

Chapter 3 Trends in trade and investment by Japanese enterprises

In this chapter, Section 1 looks at trends in the activities of Japanese global enterprises and global value chains surrounding Japan, and Section 2 looks at trends in Japan's current account balance and trade balance.

Section 1 Trends in Japanese global enterprises and global value chains surrounding Japan

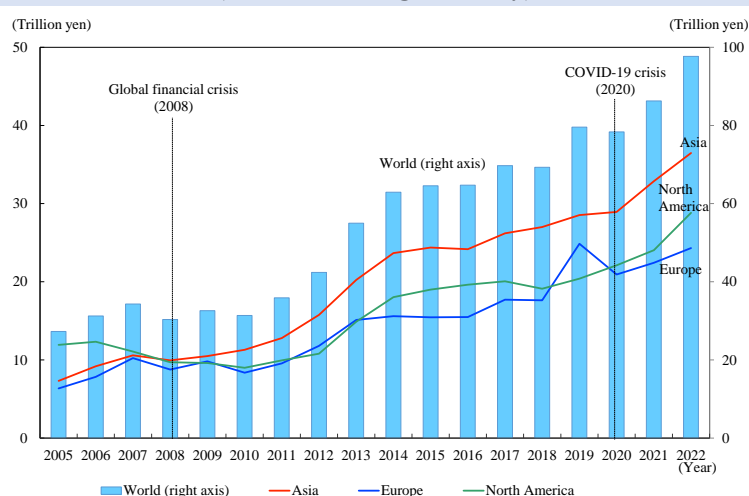
1. Trends in the activities of Japanese global enterprises

(1) Overseas expansion of Japanese manufacturing industries

There is growing interest in risks related to global value chains surrounding Japan, including the trade friction between the United States and China and geopolitical risks. Here, let us consider what kind of supply chains Japanese global enterprises are building in this situation. We will look first at an overview of Japanese manufacturing industries' overseas expansion and next at procurements from abroad by companies located in Japan.

As described in the White Paper on International Economy and Trade 2023, if Japanese manufacturing industries' overseas expansion is looked at through statistics on foreign direct investments (FDIs), we see that the outstanding balance of investments has been expanding in value terms despite temporary declines caused by events such as the global financial crisis, which took place in 2008, and the COVID-19 crisis, which broke out in 2020 (Figure I-3-1-1). In this trend, Asia has been a larger investment destination than North America and Europe, accounting for some 40% of the global outstanding balance of FDIs by Japanese manufacturing industries as of the end of 2022.

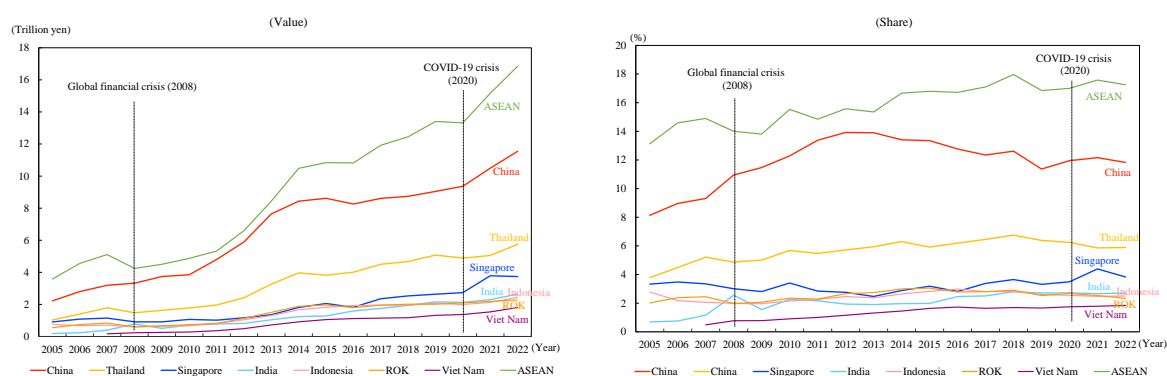
**Figure I-3-1-1. Changes in outstanding balance of Japan's outward direct investments
(manufacturing industry)**



Source: Japan's International Investment Position (MOF).

Among Asian business locations, China has the largest share of outward direct investments by Japan, followed by Thailand (Figure I-3-1-2).¹⁵ Although the value of investments in China has continued to increase, China's share in the total outstanding balance of investments has been declining since peaking in 2012. Meanwhile, the shares of Thailand, India, and Viet Nam are rising, indicating that diversification is proceeding at a moderate pace. ASEAN as a whole is attracting a larger amount of investments than China. Since the mid-2010s, the outstanding balance of investments in ASEAN and ASEAN's investment share have continued to expand at a faster pace than China's outstanding balance and share. In and after 2020, China's share has expanded amid the slowdown of the global economy due to the COVID-19 pandemic, but it shrank once again, albeit slightly, in 2022.

Figure I-3-1-2. Outstanding balance of Japan's outward direct investments in major Asian countries and regions (manufacturing sector)



Source: Japan's International Investment Position (MOF).

Let us look at the locations of Japanese companies' business bases based on corporate statistics. According to the Basic Survey on Overseas Business Activities by the Ministry of Economy, Trade and Industry, approximately 11,000 overseas subsidiaries of Japanese manufacturing industries are operating around the world, and, of those subsidiaries, around 80%, or approximately 8,400, are located in Asia (Table I-3-1-3). Given that Asia's share is around 40% in terms of the outstanding balance of outward direct investments, manufacturing industries' presence in Asia is even more prominent in terms of the number of companies. That presumably means that, because of Asia's geographical proximity to Japan, many relatively small enterprises have expanded into Asia. If business scale is calculated in terms of the average value of sales per company, Japanese manufacturing industries' business scale in Asia is a third of its scale in the United States and a half of its scale in Europe. Among Asian countries, China and ASEAN are popular business locations for Japanese companies. Among the ASEAN members, Thailand is the most popular business locations for Japanese companies, followed by Viet Nam and Indonesia. By industry, the presence of companies in raw materials-related industries, such as chemicals, steel, and

¹⁵ In this section, unless otherwise stated, "China" refers to mainland China, excluding Hong Kong. "ASEAN" refers to the 10 ASEAN member countries as a whole.

metals, and machinery-related industries, including general machinery, electrical machinery, and information and communication equipment, and transportation equipment, is large.

Table I-3-1-3. Number of Japanese companies' overseas subsidiaries (FY2021)

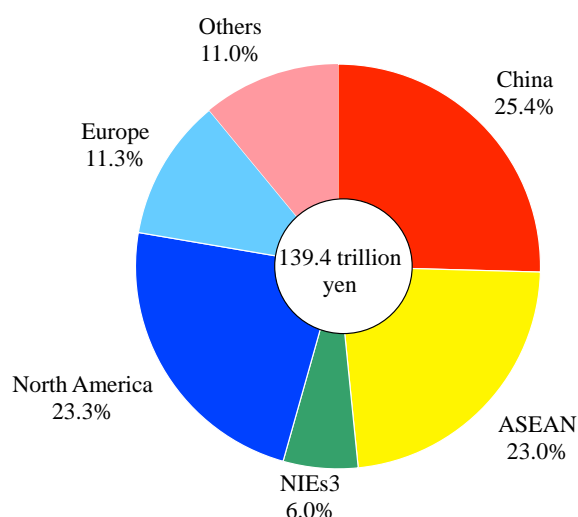
	World	U.S.	Asia	China	ASEAN				India	Europe
						Thailand	Viet Nam	Indonesia		
All industries	25,325	2,971	17,136	6,155	7,435	2,370	1,230	1,139	604	2,812
Manufacturing	10,902	1,046	8,382	3,547	3,615	1,318	690	660	292	845
Food	529	75	359	151	167	54	36	35	7	50
Textiles	434	13	395	224	146	48	38	36	3	16
Chemicals	1,063	107	790	290	326	112	44	61	28	119
Steel and metals	1,273	90	1,077	427	526	200	105	91	33	37
General machinery	1,679	179	1,255	600	418	160	78	62	40	178
Electrical machinery, and information and communication equipment	1,536	139	1,242	572	464	152	89	41	24	114
Transportation equipment	2,370	302	1,608	589	808	366	107	207	120	207
Average sales per company (manufacturing)	15.4	36.2	11.6	12.0	10.6	13.2	5.8	11.9	17.5	22.7

Note: The figures given for “steel and metals” represent the total amount of steel, non-ferrous metals, and metal products. Those for “general machinery” represent the total amount of general-purpose machinery, production machinery, and business-oriented machinery. Those for “electrical machinery, and information and communication equipment” represent the total amount of electric machinery and information and communication equipment.

Source: *Basic Survey on Overseas Business Activities* (METI).

If we look at the scale of activities of overseas subsidiaries based on sales data from the Basic Survey on Overseas Business Activities, China, ASEAN, and NIEs3 accounted for more than half of the overall sales of Japanese manufacturing companies' overseas subsidiaries in FY2021, worth approximately 139 trillion yen, indicating that Asia is the region where production activity is most brisk (Figure I-3-1-4).

Figure I-3-1-4. Sales of Japanese manufacturing industries by location region (FY2021)



Note: The data on ASEAN is based on 10 economies. NIEs3 refers to the ROK, Taiwan, and Singapore.

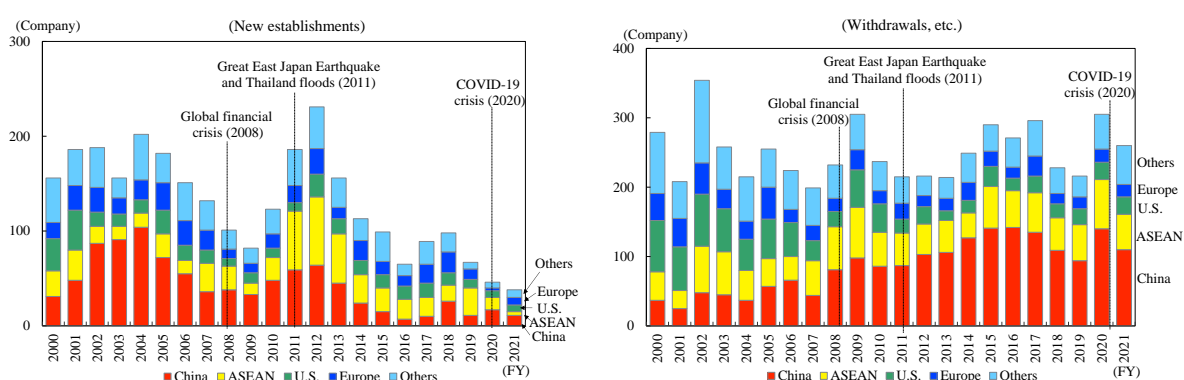
As Singapore is included in both ASEAN and NIEs3 due to statistical reasons, some data on Singapore is overlapped.

Source: *Basic Survey on Overseas Business Activities* (METI).

Let us also look at the trends in “new establishment” and “dissolution, withdrawal, and decline in the control share” (hereinafter “withdrawal, etc.”) in the Basic Survey on Overseas Business Activities from the viewpoint of relocation of overseas subsidiaries. Following the global financial crisis, business restructuring activities, such as a decline in the number of new establishments and an increase in dissolutions, were observed (Figure I-3-1-5). Conversely, at the time of the Great East Japan Earthquake and the flood disaster in Thailand in 2011, the number of new establishments increased, and this suggests that following the disasters, disaster-affected facilities were relocated. As for recent developments, in FY2020 and FY2021, after the breakout of the COVID-19 pandemic, new establishments were sluggish, while withdrawals remained at a high level.

By country/region of location, what is noteworthy is that new establishments and withdrawals, etc. are observed to some degree in any country or region every year, but in the 2000s, there were many new establishments in China while, since the 2010s, many companies have opted for withdrawal, etc.¹⁶ Regarding China, careful attention should be paid to the point that the total number of companies located in the country is large, with many of them continuing operations. However, Japanese companies appear to be constantly considering relocation in accordance with the business environment and risks.

Figure I-3-1-5. Number of new establishments and withdrawals, etc. of Japanese manufacturing subsidiaries



Note 1: The figures show the number of companies that responded that they had been “newly established” or “dissolved, etc.” in the given fiscal year.

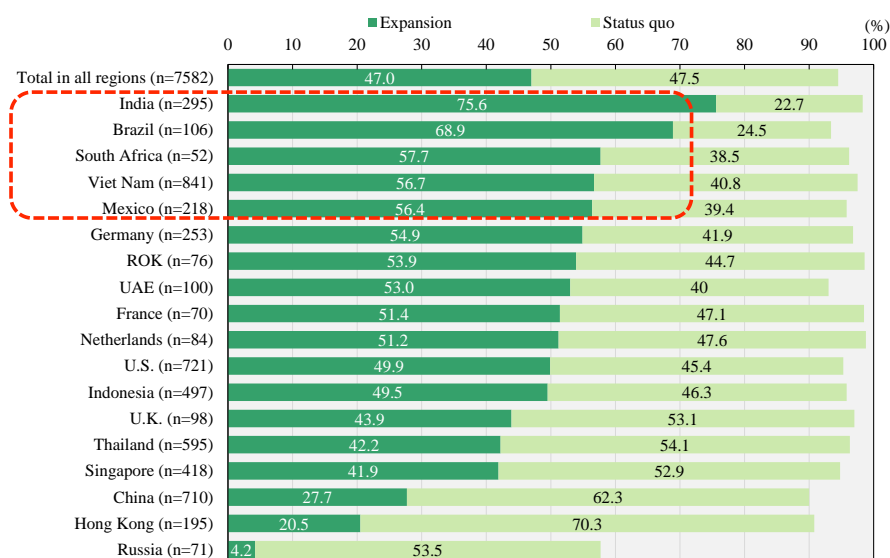
¹⁶ The increase in the number of new establishments in China in the 2000s indicates that expectations were growing for China, which acceded to the WTO at the end of 2001. Possible factors behind the increase in withdrawals, etc. in the 2010s include increased anti-Japan protests due to the Japanese nationalization of the Senkaku Islands in 2012, the stock price plunge in the Shanghai stock market and reduced confidence in the Chinese economy due to the devaluation of the Chinese yuan in 2015, the U.S.-China trade friction that started in 2018, and the effects of the COVID-19 pandemic in 2020.

Note 2: The data on ASEAN is based on 10 economies, in principle. However, due to statistical reasons, before and in FY2006, the data was aggregated based on 4 economies of Indonesia, Malaysia, the Philippines, and Thailand.

Source: *Basic Survey on Overseas Business Activities* (METI).

If we look at the direction of future business expansion of Japanese companies that have already advanced overseas based on the 2023 Survey on Business Conditions of Japanese-Affiliated Companies Overseas (Global Edition) by the Japan External Trade Organization (JETRO), we see that those companies have a strong appetite to expand business in Global South countries, including India (Figure I-3-1-6).

**Figure I-3-1-6. Direction of business development for the next 1-2 years
(by major country and region)**

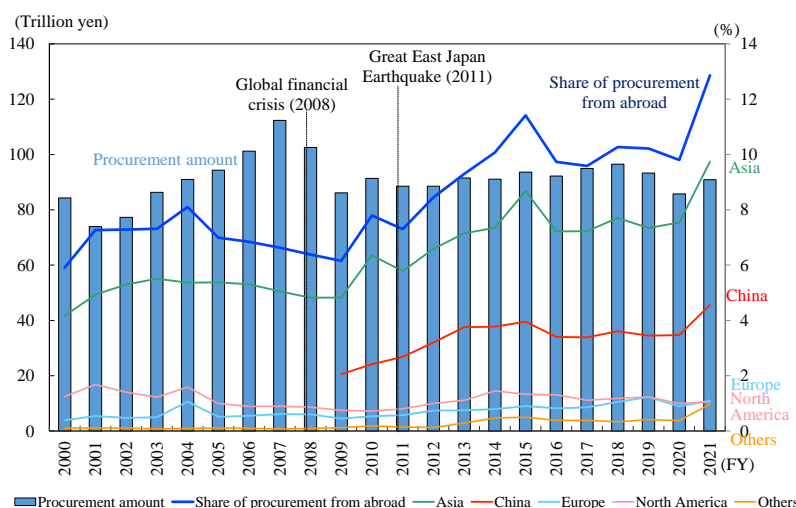


Source: *FY2023 Survey on Business Conditions of Japanese-Affiliated Companies Overseas (Global Edition)* (JETRO).

(2) Procurements from overseas by Japanese companies

Let us consider from where companies located in Japan procure parts and materials while pursuing business expansion globally. According to the Basic Survey of Japanese Business Structure and Activities by the Ministry of Economy, Trade and Industry (Figure I-3-1-7), the share of procurements from abroad by machinery manufacturing industries in Japan increased between 2008, when the global financial crisis took place, through the mid-2010s, and the increase from Asia, including China, was particularly pronounced. In the second half of the 2010s, the share of procurements from abroad remained almost flat, and in FY2020, the value of procurements declined because domestic production stagnated due to the effects of the COVID-19 pandemic. At that time, the supply of parts and materials from China in particular was disrupted, and this has led to increased concerns over supply chain-related risks. The following year, FY2021, the value of procurements started to recover in line with recovery in domestic production. Procurements from abroad recovered more than domestic procurements did, causing a sharp rise in the overseas procurement ratio.

Figure I-3-1-7. Amount of procurements by machinery manufacturing industries in Japan and share by procurement source



Note 1: The data on machinery manufacturing industries represent the total amount of “general-purpose machinery,” “production machinery,” “business-oriented machinery,” “electronic parts, devices and electronic circuits,” “electrical machinery,” “information and communication equipment,” and “transport equipment.”

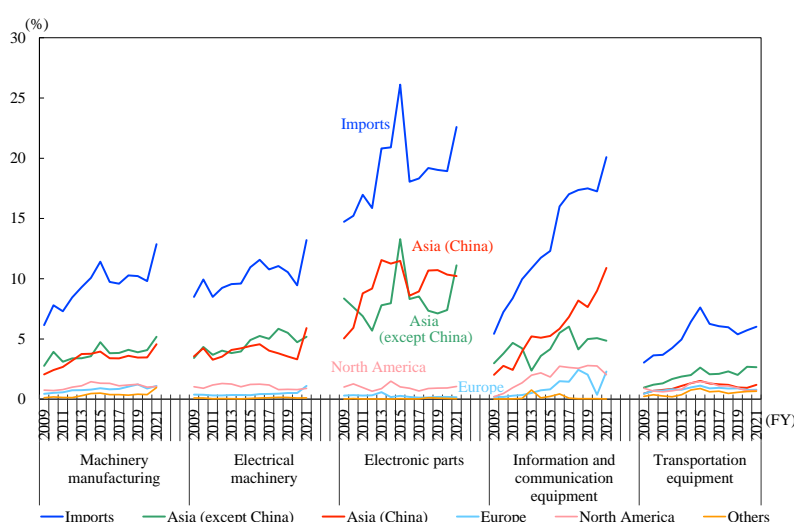
Note 2: The data on Asia include that on China. The data on China was specially described here based on excerpts from the 2010 survey (results in FY2009).

Source: *Basic Survey of Japanese Business Structure and Activities* (METI).

By industry, the share of procurements from overseas is large in the electronic parts industry and the information and communications equipment industry. In the information and communications equipment industry in particular, the share of procurements from overseas has increased steeply due to rapid growth in procurements from China (Figure I-3-1-8). On the other hand, the share of procurements

from overseas is not necessarily high in the transportation machinery industry, but shortages of only a few parts items could significantly affect the production of automobiles, the representative product of that industry, because automobiles are an integral type of product composed of numerous parts for which close coordination is necessary. During the COVID-19 pandemic, disruptions in the supply of parts and materials from abroad had a huge impact on domestic production, and as a result, awareness of supply disruption risk has grown significantly.

Figure I-3-1-8. Amount of procurements by machinery manufacturing industries in Japan and share by procurement source (by industry)



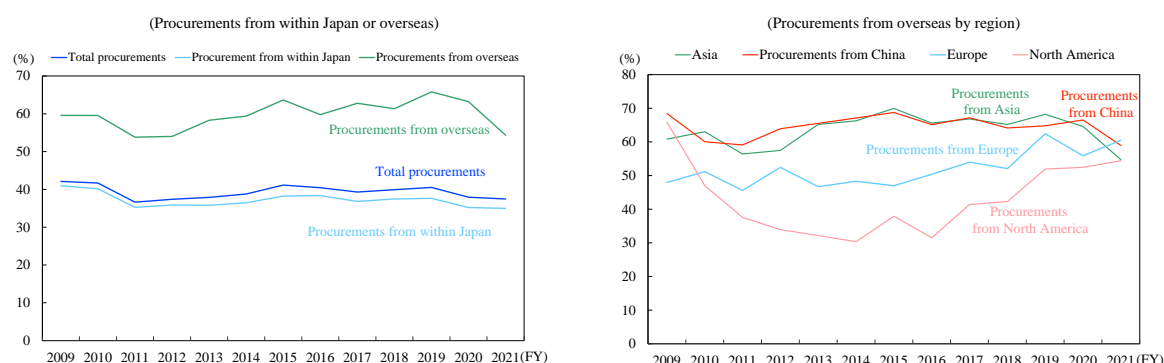
Source: *Basic Survey of Japanese Business Structure and Activities* (METI).

Meanwhile, procurements from abroad are more likely to be intrafirm transactions compared with procurements from within Japan given that the share of procurements from companies with which the sourcing companies have a capital relationship is large. (Figure I-3-1-9).¹⁷ By region, the share of procurements from companies with which the sourcing companies have a capital relationship is generally large in the case of procurements from Asia, including China. As already described, many subsidiaries of Japanese manufacturing companies are operating in Asia, indicating that Japanese companies' supply chains are well developed in Asia. Presumably, procurements from overseas companies with capital relation are not only motivated by the economic rationality of producing goods where production cost is low but also reflect the fact that it is relatively easy to secure quality assurance because headquarters in Japan can more easily exercise control over those companies. In recent years,

¹⁷ In the Basic Survey of Japanese Business Structure and Activities, "companies with capital relation" include a "parent company," "subsidiaries," and "relevant companies." "Parent companies" means companies owning more than 50% of the voting rights in subsidiaries. "Subsidiaries" means companies more than 50% of whose voting rights are owned by a certain company (parent company). "Relevant companies" means companies 20% to 50% of whose voting rights are owned by a certain company (parent company). It should be noted that a company may be deemed to be a company with capital relation even if the abovementioned criteria are not met so long as it has effective control.

the share of companies with capital relation in procurements from North America and Europe, too, has been on an uptrend.¹⁸

Figure I-3-1-9. Share of procurements from companies with which machinery manufacturing industries in Japan have a relationship



Source: *Basic Survey of Japanese Business Structure and Activities* (METI).

2. Global value chains surrounding Japan

(1) Forward or backward participation in global value chains

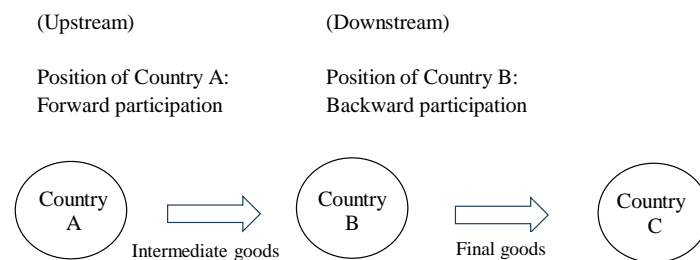
In the previous paragraph, we looked at overseas expansion and procurements from abroad (global value chains) by Japanese manufacturing industries. In this paragraph, we will consider the trends in entire global value chains surrounding Japan by looking at the situations of other countries as well. For the analysis, the OECD TiVA (Trade in Value Added) statistics are mainly used. That is because it is difficult to identify the respective roles of countries and regions based on ordinary trade statistics, since value added created overseas in the form of intermediate goods continues to accumulate in global value chains. Although the trends have already been analyzed in the White Paper on International Economy and Trade 2023, we will look at an overview of the trends in the most recent period for which data are available from the 2023 edition of the OECD TiVA statistics, which has been updated from the 2021 edition with past data revised retroactively.¹⁹

There are two types of participation in global value chains. To cite simple examples, as shown in Figure I-3-1-10, there are cases where a country (Country A in the figure below) that is located in the upstream sector of the flow of production supplies intermediate goods (forward participation) and cases where a country (Country B) receives the supply of intermediate goods for the purpose of domestic production (backward participation).

¹⁸ In FY2020 and FY2021, the share of companies with capital relation in procurements from overseas declined. This may reflect the effects of the fact that procurement sources were limited in times of emergency during the COVID-19 pandemic.

¹⁹ OECD TiVA is a statistical dataset concerning trade in value added regarding goods and services. The period covered is from 1995 to 2018 in the 2021 edition of OECD TiVA and from 1995 to 2020 in the 2023 edition. In the 2023 edition, past data were revised retroactively.

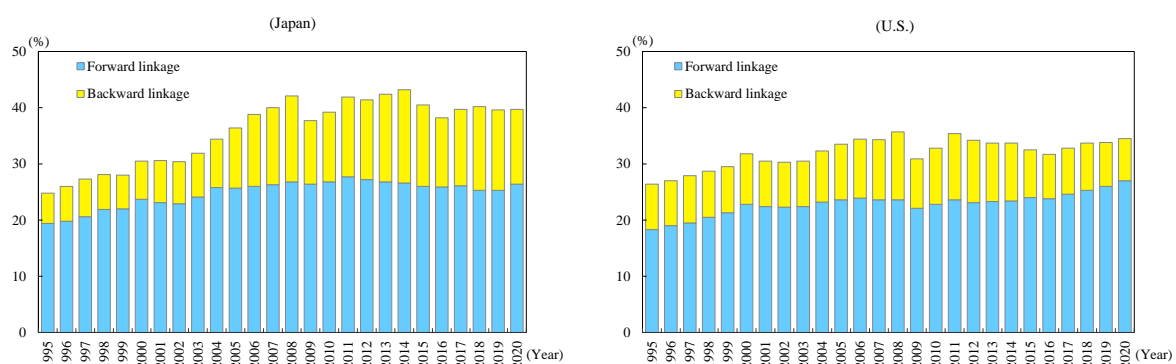
Figure I-3-1-10. Forward or backward participation in global value chains

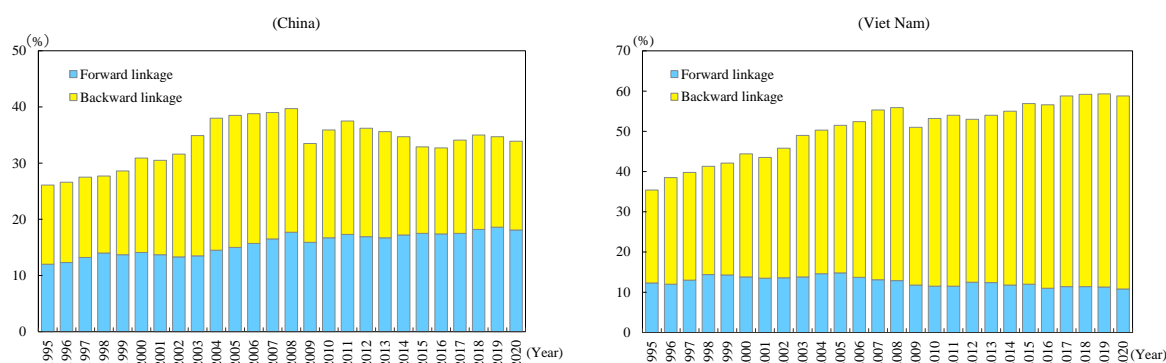


Source: METI.

As a general rule, developed countries, including Japan, the United States and Europe, have participated in the form of forward participation—supplying intermediate goods such as core parts—to a greater degree, whereas in many cases, emerging countries, such as China and Viet Nam, have participated in the form of backward participation—receiving the supply of intermediate goods for the purpose of domestic assembly and using those goods to assemble finished products by taking advantage of abundant, low-cost domestic labor (Figure I-3-1-11). However, this relationship is changing due to changes in industrial and trade structures. For example, in the case of Japan, while the degree of forward participation has remained stable, the degree of backward participation has been increasing because the country is importing and using low-cost, general-use intermediate goods. Conversely, China is shifting from backward participation to forward participation—supplying intermediate goods to other countries. From trade counterparts’ standpoint, this means that the possibility that their dependence on China for the supply of intermediate goods may be growing, indicating that there is an increasing risk that the kind of global value chain disruptions that occurred during the COVID-19 pandemic may happen again.

Figure I-3-1-11. Participation of major countries in global value chains





Note: The definition of forward and backward participation indicator in OECD TiVA is as follows:

Forward participation indicator = Value-added created by the home country in the total export value of other countries / Total export value of the home country; and

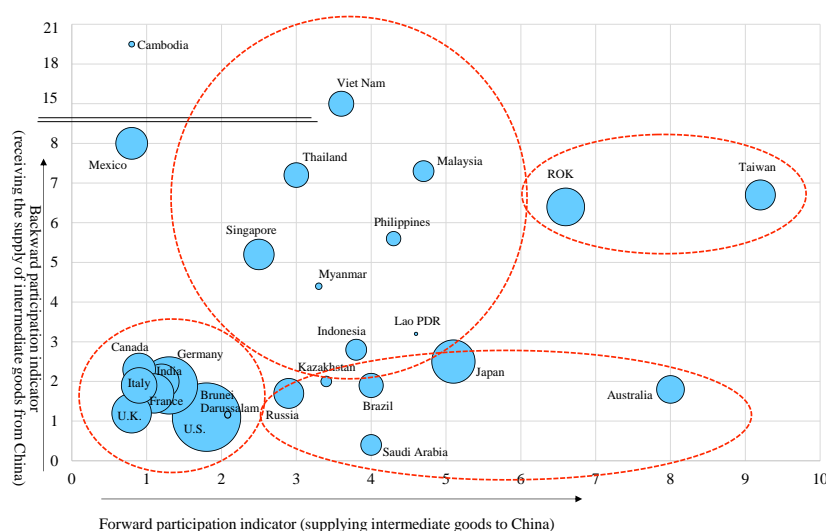
Backward participation indicator = Value-added created by other countries in the total export value of the home country / Total export value of the home country.

Source: TiVA (OECD).

(2) Relationship between major countries and regions and China

Let us look at the relationship between major countries and regions and China in terms of global value chains. In Figure I-3-1-12, just as in a comparable figure in the White Paper on International Economy and Trade 2023, the horizontal axis represents the forward participation indicator regarding global chains as defined by the OECD, the vertical axis represents the backward participation indicator, and the size of the circles reflects the total export value for the countries and regions. While the comparative figure of the previous year's white paper represented the relationship as of 2018, Figure I-3-1-12 represents the relationship as of 2020, the most recent year of OECD TiVA. This figure shows a trend similar to the one observed in 2018, although there have been some changes. For example, the Republic of Korea (ROK) and Taiwan have a particularly strong relationship with China, mainly in the form of forward participation. As for ASEAN, there are some differences among member countries. For example, Viet Nam has a strong relationship in the form of backward participation, receiving the supply of intermediate goods from China and processing and assembling products using those goods, while Indonesia, a resource-rich country, has a strong relationship in the form of forward participation. Japan has a strong relationship with China in terms of either forward or backward participation. Resource-rich countries, such as Australia and Saudi Arabia, have a strong relationship of forward participation. In the case of the United States and major European countries, despite the large value of their trade with China, the degree of their participation in global value chains involving China is not necessarily large because they have strong relationships with other countries (e.g. other European countries in the case of major European countries, and Canada and Mexico in the case of the United States). Among other Asian countries, India, whose relationship with China is relatively weak, is located in the same area as those countries in Figure I-3-1-12.

Figure I-3-1-12. Forward and backward linkages between major countries and regions and China (2020)



Note: The details of the horizontal axis, vertical axis, and the size of circles are as follows.

Horizontal axis: Forward participation indicator = Value-added created by home country or region in the total export value of China / Total export value of home country or region;

Vertical axis: Backward participation indicator = Value-added created by China in total export value of home country or region / Total export value of the home country or region; and

Circles: The results reflecting the total export value of the country or region concerned.

Note that METI focused on major countries and regions with export value above a certain size, and showed the data on ASEAN for all 10 economies.

Source: TiVA (OECD).

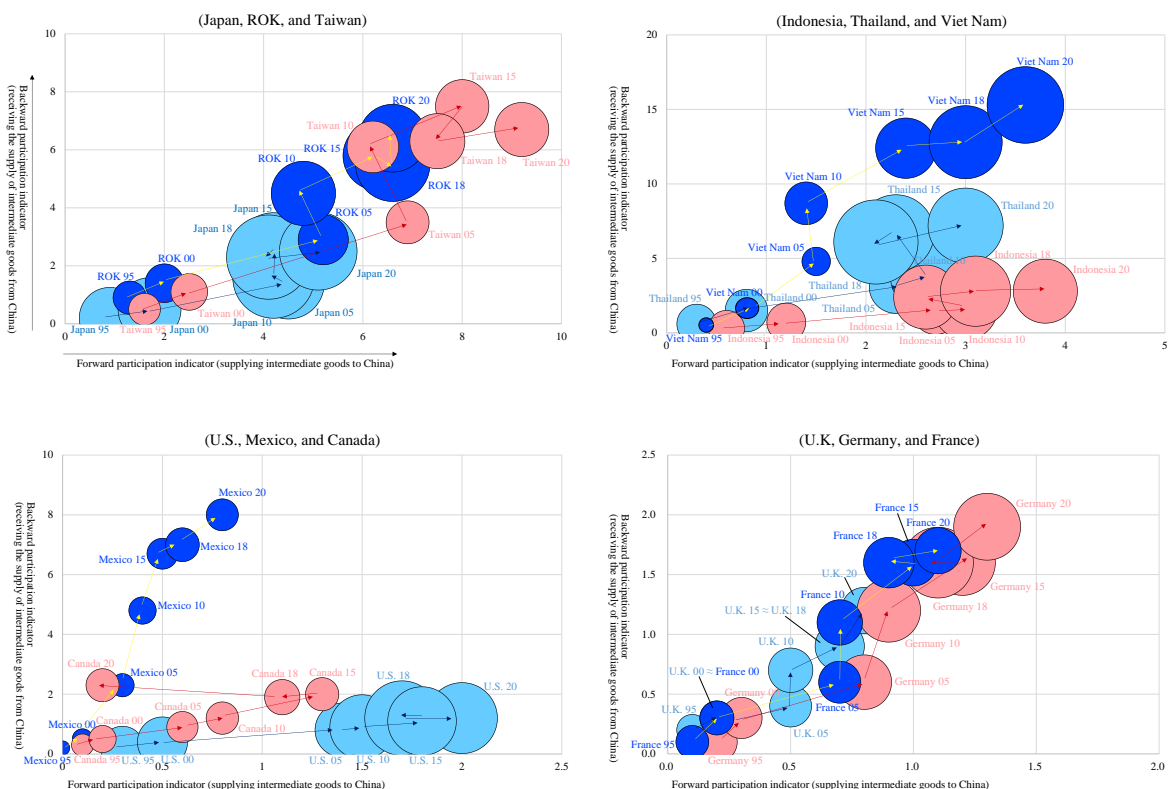
Looking at time-sequential changes, we can see that countries and regions in general have deepened their relationships with China, and in particular, between 2000, when China acceded to the World Trade Organization, and 2005, the relationships deepened significantly (Figure I-3-1-13). For example, in Japan's case, the figure indicates that the relationship with China strengthened through forward participation—indicating that Japanese companies promoted international division of production and expanded global value chains in such a way that intermediate goods exported from Japan are assembled as finished goods in China. However, since then, Japan's relationship with China has strengthened only moderately. Rather, the figure shows that the relationships have significantly moved vertically, indicating that the backward linkage, whereby Japan receives the supply of intermediate goods from China, has strengthened moderately.²⁰ The ROK and Taiwan have strengthened their relationships with China more than Japan has done, but the strengthening of those relationships has become moderate since the latter half of the 2010s.

²⁰ OECD TiVA collects data on value-added on a producing country basis and regards value-added created by foreign companies as value-added created locally. As a result, the strengthening of Japan's backward linkage with China reflects the effects of imports from Japanese suppliers operating in China as well.

As for ASEAN, one remarkable point is that Viet Nam is strengthening its relationship with China in the form of backward participation. Given that the scale of the vertical axis of the graph is five times as large as that of the horizontal axis, the strength of the backward relationship, whereby Viet Nam receives the supply of parts and materials from China, is pronounced. Thailand is also strengthening its relationship with China, although not as much as Viet Nam is doing, mainly in the form of backward participation. On the other hand, Indonesia's relationship with China is moving horizontally, which means that its forward participation through resource exports is growing.

As for the United States, its relationship with China has been deepening in the form of forward participation, with the United States exporting intermediate goods for production in China, but in 2018, when the U.S.-China trade friction started, that relationship weakened. However, in 2020, the two countries' relationship started to strengthen once again. Mexico is strengthening its relationship with China in the form of backward participation, which indicates that Mexico processes and assembles parts and materials imported from China and exports the goods thus produced to the neighboring countries, including the United States. European countries, such as the United Kingdom, Germany and France, are slowly strengthening their relationships with China in the form of both forward and backward participation in a well-balanced manner, but because of their geographical distance from China, those relationships are not necessarily strong.

Figure I-3-1-13. Changes in forward and backward linkages between major countries and regions and China (1995 → 2000 → 2005 → 2010 → 2015 → 2018 → 2020)



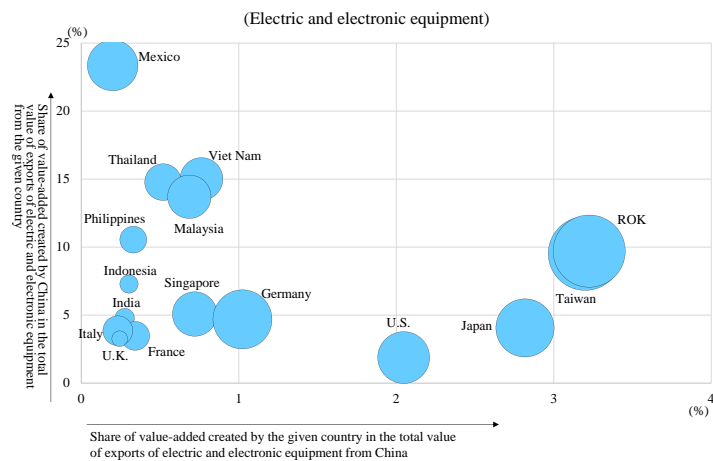
Note 1: The details of the horizontal axis, vertical axis, and the size of circles are the same as those in Note in Figure I-3-1-12.

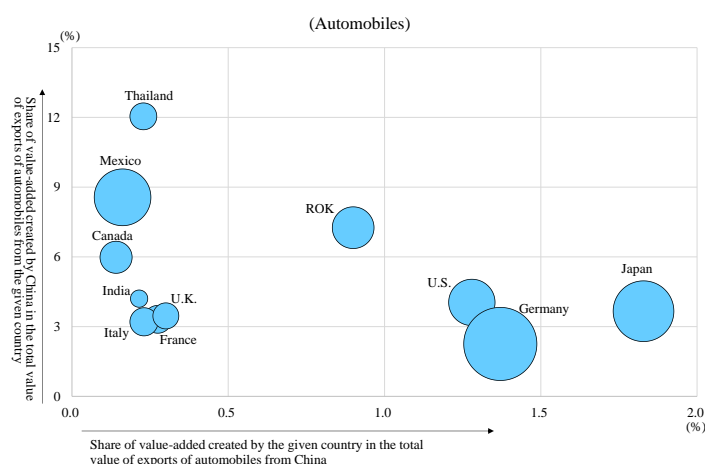
Note 2: However, it should be noted that the scales of the graphs are different from each other.
Source: TiVA (OECD).

Figure I-3-1-14 shows countries’ and regions’ relationships with China on an industry-by-industry basis. It shows the share of Chinese value added (value added created in China) in exports of electric and electronic equipment and automobiles by the countries and regions (vertical axis) and the share of value added created in the countries and regions in exports of electric and electronic equipment and automobiles by China (horizontal axis). For example, the share of Chinese value added in exports of electric and electronic equipment by Japan, the ROK, and Taiwan ranges from around 5% to 10% (vertical axis), while the share of value added created in Japan, the ROK, and Taiwan in the value of exports of electric and electronic equipment by China is around 3% (horizontal axis). The share of Chinese value added in exports of electric and electronic equipment by ASEAN countries, such as Viet Nam, Thailand, and Malaysia, is around 15% (vertical axis), but the share of value added created in those ASEAN countries in exports of electric and electronic equipment by China is less than 1% (horizontal axis). Although it is not clear from OECD TiVA which specific items the countries and regions imported from China, chemicals, metals and electronic parts are considered to be among the items imported from China, and this suggests that those countries and regions depend heavily on China for the supply of intermediate goods.

Japan, Germany, and the United States supply intermediate goods for exports of automobiles by China, but those countries’ relationship with China in that respect is limited (horizontal axis). On the other hand, among the ASEAN countries, Thailand receives the supply of intermediate goods from China, while Mexico and Canada also have a strong backward linkage with China, receiving the supply of intermediate goods from that country for the purpose of the domestic assembly of automobiles.

**Figure I-3-1-14. Linkages between major countries and regions and China
(electric and electronic equipment, and automobiles in 2020)**



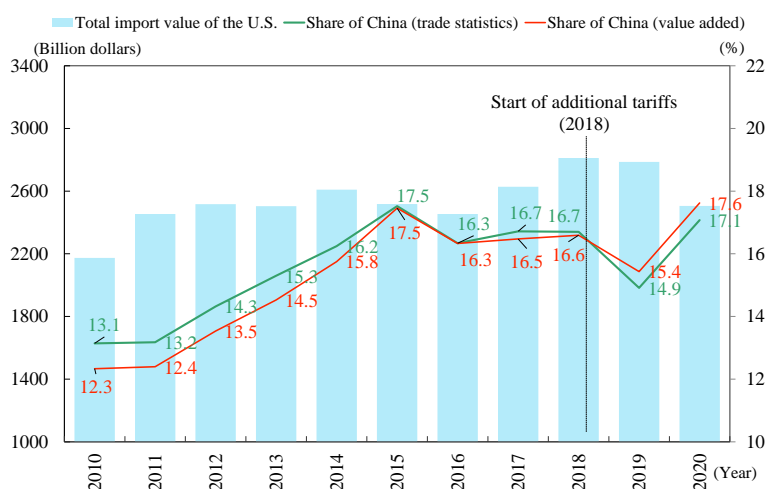


Source: TiVA (OECD).

(3) Trade friction and indirect exports

One recent major incident in the field of international trade is the U.S.-China trade friction. Let us consider the significance of the impact of the additional tariffs imposed by the United States against China from the viewpoint of trade in value added. According to ordinary trade statistics, China's share in U.S. imports indeed declined in 2019, the year after the start of application of the additional tariffs (Figure I-3-1-15).²¹ However, when we look at China's share based on statistics on trade in value added, it is necessary to pay attention to two points. The first point is that China's share on a value-added basis did not decline as much as the share on a (ordinary) trade statistics basis did. The second point is that although China's share on a trade statistics basis was higher than the share on a value-added basis in and before 2018, the relative positions of these two metrics were reversed in and after 2019.

Figure I-3-1-15. Shares of China in imports by the U.S.

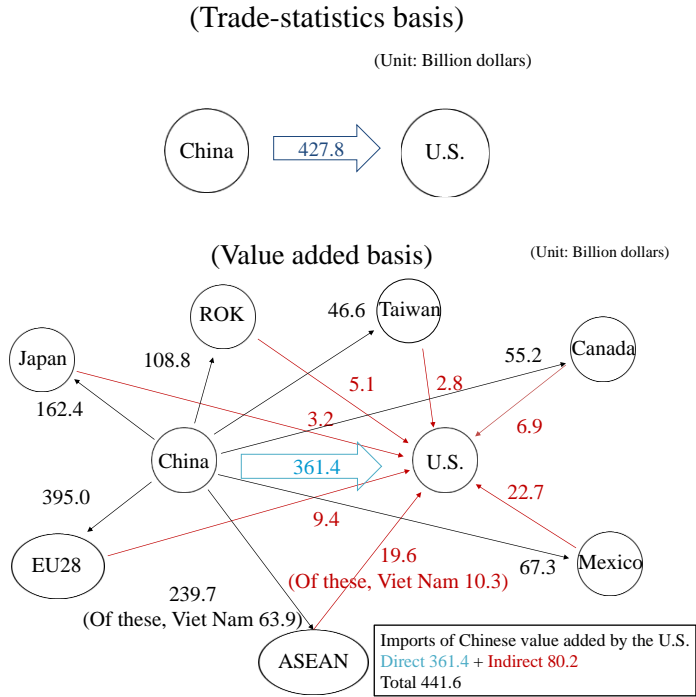


Source: TiVA (OECD).

²¹ China's share rose again in 2020 presumably because the value of U.S. imports from other countries decreased due to the effects of the COVID-19 pandemic.

Figure I-3-1-16²² shows a comparison of the countries through which goods imported by the United States from China passed in the value chain flow on a value-added basis and on a trade statistics basis. In ordinary trade statistics, only direct bilateral trade is recorded. However, in value added trade statistics, when goods are exported from China to the United States, not only is Chinese value added recorded as part of direct exports to the United States, but also some of that value added is recorded as part of indirect exports that reach the United States after undergoing processing and assembly in third countries in the value chain flow. Around 80% of the Chinese value added that is recorded as part of the value of U.S. imports from China is included in direct imports from China, and around 20% are included in imports that come via third countries, such as ASEAN (Viet Nam in particular) and Mexico (Figure I-3-1-17). Whether a country’s share in imports is larger when measured on the basis of ordinary trade statistics or value-added trade statistics is affected by its position in the global value chain. As already described, China is strengthening its forward participation, which means that there is a growing trend of intermediate goods being exported from China to third countries and products assembled there being exported to the United States.

Figure I-3-1-16. Imports by the U.S. from China (2020)

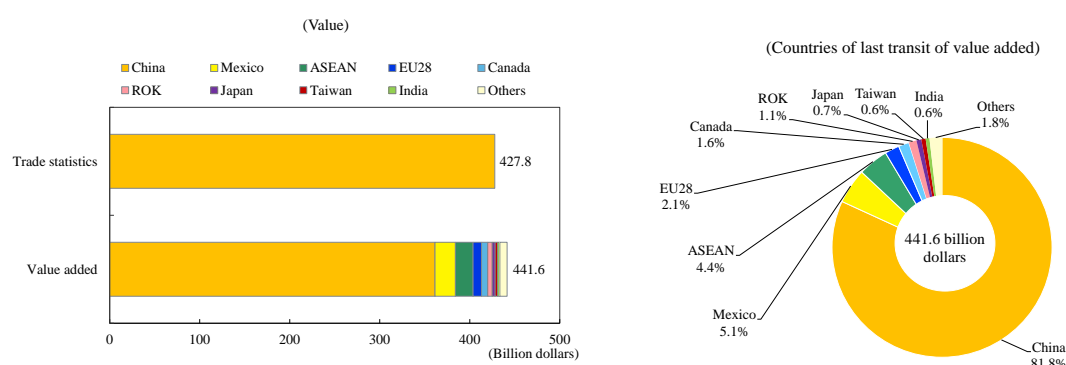


Note: The figures represent the value of Chinese value added. In particular, the figure in blue represents the component of the Chinese value added contained in direct imports by the U.S., while those in red represent the component of the Chinese value added contained in indirect imports by the U.S. from third countries and regions. The data is as of 2020.

Source: TiVA (OECD).

²² Here, “ordinary trade statistics” refers to trade statistics on trade not only in goods but also in services. Although Chinese value added is also included in trade between third countries, data on that point was omitted for the sake of simplicity.

Figure I-3-1-17. Imports by the U.S. from China (by country and region of last transit)

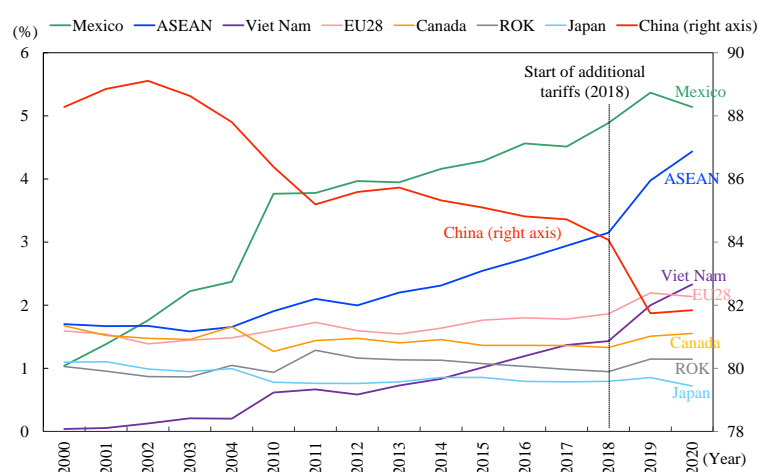


Notes: The data in this figure are as of 2020.

Source: TiVA (OECD).

When we look at changes in the share of Chinese value added contained in U.S. imports from China by country and region of transit, we see that in 2019, the share of the portion of Chinese value contained in direct imports from China declined steeply while the portion of value added contained in imports via ASEAN, particularly Viet Nam, rose (Figure I-3-1-18).²³ The factors behind that trend include an increase in the share of ASEAN and Viet Nam in U.S. imports (Figure I-3-1-19) and an increase in the share of Chinese value added in imports from ASEAN and Viet Nam (Figure I-3-1-20). It should be kept in mind that even if imports from China are replaced by imports from ASEAN and Mexico in response to the trade friction and the geopolitical risks, imports from China may in effect continue.

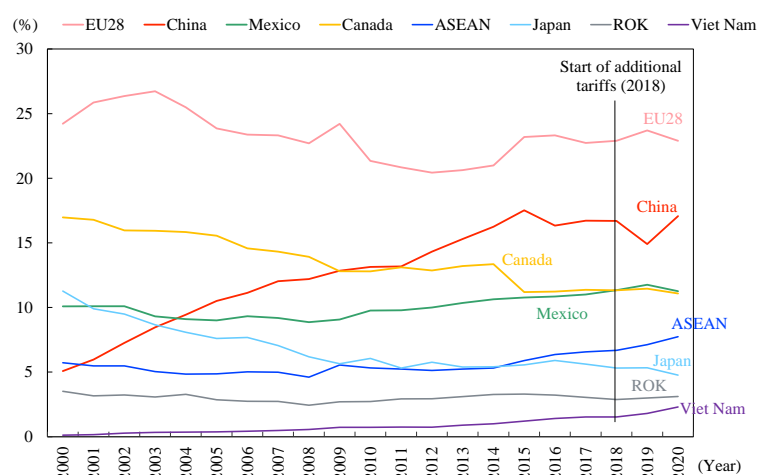
Figure I-3-1-18. Countries of last transit of Chinese value added contained in imports by the U.S.



Source: TiVA (OECD).

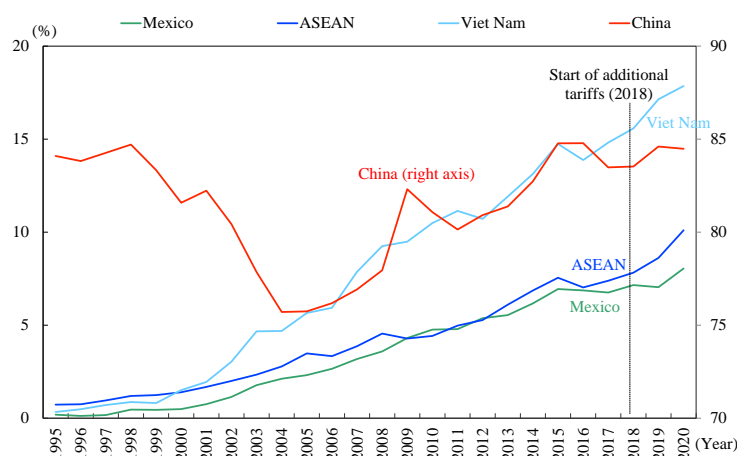
²³ In Figures I-3-1-18 and I-3-1-19, despite the changes in the membership of the EU that occurred during the analysis period, the results are shown on a 28-country basis for the whole of the period. For the sake of consistency, in Figures I-3-1-16 and I-3-1-17, which are based on data only for 2020, the results are also shown on a 28-country basis. Likewise, in the case of ASEAN, in Figures I-3-1-18 to I-3-1-20, the results are shown on a 10-country basis for the whole of the analysis period.

Figure I-3-1-19. Region-by-region shares of imports by the U.S.



Source: TiVA (OECD).

Figure I-3-1-20. Shares of Chinese value added in exports from countries and regions to the U.S.



Source: TiVA (OECD).

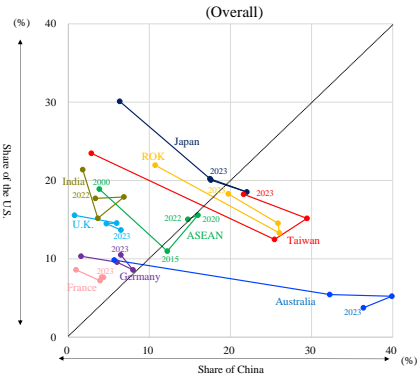
(4) U.S.-China balance in exports by major countries and regions

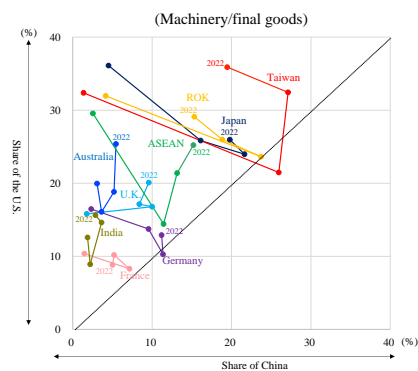
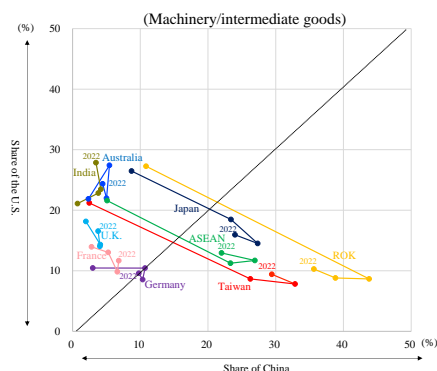
Above, we examined the risks for global value chains from the viewpoint of procurements of intermediate goods. Below, we will look at the balance between the United States and China as export destinations for countries and regions amid the deepening U.S.-China confrontation. Figure I-3-1-21²⁴ shows changes in the balance between the shares of the United States and China as export destinations

²⁴ As multiple sets of statistics are used together, there may be some inconsistencies among the figures. For example, although statistics concerning overall exports cover changes in the period until 2023 in principle, 2022 is the most recent year of analysis for ASEAN (10-country basis) and India. Meanwhile, in the RIETI-TID statistics by type of goods, classified as intermediate goods or final goods, the most recent year of analysis is 2022. In this statistical dataset, data for ASEAN is tallied on an eight-country basis comprised of Brunei, Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam. Data for 2000 and 2015 were tallied by type of goods based on the SITC classification, but in recent years, data tallied based on the HS classification have been published as well. Therefore, data tallied based on the HS classification were used for 2020 and 2022.

in exports by major countries and regions. For major countries and regions, particularly Japan, the ROK, Taiwan, and ASEAN, China’s share in their exports has considerably increased since China’s accession to the WTO in the early 2000s. Behind that trend were the system of international division of production in Asia and flows of materials between production bases under that system—in other words, the expansion of global value chains was the underlying factor. When the balance of the U.S. and Chinese shares in exports in the machinery sector is plotted by type of goods, classified as intermediate goods or final goods, the plotted lines for Asian countries and regions in the period since 2000 are far away from the 45-degree line of equity, that is, closer to the Chinese side, with respect to intermediate goods, which means that the share of China, the base for processing and assembly, in exports of intermediate goods from those countries and regions has increased considerably. Conversely, with respect to final goods, the plotted lines are above the 45-degree line, or closer to the U.S. side, which means the U.S. share is larger than the Chinese share. As for time-sequential changes, since the mid-2010s, there has been a swing-back in the trend of the U.S.-China balance. For example, previously, the U.S. share in overall exports by ASEAN continued to decline while the Chinese share continued to expand, but for the period since 2015, the plotted lines move along the 45-degree line of equity, which means that the U.S. and Chinese shares have stayed almost even. Regarding exports by Japan, the ROK, and Taiwan, the Chinese share has declined since 2015, while the U.S. share has increased. Among the possible factors behind that trend are a pause in the expansion of global value chains and heightened concerns over supply chain disruptions due to the U.S.-China trade friction and geopolitical risks. By type of goods, the Chinese share has stopped expanding or shrunk with respect to exports of intermediate goods by Japan, the ROK, Taiwan, and ASEAN. On the other hand, with respect to exports of final goods, the plotted lines have stayed above the 45-degree line, with the U.S. share in exports by ASEAN and Taiwan expanding significantly.

**Figure I-3-1-21. Shares of the U.S. and China in exports from major countries and regions
(2000 → 2015 → 2020 → 2023)**





Source: *DOTS* (IMF), Global Trade Atlas, RIETI-TID.

To sum up the analysis in this section, Japanese manufacturing industries have achieved overseas expansion mainly in Asia. Subsidiaries of companies in raw materials and machinery industries operating globally, together with parent companies in Japan, have formed global value chains. Manufacturing companies located in Japan have promoted procurements of parts and materials from abroad as well as the supply of parts to overseas subsidiaries, but following the COVID-19 pandemic, interest in the risk of disruption in global value chains has grown. On the other hand, around the world, the presence of China as a supplier of intermediate goods in global value has increased. In the electric, electronic and automobile industries in particular, the relationship of Asian countries and regions, including Japan, the ROK, Taiwan, and ASEAN, with China, is strengthening.