

White Paper on International Economy and Trade 2023

June 2023
Trade Policy Bureau
Ministry of Economy, Trade and Industry (METI)

White Paper on International Economy and Trade 2023

1. Status

- A **non-statutory white paper** (METI'S four other white papers (White Paper on Small and Medium Enterprises in Japan, White Paper on Small Enterprises in Japan, White Paper on Manufacturing Industries (Monodzukuri), Annual Report on Energy) are those stipulated by law). Other non-statutory white papers include the Annual Report on the Japanese Economy and Public Finance (Economic and Fiscal White Paper).
- Distributed at the Cabinet meeting every year (**75th publication** this year).

2. Purpose

- To contribute to forming trade strategies through analyzing international economic trends and foreign policies that affect trade, and to inform the public of the ideas that form the basis for trade policy and its directions.

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- The Paper consists of three parts (Part I: Dynamics, Part II: Structures, Part III: Policies).
- Part I analyzes the dynamics and challenges of the world economy, while Part II discusses the challenges our economy is currently facing. Part III looks at what the government is working on in relation to international trade.

Part I: World Economy at the Crossroads

Chapter 1: Global Economy Slowing Further

- Section 1: Outlook and Status Quo of the World Economy
- Section 2: Russia's Invasion against Ukraine
 - Current State and its Implications
- Section 3: Escalating Inflationary Pressures
- Section 4: Rising Debt Risk in Emerging and Developing Countries
- Section 5: Fragmenting World Economy

Chapter 2: Challenges to Restore the Functions of the World Economy

- Section 1: Boost the Supply Side
- Section 2: Achieve a Free and Fair Trade Order and Economic Security
- Section 3: Ensure Sustainable and Inclusive Economic Development

Chapter 3: Economic Trends by Country and Region

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Chapter 1: Building Resilient Global Value Chains

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- Section 2: Economic Security Strategies and Challenges for Businesses

Chapter 2: Boosting Growth Potential by Incorporating Global Growth

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- Section 5: Promotion of Internal Internationalization by Taking in Foreign Technology, Human Resources and Innovation

Part III: Policies

Chapter 1: Rule-based International Trade System

- Section 1: G7/G20/OECD
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- Section 3: WTO
- Section 4: Evolving Economic Partnerships
- Section 5: Investment-related Agreements
- Section 6: New Multilateral Partnerships (including IPEF, Japan-Australia-India-US, Digital)

Chapter 2: Country/Region Strategies

The United States, Europe, China, ASEAN/Oceania, India, Latin America, Russia, the Middle East, Africa

Executive Summary

Part I: World Economy at the Crossroads

Chapter 1: Global Economy Slowing Further

- The world economy has further slowed down due to heightened uncertainty and **spiking inflation** stemming from **Russia's invasion against Ukraine** as well as accelerated **monetary tightening**.
- Rapid monetary tightening mainly in the United States and Europe has pushed down currency values and raised interest rates, thereby elevating the debt risks mainly of the Global South.
- The world has seen the title of trade superpower shifting from the United States to China. US-China conflicts and Russia's invasion against Ukraine in particular have caused uncertainty in the global economy. However, a complete decoupling would bring a great loss for the global economy as economic interdependence increases. **Much of the Global South remains neutral, to secure their own profit.**
- In recent years, the use of economic coercion, the weaponization of economic interdependence, is on the rise. Given that the WTO has become increasingly dysfunctional, Western countries have been stepping up their discussions.

Chapter 2: Challenges to Restore the Functions of the World Economy

- **Lack of supply** is largely **the underlying cause of the inflation the world is currently facing**. It is critical to **boost the supply capacity through capital expenditure, improve productivity and strengthen supply chain resiliency**.
- Trade openness leads to economic growth by raising productivity, while uncertainty concerning trade counterparts negatively impacts on one's own country. Meanwhile, **trade counterparts that respect fundamental values** such as freedom, democracy, human rights and the rules of law **are less affected by trade loss caused by heightened uncertainty**.
- The global economy is on the verge of fragmentation. To restore its functions, Japan needs to rebuild a rule-based international trade order, create reliable supply chains with like-minded countries and work to strengthen its coordination with the Global South, simultaneously.

Part II: Actions Japan Should Take in the Current Global Crisis

Chapter 1: Building Resilient Global Value Chains

- Geopolitical and economic security risks have strongly impacted business decision-making. **More firms are placing importance in ASEAN countries instead of China in terms of investment. The number of firms which value India as their investment destination is growing. Reshoring is gaining momentum.**
- The pandemic has revealed supply chain vulnerability. To assess the whole supply chain, data alignment with business counterparts is critical. Japan should accelerate its efforts to develop infrastructure for integrated management of supply chains through data alignment.
- **Disruptions of critical goods** such as semiconductors have greatly impacted the world. Japan needs to **bolster coordination with like-minded countries** and strengthen the domestic production base.

Chapter 2: Boosting Growth Potential by Incorporating Global Growth

- The largest Japanese **trade deficit** in history is **mainly due to the surging cost of importing fossil fuels**. Reducing dependence on fossil fuels is a critical issue in terms of building a resilient trade balance structure.
- The Yen's depreciation provides a good opportunity for exports, however, some 30% of items were not able to generate profits. Revision of price setting may improve profitability.
- **Overseas expansion of businesses** contributes to Japan's economy in terms of revenues, employment, wages, and productivity, in addition to promoting exports in non-urban areas.
- It is vital to strongly encourage companies to expand their businesses overseas and promote **internal internationalization**.

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Chapter 2: Challenges to Restore the Functions of the World Economy

Part II: Actions Japan Should Take in the Current Global Crisis

Chapter 1: Building Resilient Global Value Chains

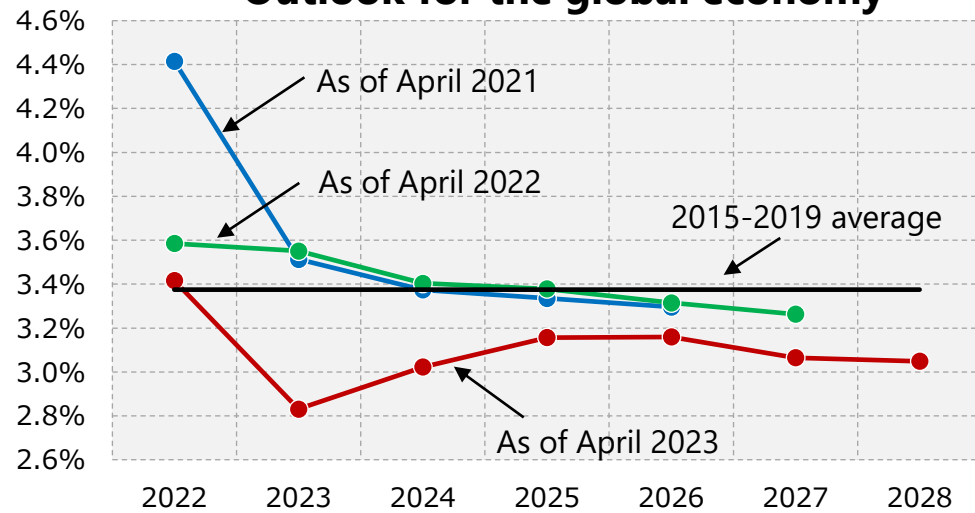
Chapter 2: Boosting Growth Potential by Incorporating Global Growth

Part III: Policies

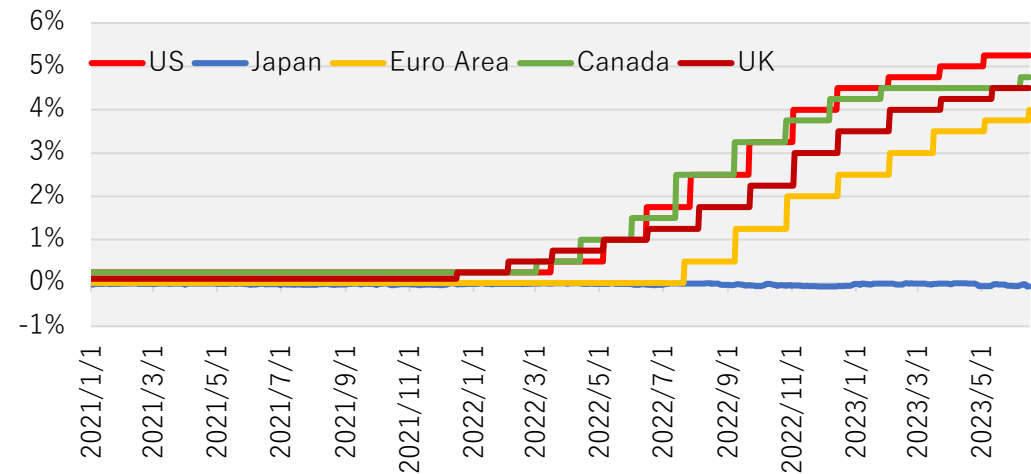
Global Economy Slowing Further

- The global economy is further slowing due to heightened uncertainty caused by **Russia's aggression against Ukraine, surging inflation, and accelerated monetary tightening.**

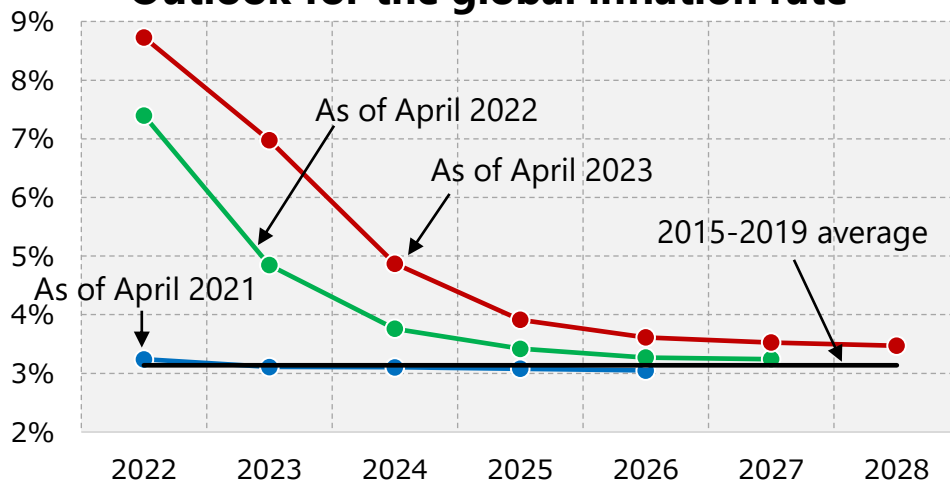
Outlook for the global economy



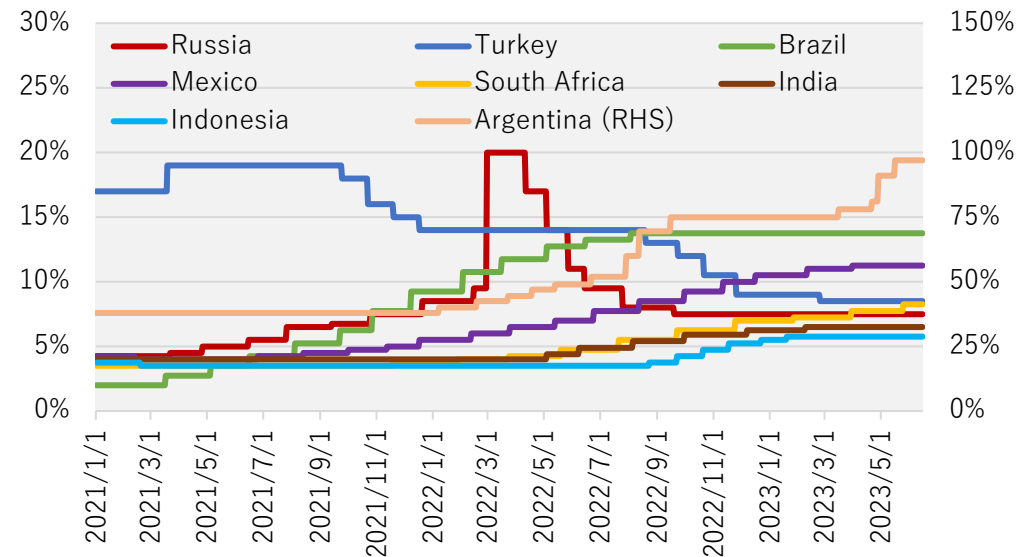
Policy interest rates



Outlook for the global inflation rate




(Source) IMF WEO, Central Bank of Russia, Refinitiv



Global Economy Facing Fragmentation

- Since the early 20th century, free trade and protectionism have been the dominant trade policies in cycles every 20 years. The title of the largest trade player has shifted from the UK to the US and then to China. **The process of decoupling is the big downside risk to the growth of world economy. The Global South seek profits by maintaining a neutral position.**

Change of major trade players

Year	Event	Trade (Trillion US\$)	No.1 share	No. 2	No. 3	No. 4	No. 5
1900		0.02	UK (18.1) 	Germany (13.1) 	US (11.1) 	France (8.7) 	Netherlands (3.9) 
1914	World War I	0.03	UK (15.9) 	US (13.8) 	Germany (12.0) 	France (7.1) 	Netherlands (4.1) 
1930	Great Depression	0.06	UK (13.4) 	US (12.4) 	Germany (9.6) 	France (6.7) 	Japan (3.6) 
1938	Pre-World War II	0.05	UK (14.1) 	US (10.7) 	Germany (9.4) 	Japan (5.0) 	France (4.8) 
1960		0.26	US (14.3) 	UK (9.4) 	Germany (8.6) 	France (5.2) 	Netherlands (3.9) 
1974	US-Japan trade friction	1.6	US (12.8) 	Germany (9.7) 	Japan (7.1) 	France (6.0) 	UK (5.6) 
1995	Establishment of WTO	10.4	US (13.0) 	Germany (9.5) 	Japan (7.5) 	France (5.7) 	UK (4.9) 
2001	China's accession to WTO	12.7	US (15.1) 	Germany (8.4) 	Japan (5.9) 	France (5.2) 	UK (4.9) 
2008	Global Financial Crisis	32.8	US (10.5) 	Germany (8.0) 	China (7.8) 	Japan (4.7) 	France (4.1) 
2017	US-China conflict	35.9	China (11.5) 	US (11.0) 	Germany (7.3) 	Japan (3.8) 	France (3.4) 
2020	COVID-19	35.7	China (13.1) 	US (10.7) 	Germany (7.2) 	Japan (3.6) 	Netherlands (3.6) 

(Source) Left table: 1900-1938 Federico, G. and Tena-Junguito A.(2019): World Trade, from 1960 World Bank, IMF DOTS.

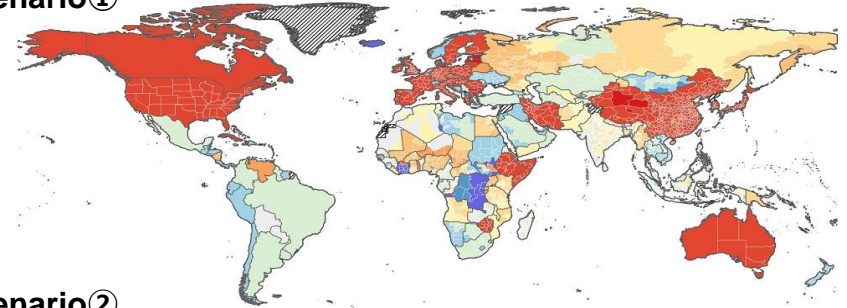
Right figures: Kumagai et al. (2023): Impact of Global “Decoupling” on the World Economy Using the IDE-GSM.

Impact of “decoupling” on the world economy

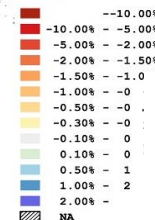
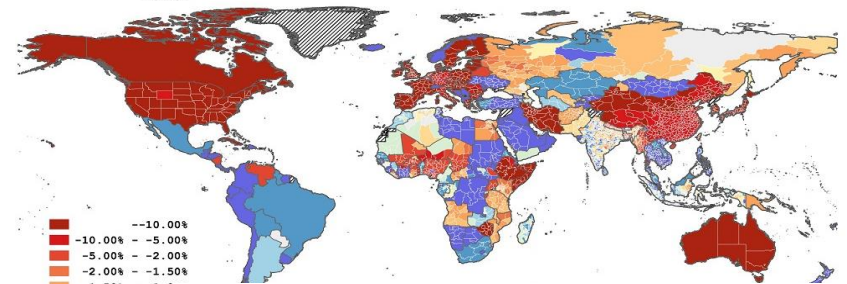
Scenario 1: When each side imposes additional non-tariff barriers, equivalent to the tariff increase during US-China trade war, the impact on GDP in 2030 would be -2.3% (about 2.7 trillion dollars).

Scenario 2: When the additional non-tariff barriers are equivalent to 100% tariffs, the impact would be -7.9% (about 8.7 trillion dollars).

Scenario ①



Scenario ②



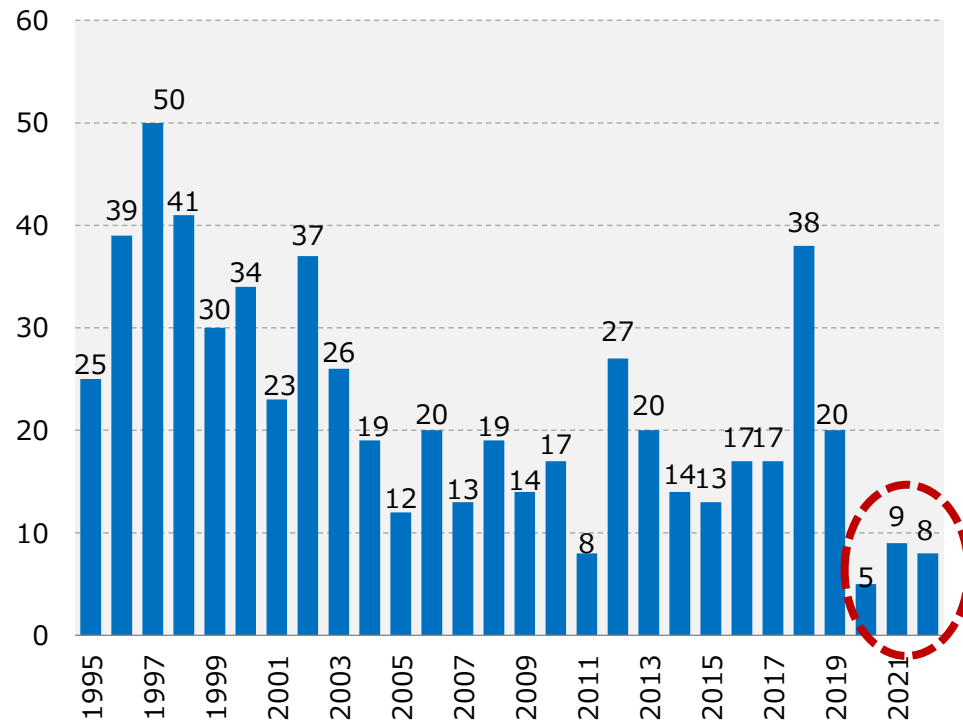
West side
US, UK, EU27, Canada, Japan, Rep. of Korea,
Taiwan, Australia

East side
China (including Hong Kong, Macau),
Russia, Belarus, Cuba, Venezuela,
Nicaragua, Iran, Iraq, Yemen, Lebanon,
Myanmar, Libya, Sudan, Dem. Rep. of
Congo, Zimbabwe, Somalia

(Reference) The WTO Dispute Settlement System and the Crisis of Rules-Based Governance





- With the absence of a functioning Appellate Body, **19 "appeals into the void" have already piled up and cannot be further advanced.**
- **The number of disputes initiated has dropped to less than half of what it was before the absence of a functioning Appellate Body.** (From an average of about 20 cases each year to 5 in 2020, 9 in 2021, and 8 in 2022.) There are concerns that confidence in rule enforcement is waning.
- Of the cases that Japan has appealed to the WTO, 3 cases have already become appeals into the void and cannot be further advanced.

Number of disputes initiated since the establishment of the WTO



(Source) Left table: WTO. Right table: Ministry of Economy, Trade and Industry

Disputes brought by Japan (which reached to the establishment of the panel)

Stage in which panels are established		
	China	AD on Stainless Steel (DS601) *The panel report was released on June 19, 2023.
Stage of being considered by the Appellate Body (but cannot be further advanced)		
	India	Tariffs on ICT Goods (DS584)
	Korea	AD on Stainless Steel Bars (DS553)
	India	SG on Iron and Steel Products (DS518)

Reference: The EU's Response to Economic Coercion and Market Distorting Measures

- In recent years, the EU has announced unilateral instruments that can counteract economic coercion or market distorting measures against the EU and its member states. These instruments have entered into force in sequence, after the proposals submitted by the European Commission were approved by the Council and the European Parliament.

<Entered into force>

- **Enforcement Regulation for Trade Disputes (Amended) (Countermeasures against appeals into the void)**

The amended regulation empowers the EU to take countermeasures, based on its own initiative, regarding countries which filed appeals into the void to the Appellate Body of the WTO Dispute Settlement Procedures or to those that blocked the dispute settlement procedures by not taking the steps that are necessary to select mediators in FTA dispute settlement proceedings. The amended regulation entered into force in February 2021.

- **International Procurement Instrument (IPI)**

The Commission may initiate an investigation into a non-EU country which restricts the access of EU businesses to its public procurement market. If not resolved by bilateral consultations, the EU can adopt a measure to limit the access of businesses of that country to the public procurement in the EU. The IPI applies to all public procurement procedures above a threshold of €15 million for works and concessions, or €5 million for goods and services. The IPI entered into force in August 2022.

- **Foreign Subsidies Regulation (FSR)**

The Regulation allows the Commission to impose redressive measures or restrict foreign businesses making procurement contracts, when concentrations (e.g., mergers) and public procurement in the EU by entities granting foreign subsidies are most likely to distort the economic activities of the EU's internal market. The Regulation entered into force in January 2023. It shall apply from July 2023, with a transition period.

<Under negotiations>

- **Anti-Coercion Instrument (ACI)**

The Instrument is designed to deter and nullify the effect of economic coercion against the EU and its member states by non-EU countries by swiftly creating policy measures on trade and investment. The instrument was proposed by the Commission in December 2021, and the Council and the European Parliament reached a provisional political agreement in March 2023.

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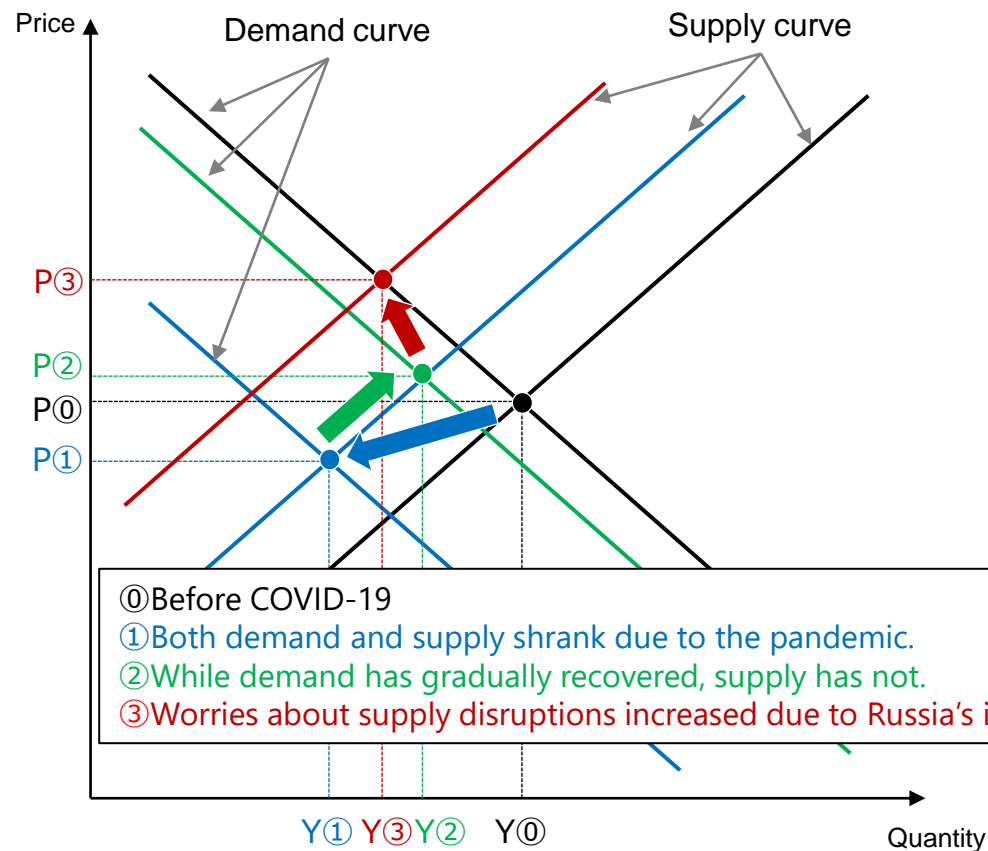
Chapter 2: Boosting Growth Potential by Incorporating Global Growth

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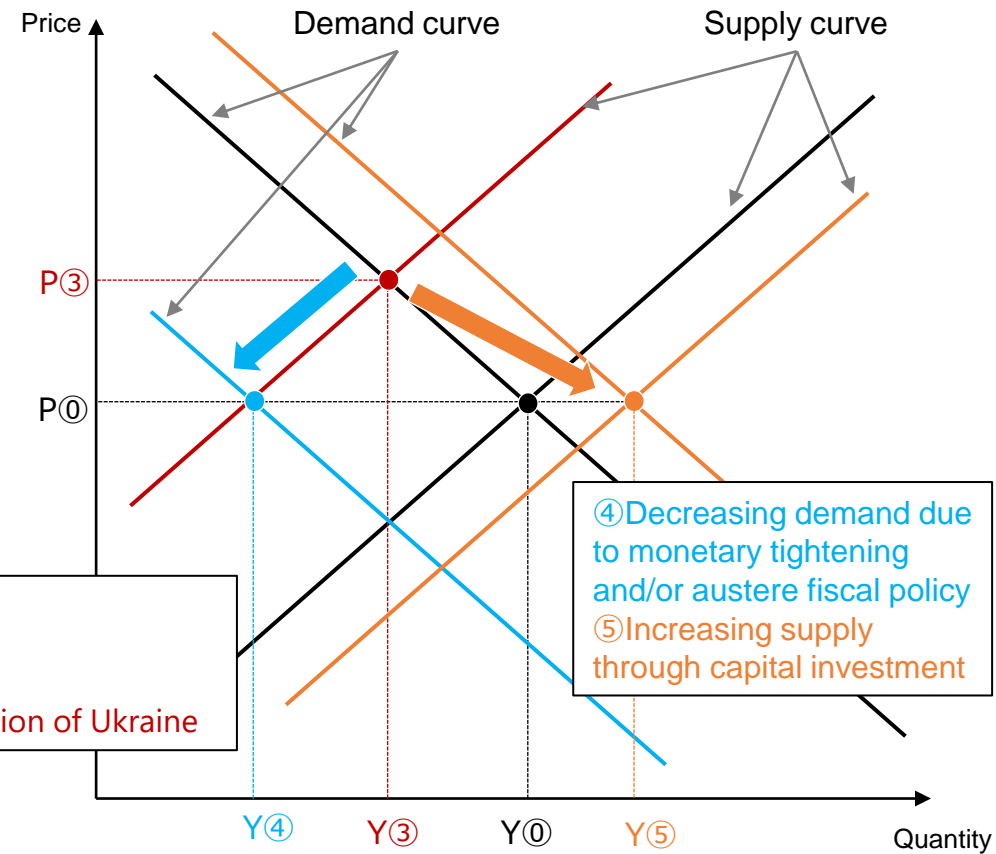
Importance of Expanding Supply Capacity to Control Inflation

- **Supply-side shortfalls are a major factor in the recent world-wide inflation.** It is important to **expand supply capacity through capital investment, to increase productivity and to strengthen resilience of supply chains.**

Pricing mechanism by demand and supply curves



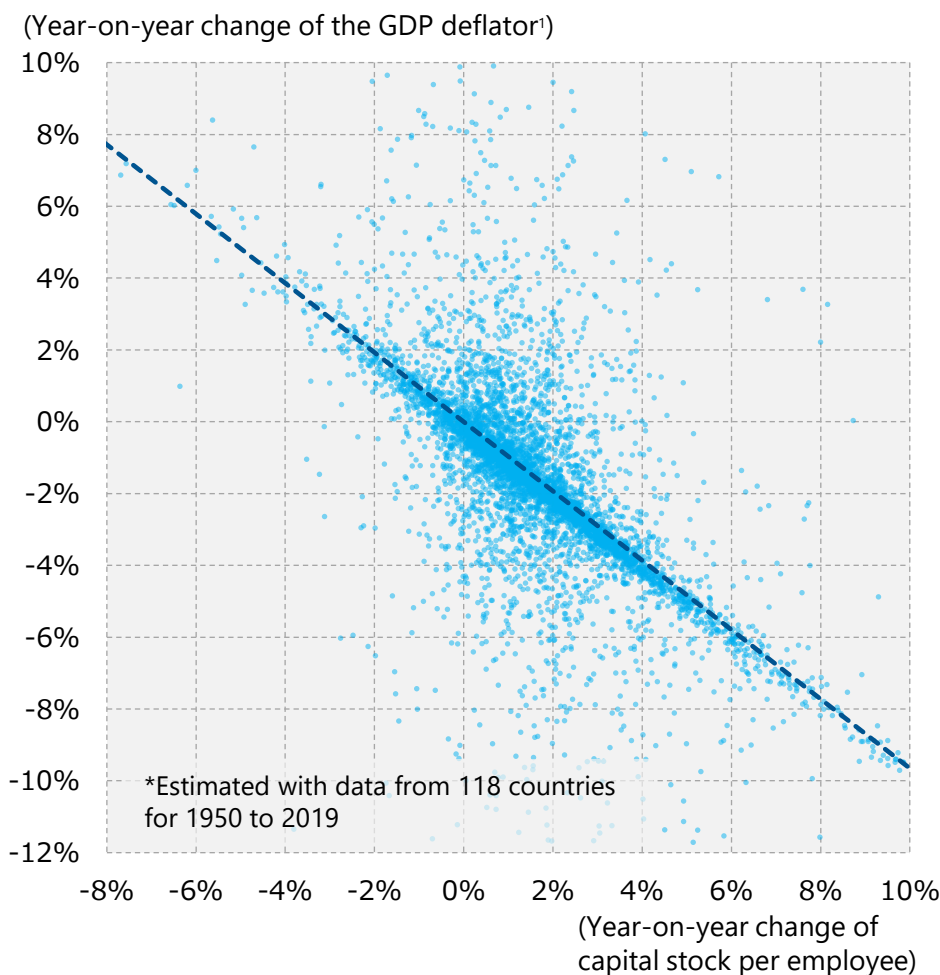
Policy to control inflation



The Relation of Investment and TFP to Inflation

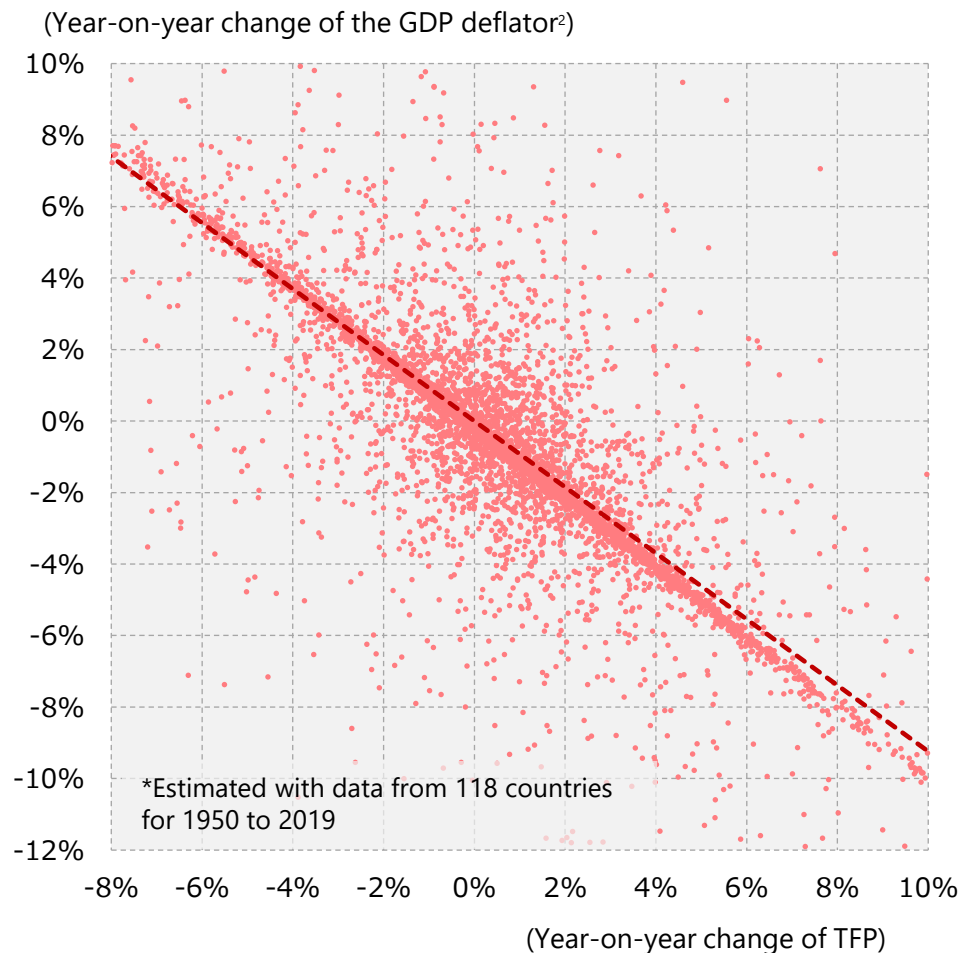
- Inflation rates tend to be lower when year-on-year change of capital stock per employee or that of TFP are higher.

Capital stock per employee and inflation



1. Impacts of other variables (e.g., TFP, elderly rate) are controlled based on regression results

TFP and inflation

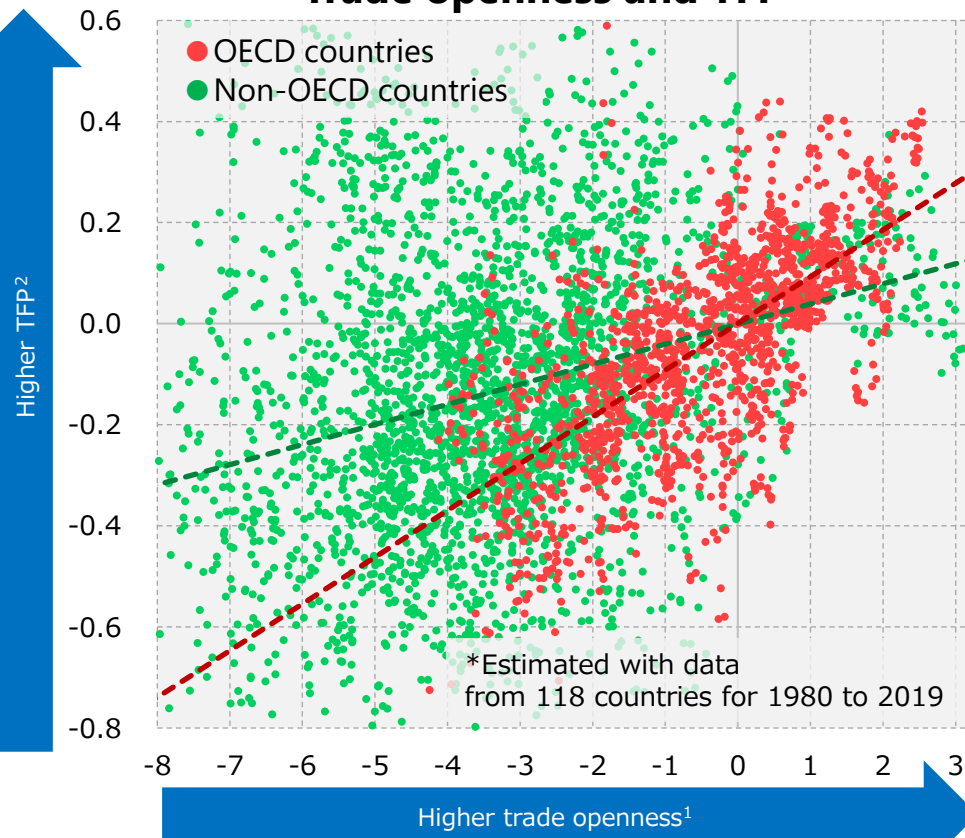


2. Impacts of other variables (e.g., capital stock per employee, elderly rate) are controlled based on regression results

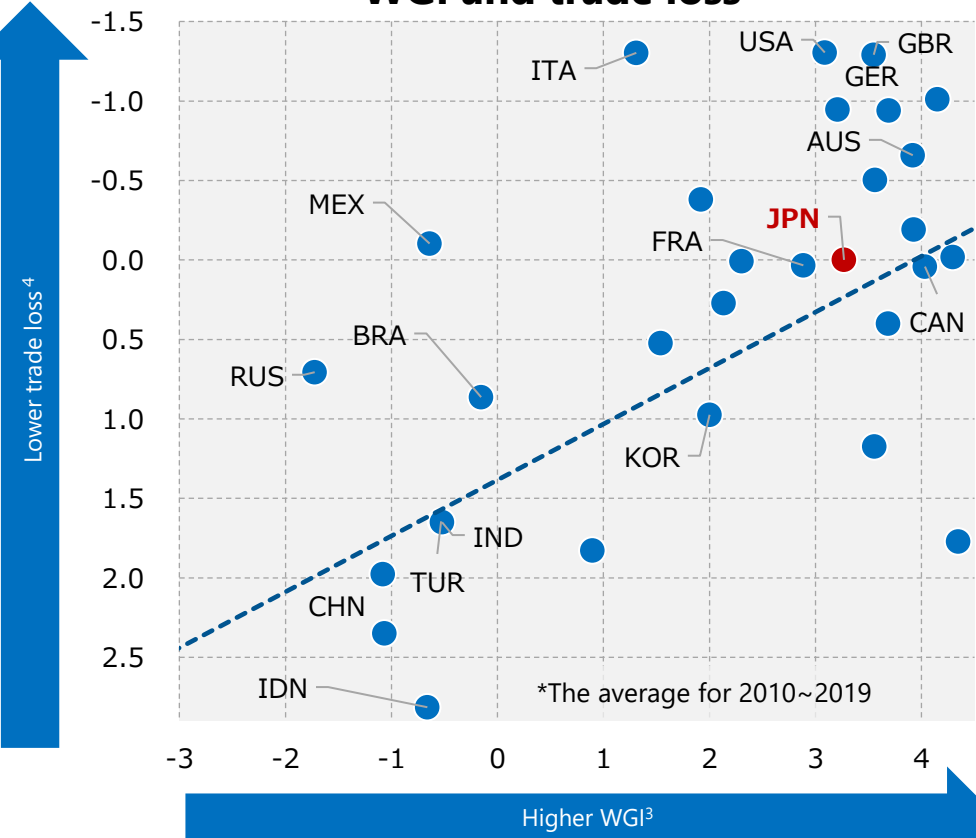
The Importance of Fundamental Values as the Basis of Free Trade

- Trade openness has a greater effect on TFP in OECD countries.
- The loss caused by uncertainty is lower in the trade with countries which have high ratings in Worldwide Governance Indicators (WGI), an index which reflects fundamental values such as freedom, democracy, human rights and rule of law.

Trade openness and TFP



WGI and trade loss



1. Using the logarithm of the Composite Trade Share (CTS) suggested by Squalli and Wilson (2011)
2. Impacts of other variables are controlled based on regression results standardized with the TFP of the U.S. in 2017 = 1 as the logarithm

3. Principal component analysis for all 6 indexes in WGI
4. Standardized with the expected loss in trade with Japan=1 as the logarithm

(Source) Left figure: CEPII: Gravity Dataset, Policy Uncertainty, WB: Worldwide Governance Indicators

Right figure: University of Groningen: Penn World Table 10.01, UN: World Population Prospects

Toward the Right Balance between a Free and Fair Trade Order and Economic Security

- Major countries including the EU have developed their own measures to supplement the WTO, leveraging their industrial policies. In addition, countries have begun to work on consensus with like-minded countries to build reliable supply chains.
- Based on these efforts, Japan will simultaneously **rebuild the rules-based international trade order, build reliable supply chains with like-minded countries, and strengthen cooperation with the Global South.**

Rebuilding the Rules-Based International Trade Order

- **WTO reform**
 - Transparency, rule-making (especially plurilateral), dispute settlement
- **Complementary to the WTO**
 - Countermeasures for economic coercion (EU)
 - MPIA (Japan, EU, China, Australia, Canada, etc.)
 - Countermeasures for appeals into the void (EU and Brazil)
 - Rules for foreign subsidies (EU)
 - Development of new rules through economic partnership agreements (Japan, EU, etc.)

Building Reliable Supply Chains

- **Cooperation on critical minerals between like-minded countries and Japan-US**
- **Cooperation in responding to economic coercion (G7)**
- **Strengthening economic partnership agreements (TPP UK, Bangladesh, Israel, etc.)**
- **Indo-Pacific Economic Framework (IPEF)**
 - **Supply Chain Resilience Initiative (SCRI)**

- **Cooperation with India** (Japan, US, Australia)
- **Cooperation with ASEAN** (Japan, Korea, US, Australia, New Zealand, China, etc.)
- **Cooperation with Africa** (Japan (TICAD), US, EU, China, etc.)

Strengthening Relations with the Global South

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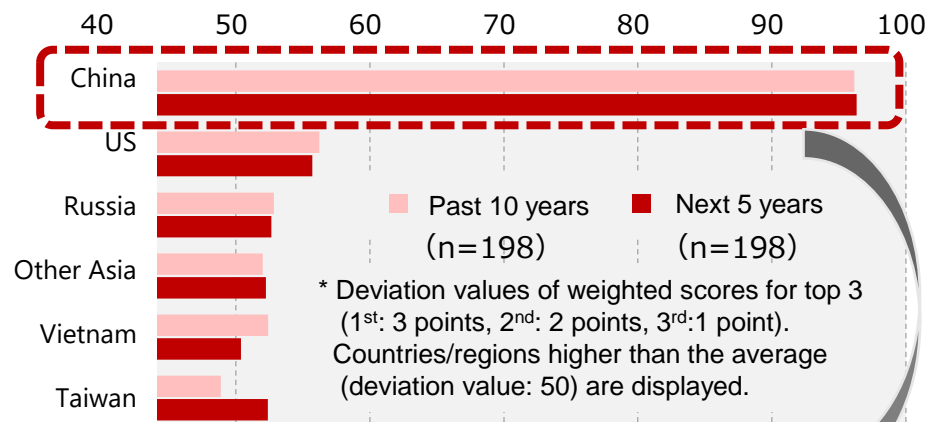
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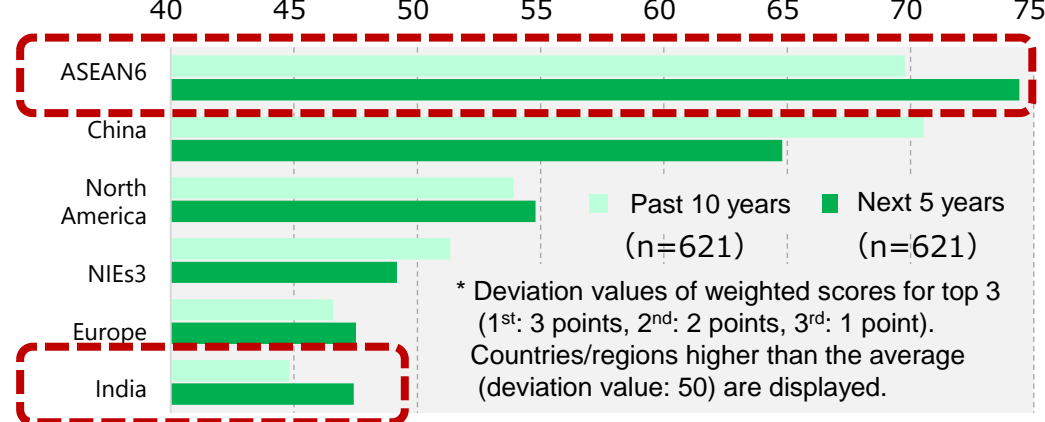
Growing Awareness of Supply Chain Risks

- Japanese companies are **deeply concerned about geopolitical and economic security risks with China**. Less companies are interested in China as an investment destination and **more companies are interested in ASEAN and India**.
- To strengthen domestic procurement, production and sales in Japan is also strongly recognized as a critical issue for supply chain resilience.

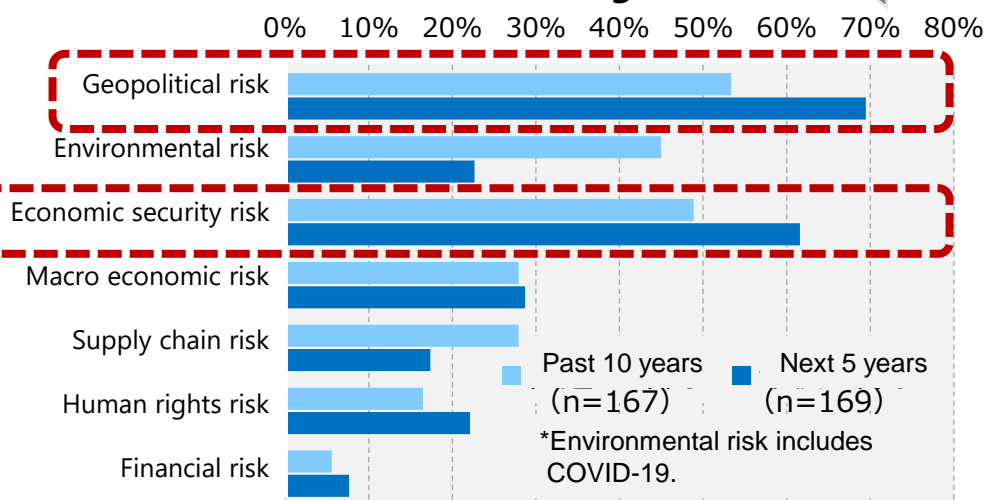
Countries and regions with rising supply chain risks



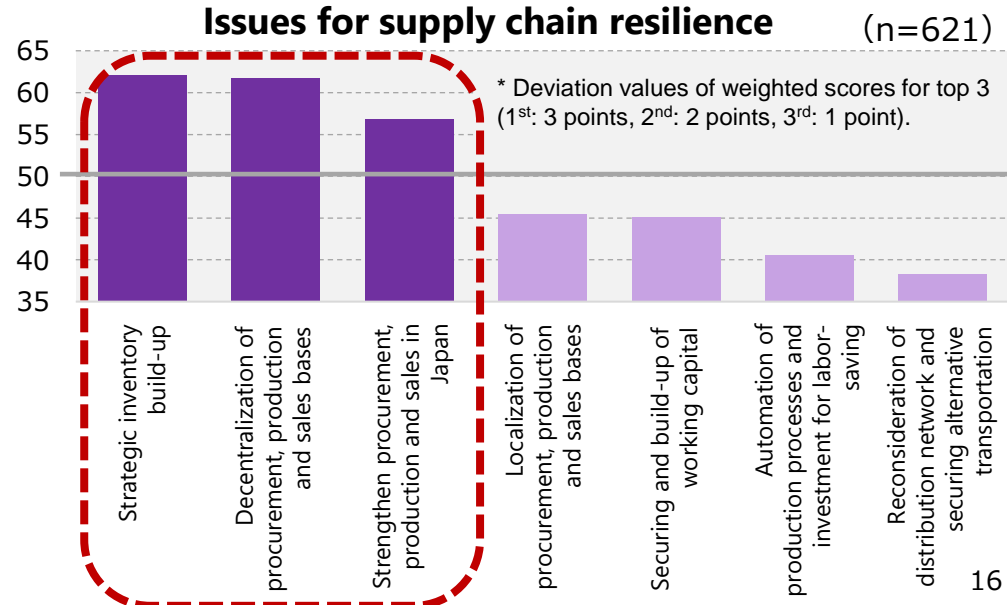
Interesting countries/regions for direct investment



Reasons for risks rising in China

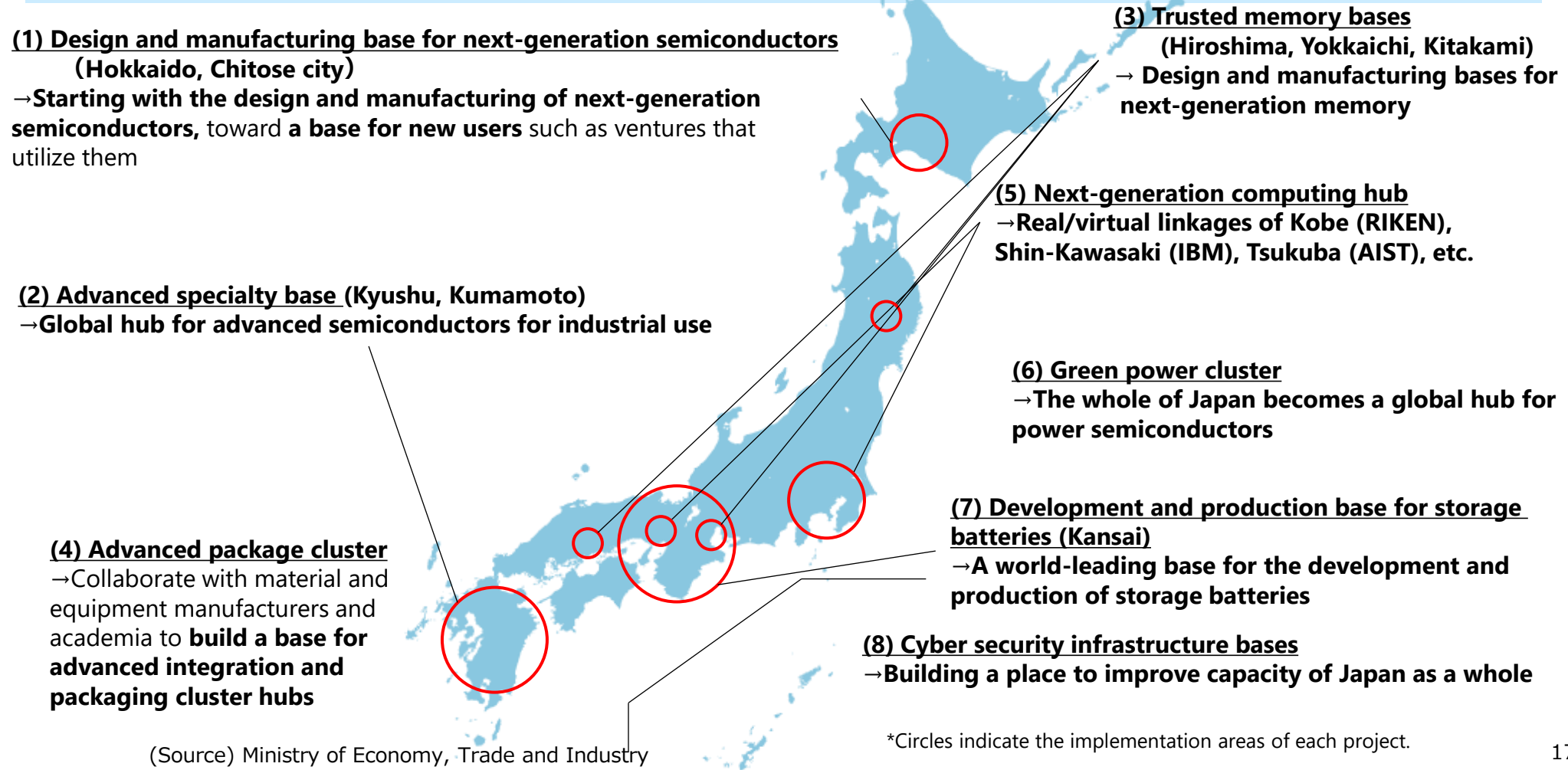


Issues for supply chain resilience



Reference: Strengthening Domestic Manufacturing Bases for Critical Products such as Semiconductors

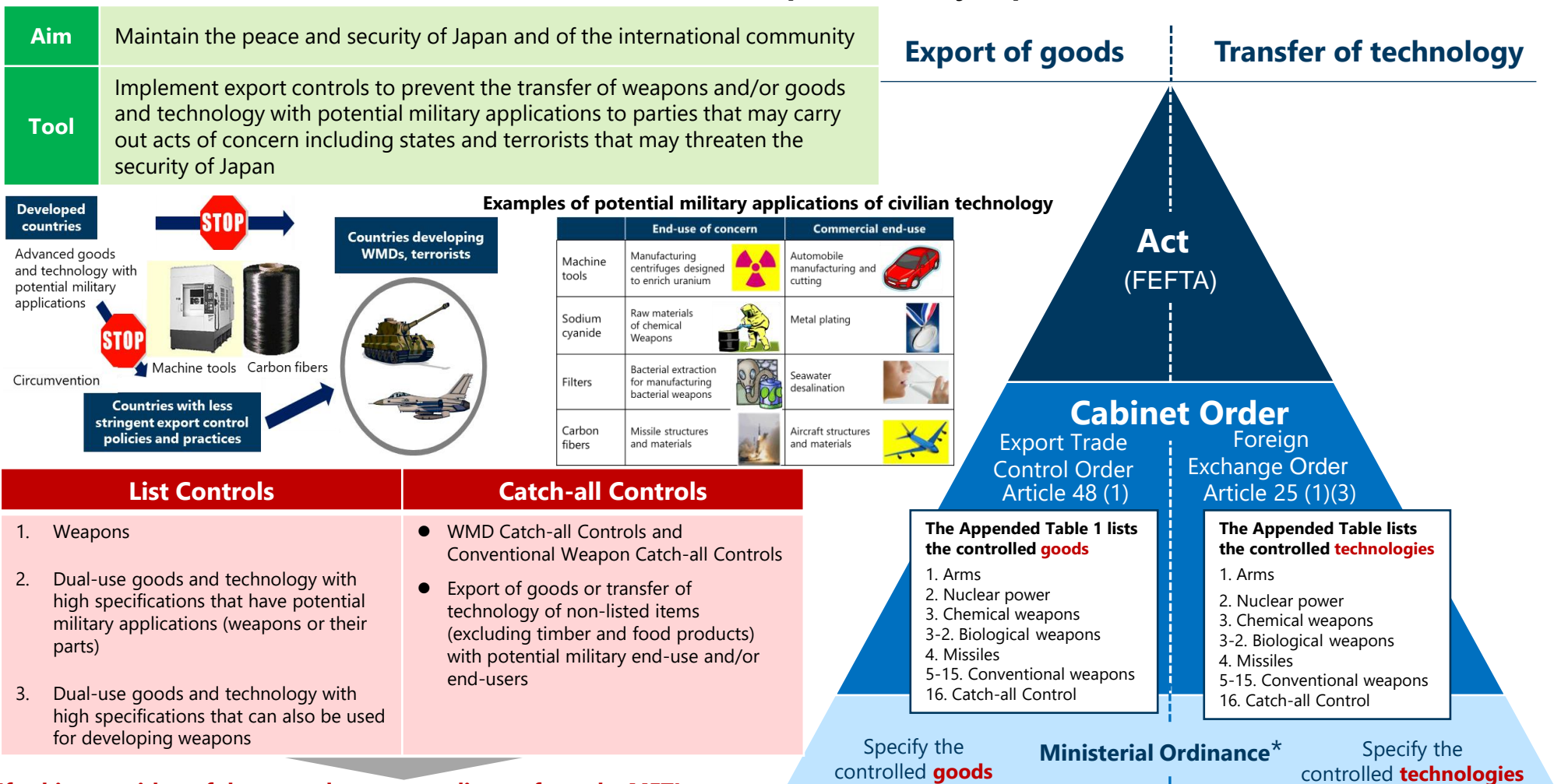
- In addition to Rapidus, which decided to build a manufacturing base for next-generation semiconductors in Hokkaido, and JASM in Kyushu, Kumamoto, we will develop semiconductor design and manufacturing bases that take advantage of the characteristics of each region throughout Japan.
- As well as semiconductors, we will also promote the development of world-leading bases for storage batteries against the backdrop of regional industrial clusters. In addition, in computing, we aim to become a global computing hub by linking domestic bases.



Reference: Japan's Security Export Control System

- The Foreign Exchange and Foreign Trade Act (FEFTA) provides the legal basis for export controls (**List Controls and Catch-all Controls**) in Japan.
- FEFTA requires exporters to obtain an export license from the Minister of Economy, Trade and Industry before exporting certain goods and technologies subject to the regulations.

General framework of Japan's security export control



If subject to either of the controls, an export license from the METI minister is required prior to exporting

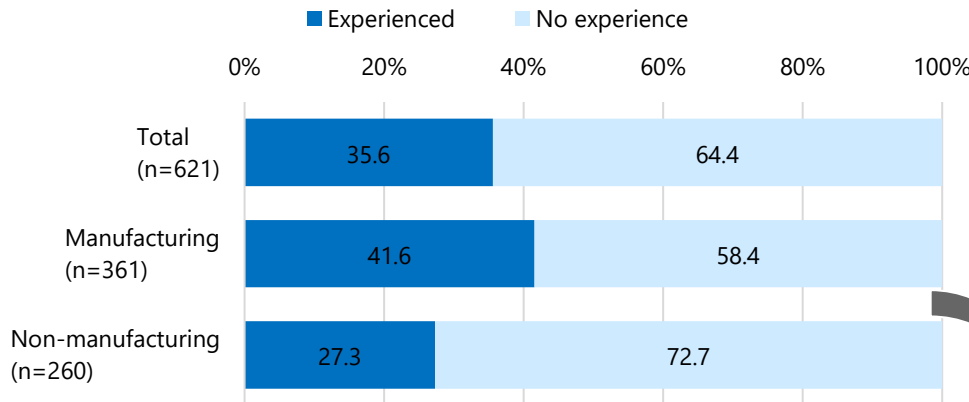
(Source) METI

*Ministerial Ordinance Specifying Goods and Technologies Pursuant to the Provisions of Appended Table 1 of the Export Trade Control Order and the Appended Table of the Foreign Exchange Order

Japanese Firms' Supply Chains: Management Status and Tasks

- COVID-19 exposed supply chain fragility. **Data alignment is indispensable for grasping the structure of supply chains.** We need to accelerate the construction of infrastructures for integrated management of supply chains through data alignment.

Experience of supply chain disruption (2020 onwards)



Management status of supply chains

		Completely grasped	Generally grasped	Grasp more than half	Grasp less than half	Barely grasped
Procurement (n=621)	1st partner	36.2%	46.1%	5.8%	2.3%	1.1%
	2nd partner	3.9%	27.1%	17.1%	15.1%	14.7%
	3rd partner	1.6%	7.7%	6.6%	9.7%	30.9%
	4th partner	1.4%	5.3%	4.3%	4.7%	31.9%
Sales (n=621)	1st partner	37.4%	41.5%	5.5%	3.1%	2.6%
	2nd partner	6.8%	27.9%	13.7%	11.3%	15.9%
	3rd partner	1.6%	8.1%	8.2%	9.3%	26.6%
	4th partner	0.8%	5.6%	4.5%	4.7%	28.3%

1st partner: Direct transaction

2nd partner: Partner of the 1st

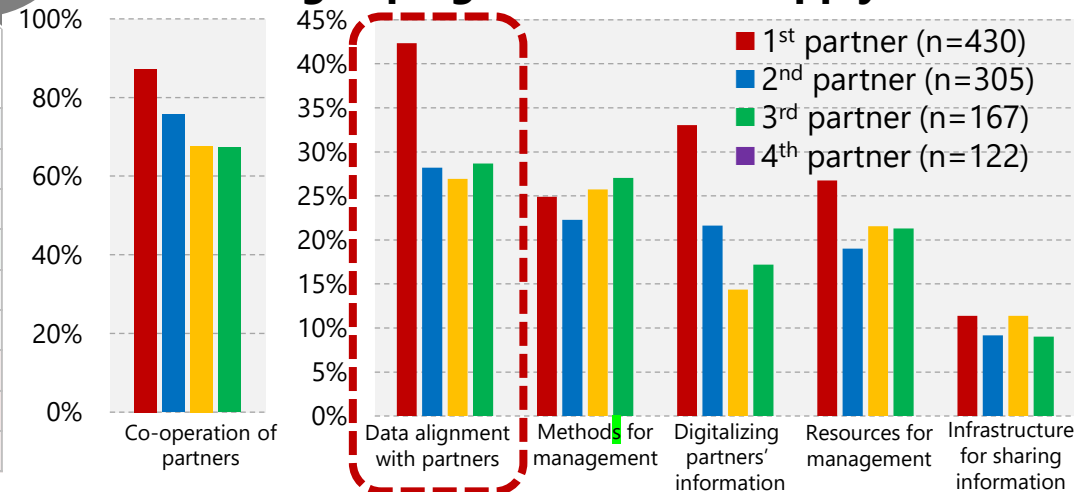
3rd partner: partner of the 2nd

4th partner: Partner of the 3rd

Regions experiencing supply chain disruption

(n=221)		China	Japan	ASEAN6	North America	NIEs3	Other Regions	Europe	Other ASEAN	India
Procurement	FY2020	35.7%	25.8%	20.4%	8.1%	7.2%	3.6%	5.9%	2.7%	1.8%
	FY2021	40.3%	29.9%	21.3%	9.5%	5.9%	3.6%	5.4%	4.1%	1.4%
	FY2022	43.4%	31.7%	14.9%	8.6%	5.9%	5.4%	5.4%	3.2%	0.9%
Production	FY2020	29.4%	25.3%	16.7%	6.8%	5.0%	4.5%	4.1%	2.7%	3.2%
	FY2021	31.2%	27.1%	17.2%	6.8%	2.3%	5.4%	3.2%	4.1%	2.3%
	FY2022	35.3%	30.3%	9.0%	6.3%	2.7%	5.0%	3.2%	2.7%	2.3%
Sales	FY2020	23.5%	30.3%	19.9%	11.3%	7.2%	11.3%	5.9%	4.1%	5.4%
	FY2021	24.0%	34.4%	18.1%	11.3%	8.6%	16.7%	7.2%	6.3%	5.9%
	FY2022	27.6%	33.5%	14.0%	10.4%	7.7%	11.8%	8.1%	4.1%	5.4%

Tasks for grasping the status of supply chains



(Source) Nomura Research Institute Singapore Pte. Ltd.

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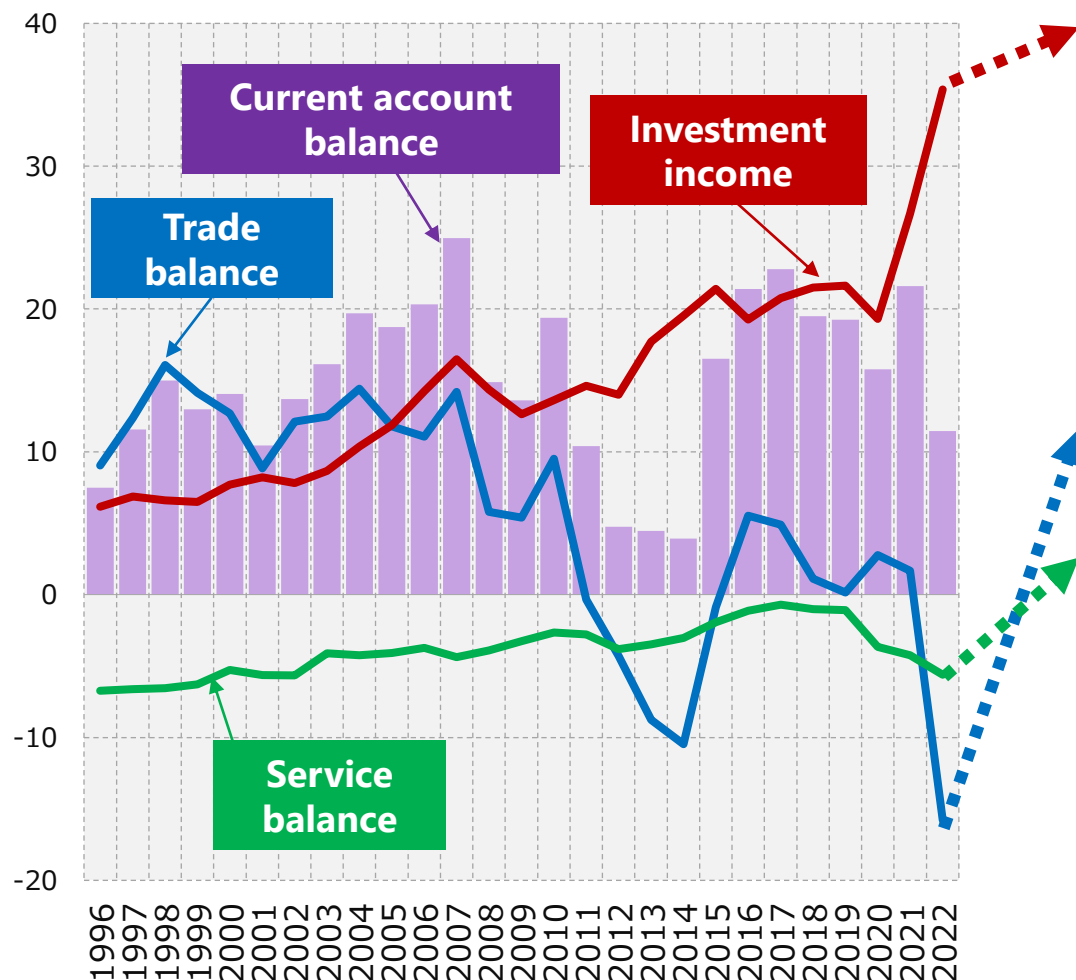
Part III: Policies

Toward a Stable Current Account Surplus

- From the viewpoint of maintaining a stable balance of payments surplus, it is necessary to improve the balance of trade and services while sustaining investment income.

Trends and direction of the trade and services balance, investment income, and current account balance

(Trillion yen)



Investment income

Stabilize investment income by improving productivity and acquiring innovation overseas

- Our primary income balance, including dividends and interest, is one of the largest in the world

Trade balance

Improve the trade balance by promoting exports

- The pandemic, high resource prices, and a weak yen have caused the current trade deficit to be the largest in history

Service balance

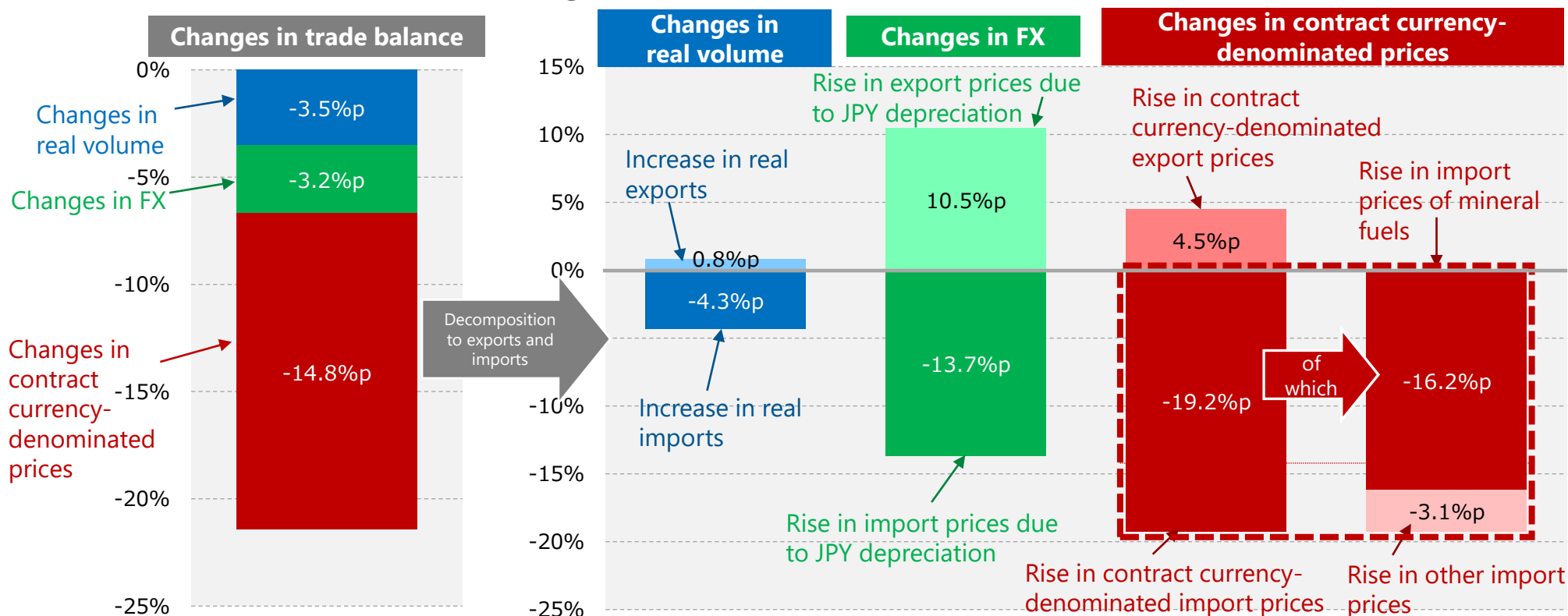
Improve the service balance by acquiring digital and intellectual property revenues and strengthening inbound tourism

- Deficit expected to increase due to higher payments for overseas cloud services
- Decrease in inbound traffic due to intensified border control measures caused by COVID-19

Tasks for a Resilient Trade Balance

- The record-high trade deficit was brought on by **surging import prices for fossil fuels**. **Lowering dependency on imported fossil fuels is an important task** for a resilient trade structure.

Detailed changes in the trade balance in 2022 from 2021*



Approximation based on MoF's Trade Statistics (Changes in 2022 from 2021)

	Changes in real volume	Changes in FX	Changes in contract currency-denominated prices	Total
Exports	JPY 800 bln	JPY 10 trln	JPY 4 trln	JPY 15 trln
Imports	JPY 4 trln	JPY 12 trln	JPY 17 trln of which mineral fuels JPY 14 trln	JPY 33 trln

*Percent change in trade balance = (Percent change in real exports – Percent change in real imports) + { (Percent change in yen-denominated export prices – Percent change in contract currency-denominated export prices) – (Percent change in yen-denominated import prices – Percent change in contract currency-denominated import prices) } + (Percent change in contract currency-denominated export prices – Percent change in contract currency-denominated import prices)

Trade balance = (Real exports * Yen-denominated export price) / (Real imports * Yen-denominated import price)

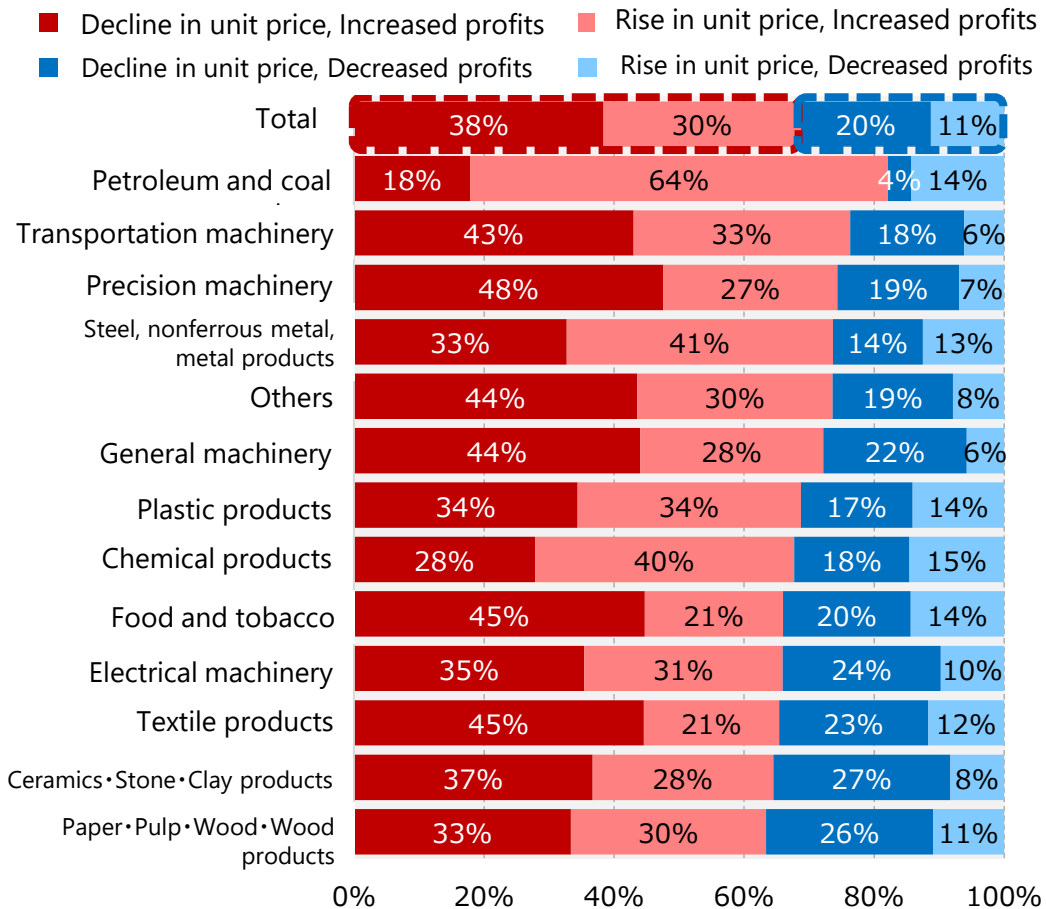
Percent changes are approximated by differences in logarithmic terms

(Source) Bank of Japan: Real Exports and Real Imports, Corporate Goods Price Index

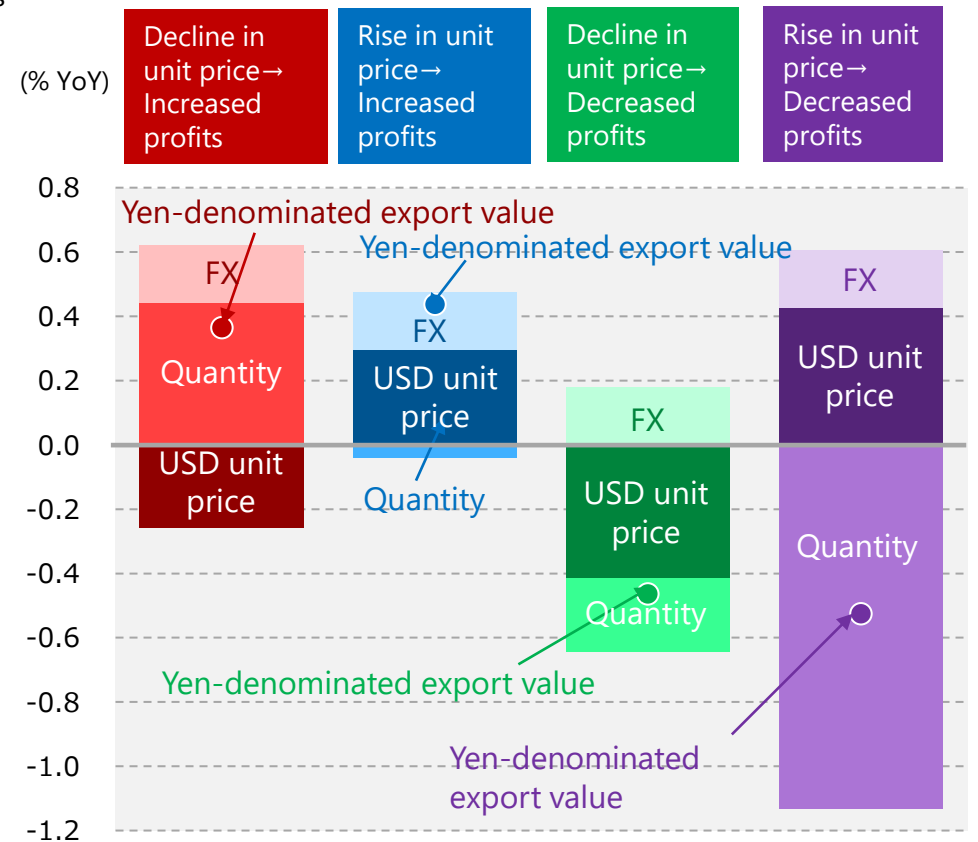
Tasks for Improving Export Profits

- Depreciation offers chances for exporting but **is not leading to improved yen-denominated export profits for about 30% of goods.**
- Among goods that experienced reduced yen-denominated export profits, **export profits could be improved by raising USD-denominated unit prices for goods that experienced declines in prices and by cutting USD-denominated unit prices for goods that experienced rising prices.**

Yen-denominated export profits (2022)



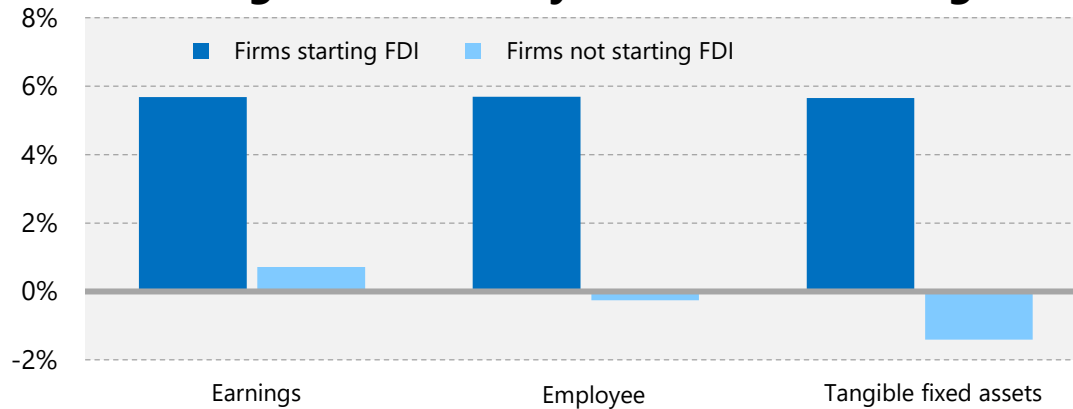
Detailed yen-denominated export profits



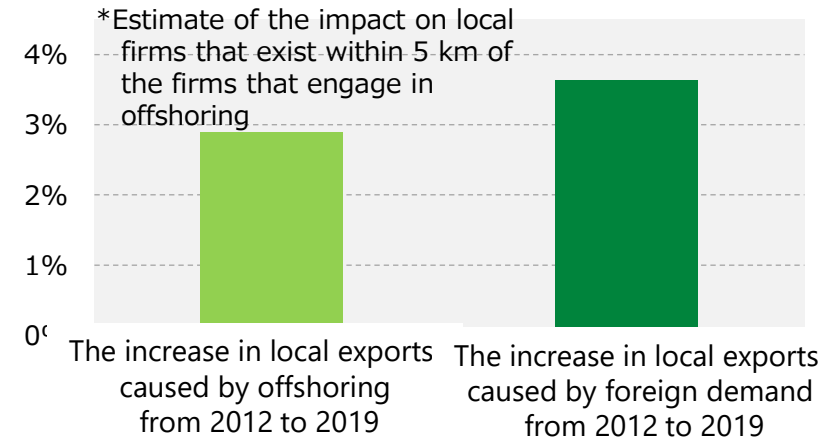
The Globalization of Firms and its Benefits for the Domestic Economy

- The globalization of firms has positive effects on profit, employment, investment, wages and productivity.
- Also, it promotes exports of neighboring local firms.

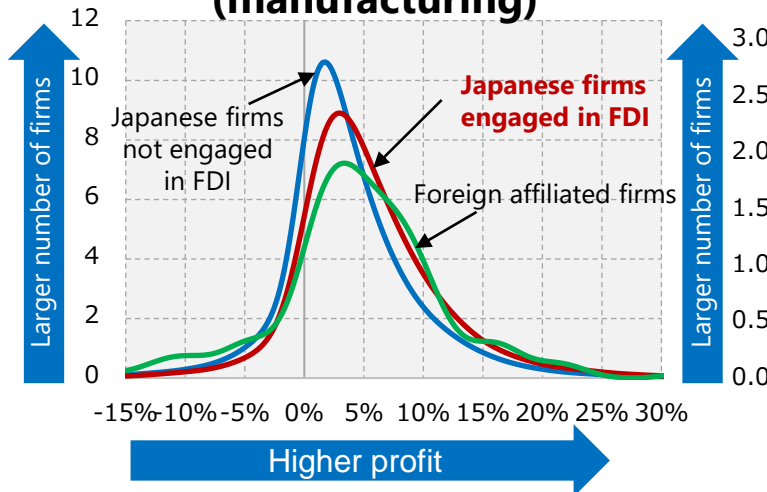
**The impacts of starting FDI
(growth after 5 years, manufacturing)**



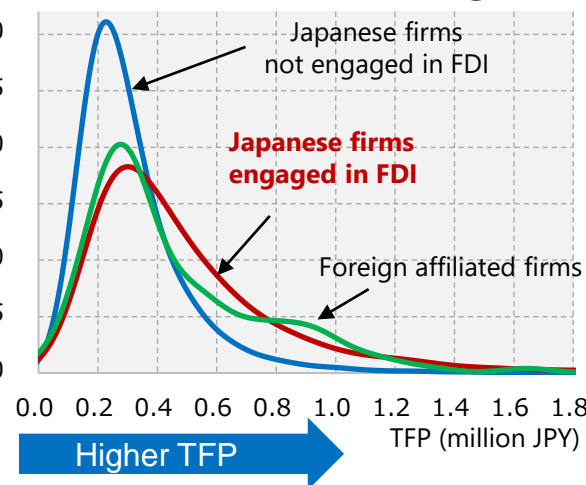
**The impacts of offshoring
on exports of neighboring local firms**



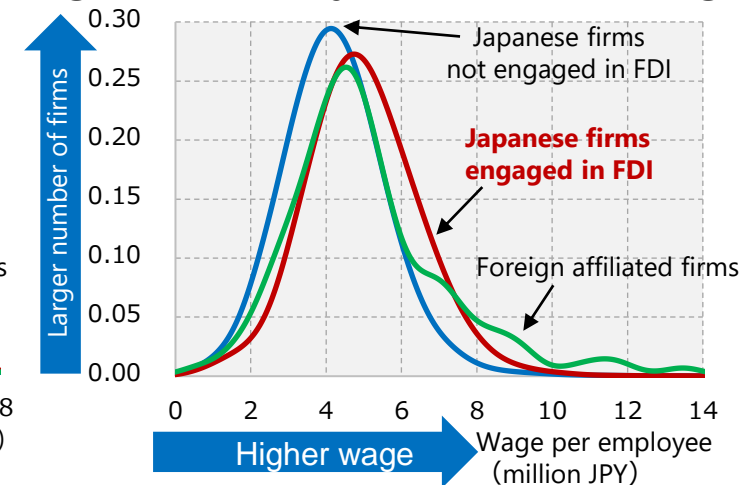
**Ordinary income to sales ratio
(manufacturing)**



TFP (manufacturing)



Wage per employee (manufacturing)

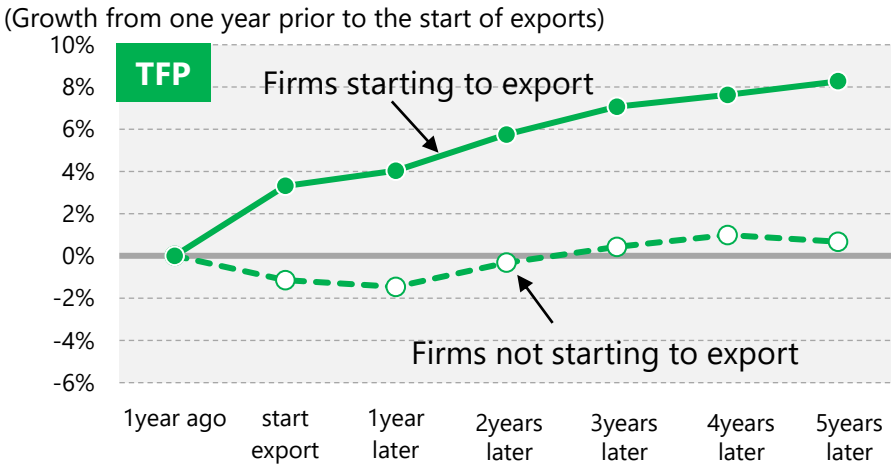
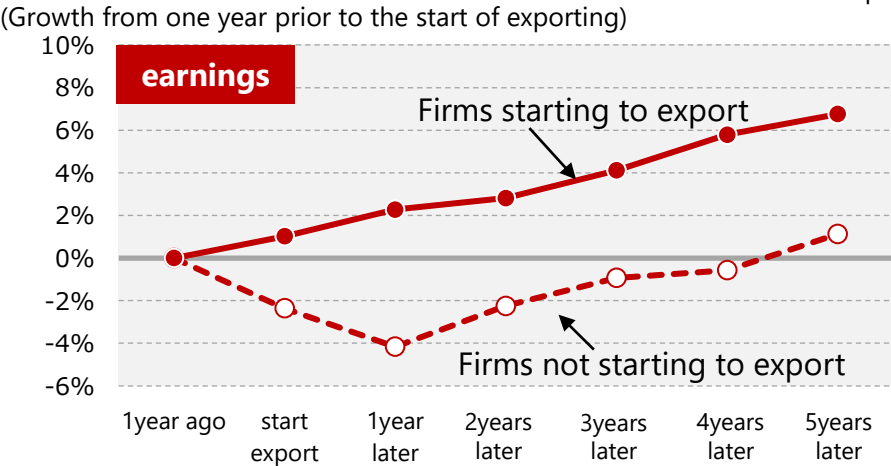


Reference: Promoting Growth of SMEs through Exports

- For SMEs facing domestic demand constraints, starting to export is a great opportunity for growth.
- The Japanese government supports preparations for exports and negotiations through the **10,000 New Exporters Support Program**.

The impact of starting to export

* Firms with 50-99 employees



(Source) METI: Kigyou Katsudou Kihon Chousa Houkokusho

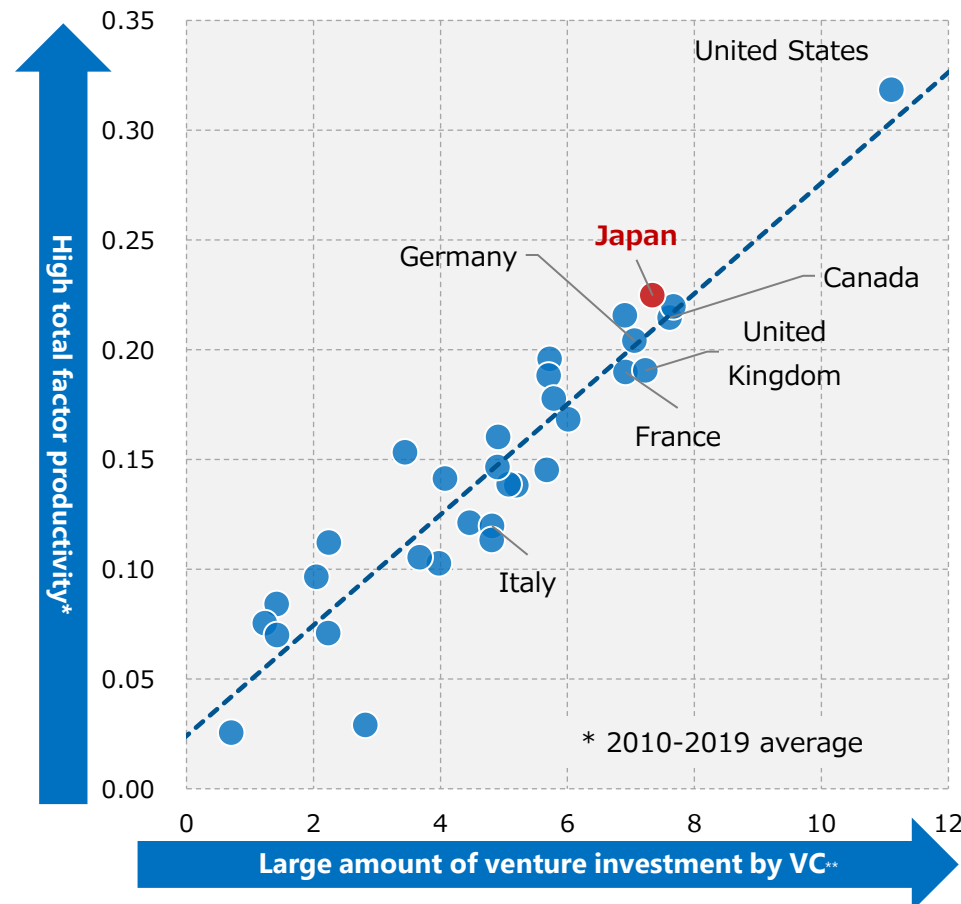
10,000 New Exporters Support Program

The screenshot shows the JETRO website for the 'New Exporters Support Program'. The header includes the JETRO logo and navigation links. The main banner features an illustration of a man and a woman discussing exports, with text in Japanese: '輸出かあ〜トライしてみるか!' (Should we try exporting?), '新規輸出1万者支援プログラム「はじめて輸出」を応援します※' (New Exporters Support Program 'First-time Export' supports you※), and 'はい! お手伝いさせていただきます。' (Yes! We will help you.). Below the banner, a section titled 'たとえば、こんなお悩みありませんか' (For example, do you not have such concerns?) lists various export-related questions. At the bottom, a blue button labeled '登録' (Registration) is circled in red, with text above it: 'それぞれの皆様に最適なサポートをご提案します。' (We propose the best support for each of you.) and 'まずはプログラムにご登録ください。' (First, please register for the program.) and 'ご登録は無料です。' (Registration is free.).

Promoting Economic Growth through Startups

- Startup investment promotes economic growth through innovation. On the other hand, startup investment in Japan as a percentage of GDP is low compared to other major countries. By implementing the Startup Development Five-year Plan, we aim to achieve startup investment of 10 trillion yen by FY2027.

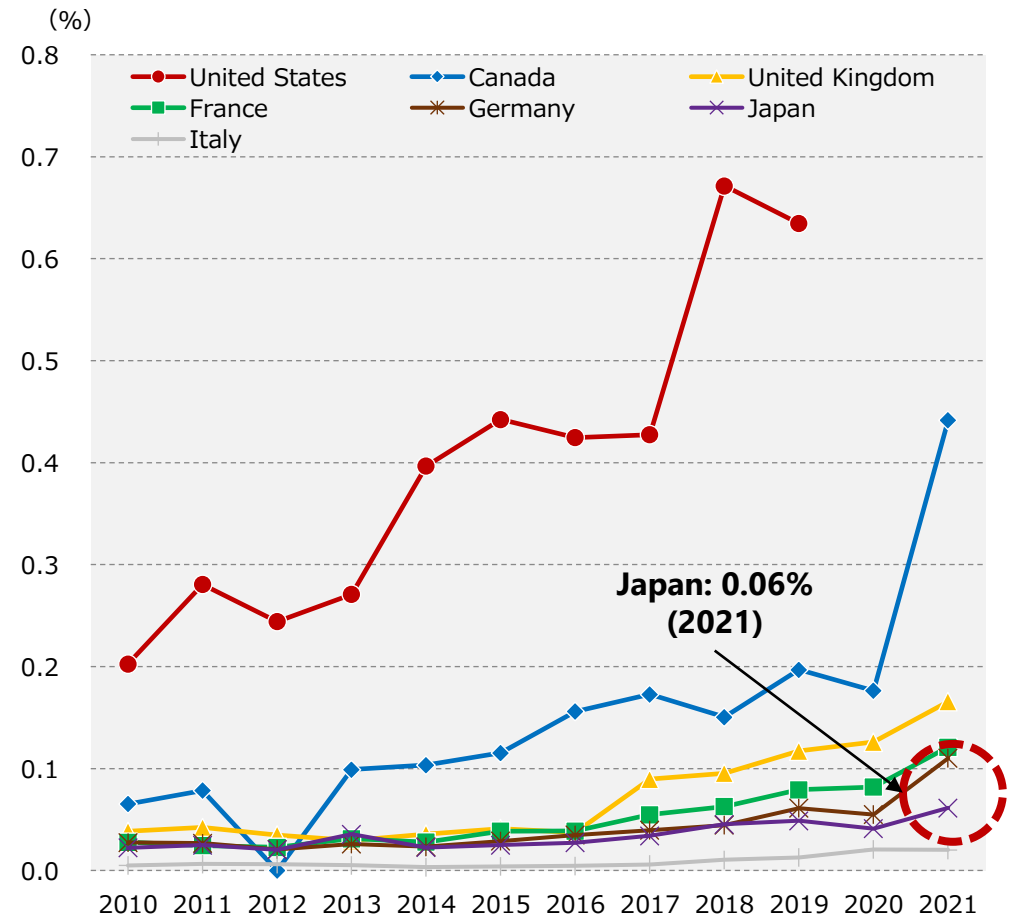
Venture capital investments and total factor productivity



*Total factor productivity adjusted for factors other than venture capital investments (e.g., aging rate); logarithm of index value with total factor productivity of U.S. in 2017 = 1.

**Venture investment (\$1 million) in logarithmic scale.

Venture capital investments by VCs as % of GDP



(Source) Left figure: OECD Statistics; University of Groningen: Penn World Table 10.01
Right figure: OECD Statistics

Promoting Overseas Expansion of Japanese Companies

- Through overseas expansion, the following effects are expected: (1) creation of a virtuous cycle to promote trade in products and services originating from overseas investment and advancement, (2) creation of innovation and improvement of productivity and competitiveness, and (3) contribution to strengthening international relations among like-minded countries and the Global South.

A virtuous cycle of promoting trade in products and services, starting with overseas investment and expansion

Promoting exports

- Expand exports of products, material supplies, etc. between overseas production bases and domestic bases
- Promote export of related equipment along with provision of services through overseas bases

Overseas investment and expansion

- Promoting the return of profits from overseas subsidiaries to the domestic market through dividends and other means
- Expansion of profits and creation of innovations by companies operating overseas, including startups

Promoting trade in services

- Provision of services from Japan through overseas service centers (use of digital technology)
- Increase in inbound demand by raising awareness through the development of attractive Japanese products and services
- Acquire intellectual property income through licensing use

Improve innovation creation, productivity and competitiveness

Development of new products & services

- Development of products and services that meet needs based on local social issues, etc.
- Collaboration with local creators

Pursuit of optimal location

- Improve competitiveness by manufacturing and supplying products at optimal locations, including costs

Pursuit of scale

- Increase added value and productivity by securing business scale in anticipation of overseas markets

Contribution to strengthening international relations

Strengthening relations with like-minded countries

- Strengthening collaboration by building trustworthy supply chains among like-minded countries

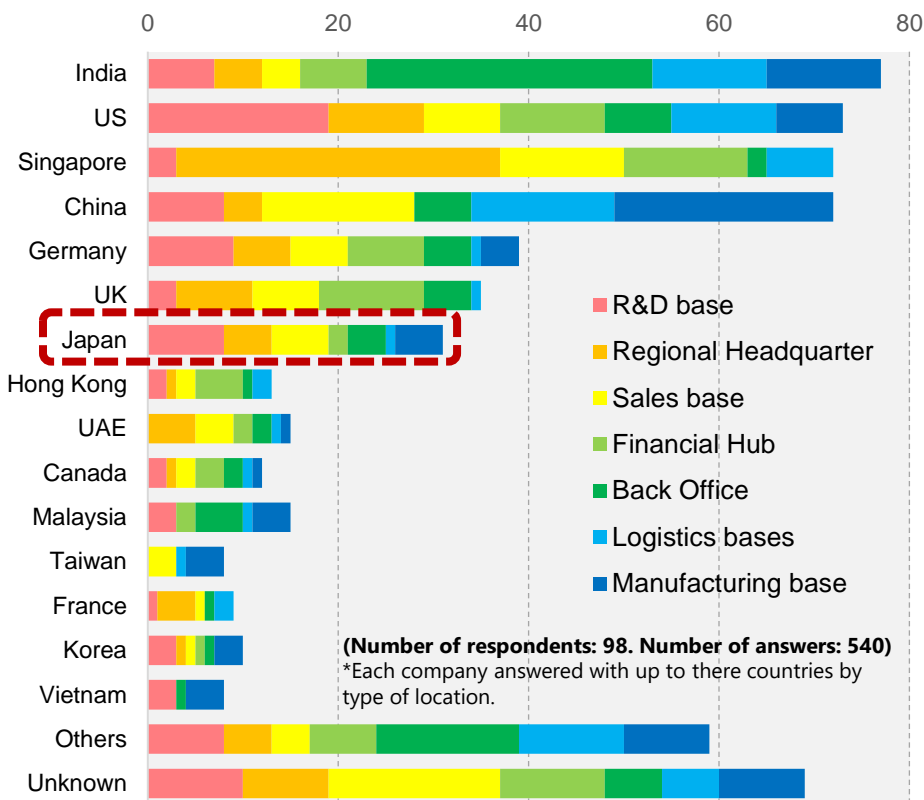
Collaboration with the Global South

- Japanese companies contribute to solving social issues facing the Global South

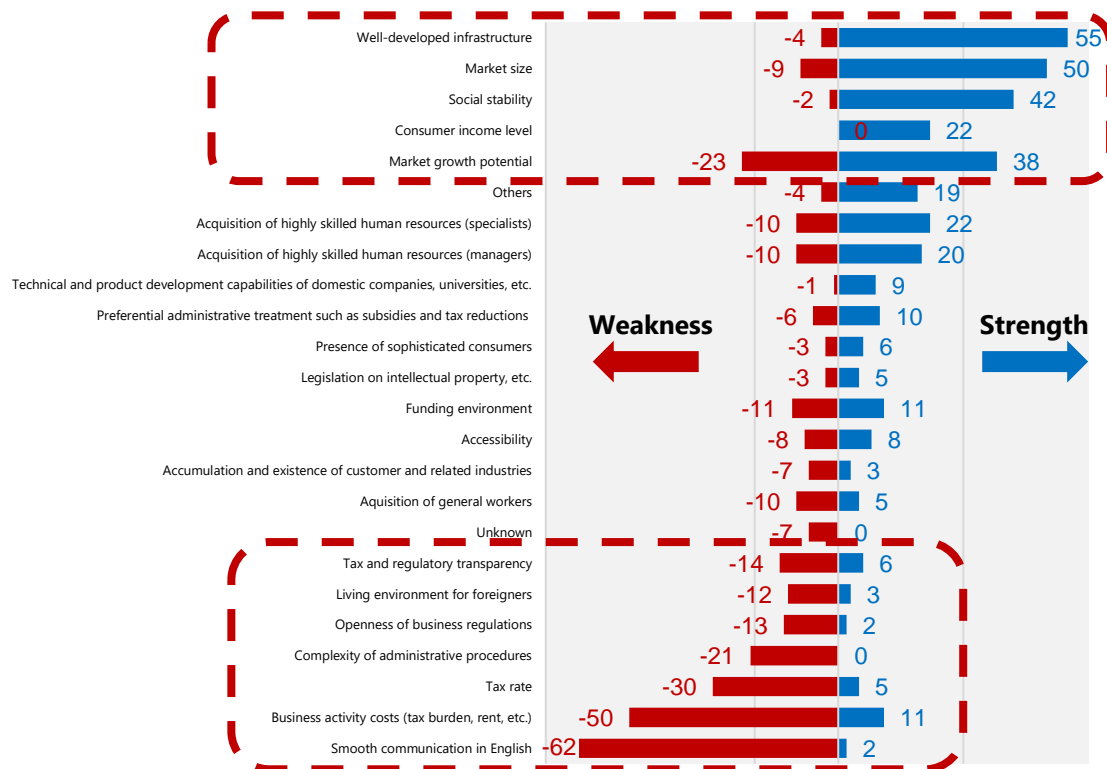
Evaluation of Japan in Terms of Business Bases and Issues for Internal Internationalization

- According to a survey of foreign companies, **Japan has a good reputation as an R&D base.**
- Compared to other developed countries, Japan has strengths in infrastructure, market size, social stability, consumer income levels, etc., while **there are issues with English, business activity costs, and tax rates, etc.**
- Promoting internal internationalization is important to improve productivity and innovation, and to create a virtuous cycle of income and investment, including addressing these issues.

Countries and regions that foreign companies consider most attractive as business locations



The strengths and weaknesses of the Japanese market perceived by foreign companies compared to developed countries



(Number of respondents: 133. Number of answers: 674)

*Each company answered with up to three strengths and weaknesses