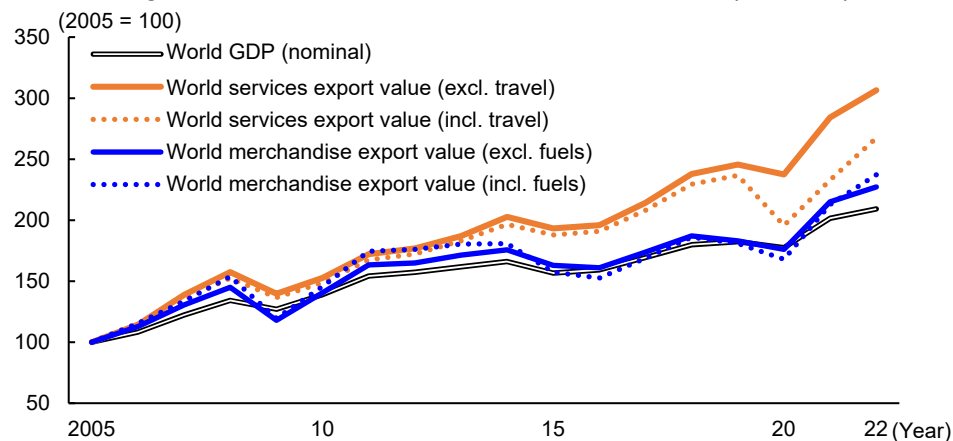
(Note) Adapted from OECD Stat.



## 2-2 Structural Changes in Trade and Investment (2) (Services Trade)

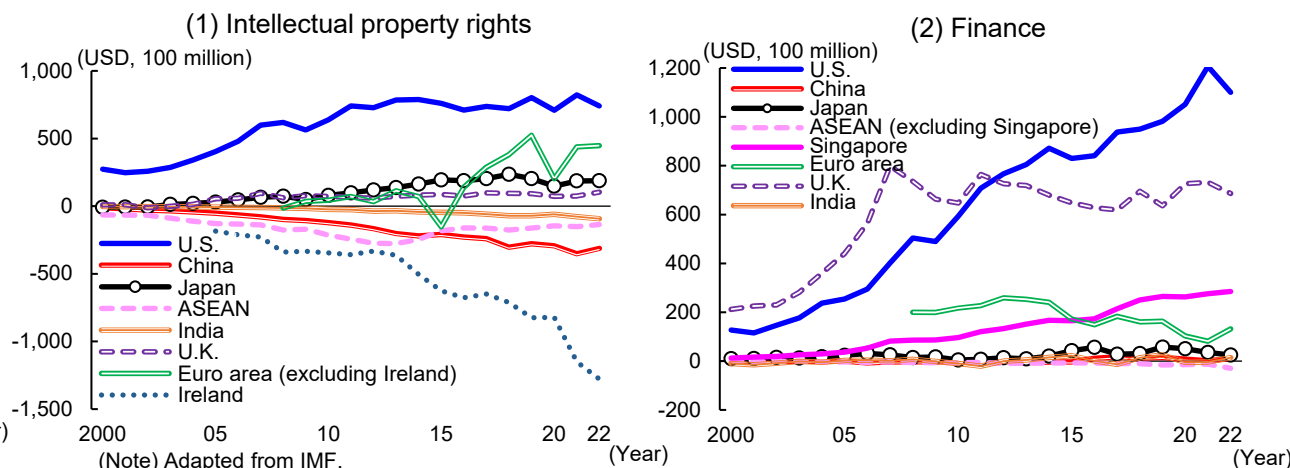
- Global exports of services exceed growth in GDP and growth in exports of merchandise, showing a stable increase, and are becoming a new driving force of the world economy (Figure 1).
  - The balance of services trade implies the competitive power of each country by sector (Figure 2).  
(Example) The U.S. has substantial surplus in the area of intellectual property rights and finance, and the U.K. in the area of finance and insurance.
  - Regulations on digital services trade are tightened in some countries, reflecting data localization <sup>(Note)</sup> (Figure 3). Such regulation tightening may act as downward pressure on services trade (Figure 4).
- (Note) Regulations requiring that servers and data necessary for business activities be installed and stored within the country.

Figure 1. Global trends in service export value (nominal)



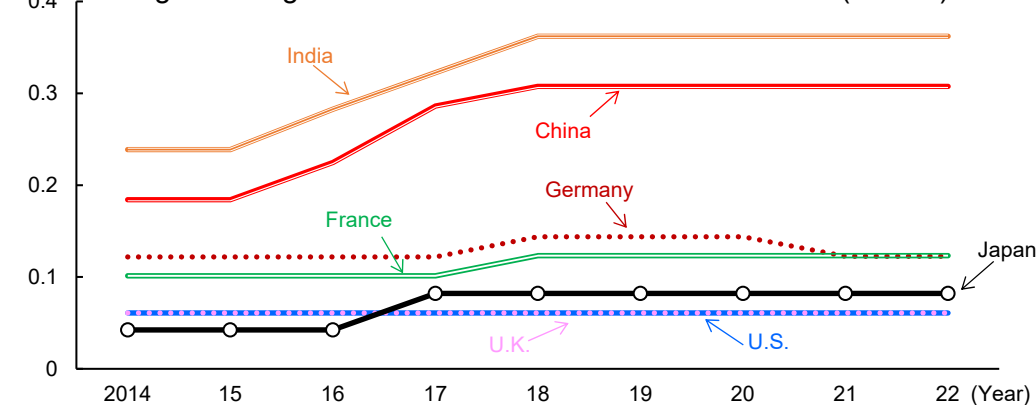
(Note) Adapted from WTO and IMF.

Figure 2. Balance of services trade in each country (by sector)



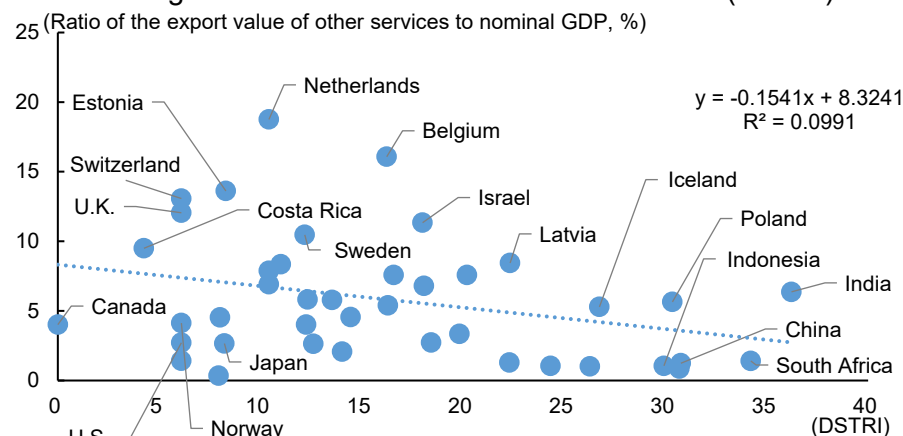
(Note) Adapted from IMF.

Figure 3. Digital Services Trade Restrictiveness Index (DSTRI)



(Note) Adapted from OECD Stat. It is a tool to identify regulatory bottlenecks for digital services trade. The weighted average of five items, namely: (1) infrastructure and connectivity, (2) electronic transactions, (3) payment system, (4) intellectual property rights, and (5) other barriers affecting trade in digitally enabled services. 0 indicates an open regulatory environment for digitally enabled trade and 1 indicates a completely closed regime.

Figure 4. Relationship between the services export value and Digital Services Trade Restrictiveness Index (DSTRI)



(Note) Adapted from IMF, OECD, and UNCTAD. Average from 2018 to 2022. "Other services" excludes travel and transport, and includes telecommunications, computer and information services and personal services.

## 2-3 Structural Changes in Trade and Investment (3) (FDI)

- Global FDI peaked in 2015 and has been decreasing thereafter following the slowdown of merchandise trade in the 2010s (Figure 1).
- Since the escalation of U.S.-China trade friction and the COVID-19 pandemic, an increasing number of countries are introducing or expanding security-related investment screening (Figure 2).
- Following the increased instability of the economic environment, including the U.S.-China trade friction, FDI in China is showing a continuous slowdown (Figure 3). In strategic sectors, such as semiconductors industry, FDI flows to different regions are diverging, influenced by geopolitical distance (Note) (Figure 4).

(Note) It shows the distance of geopolitical stances between the two countries attributable to the existence of an alliance, etc. Estimated from the voting behavior in United Nations Councils, etc.

Figure 1. World FDI (internal flow, net)

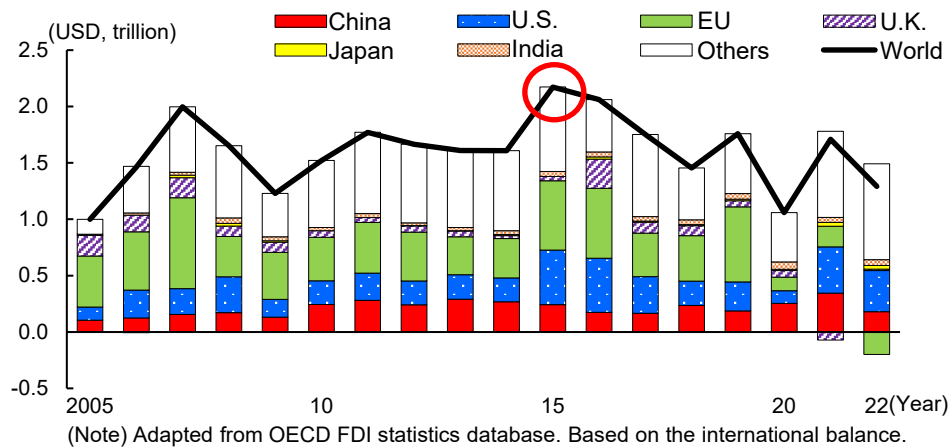


Figure 2. Countries introducing or expanding security-related FDI screening

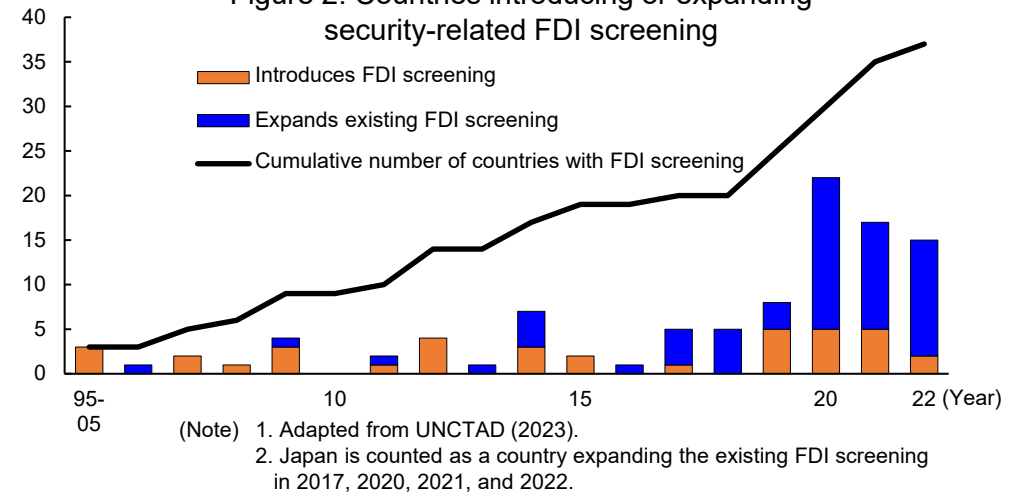


Figure 3. FDI into China (flow, net)

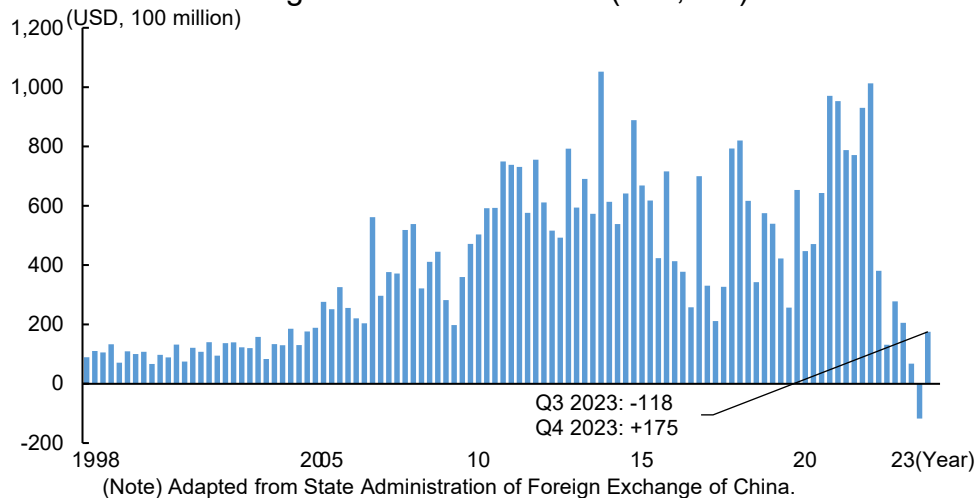
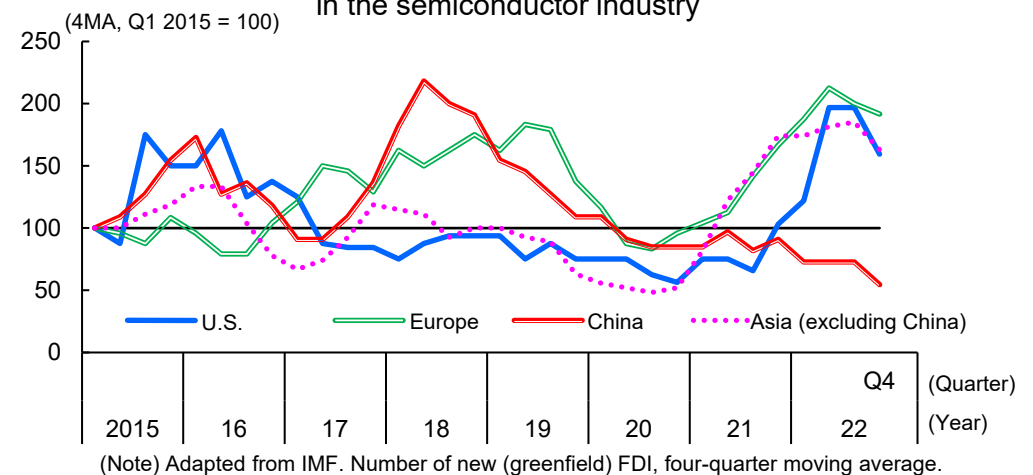


Figure 4. Regional fragmentation of internal FDI in the semiconductor industry



## 2-4 Structural Changes in Trade and Investment (4) (Future Prospects)

Figure 1. Future prospects of trade and FDI

### Trends in merchandise trade:

- ◆ The U.S. and China have a close relationship in terms of GVC, and the further escalation of trade friction might have a large impact on both countries (Figure 2).
- ◆ While the tightening of export regulations, etc. continues with the U.S.-China trade friction, there is a possibility that the tightening of regulations and economic activities can be both realized in the U.S. from the perspective of economic security, by further clarifying the target of such regulations.

### Trends in services trade:

- ◆ The growth rate is higher among countries with competitiveness in the service sector, and it is suggested that the sector would be the driving force for growth in these countries.
- ◆ Most countries/regions are tightening data flow regulations, including data localization, to a varying extent, which requires attention to be paid to the possibility of putting restraints on the growth of services trade in the future.

### Trends in FDI:

- ◆ In addition to the continuing U.S.-China trade friction, trends such as reshoring (returning to production in home country), friend-shoring, and near-shoring are progressing.
- ◆ From a geopolitical perspective, as regional fragmentation continues in strategic sectors, such as semiconductors, the overall growth rate of FDI might continue to decline and be skewed among regions (Figure 3).

Figure 2. Ratio of added values from overseas among exports from the U.S.

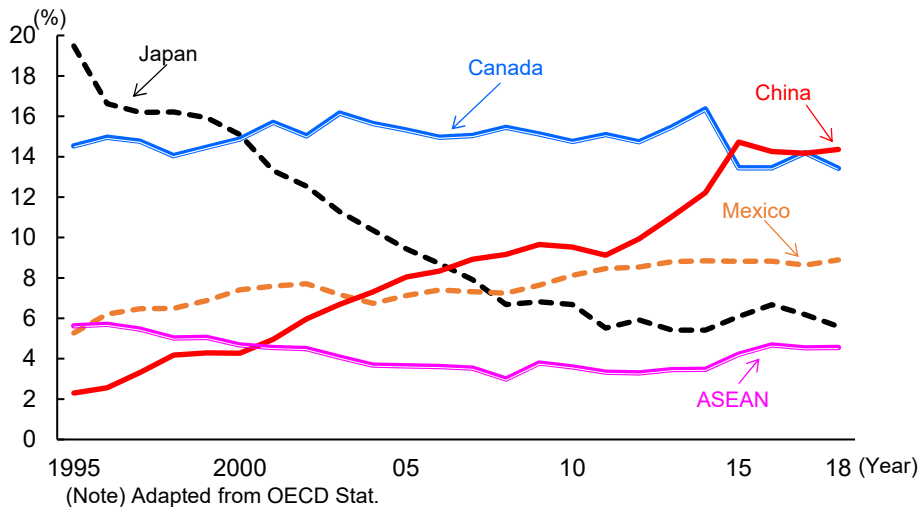
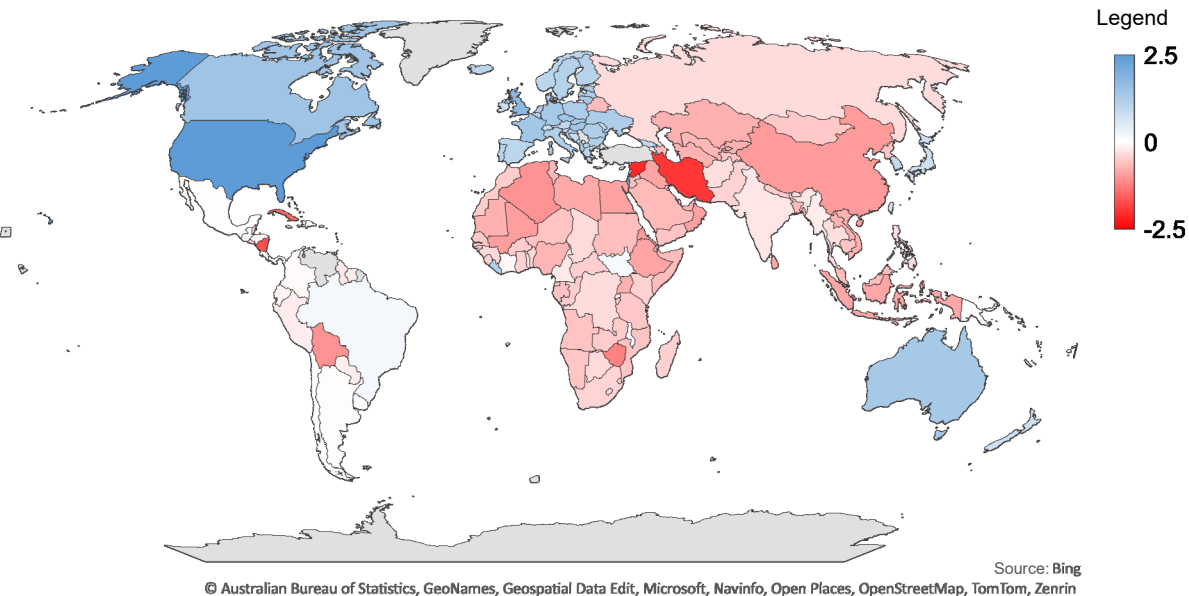


Figure 3. Geopolitical stance inferred from votes in United Nations General Assembly (UNGA) (2022)



(Note) Adapted from Harvard Dataverse. Based on votes in the 77th UNGA (2022). The darker blue indicates a voting behavior closer to that of the U.S., while the darker red indicates the opposite. Countries/regions without existing data are shown in gray.