Chapter 3 The transformation of Japan's trade and investment structure

Japan's trade and investment relationships have also been confronted with significant transformation of international political and economic structures in recent years. Escalating trade conflicts, risks of overcapacity and overdependence, growing awareness about economic security, the increasing presence of Global South countries, and the diversity of response to digitalization and the green transition are all changes that Japanese companies face in cross-border business activities and have become factors of heightening uncertainty. At the same time, new international trends, including digitalization, the green transition, and enhancement of supply chain resilience, provide new opportunities for business growth in overseas markets, including growing Global South countries. Amid those changes in the international environment, what are the prospects for Japan's future trade relationships? When considering that question, first, it is necessary to understand the transformation that Japan's trade and investment structure has so far undergone.

In recent years, Japan's international balance of payments structure has been attracting interest. For many years, Japan maintained a trade surplus, but after the Great East Japan Earthquake and the accident at Fukushima Daiichi Nuclear Power Station, the balance turned into deficit. Since then, the international balance of payments structure has remained prone to deficit, depending on movements of fuel prices and exchange rates. Furthermore, while the expansion of the digital trade deficit has been pointed out, the surplus in the primary income balance has increased as a result of increases in FDIs and securities investments.

Those changes in the international balance of payments structure are often discussed in relation to the recent steep depreciation of the yen. However, it is also necessary to pay attention to the fact that under the surface, changes in the international business and competition environments, including the transformation of industrial structures brought by the shift to digital economy, and industrial development, economic stagnation, and the deterioration of the business environment in China, are causing companies' investment and location strategy to change. The growth in global trade in goods as a proportion of GDP remains stagnant, but trade in services has continued to expand. Behind that trend is the advance of what Baldwin calls the third unbundling, arising from the global development and diffusion of digital technology and other factors.[286] In addition, the integration of manufacturing and services is bringing change to the sources of industrial value added. Previously, trade in services attracted little attention for reasons such as that it was small in size compared with trade in goods, that it was centered around some specific sectors, such as transportation and travel, and that there were statistical constraints. However, now that the mode of cross-border trade has changed due to the integration of manufacturing and services, it is becoming more and more necessary to conduct integrated analysis of trade and investment in goods and services. Moreover, by looking at the global investment and location strategy that Japanese companies are adopting in light of the changes, we can understand the opportunities and challenges related to Japan's future trade relationships.

This chapter will first conduct a multi-angle analysis of the status of exports in the manufacturing industry, which has constituted Japan's strength, and then attempt to grasp the overall picture of trade

[286] Baldwin (2016)

and investment in goods and services by taking a close look at new developments related to cross-border goods and services transactions based on available data. In addition, by analyzing Japanese companies' investment and location strategy, we will consider the position of and challenges for Japan under the global strategies of Japanese manufacturing and contents companies and from the perspective of industrial location and the significance of FDIs for the Japanese economy. The chapter will go on to look at the prospects for Japan's trade relationships in this age, when the integration of manufacturing and services is proceeding and cross-border business activities and the source of value added are rapidly changing.

Section 1 International balance of payments structure

This section will look at an overview of the trend in Japan's international balance of payments and consider the overall characteristics of Japan's external trade and investment. In 2023, while the primary income surplus continued to be at a high level, the trade deficit shrank, resulting in expansion of the current account surplus. As a similar trend continued in 2024, the current account surplus expanded further. On the other hand, in recent years, the goods and services balance has remained in deficit.

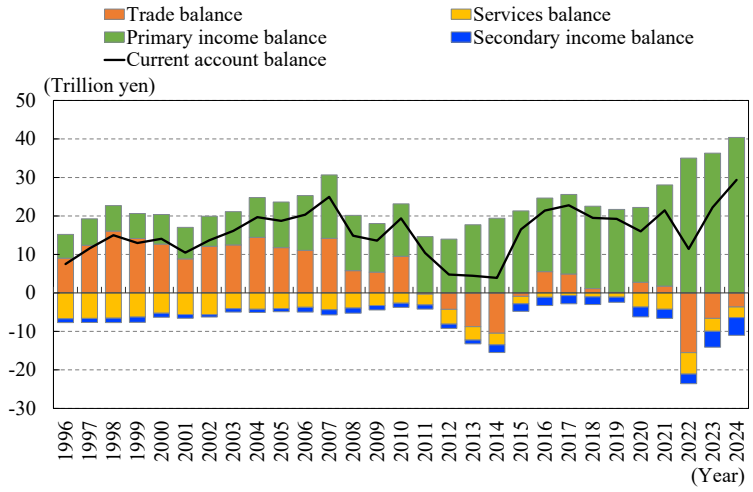
This section will identify the trends in Japan's current account balance, goods and services balance, and the primary income balance and examine changes in those trends. In particular, the section will treat goods and services, which have until now been looked at separately, as a whole, and look at Japan's balance with the rest of the world and with major trading partner countries/regions in terms of the combined balance of trade in goods and trade in services. As a result, we can look at an integrated overview of Japan's goods and services balances.

1. Overview of the current account balance

(1) Current account balance

In 2024, the current account balance (preliminary) produced a record high surplus of around 29 trillion yen (Figure II-3-1-1). A breakdown shows that the primary income surplus, which was at a record high in 2023, expanded further, to around 40 trillion yen. The second consecutive year of decline in the trade deficit also contributed to the expansion of the current account surplus. Meanwhile, although the services trade deficit expanded due to the effects of the COVID-19 pandemic after shrinking to nearly zero before the pandemic, it has recently narrowed moderately.

Figure II-3-1-1. Changes in current account balance in Japan



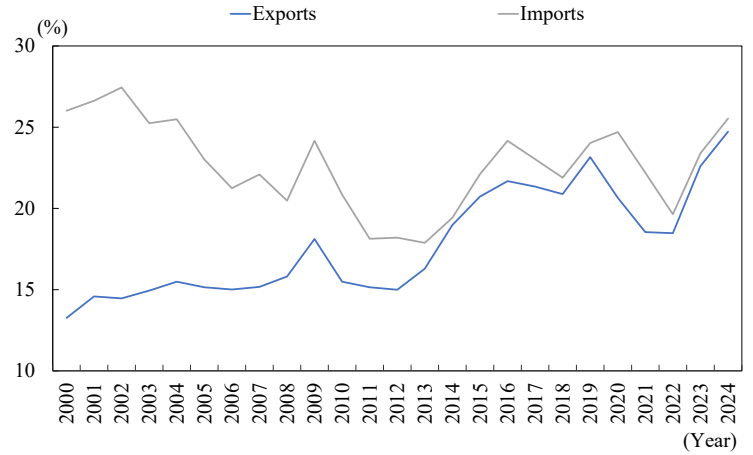
Source: *Balance of Payments* (MOF, BOJ).

(2) Trends in the goods and services balance

(A) Developments related to the overall goods and services balance

In 2024, the combined goods and services balance (in nominal terms) produced a deficit of around 8.2 trillion yen (Figure II-3-1-3).[287] Separately, the goods trade balance generated a deficit of around 5.5 trillion yen, and the services trade balance produced a deficit of around 2.8 trillion yen. The share of services in the total of goods and services exports, which has been trending upward in the medium and long-terms, was around 10 percentage points higher compared with 2000 (Figure II-3-1-2). It can be said that the presence of services exports is growing. On the other hand, the share of services in the total of goods and services imports has remained flat in the medium and long terms despite being influenced by fluctuations in resource prices.

Figure II-3-1-2. Share of services in goods and services imports and exports in Japan



Source: *Balance of Payments* (MOF, BOJ).

[287] "Goods and services balance" as referred to in this section is the total sum of the trade balance under trade statistics and the services balance under the international balance of payments statistics.

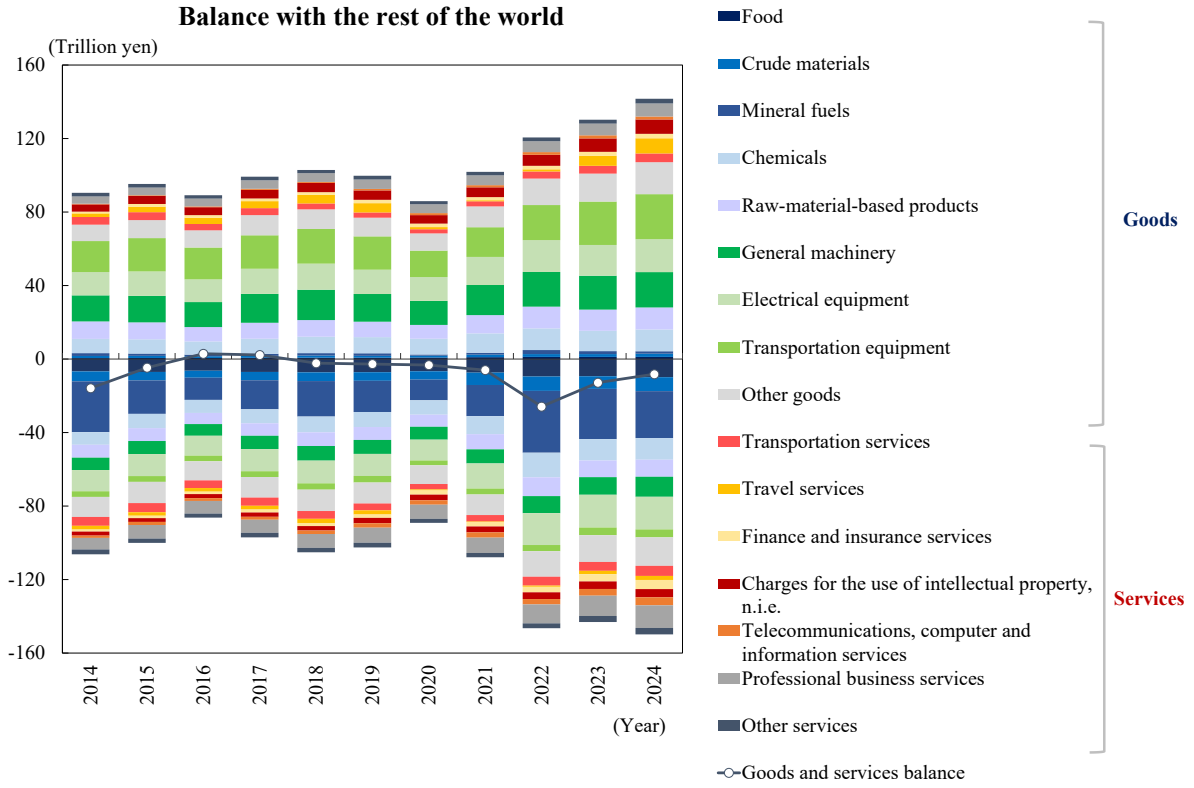
In recent years, some services industries have become similar in size to major manufacturing industries. Moreover, value added created in services industries and included in goods has become very large, so it is necessary to look across the boundary between trade in goods and trade in services when considering Japan's industrial competitiveness. Therefore, we will look at the impact of trade in goods and trade in services as a whole on Japan's overall balance.

Nominal exports of overall goods and services have been trending upward (Figure II-3-1-3). Recently, the main driver of overall exports has been transportation equipment. Travel services and charges for the use of intellectual property, n.i.e. have also been increasing.

On the other hand, regarding imports, foods, raw materials, and fuels, which have been affected by fluctuations in prices of energy and primary goods, have made significant contributions (Table II-3-1-4). As for the recent trend in imports, the value of imports and the deficit concerning digital-related products have expanded. This point will be taken up again in Part II, Chapter 3, Section 3.

Below, we will look at the trends in exports and imports by country/region.

Figure II-3-1-3. Changes in goods and services balance in Japan (with the rest of the world)



Note: The figure shows the import values with the positive and negative values reversed.
"Food" includes food products and animals, as well as beverages and tobacco.

Sources: *Trade Statistics of Japan* (MOF), *Balance of Payments* (MOF, BOJ).

Table II-3-1-4. Import and export values of major items in Japan

Item/category	Export value (100 million yen)		Composition rate (%)	
	2014	2024	2014	2024
Food	4,815	11,781	0.5	0.8
Crude materials	11,737	17,080	1.3	1.2
Mineral fuels	15,169	13,397	1.7	0.9
Chemicals	78,177	118,453	8.6	8.4
Raw-material-based products	94,637	119,888	10.5	8.5
General machinery	142,184	192,219	15.7	13.6
Electrical equipment	126,500	179,229	14.0	12.7
Transportation equipment	169,070	244,931	18.7	17.3
Other goods	88,641	173,901	9.8	12.3
Total of goods	730,930	1,070,879	80.8	75.6
Transportation services	41,946	47,696	4.6	3.4
Travel services	19,975	82,757	2.2	5.8
Finance and insurance services	9,398	24,305	1.0	1.7
Charges for the use of intellectual property, n.i.e.	39,607	77,805	4.4	5.5
Telecommunications, computer and information services	3,378	16,668	0.4	1.2
Professional business services	39,602	70,723	4.4	5.0
Other services	19,621	25,251	2.2	1.8
Total of services	173,527	345,203	19.2	24.4
Total of goods and services	904,457	1,416,083	100.0	100.0

Item/category	Import value (100 million yen)		Composition rate (%)	
	2014	2024	2014	2024
Food	67,318	98,520	6.3	6.6
Crude materials	53,998	76,619	5.1	5.1
Mineral fuels	276,924	255,025	26.1	17.0
Chemicals	68,642	117,949	6.5	7.9
Raw-material-based products	69,937	92,872	6.6	6.2
General machinery	67,610	108,805	6.4	7.3
Electrical equipment	115,325	177,303	10.8	11.8
Transportation equipment	30,563	43,674	2.9	2.9
Other goods	108,774	154,824	10.2	10.3
Total of goods	859,091	1,125,591	80.8	75.1
Transportation services	48,598	54,920	4.6	3.7
Travel services	20,419	21,585	1.9	1.4
Finance and insurance services	10,997	49,609	1.0	3.3
Charges for the use of intellectual property, n.i.e.	22,105	45,013	2.1	3.0
Telecommunications, computer and information services	12,257	43,642	1.2	2.9
Professional business services	62,591	122,891	5.9	8.2
Other services	26,894	35,308	2.5	2.4
Total of services	203,862	372,968	19.2	24.9
Total of goods and services	1,062,953	1,498,560	100.0	100.0

Note: “Food” includes food products and animals, as well as beverages and tobacco.

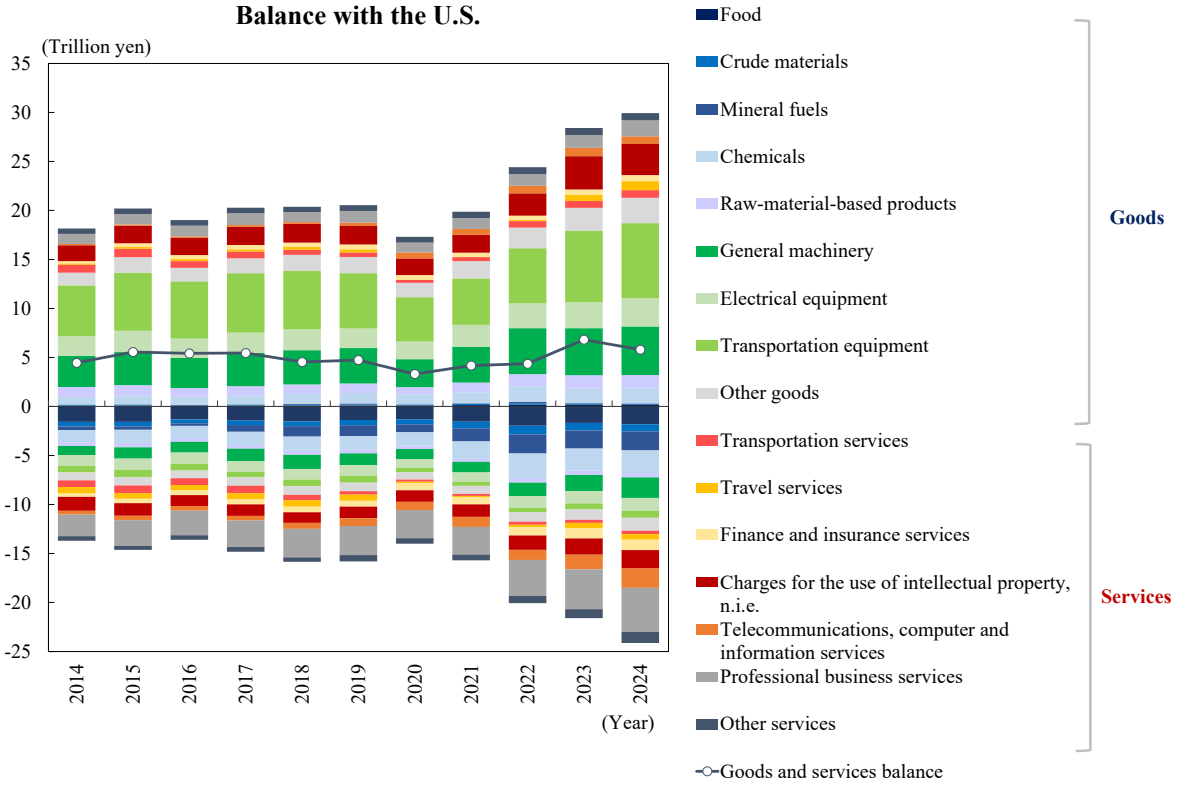
Sources: *Trade Statistics of Japan* (MOF), *Balance of Payments* (MOF, BOJ).

(a) Balance with the United States

Regarding the goods and services balances with the United States, both exports and imports have recently increased (Figure II-3-1-5). The main factor behind that trend is that transportation equipment, the largest export item, has boosted overall exports due to the resolution of supply constraints caused by the COVID-19 pandemic. In addition, exports of general machinery have also increased somewhat, and the value of charges for the use of intellectual property, n.i.e. has also grown and stayed higher than the value of exports of electrical equipment since 2023. Meanwhile, as for imports, the value of imports of digital-related services in particular has expanded (8.4 trillion yen[288] in 2024).

[288] The total of charges for the use of intellectual property, n.i.e., communication, computer and information services, and professional business services.

Figure II-3-1-5. Changes in goods and services balance in Japan (with the U.S.)

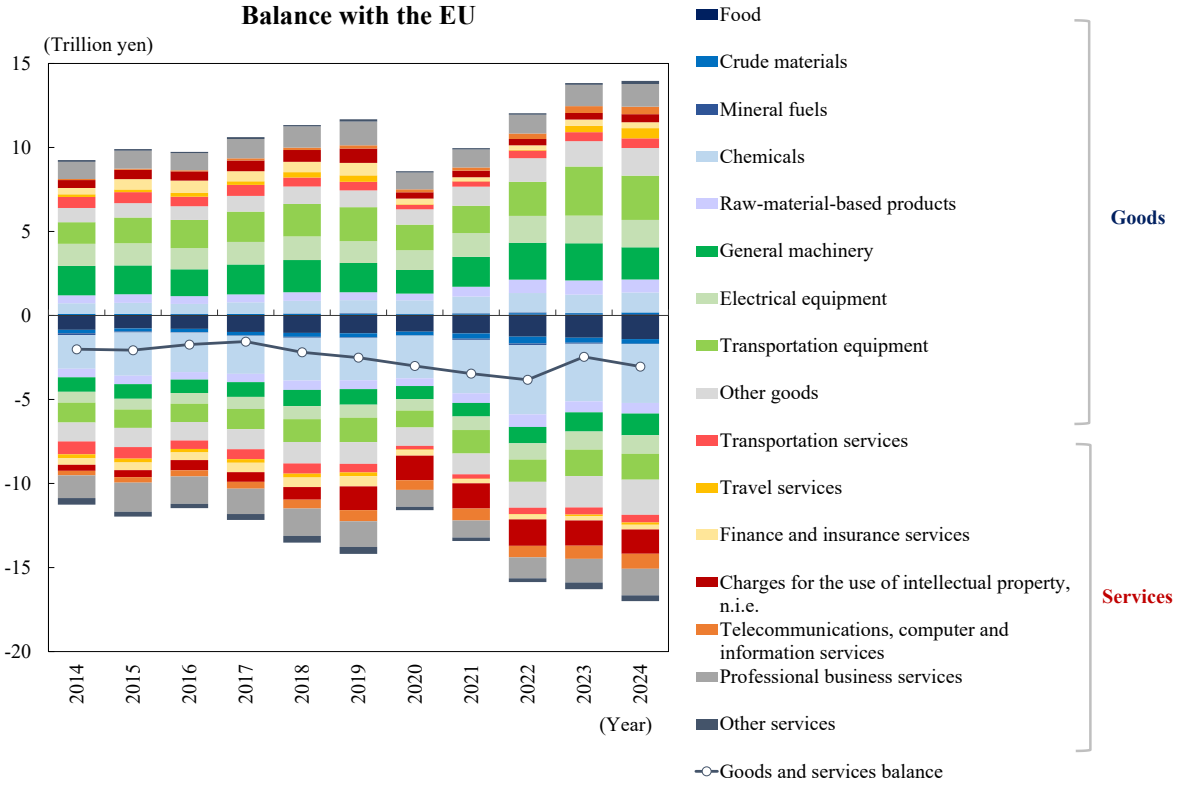


Note: The figure shows the import values with the positive and negative values reversed.
"Food" includes food products and animals, as well as beverages and tobacco.
Sources: *Trade Statistics of Japan* (MOF), *Balance of Payments* (MOF, BOJ).

(b) Balance with the EU

The goods and services balance with the EU has remained in deficit (Figure II-3-1-6). Over time, both exports and imports have increased moderately except during the period of the COVID-19 pandemic. Exports to the EU are mainly comprised of transportation equipment and other machinery. As for imports, chemicals have the largest share, and imports of chemicals have increased moderately, with pharmaceuticals accounting for the largest portion of chemicals imports.

Figure II-3-1-6. Changes in goods and services balance in Japan (with the EU)



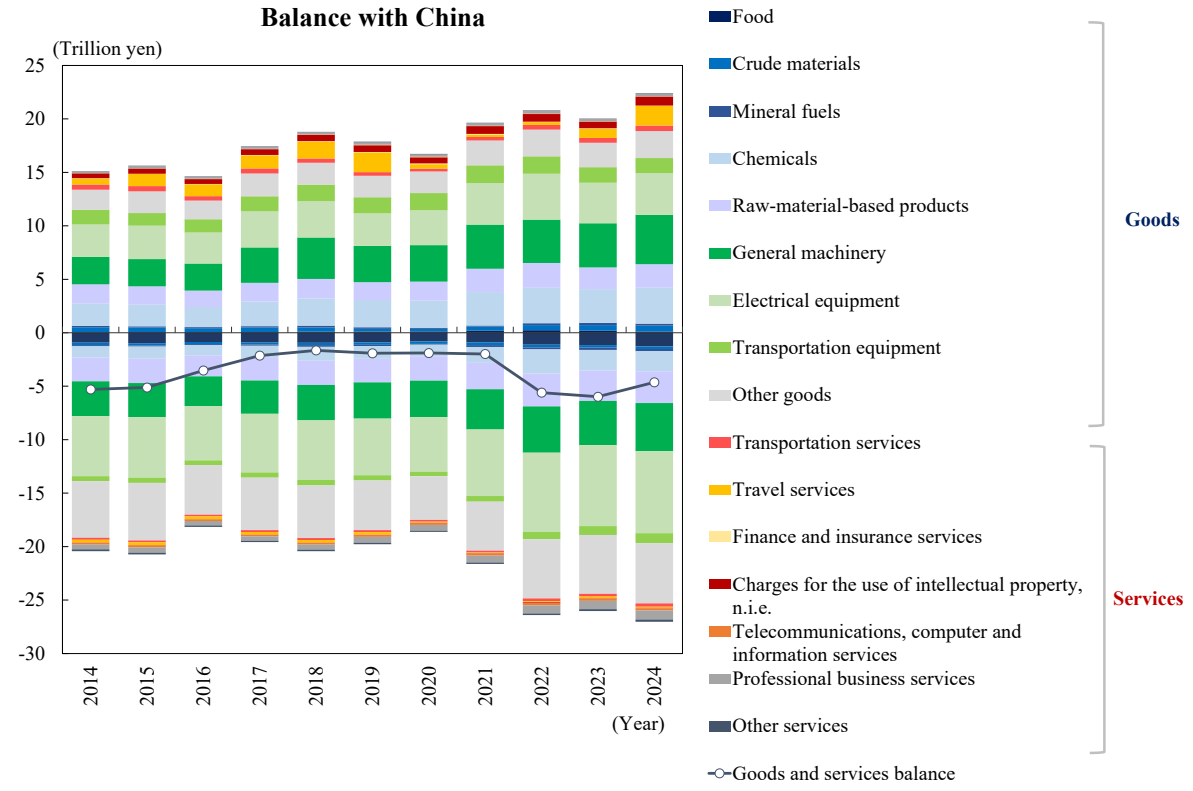
Note: The figure shows the import values with the positive and negative values reversed.
"Food" includes food products and animals, as well as beverages and tobacco.
The data for 27 countries, except the U.K. are aggregated.

Sources: *Trade Statistics of Japan* (MOF), *Balance of Payments* (MOF, BOJ).

(c) Balance with China

In goods and services trade with China, both exports and imports decreased in 2023. As for the trade balance, the deficit has expanded since 2022, with goods imports of electrical equipment, among other items, increasing (Figure II-3-1-7). Even so, China's share in overall imports of electrical equipment has declined in the long term, while the shares of Taiwan and ASEAN10 have grown (Figure II-3-1-8).

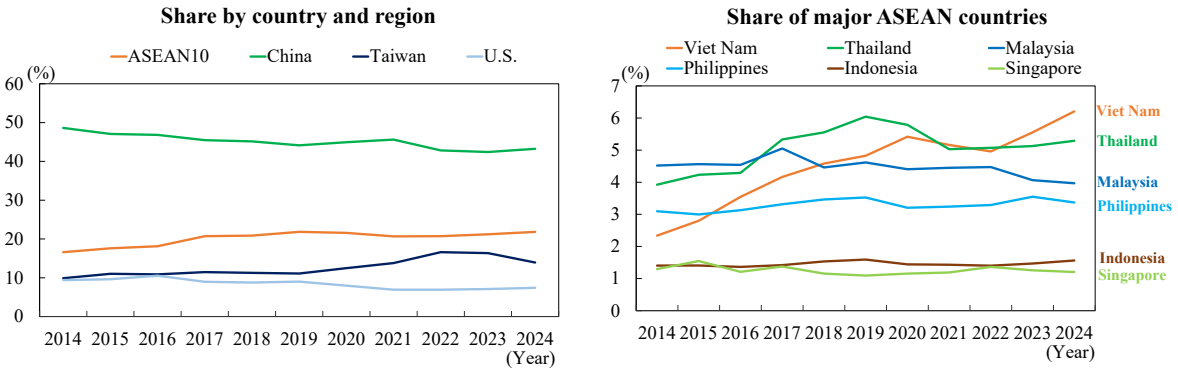
Figure II-3-1-7. Changes in goods and services balance in Japan (with China)



Note: The figure shows the import values with the positive and negative values reversed.
"Food" includes food products and animals, as well as beverages and tobacco.

Sources: *Trade Statistics of Japan* (MOF), *Balance of Payments* (MOF, BOJ).

Figure II-3-1-8. Japan's imports of electrical equipment by source country and region

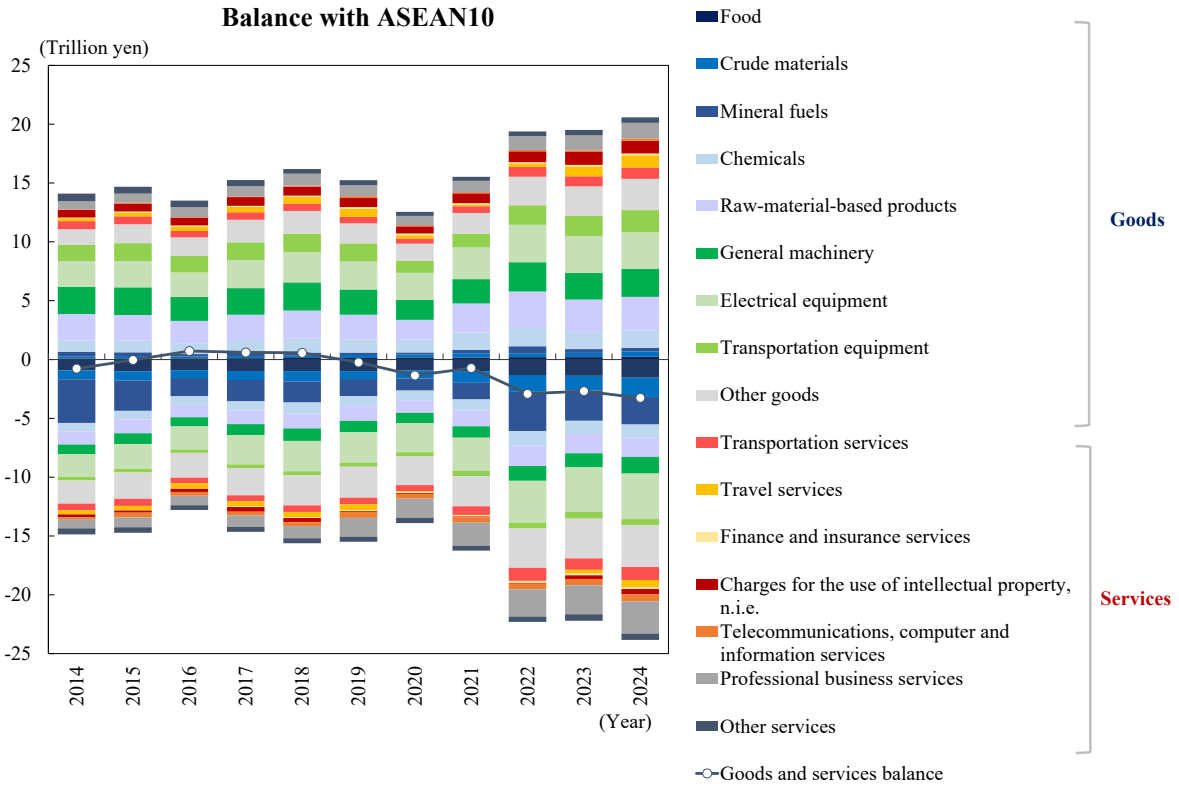


Source: *Trade Statistics of Japan* (MOF).

(d) Balance with ASEAN 10

In trade with ASEAN 10, the balance has fallen into and remained in deficit (Figure II-3-1-9). Imports of not only raw materials and fuels but also electrical equipment and digital-related services have increased, contributing to the deterioration of the balance. Imports of digital-related services from Singapore will be mentioned in detail in Part II, Chapter 3, Section 3.

Figure II-3-1-9. Changes in goods and services balance in Japan (with ASEAN10)



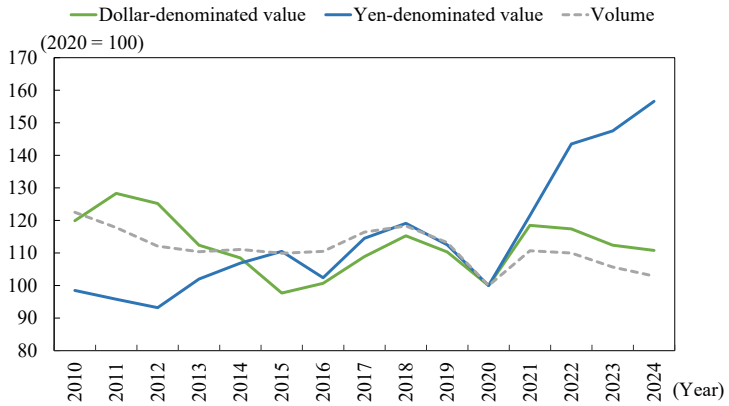
Note: The figure shows the import values with the positive and negative values reversed.
Sources: *Trade Statistics of Japan* (MOF), *Balance of Payments* (MOF, BOJ).

(B) Trends in exchange rates and goods exports

In nominal terms, goods exports from Japan have continued to increase. However, given that the yen remained weak in 2021 through the middle of 2024, the effects of exchange rates on export prices and volume must be taken into consideration. In terms of dollar-denominated value and in terms of volume, goods exports failed to grow in the period of the yen's weakness after 2022 and have recently trended downward, while in terms of yen-denominated value, goods exports increased by a factor of around 1.6 between 2020 and 2024 (Figure II-3-1-10).

In terms of volume and in terms of dollar-denominated value, goods exports followed an almost identical trend over the long term, and in recent years in particular, the trend lines in those two terms have been mostly parallel with each other. This means that in terms of dollar-denominated value, export prices have remained almost unchanged, suggesting that companies have not been active in raising prices in local currency terms.

Figure II-3-1-10. Goods exports in dollar-denominated value, yen-denominated value, and volume



Source: *DORUDATE BOUEKI GAIKYOU* (JETRO).

Let us check this point by looking at the export price index that takes into consideration the composition of contract currencies used in actual exports (Table II-3-1-11 and Figure II-3-1-12). According to the export price index that takes into consideration the composition of contract currencies as well, companies did not change export prices much in contract currency terms.

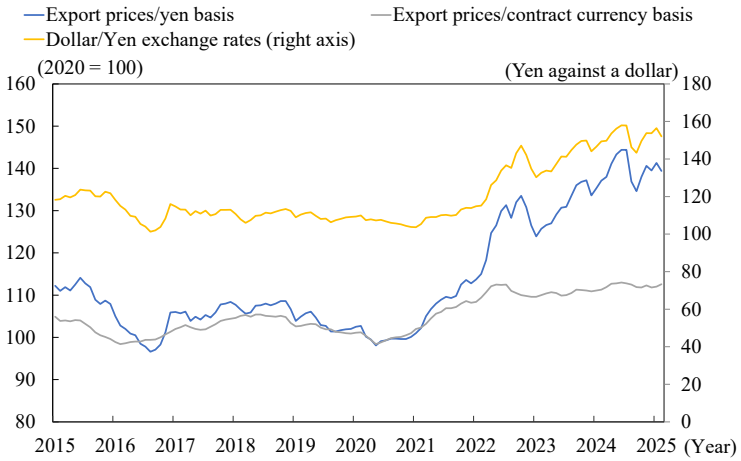
Table II-3-1-11. Composition ratios of export prices by contract currency

(%)

	Yen	Foreign currency	U.S. dollar	Euro	German Mark	Others
Dec. 1992	24.0	76.0	64.2	-	9.2	2.7
Dec. 1997	27.2	72.8	64.4	-	5.7	2.6
Dec. 2002	28.5	71.5	59.0	10.1	-	2.4
Dec. 2007	32.1	67.9	54.4	11.0	-	2.5
Dec. 2012	38.6	61.4	51.4	6.7	-	3.3
Dec. 2017	38.2	61.8	51.1	6.0	-	4.7
Dec. 2022	37.2	62.8	49.6	7.1	-	6.1
Dec. 2023	37.5	62.5	49.2	7.4	-	5.8

Source: *Component Ratio by Contract Currency in the EPI and IPI* (BOJ).

Figure II-3-1-12. Changes in export prices

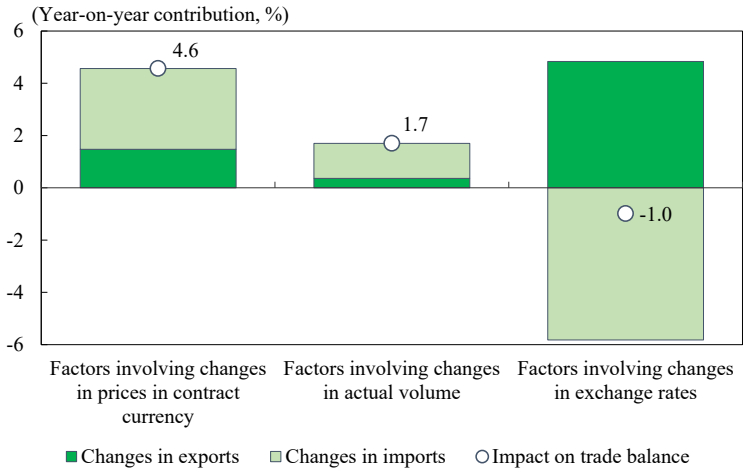


Sources: *Corporate Goods Price Index, Foreign Exchange Rates* (BOJ).

A look at the quantitative impact on exports and imports shows that the exchange rate factor accounted for most of the change in the nominal trade balance in 2024. Regarding exports in particular, the contributions of the contract currency price factor and the volume factor were limited (Figure II-3-1-13).

With respect to the low sensitivity of export prices to exchange rates, various reasons have been pointed out. First, as mentioned earlier, the dollar, as a contract currency, accounts for around half of overall Japanese exports, and the share of overall foreign currencies, including the dollar, the euro and other currencies, is around 62.5%. Sato and others pointed out that the low sensitivity to exchange rates reflects the fact that companies mostly set prices in foreign currency terms.[289]

Figure II-3-1-13. Breakdown of factors affecting changes in trade balance (2024)



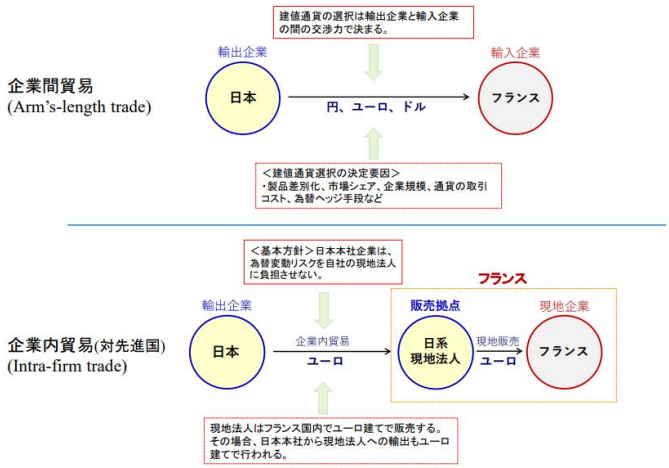
Note: For the approach to aggregating the figure, see Figure II-2-2-1 "Explanations of decomposition of change in trade balance into factors" in *White Paper on International Economy and Trade 2023*.[290] Since the Corporate Goods Price Index is used for deflation, the results do not match the quantity index calculated from unit prices.

Sources: *Corporate Goods Price Index, Developments in Real Exports and Real Imports* (BOJ).

The rise in the ratio of intra-firm exports due to Japanese companies' overseas business expansion is also presumed to be contributing to the low sensitivity to exchange rates. According to Sato, when Japanese companies export to other companies, the invoice currency is determined depending on the balance of negotiating power between the exporting and importing companies, with options including the currency of the export destination country, the currency of the import source country and the dollar, which is the main international settlement currency[291] (Figure II-3-1-14). On the other hand, in the case of intra-firm trade, Sato pointed out that in many cases, parent companies in Japan choose local currencies in order to exempt their local subsidiaries from exchange fluctuation risk.

[289] Sato (2023)
[290] Ministry of Economy, Trade and Industry (2023)
[291] Sato (2024)

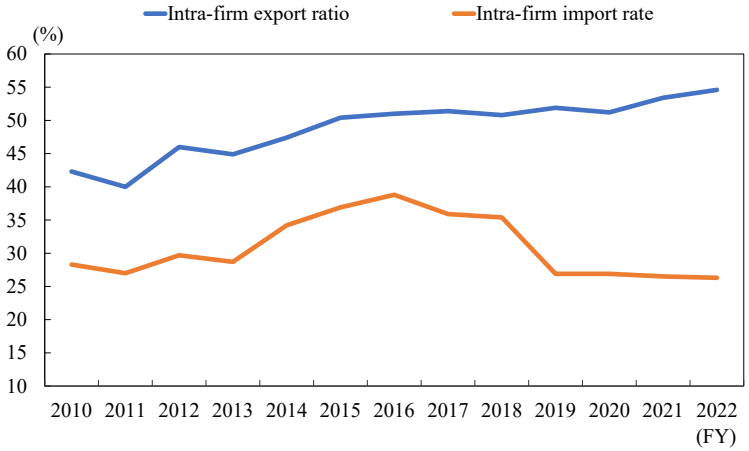
Figure II-3-1-14. Option for trade invoice currency: inter-firm trade and intra-firm trade



Source: Sato (2024).

The intra-firm trade ratio among Japanese companies has been trending upward as the companies pursue overseas business expansion, and recently, intra-firm trade has accounted for slightly more than 50% of overall exports (Figure II-3-1-15). The rising ratio of intra-firm trade is presumed to have worked to lower the sensitivity of export prices in local currency terms to exchange rates.

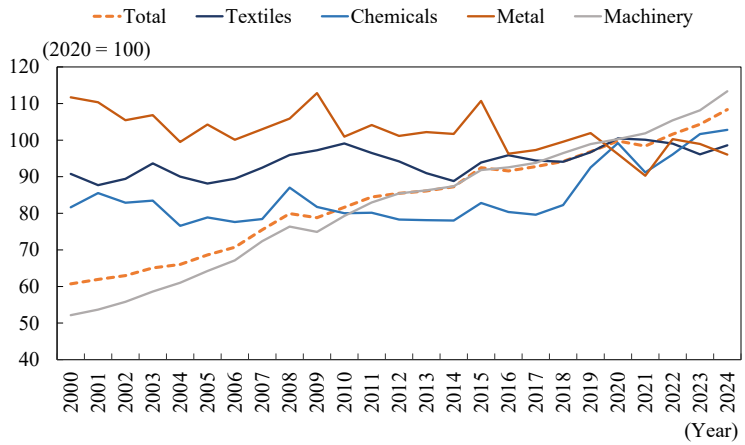
Figure II-3-1-15. Intra-firm trade ratio among Japanese companies



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

Finally, differentiation and nichification of export products are also presumed to be contributing to the decline in the sensitivity of export prices. When products have been differentiated, it is difficult to replace them with other products, so the change in demand in response to price fluctuations becomes smaller. As a result, when a price change involves some cost in particular, the company may consider it to be rational to keep the price unchanged. In this respect, the value added index for export products, based on the unit value index and the export price, has been trending upward (Figure II-3-1-16). Behind this trend is the fact that Japanese companies have pursued differentiation for existing export goods while China and other countries with a cost competitive advantage participated in global supply chains.

Figure II-3-1-16. Value added index for exports



Note: The value added index for exports is calculated as the ratio of the price index for exports to the export price index compiled by the Bank of Japan. The export price index incorporates quality adjustments, which are the primary reason for the difference between this index and the unit price index.

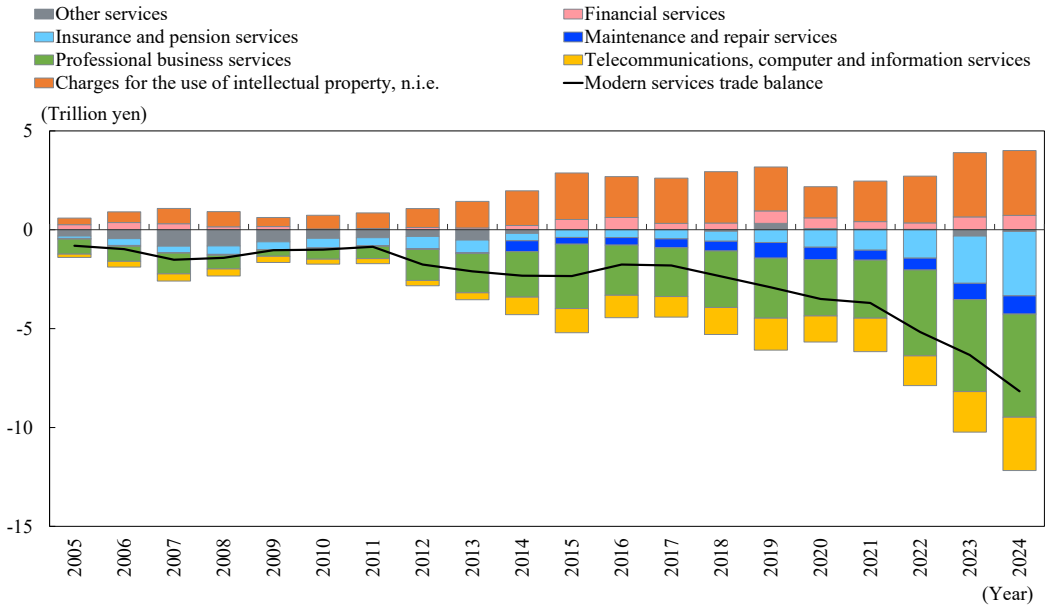
Sources: *Trade Statistics of Japan* (MOF), *Corporate Goods Price Index* (BOJ).

(C) Trends in the services trade balance

As mentioned in Part II, Chapter 1, Section 2, Baldwin et al. call a group of services other than transportation and travel that are growing in importance amid structural changes, such as the advance of digitalization, "modern services."[292] Japan's modern services trade balance has continued to deteriorate, with professional services and digital-related services such as communication, computer and information services acting as the main negative contribution factors (Figure II-3-1-17). Digital-related trade will be analyzed in Part II, Chapter 3, Section 3, so here, we will examine the recent characteristics of charges for the use of intellectual property, n.i.e. that are making positive contributions to the balance, focusing mainly on charges for the use of industrial property, n.i.e. in particular.

[292] Baldwin et al. (2024)

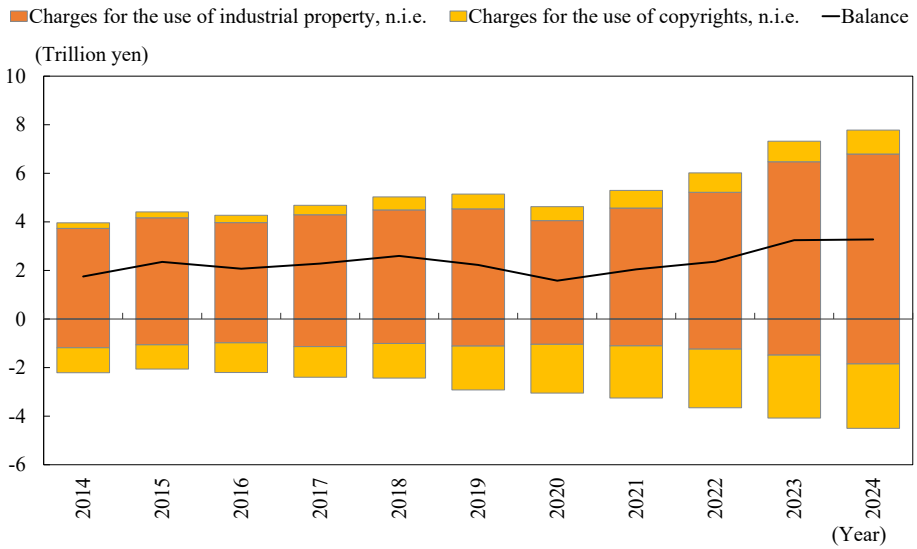
Figure II-3-1-17. Modern services trade balance and breakdown



Source: *Balance of Payments* (MOF, BOJ).

First, charges for the use of intellectual property, n.i.e., for which the balance is in surplus, are comprised of charges for the use of industrial property, n.i.e, and charges for the use of copyrights, n.i.e. Although imports of charges for the use of copyrights, n.i.e. have increased in recent years, the increase in exports of charges for the use of industrial property n.i.e. is boosting the overall balance (Figure II-3-1-18).

Figure II-3-1-18. Breakdown of imports and exports of charges for the use of intellectual property rights, n.i.e.

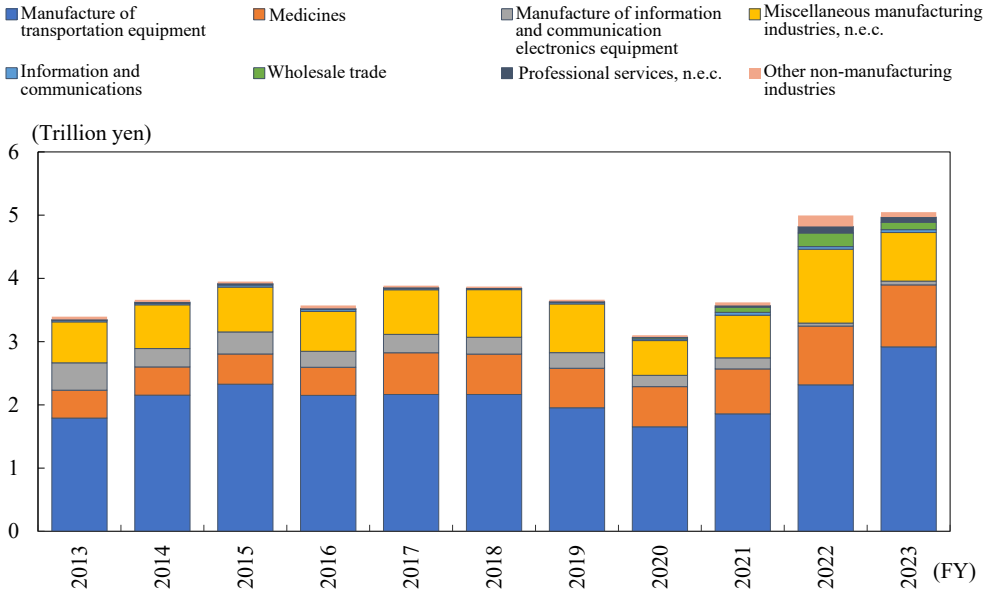


Note: The figure shows the import values with the positive and negative values reversed.
Source: *Balance of Payments* (MOF, BOJ).

It is impossible to precisely identify the industries using industrial property, n.i.e. abroad from the international balance of payments statistics, so we use the Survey of Research and Development,[293] prepared by the Ministry of Internal Affairs and Communications, for the analysis. The manufacture of transportation equipment accounts for more than half of technology trade exports by Japanese companies, and the increase in exports since FY2021 is attributable mainly to this industry (Figure II-3-1-19).

In many cases, technology exports from Japan are transactions between parent companies and subsidiaries (Figure II-3-1-20). The establishment of manufacturing bases abroad by Japanese companies is considered to have induced technology trade-related exports. A typical example is as follows. When an overseas subsidiary established by a manufacturing company (parent company) manufactures products locally, it pays to the parent company some charges for the use of industrial property, n.i.e. from out of the business profits earned using the property rights. This is consistent with the assessment by Matsuse et al. that there is a strong positive correlation between charges for the use of industrial property, n.i.e. and overseas production volume of automobiles.[294]

Figure II-3-1-19. Japanese companies' technology exports by industrial classification



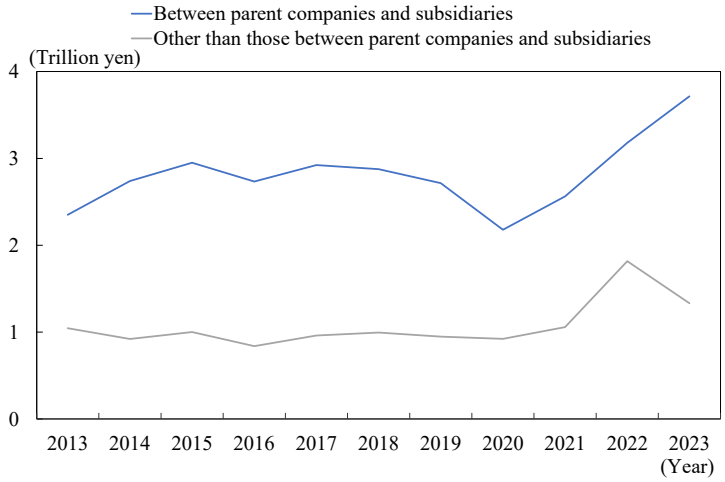
Note: Technology trade includes (1) patent rights, utility model rights, and copyrights; (2) design rights; (3) provision of technical know-how and technical guidance (excluding free provision); and (4) technical assistance to developing countries (including that commissioned by governments). According to Nakamura (2016), this concept is similar to the "charges for the use of industrial property, n.i.e." category in the Balance of Payments.

Source: *Report on the Survey of Research and Development* (MIC).

[293] The survey in 2024 covered around 18,700 subjects, including 13,500 companies, 1,100 non-profit and public organizations, and around 4,100 universities, etc., of which 91% gave valid responses (the valid response rate was 87% among the companies, 99% among the non-profit and public organizations and 99% among the universities, etc.).

[294] Matsuse et al. (2023)

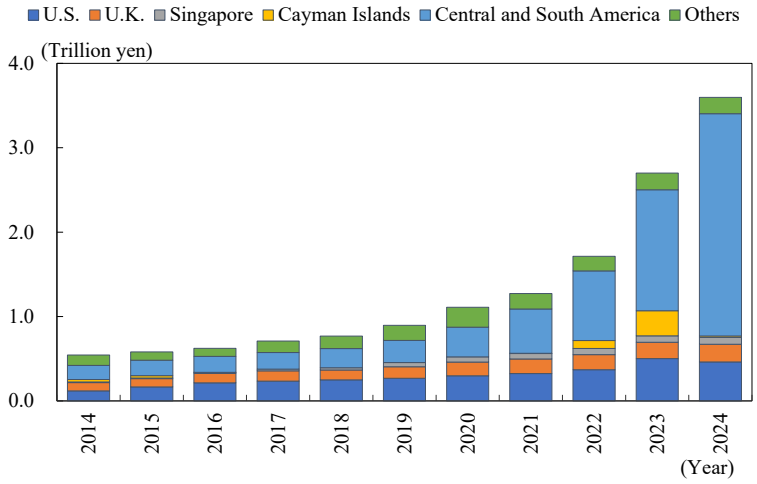
Figure II-3-1-20. Technology exports between parent companies and subsidiaries and other technology exports in Japan



Source: *Survey of Research and Development* (MIC).

Apart from digital-related services, insurance and pension services are also negative contributing factors. Regarding insurance and pension services, payments to Central and South America excluding the Cayman Islands have increased considerably (Figure II-3-1-21). According to Matsuse et al., payments from Japan to those regions are increasing rapidly because reinsurance markets there are well developed due to tax advantages.[295]

Figure II-3-1-21. Japan's imports of insurance and pension services by country and region



Note: The values for Central and South America represent the combined total for countries excluding the Cayman Islands.

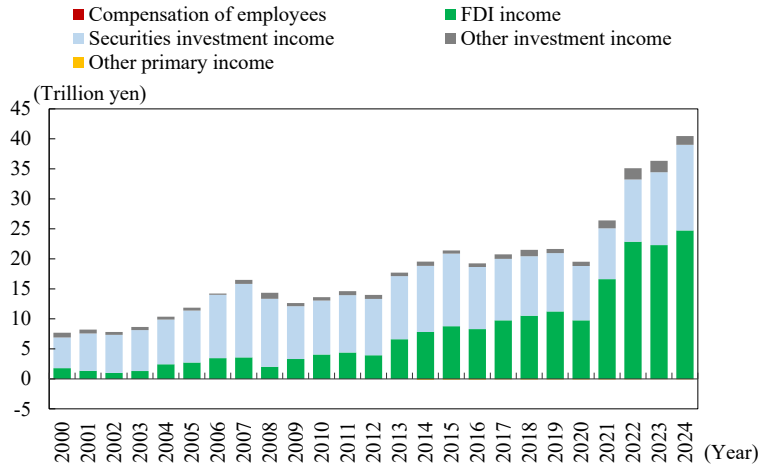
Source: *Balance of Payments* (MOF, BOJ).

[295] Matsuse et al. (2023)

(3) Trends in the primary income balance

We will look at an overview of the trends in the primary income balance, which produced a record high surplus. Since 2021, the primary income surplus has expanded (Figure II-3-1-22). The main factor is an increase in income from FDIs, which was slightly smaller than 10 trillion yen in 2020, but which later increased steeply, reaching nearly 25 trillion yen, more than double the previous level, in the most recent three years. On the other hand, securities investment income, which accounted for most of the primary income balance until around the middle of the 2010s, has increased relatively moderately.

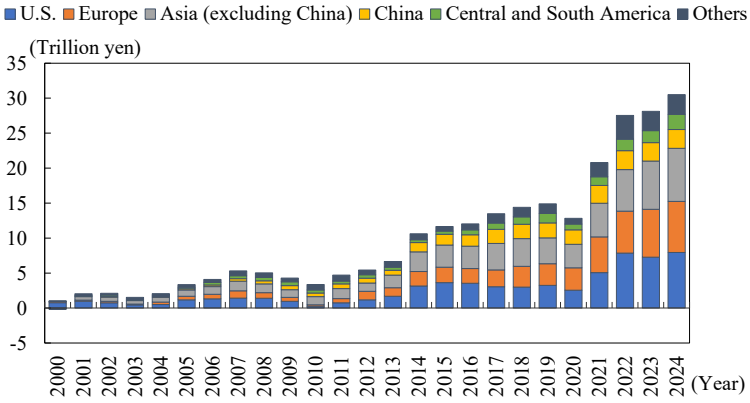
Figure II-3-1-22. Breakdown of primary income balance in Japan



Note: The data for 2024 are preliminary values.
Source: *Balance of Payments* (MOF, BOJ).

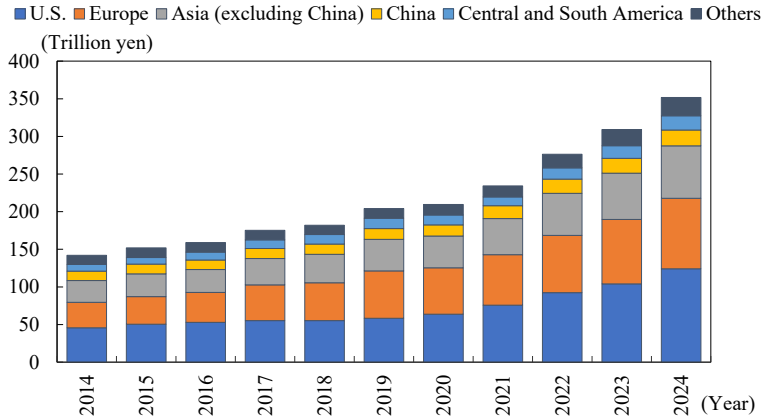
As for income from FDIs by region, until the 2010s, Asia (excluding China) and China were the main source of income from FDIs, but since the 2020s, the shares of developed countries as income sources have increased rapidly (Figure II-3-1-23). In this respect, in terms of FDI stocks too, investments in the United States and Europe have increased in the 2020s (Figure II-3-1-24).

Figure II-3-1-23. Changes in Japan's FDI income by country and region



Note: Receipt basis.
Source: *Balance of Payments* (MOF, BOJ).

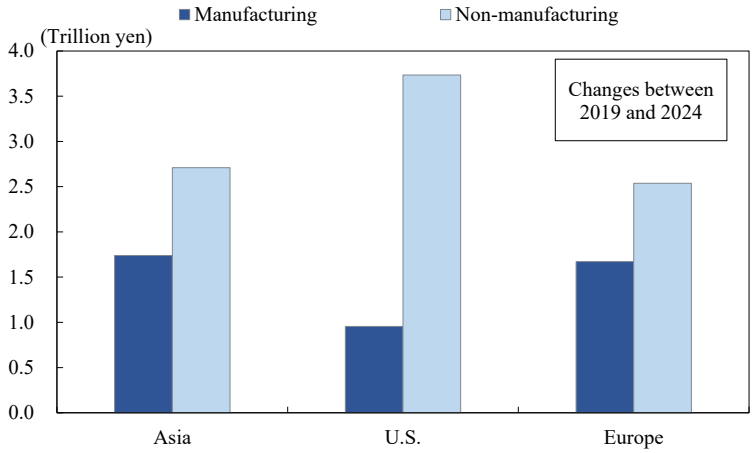
Figure II-3-1-24. Japan's outward FDI stocks by country and region



Source: *Balance of Payments* (MOF, BOJ).

Regarding income from FDIs in Asia, the United States and Europe, by industry, the non-manufacturing industry accounts for more of the increase in income between 2019 and 2024 than the manufacturing industry in all of the three (Figure II-3-1-25).

Figure II-3-1-25. Japan's FDI income from major countries and regions (by the manufacturing industry and non-manufacturing industry)



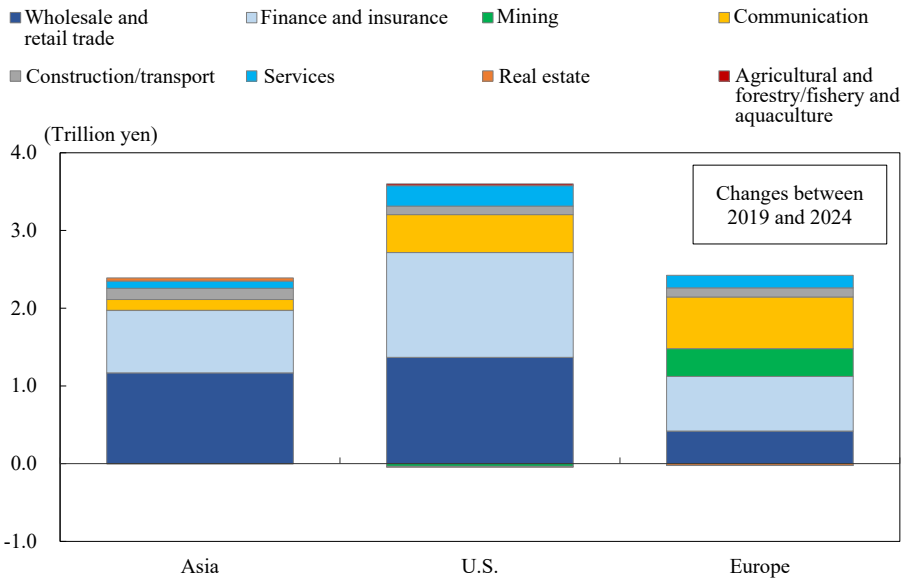
Note: Receipt basis.

Source: *Balance of Payments* (BOJ, MOF).

According to the breakdown of the non-manufacturing industry, income from FDIs in the wholesale/retail industry and the financial/insurance industry increased in all of Asia, the United States and Europe (Figure II-3-1-26). Income from FDIs in the telecommunications industry also increased in all those regions.

The above trend in income from FDIs is considered to reflect the change of stages of overseas business expansion by Japanese companies and change in the external environment. Regarding the specifics of FDIs in foreign non-manufacturing industries by Japanese companies, a further analysis will be conducted in Part II, Chapter 3, Section 3.

Figure II-3-1-26. FDI income in the non-manufacturing industry

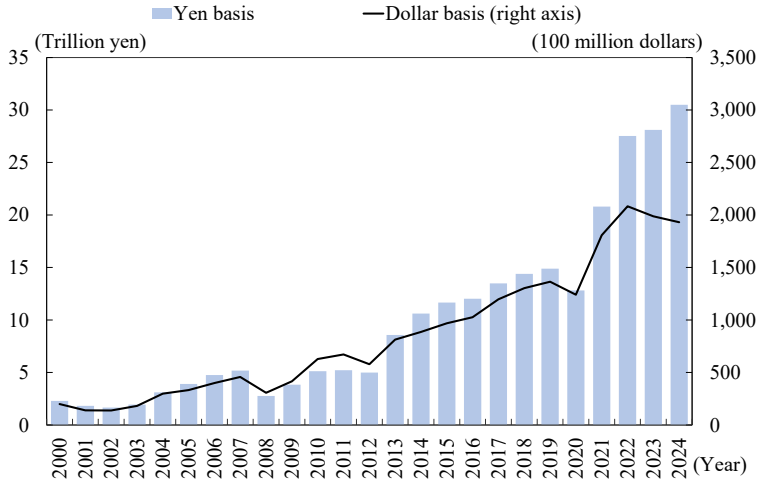


Note: Receipt basis.

Source: *Balance of Payments* (MOF, BOJ).

As in the case of nominal exports, attention should be paid to the point that income from FDIs is also affected by the boosting effect from the yen's weakness. In this respect, a comparison between income from FDIs on a dollar basis and on a yen basis shows that since 2021, income on a dollar basis has not increased (Figure II-3-1-27).

Figure II-3-1-27. Japan's FDI income (yen basis, dollar basis)

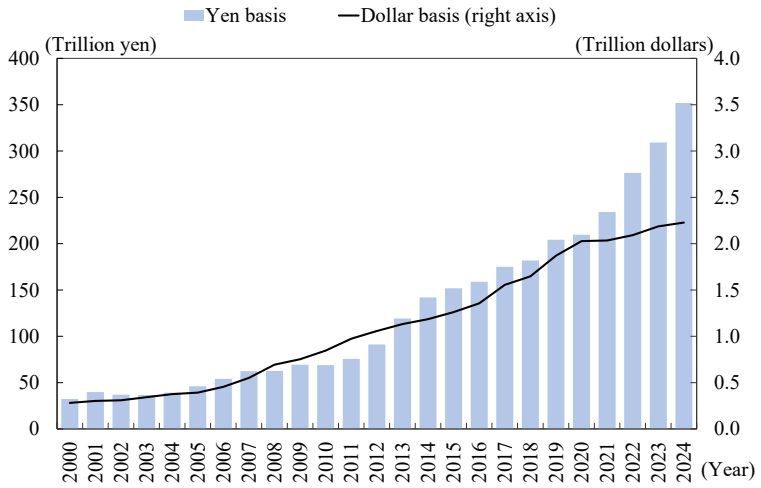


Note: Receipt basis; The dollar-based values are derived by converting yen-denominated data using the Bank of Japan's end-period interbank rate.

Source: *Balance of Payments* (BOJ, MOF).

Regarding FDI stocks as well, the increase was moderate on a dollar basis compared with on a yen basis (Figure II-3-1-28).

Figure II-3-1-28. Japan's outward FDI stocks (yen basis, dollar basis)



Note: The dollar-based values are derived by converting yen-denominated data using the Bank of Japan's end-period interbank rate.

Source: *Balance of Payments* (BOJ, MOF).

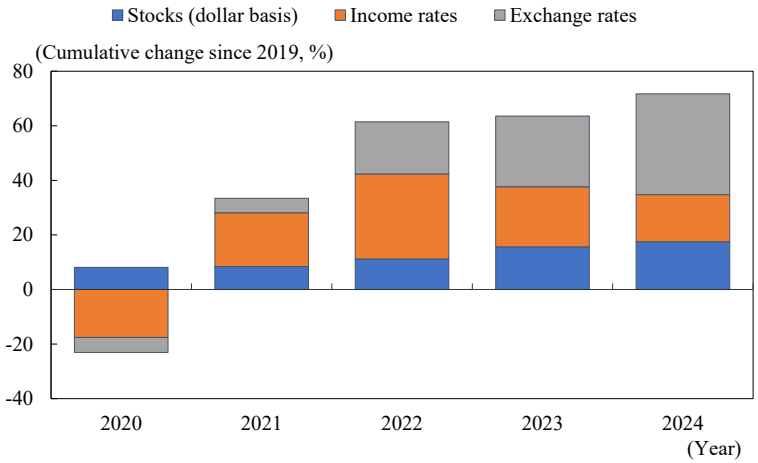
Here, we will estimate the impact of exchange rates under the method described in Table II-3-1-29.

Table II-3-1-29. Method for decomposing FDI income into factors, such as stocks and exchange rates

Income = income (dollar-denominated income) × exchange rate = stocks (local currency) × income rate × exchange rate The decomposition is performed by taking the log-difference of both sides of the equation.

The above decomposition of factors indicates that a substantial portion of the increase in income from FDIs may be attributable to the exchange rate factor (Figure II-3-1-30). In light of that, the recent level of the primary income surplus is considered to have been boosted in no small part by the yen's weakness, so the primary income surplus is expected to be susceptible to future movements in exchange rates. Even so, when we look at the estimate, some margin of error should be allowed for given that not all foreign investments are made in dollar terms.

Figure II-3-1-30. Decomposition of FDI income into factors, such as stocks and exchange rates



Note: The cumulative change is calculated using log-differences from the previous period relative to 2019.

Source: *Balance of Payments* (MOF, BOJ).