Section 3 Cross-border transactions of goods and services

The development and global diffusion of digital technology is promoting the integration of manufacturing and services, making it more and more necessary to conduct an integrated analysis of cross-border transactions of goods and services.[308] Japan's trade and investment structure is no exception to that trend. Regarding Japan's trade in services as viewed from international balance of payments statistics, an increase in the tourism services surplus due to the expansion of inbound tourism and the expansion of the so-called digital trade deficit are attracting attention. At the same time, in light of the industrial trend of the integration of manufacturing and services, it is also worthwhile from the viewpoint of grasping the overall picture of trade and investment in goods and services to examine cross-border transactions including the provision of services through overseas business bases (Mode 3) and trade in services added value (Mode 5).[309]

This section will first focus on Japan's digital-related trade and identify the characteristics thereof while taking into consideration the classification of services trade by mode made in Part II, Chapter 1, Section 2 and the trends in global digital trade. Then, we will take a close look at the actual status of Japan's trade and investment in goods and services through an integrated analysis of cross-border transactions of goods and services, including those not related to digital technology. In doing that, we will conduct a comprehensive analysis by looking not only at services trade that appears in the services balance of international balance of payments statistics (mainly Modes 1, 2, and 4) but also at the provision of services through overseas business bases (Mode 3) and trade in services added value used as intermediate input for the manufacturing and provision of goods (Mode 5).

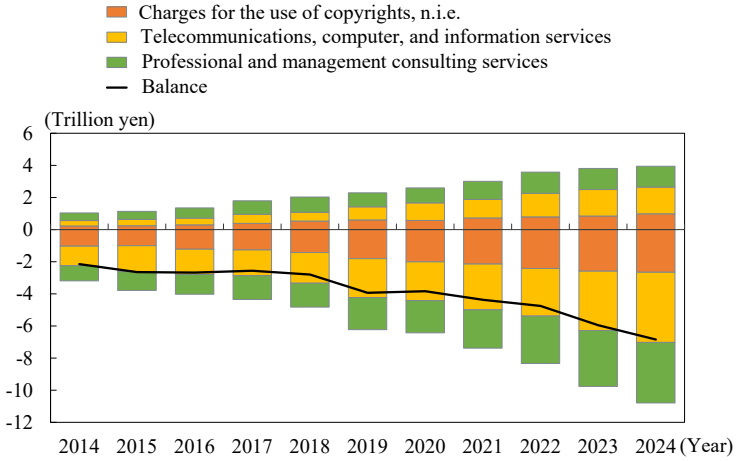
1. Trends in digital-related trade

(1) Trends in digital-related trade

The definition and scope of digital-related trade vary depending on context. However, in discussions in Japan, which was mentioned in Part II, Chapter 1, Section 2, the popular approach is to include trade in the following types of services in the definition and scope of digital-related trade in accordance with the definition by Matsuse et al., which is shown in Figure II-1-2-15: charges for the use of copyrights, n.i.e., telecommunications, and computer and information services, and professional and management consulting services.[310] If this definition is followed, since around 2020, the deficit regarding digital-related trade has been expanding as a trend due to an increase in imports of digital-related services (Figure II-3-3-1). As for the recent trend, the deficit regarding digital-related trade is expanding further due to increases in imports of all of charges for the use of copyrights, n.i.e., telecommunications, computer and information services, and professional and management consulting services.

[308] See Part II, Chapter 1, Section 2.
[309] See Part II, Chapter 1, Section 2.
[310] Matsuse et al. (2023)

Figure II-3-3-1. Trend in balance of digital trade

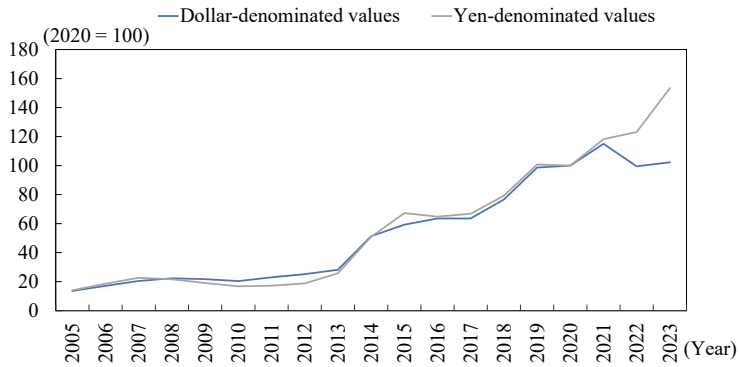


Note: The figure shows the import values with the positive and negative values reversed.
Source: *Balance of Payments* (MOF, BOJ).

In order to grasp the actual status of digital-related trade, it is desirable that a factor-by-factor breakdown can be made to determine whether the increase in imports of digital-related services is attributable to an increase in actual trade volume or a rise in import prices due to the yen's weakness. However, breaking down trade in services into the volume and price factors is not easy because of data constraints, unlike in the case of exports of goods. One possible alternative option is to use the export and import values in dollar terms as substitute indicators of export and import volumes on the assumption that the main currency actually used for trade settlement is the U.S. dollar. However, as the details of currencies actually used for settlement are unclear, certain reservations should be held regarding the interpretation of the results.

If we look at the trend in imports of telecommunications, computer and information services in dollar terms based on statistics prepared by the WTO, we can see that imports have remained flat in dollar terms but have continued to increase in yen terms since 2021 (Figure II-3-3-2). The contrasting trends indicate that the deterioration of the digital-related balance since 2022, when the yen depreciated rapidly, was affected in no small part by exchange rates.

Figure II-3-3-2. Japan's imports of telecommunications, computer, and information services



Sources: Trade in Commercial Services (WTO), *Balance of Payments and Foreign Exchange Rates* (BOJ, MOF).

In light of the above, it is necessary to allow for a margin of variance when looking at the recent expansion of the digital trade deficit, but in the long term, it is obvious that imports have been trending upward. Below, we will analyze in detail the background to increases in imports in the following categories of services: (i) charges for the use of copyrights, n.i.e., (ii) telecommunications, computer and information services, and (iii) professional and management consulting services.

(2) Charges for the use of copyrights, n.i.e.

Charges for the use of copyrights, n.i.e. are paid mainly for the use of software programs, music, video, and character images. For example, when terminals installed with operating systems and applications are sold, the charges include licensing fees paid by the sales company to the companies holding the copyrights for those software programs (Table II-3-3-3).

Table II-3-3-3 Scope of charges for the use of copyrights, n.i.e.

Charges for licenses to reproduce and distribute (such as selling and free-of-charge distribution) copyrighted materials (such as computer software, music, video recordings, characters, as well as literary, academic, and artistic works).
Examples: License fees paid by an entity to a copyright holder for the use of films or music to be sold (including those leased or distributed) in the form of disks or files; license fees for the use of characters; charges for screening and broadcasting rights for films; charges for the distribution rights for films; and license fees for releasing films on video.

Source: *Balance of Payments Related Statistics: Methodologies by Item* (BOJ).

It is necessary to keep in mind that the charges included in this category are charges paid for the use of copyrights alone. Trade related to intellectual property under international balance of payments statistics can be classified into various items, depending on the types of rights and the types of copyrighted content (Table II-3-3-4; for the overall picture of the service classification, see Table II-1-2-15). For example, direct payments made by Japanese consumers to foreign streaming service platform operators, which have increased in recent years, are recorded as audiovisual and related services, rather than charges for the use of copyrights, n.i.e. On the other hand, in the case of a business model in which a Japanese subsidiary of a foreign streaming service platform operator pays charges for the use of copyrights to the parent company, the payment is recorded as charges for the use of copyrights, n.i.e. However, how the payment of those charges is recorded may vary depending on individual companies' manners of accounting treatment and reporting, so it is difficult to grasp the overall picture.

Table II-3-3-4. Classification items of trade related to intellectual property

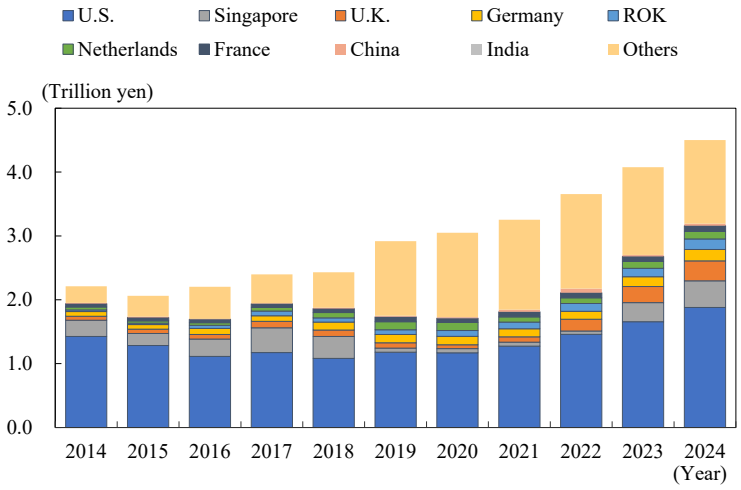
	Sale/purchase of ownership rights	Authorization for use
Patent rights, etc. (rights obtained as an outcome of R&D)	"Research and development services"	"Charges for the use of industrial property, n.i.e." Example: Royalties associated with production technology
Copyrights	- Computer software "Computer services" - Others "Audiovisual and related services"	- Compensation for reproduction and distribution => "Charges for the use of copyrights, n.i.e." Example: License fees for installing software on computers for sale
		- Others (paid by end users) - Music and video => "Audiovisual and related services" Example: Charges for downloading music - Others => "Computer services" Example: Charges for downloading of or subscribing to game software (However, general-purpose software provided on physical media is classified in "trade balance.")

Note: The terms in quotation marks (" ") are items used under the international balance of payments statistics.

Source: *Balance of Payments Related Statistics: Methodologies by Item* (BOJ).

Regarding imports of charges for the use of intellectual property, n.i.e, which include charges for the use of copyrights, n.i.e, by country/region, the United States accounts for most of Japan's overall imports, but the share of "others" has also grown in recent years (Figure II-3-3-5).

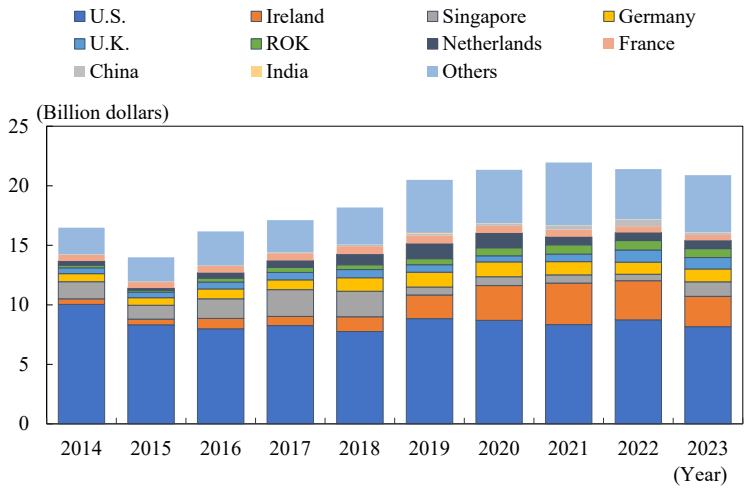
Figure II-3-3-5. Japan's payment of charges for the use of intellectual property rights, n.i.e. (by country and region)



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

If we look at recipients of charges for the use of intellectual property, n.i.e. paid by Japan based on the BaTiS dataset, published by the WTO and the OECD, in order to take a detailed look at countries and regions classified as "others," we can see that Ireland is the second largest import source, after the United States (Figure II-3-3-6).

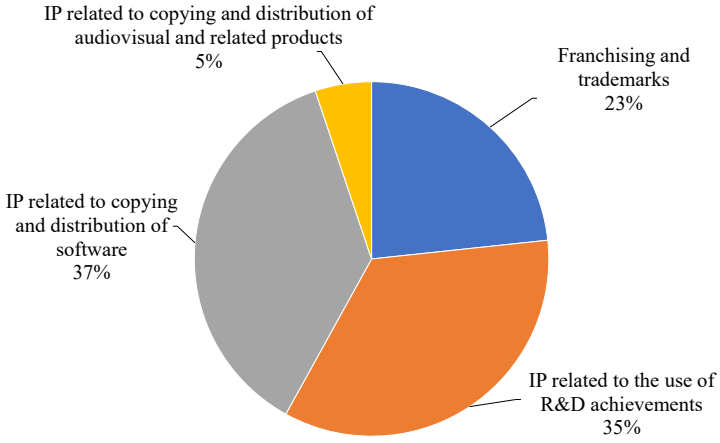
Figure II-3-3-6. Japan's payment of charges for the use of intellectual property rights, n.i.e. based on the BaTiS dataset (by country and region)



Source: BaTiS (WTO).

As for the payment of charges for the use of intellectual property, n.i.e. by Japan to the United States, licensing related to the copying and distribution of software programs accounts for the largest portion of the total payments, followed by licensing related to the use of research and development outcomes (Figure II-3-3-7).

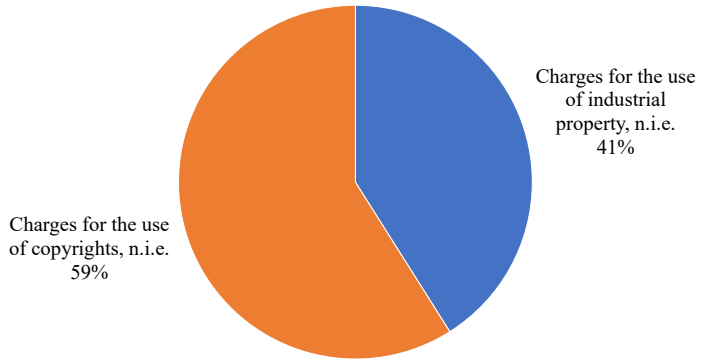
Figure II-3-3-7. Breakdown of Japan's payment of charges for the use of intellectual property rights, n.i.e. to the U.S.



Note: This figure shows values in 2023.
Source: Trade in Commercial Services (WTO).

A breakdown of charges for the use of intellectual property, n.i.e. paid by Japan shows that charges for the use of copyrights, n.i.e. and charges for the use of industrial property, n.i.e. account for around 60% and 40%, respectively (Figure II-3-3-8).

Figure II-3-3-8. Breakdown of Japan's payment of charges for the use of intellectual property rights, n.i.e.



Note: This figure shows values in 2024.
Source: *Balance of Payments* (MOF, BOJ).

(3) Telecommunications, computer and information services

Next, we will look at telecommunications, computer and information services. As for the scope of those services, computer services include charges for the entrusted development of software programs and for the use of cloud service, payments for downloaded general-purpose software programs, including games, and subscription fees (Table II-3-3-9).

As for the historical trend, computer services have continued to account for most of both overall exports and overall imports (Figure II-3-3-10). As mentioned earlier, while computer services include various services, one major factor of the increase is presumed to be the expansion of use of cloud service in recent years. According to a report by the Ministry of Internal Affairs and Communications, the public cloud service market in Japan has been expanding rapidly, reaching around 3 trillion yen in terms of value in 2023. The usage rate of major foreign cloud services (AWS [Amazon], Azure [Microsoft], and GCP [Google]) is very high.[311] Given that the value of Japan's imports of computer services is around 4 trillion yen, the impact of cloud services is considered to be not small.

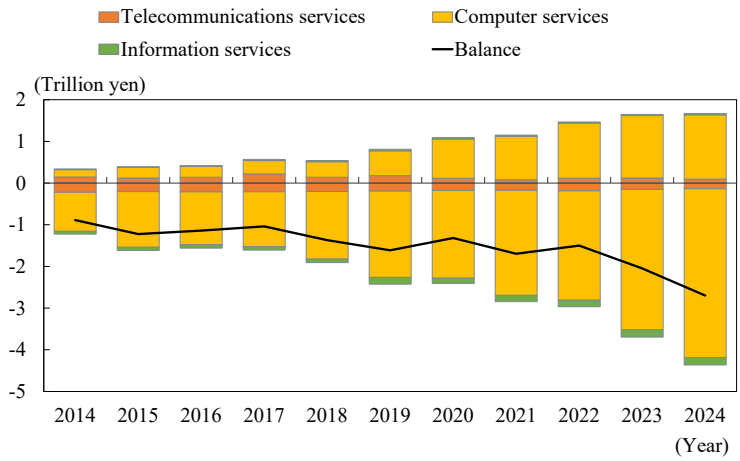
[311] Ministry of Internal Affairs and Communications (2024)

Table II-3-3-9. Scope of telecommunications, computer, and information services

Telecommunications	Charges for using communication tools such as the internet, telephones, satellite, etc.
Computers	Service transactions, including development of customized software, computerized data-processing services, web-page design and development, hardware consultancy, maintenance and repair, hardware and software installation, etc.
Information	- Service transactions for the provision of news by the media, online services that provide content other than audio, video, and computer software - Service transactions for database services, search engine services, as well as library and archive services, etc.

Source: *Balance of Payments Related Statistics: Methodologies by Item* (BOJ).

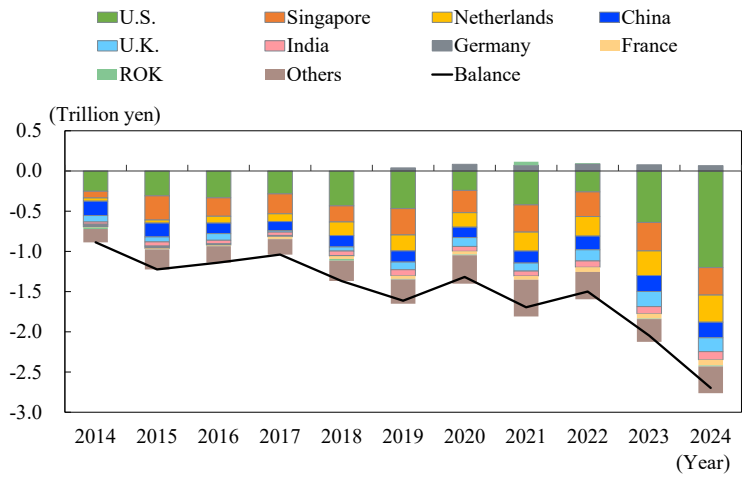
Figure II-3-3-10. Breakdown of Japan's trade of telecommunications, computer, and information services



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

While many of the major foreign providers of cloud services are U.S. companies, Japan's deficit with Singapore in the balance of telecommunications, computer and information services is the second largest, after the deficit with the United States (Figure II-3-3-11). Behind this situation is presumably a flow of business like this: U.S. companies have established business hubs for the East Asian market (including Japan) in Singapore, which pay to their U.S. headquarters charges for the use of intellectual property n.i.e., including licensing fees, and use the licenses to export telecommunications, computer and information services to Japan.

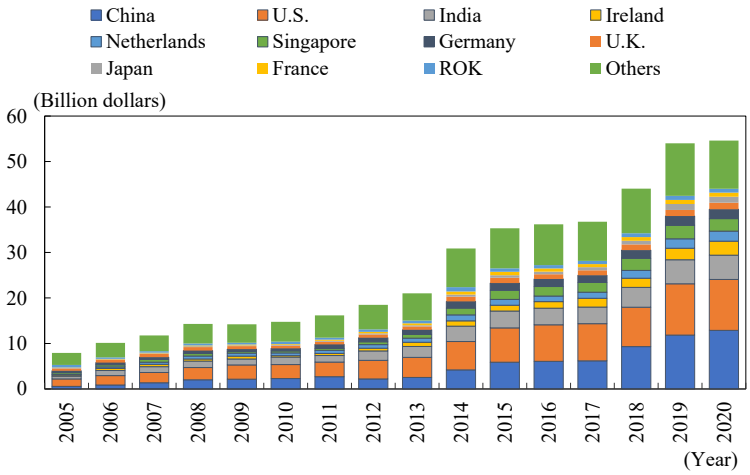
Figure II-3-3-11. Trend in country-by-country balance of Japan's telecommunications, computer, and information services



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

In order to check this point, let us first look at which countries/regions created value added included in telecommunications, computer and information services imported by Japan. We can see that the share of Singapore as a source of value added is small, while the shares of the United States and China are large (Figure II-3-3-12).

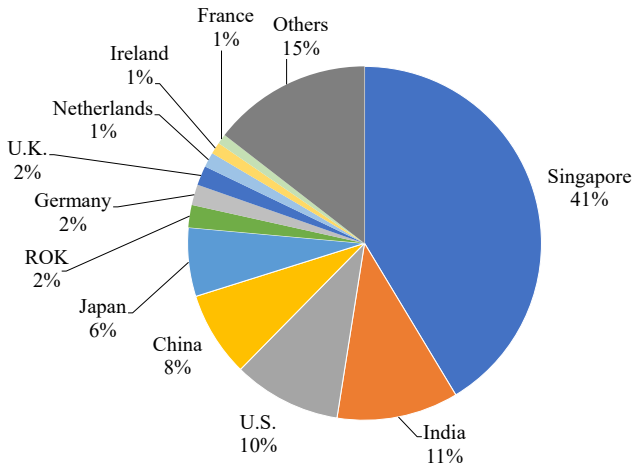
Figure II-3-3-12. Composition of value added of Japan's imports of telecommunications, computer, and information services (by country and region)



Source: TiVA (OECD).

As for the country-by-country breakdown of value added included in telecommunications, computer and information services imported by Japan from Singapore, most of the value added was created in countries other than Singapore, including India, the United States and China (Figure II-3-3-13).

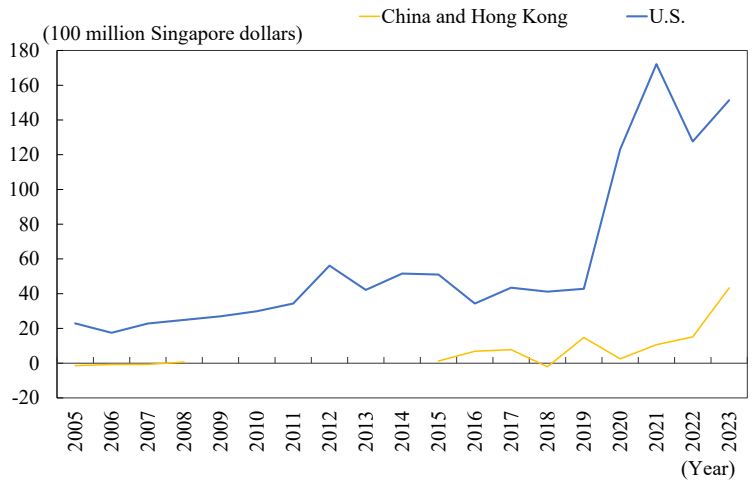
Figure II-3-3-13. Composition of value added of Japan's imports of telecommunications, computer, and information services from Singapore (by country and region)



Note: This figure shows values in 2020.
Source: TiVA (OECD).

In addition, as for inward FDI stocks in the information and communication industry in Singapore, stocks of investments from the United States have increased steeply since 2020. Stocks of investments from China and Hong Kong have also increased in recent years, although the investment size is still small compared with FDIs from the United States (Figure II-3-3-14). This indicates that U.S. and Chinese digital-related companies have established subsidiaries in Singapore and are providing cross-border services to Japan, among other countries, through their subsidiaries.

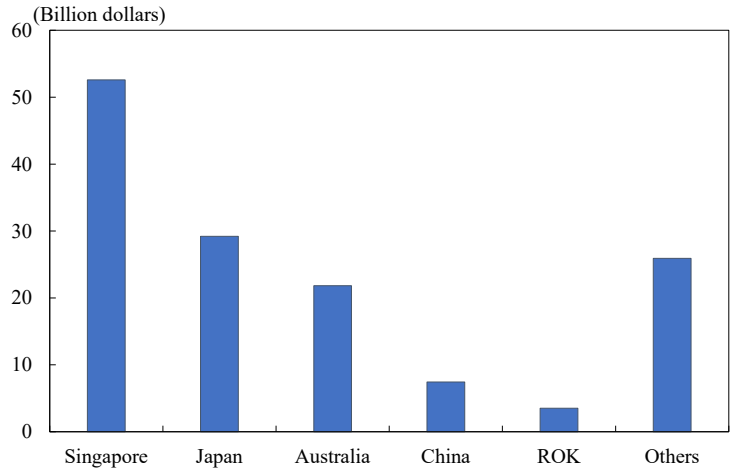
Figure II-3-3-14. Inward FDI stocks in the information and communication industry in Singapore



Note: The values for China and Hong Kong from 2009 to 2014 are missing values.
Source: Singapore Department of Statistics.

Regarding sales of U.S. information services companies in the Asia-Pacific region, sales in Singapore are the largest, a situation that is consistent with the finding that U.S. digital-related companies are providing services through business bases that they have established in Singapore (Figure II-3-3-15).

Figure II-3-3-15. Sales of U.S. information services companies in the Asia-Pacific region



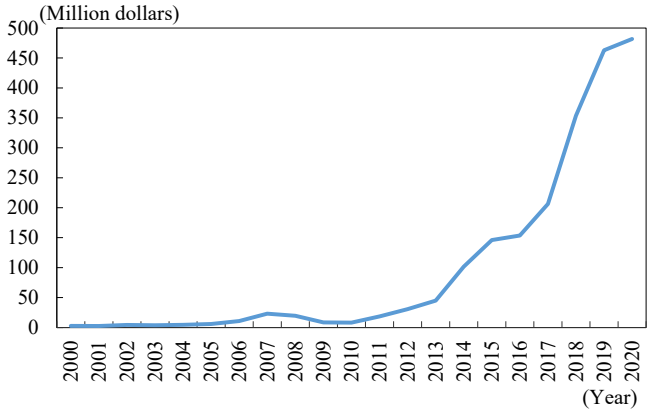
Note: This figure shows values in 2022.
Source: International Transactions (BEA).

One data point indirectly indicating the provision of services by Chinese companies via Singapore is a steep increase in the share of China-derived value added included in imports of telecommunications, computer and information services by Japan from Singapore since the first half of the 2010s (Figure II-3-3-16). Presumably, this is mainly because Chinese digital-related companies provide services through business bases that they have established in Singapore.[312]

Let us also look at the source countries of value added included in imports of telecommunications, computer and information services by Japan from the United States and China. A breakdown by source country of value added included in imports of those services by Japan from each of the United States and China shows that most of the value added is created in each of the two countries (Figures II-3-3-17 and II-3-3-18). This indicates that in the cases of the United States and China, domestic companies, rather than foreign ones, are creating value added within the countries.

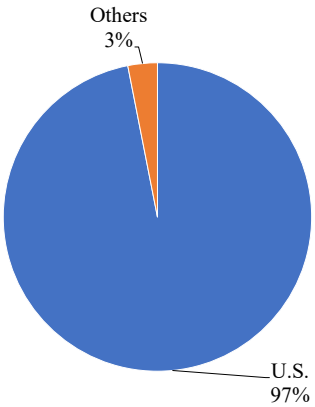
[312] TiVA does not provide an industry-by-industry breakdown of value added derived from China that is included in imports of telecommunications, computer and information services by Japan from Singapore. According to the estimation of the industry-by-industry mix of intermediate inputs from China in the value of production in the information and communication industry in Singapore based on the OECD's Inter-Country Input-Output tables international input-output table, the information and communication industry accounts for most of the total. Therefore, the information and communication industry presumably makes up a large portion of value added derived from China that is included in imports by Japan from Singapore.

Figure II-3-3-16. Changes in value added by China included in Japan's imports of telecommunications, computer, and information services from Singapore



Source: TiVA (OECD).

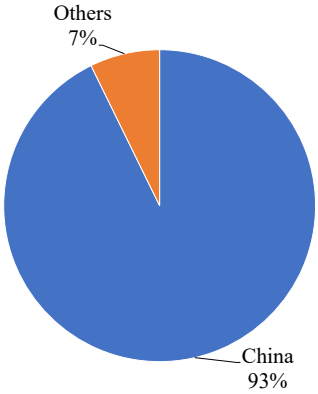
Figure II-3-3-17. Composition of value added of Japan's imports of telecommunications, computer, and information services from the U.S.



Note: This figure shows values in 2020.

Source: TiVA (OECD).

Figure II-3-3-18. Composition of value added of Japan's imports of telecommunications, computer, and information services from China (by country and region)



Note: This figure shows values in 2020.

Source: TiVA (OECD).

(4) Professional and management consulting services

In the balance of professional and management consulting services, trade in services related to public relations, advertising, and market research, as well as legal, accounting and management consulting, are recorded. Therefore, strictly speaking, services other than digital-related ones, such as face-to-face consulting services, are also included in this category of services (Table II-3-3-19). However, this category is included among digital-related services by Matsuse et al. for reasons such as that sales and purchase transactions concerning website advertising spaces are included among advertising services.[313]

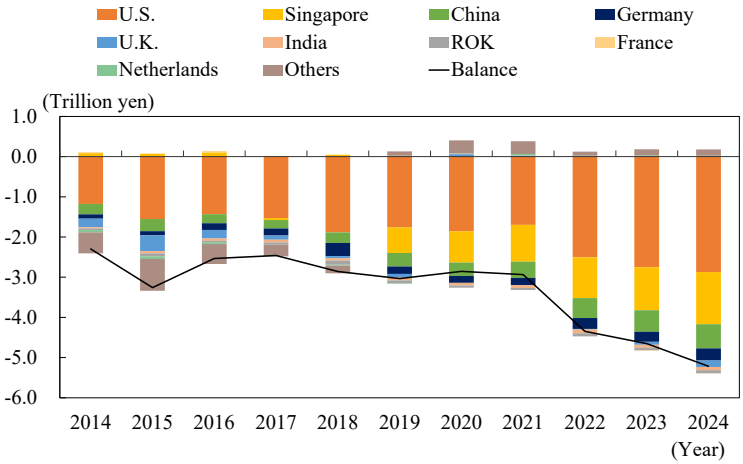
Table II-3-3-19. Scope of professional and management consulting services

- Legal affairs
- Accounting and management consulting
- Public relations: Sponsorship fees for sporting events
- Service transactions for advertising and market research: Transactions for trading online advertising space

Source: *Balance of Payments Related Statistics: Methodologies by Item* (BOJ).

Under Japanese international balance of payments statistics, region-by-region data on professional and management consulting services are not published, so we will look at the region-by-region trend concerning "professional business services," which include this category. Figure II-3-3-20 shows that the United States is the largest import source country, followed by Singapore. As for the historical trend, imports from the United States have recently increased, and imports from Singapore have also grown since around 2019. Imports from China have also gradually been increasing, although the Chinese share is still not large.

Figure II-3-3-20. Trend in country-by-country balance of professional business services



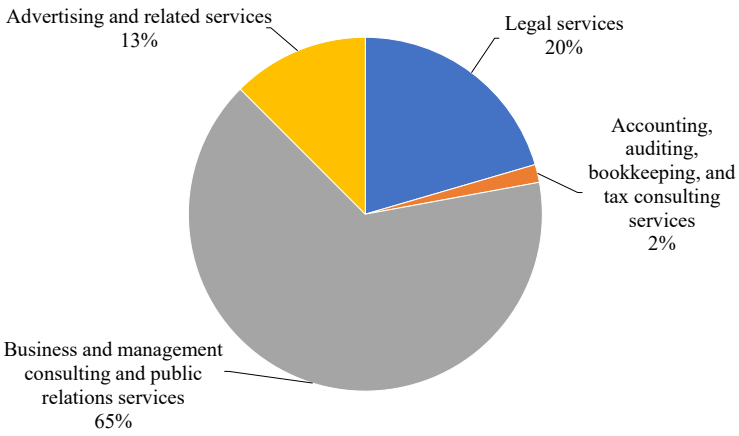
Source: *Balance of Payments* (MOF, BOJ).

313 Matsuse et al. (2023)

A detailed item-by-item breakdown of imports from the United States can be obtained from U.S. statistics. As for a breakdown of exports of professional and management consulting services from the United States to Japan, the share of advertising and related services is not necessarily large, while business and management consulting services and public relations services account for most of the total (Figure II-3-3-21).

The historical trend shows that business and management consulting services and public relations services have continued to act as a driver of exports to Japan (Figure II-3-3-22).

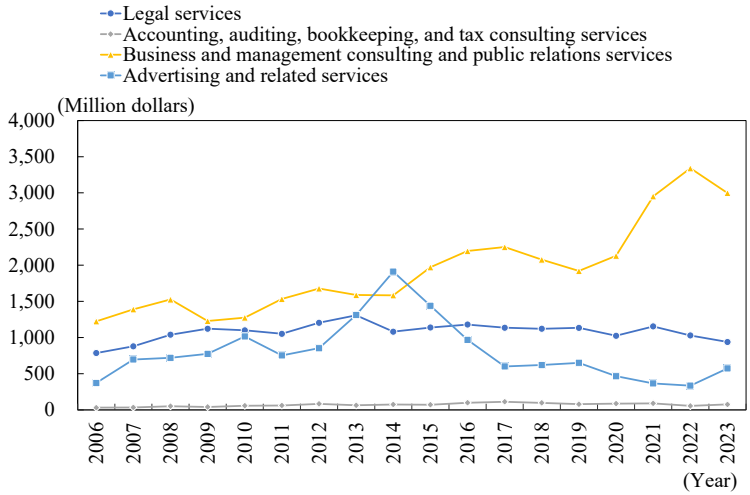
Figure II-3-3-21. Exports of professional and management consulting services from the U.S. to Japan (composition ratio)



Note: This figure shows values in 2023.

Source: Trade in Commercial Services (WTO).

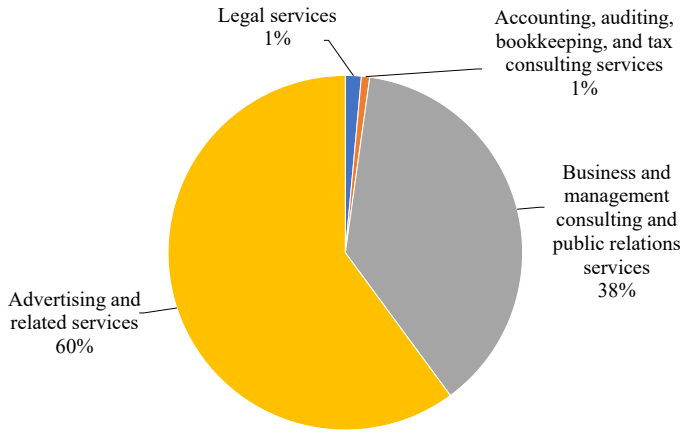
Figure II-3-3-22. Exports of business and management consulting from the U.S. to Japan (historical trend)



Source: Trade in Commercial Services (WTO).

Singapore, the second largest import source for Japan, after the United States, does not publish data on the balance with Japan by service sector. Therefore, as a reference, let us look at a breakdown of exports of professional and management services from Singapore to the rest of the world, and the result is that the share of advertising and related services is large (Figure II-3-3-23). Presumably, this is related to the fact that U.S. digital-related companies, including a major search site, have business hubs for the Asian region in Singapore, as mentioned in Part II, Chapter 1, Section2.

Figure II-3-3-23. Composition ratios of exports of professional and management services from Singapore to the rest of the world



Note: This figure shows values in 2023.
Source: Trade in Commercial Services (WTO).

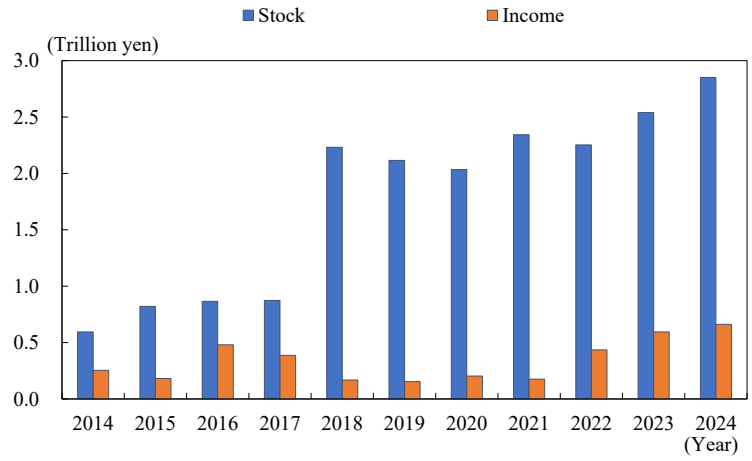
Meanwhile, in light of the fact that the difference between the value of internet advertising expenditure in Japan (domestically produced advertisements + imports) and the value of sales of domestic advertising agencies (domestically produced advertisements + exports) is approximate to the value of the deficit concerning professional and management consulting services, the Cabinet Office pointed out that most of the increase in Japan's deficit in this sector can be accounted for by the increase in payments related to internet advertising to other countries in recent years.[314] Therefore, the expansion of imports of professional and management consulting services by Japan is attributable in large part to payments related to advertisements posted on the major U.S. search site.

(5) Inward FDIs (Mode 3)

It is difficult to clarify the overall picture of the provision of digital-related services by foreign digital-related companies through business bases in Japan (Mode 3), but we will consider the overview based on information on inward FDIs. First, the value of inward FDI stocks in the communication industry at the end of 2024 was around 2.9 trillion yen, not a large figure, but after rising steeply in 2018, it has been trending upward (Figure II-3-3-24). Income from inward FDIs in the communication industry in 2024 increased to around 660 billion yen and also delivered a high return (Figure II-3-3-25).

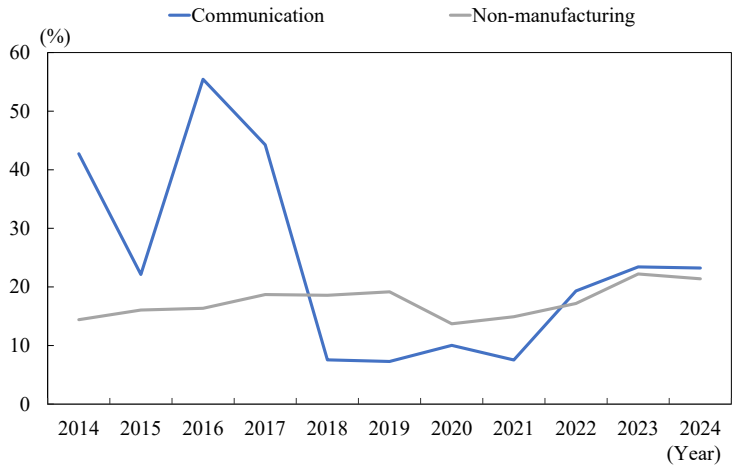
[314] Cabinet Office (2024)

Figure II-3-3-24. Inward FDIs in Japan's communication industry



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

Figure II-3-3-25. Income ratios of inward FDIs in the communication industry



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

In recent years, major foreign digital-related companies have announced active investments in the construction and operation of large-scale data centers in Japan, which presumably boosted the value of inward FDIs in the communication industry (Table II-3-3-26). Behind this trend is the rapid expansion of the markets for AI and cloud computing, and in order to meet the vast demand for data processing associated with that, the need to secure a low-latency, high-bandwidth communication environment is growing. Another presumed objective of the investments is to obtain the trust of client companies by establishing data centers in Japan for domestic storage of data.

Table II-3-3-26. Investments in Japan by major foreign digital-related companies

Company name	Overview of the investment
Oracle	The company announced in April 2024 that it will invest over 8 billion dollars (around 1.2 trillion yen) over the next decade.
Microsoft	The company announced in April 2024 that it will invest around 440 billion yen in order to strengthen its AI (artificial intelligence) and cloud infrastructure in Japan.
Amazon	The company announced in January 2024 that it will invest around 2.26 trillion yen in terms of value in data centers for Japan.
Google	The company opened its self-developed data center in Inzai City, Chiba Prefecture, in April 2023.

Sources: Various press releases.

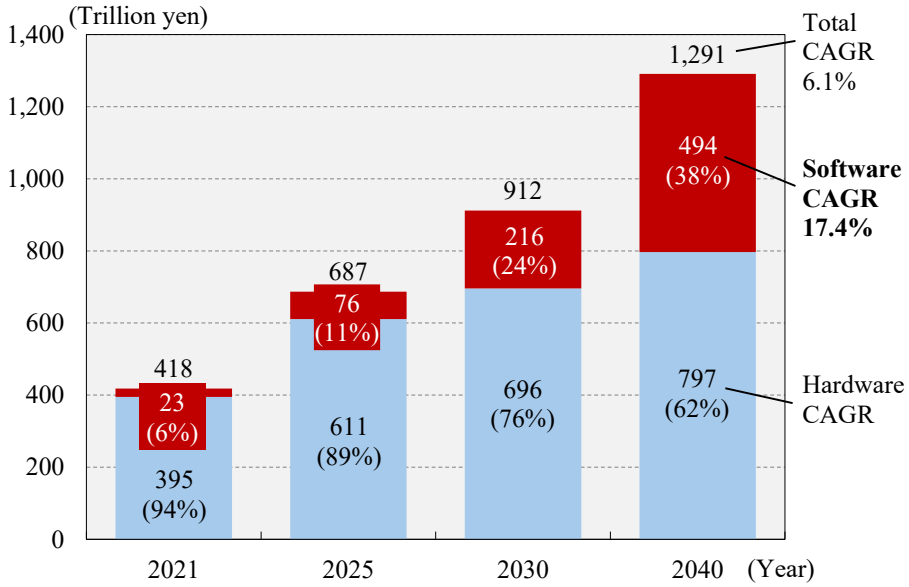
(6) Trade in value added (Mode 5)

In order to grasp the overall picture of imports of digital-related services, it is also important to conduct an analysis from the viewpoint of trade in value added (Mode 5). That is because, in light of the ongoing integration of manufacturing and services due to digitalization, which was mentioned earlier, it is highly likely that value added included in digital-related services used as intermediate inputs for imported goods is also increasing[315]. However, at the moment, there is not a well-developed dataset necessary for such analysis. Therefore, here, we will go no further than raise some issues based on relevant information.

The Digital Economy Report,[316] prepared under the Policy Innovations for Valuable Outcomes and Transformation—known as PIVOT, a policy project led by young officials of the Ministry of Economy, Trade and Industry—which identified the structure of Japan's so-called digital trade deficit and the strategies that Japan should pursue, pointed out the importance of Mode 5. For example, regarding automobiles, Japan's main production item, the report forecast the shares of hardware (goods) and software (derived from digital-related services) in sales of global automobile OEMs (manufacturers of finished vehicles) (Figure II-3-3-27). According to the forecast, because of the growing importance of software[317] for automobiles, the share of software is projected to rise from 6% (in 2021) to 38% (in 2040). Even though automakers may have an advantage in terms of hardware manufacturing and quality, they will find it difficult to maintain the competitiveness of their products if they become inferior in competition on the software side. In short, digital-related services are becoming more and more important in terms of the creation of value added, not only for automobile manufacturing but also for other manufacturing industries in which Japan has traditionally had an advantage.

[315] See Part II, Chapter 1, Section 2, 2. "Classification of services trade."
[316] Ministry of Economy, Trade and Industry (2025). It should be kept in mind that in the report, industry classification concerning the trade balance of digital-related services is different from the one used under international balance of payments statistics but is a more detailed classification based on individual companies' transaction data from securities reports, etc.
[317] Software programs important for automobiles include ones related to advanced safety features such as autonomous driving and ones related to onboard entertainment.

Figure II-3-3-27. Sales estimates of automobile OEMs (by hardware and software)



Note: The data is reorganized by PIVOT, a policy project led by METI's young officials, based on the Mobility Digital Transformation (DX) Strategy (METI, MLIT). The term "CAGR" is an acronym for "Compound Annual Growth Rate." The values in parentheses in the bar graphs represent a composition ratio.

Source: *Digital Economy Report* (Policy Innovations for Valuable Outcomes and Transformation or PIVOT, METI).

2. Multi-angle analysis of Japan's cross-border services transactions

(1) Overview of trade in services

As indicated in the case of digital-related trade taken up in Part II, Chapter 1, Section 2 and the previous paragraph, looking not only at transactions that appear in the services balance of international balance of payments statistics but also the provision of services through overseas business bases (Mode 3) and trade in value added (Mode 5) gives us an integrated understanding of Japan's cross-border transactions of goods and services. This is very important in light of the changes in the structure of trade and investment in goods and services.

Although the importance of wholesale and retail trade, sales finance, and after-sales service for trade in goods has already been pointed out, the role of services in manufacturing industries is changing in nature because of the integration of manufacturing and services and the expansion of service value added in recent years. For example, in an increasing number of cases, most of value added is accounted for by services, including product design, digital intermediate inputs, production management systems, digital marketing, and subscription services concerning goods (MaaS [mobility as a service]). Under international balance of payments statistics, the goods and services balances are separated, but unless trade and investment in goods and services are grasped as a whole, the actual situation may not be accurately captured. By introducing a multi-angle viewpoint that covers outward FDI and trade in value added as well, it becomes possible to conduct a more precise analysis as to how Japanese companies can expand business activity and leverage competitiveness in the global market.

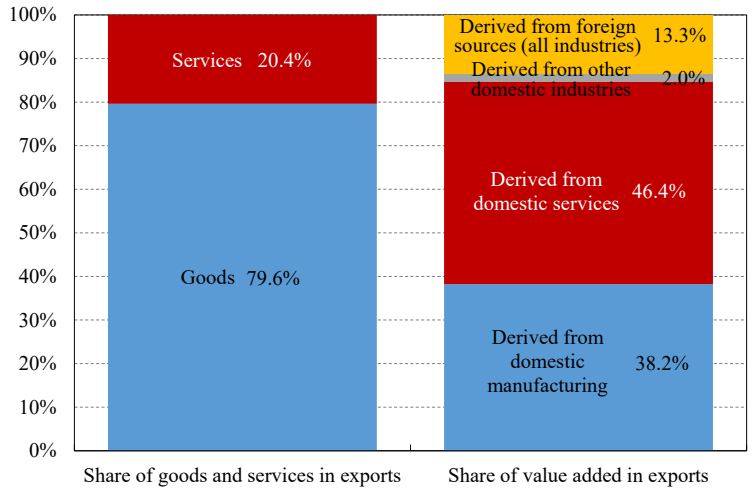
This section will look beyond the services balance under international balance of payments statistics and examine the actual status of Japan's cross-border transactions in more detail while taking into consideration the viewpoints of outward FDIs, the provision of services through overseas business bases (Mode 3) and trade in value added (Mode 5).

(2) Service value added from the viewpoint of trade in value added

First, we will identify the share of service value added in the total value of exports of goods and services from Japan based on the OECD TiVA. Of the total value of exports of goods and services in 2020, exports of goods accounted for 79.6% and exports of services made up 20.4%. The picture is quite different if we take a look from the viewpoint of value added sources. While the share of value added derived from domestic manufacturing industries is 38.2%, the share of value added derived from domestic services industries is larger, 46.4% (Figure II-3-3-28). (For reference, the share of value added derived from foreign sources, including manufacturing and services industries, is 13.3%). This indicates that domestic service value added plays an important role as intermediate input not only for exports of services themselves but also for exports of goods in manufacturing industries, in which Japan has traditionally had an advantage.

Moreover, regarding value added derived from domestic services industries, the largest sources of value added are wholesale and retail trade, etc. (accounting for 39% of the total), professional services (26%), transportation (13%), information and communication (8%), and finance and insurance services (7%) (Figure II-3-3-29). Most of those industries are what Baldwin et al. call modern services.[318] Value added derived from those services, including digital-related ones, is likely to become more and more important in the future.

Figure II-3-3-28. Shares of goods and services in exports and those of service value added in exports from Japan (2020)

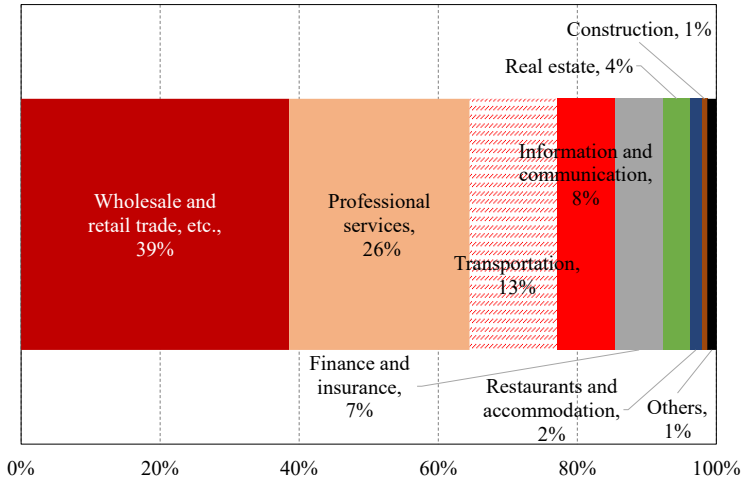


Note: Other industries include agriculture, forestry, and fisheries, mining, and electricity, gas, and water supply.

Source: TiVA (OECD).

[318] Baldwin et al. (2024)

Figure II-3-3-29. Breakdown of value added derived from domestic services by industry (2020)

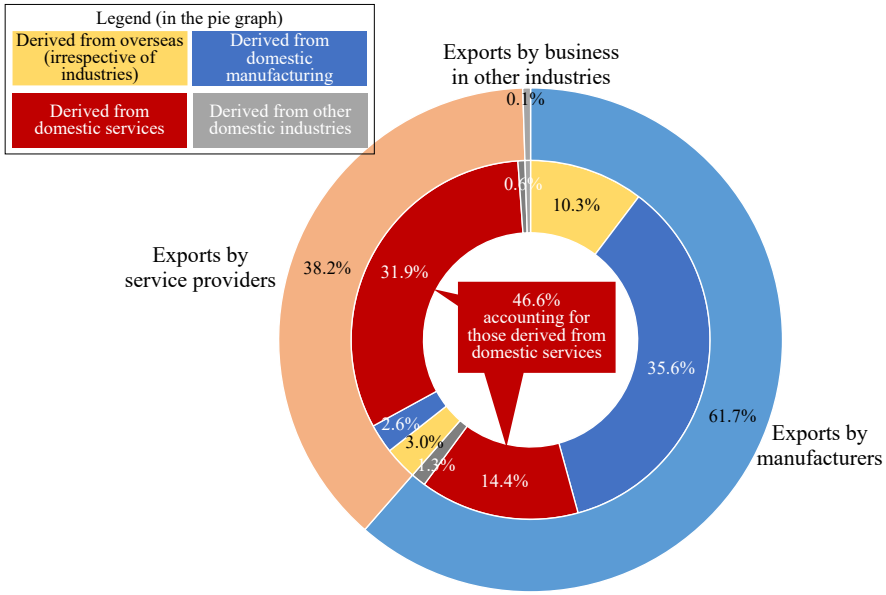


Note: This figure shows the breakdown by industry with value added derived from domestic services (46.4%) set as 100 as illustrated in Figure II-3-3-28. Wholesale and retail trade, etc. include automobile maintenance and repair.

Source: TiVA (OECD).

A more detailed look at value added in exports shows that the share of exports by manufacturing companies (which roughly correspond to exports of goods minus value added created by export services providers) in total exports of value added is 61.7% and the share of exports by services providers is 38.2% (Figure II-3-3-30). If those figures are broken down by value added source, value added created by domestic services industries accounts for the 14.4% portion of manufacturing companies' share of 61.7%. On the other hand, the 31.9% portion of services providers' share of 38.2% was created by domestic services industries, while only the 2.6% portion was created by domestic manufacturing industries.

Figure II-3-3-30. Composition of value added in Japan's exports of goods and services



Value (billion dollars)		Value added derived from Japan			Value added derived from overseas countries			Total of value added irrespective of country or industry of origin
		Derived from manufacturing	Derived from services	Derived from other industries	Derived from manufacturing	Derived from services	Derived from other industries	
	Exports by manufacturers	268.5	108.8	10.1	23.8	33.3	21.0	465.5
	Exports by service providers	20.0	241.2	4.8	4.6	13.1	4.9	288.5
	Exports by business in other industries	0.1	0.3	0.5	0.0	0.1	0.0	1.1
Total values of Japan's exports of goods and services		288.6	350.2	15.5	28.4	46.5	25.9	755.0

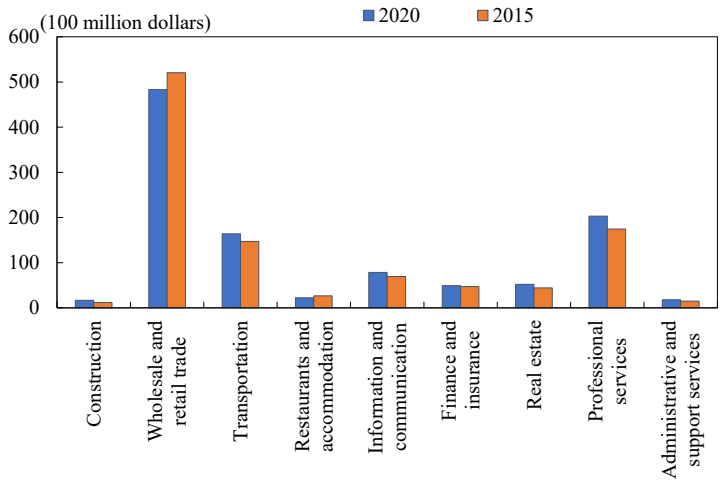
Composition ratio (%)		Value added derived from Japan			Value added derived from overseas countries			Total of value added irrespective of country or industry of origin
		Derived from manufacturing	Derived from services	Derived from other industries	Derived from manufacturing	Derived from services	Derived from other industries	
	Exports by manufacturers	35.6%	14.4%	1.3%	3.1%	4.4%	2.8%	61.7%
	Exports by service providers	2.6%	31.9%	0.6%	0.6%	1.7%	0.6%	38.2%
	Exports by business in other industries	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%
Total of Japan's exports of goods and services		38.2%	46.4%	2.0%	3.8%	6.2%	3.4%	100.0%

Note: This figure shows values in 2020. It also shows aggregated data on the following service industries: construction; wholesale and retail trade (including automotive maintenance and repair); transportation; restaurants and accommodation; information and communications; finance and insurance; real estate; professional services; and administrative services. Other industries include agriculture, forestry, and fisheries, mining, and electricity, gas, and water supply.

Source: TiVA (OECD).

Next, a breakdown by value added source of value added derived from domestic services industries in exports by manufacturers shows that the largest sources are wholesale and retail trade, etc., professional services, transportation, and information and communication in that order (Figure II-3-3-31). Compared with 2015, the share of wholesale and retail trade, etc. declined, while the share of professional services and information and communication increased. That may reflect the effects of an increase in value added derived from digital-related services.

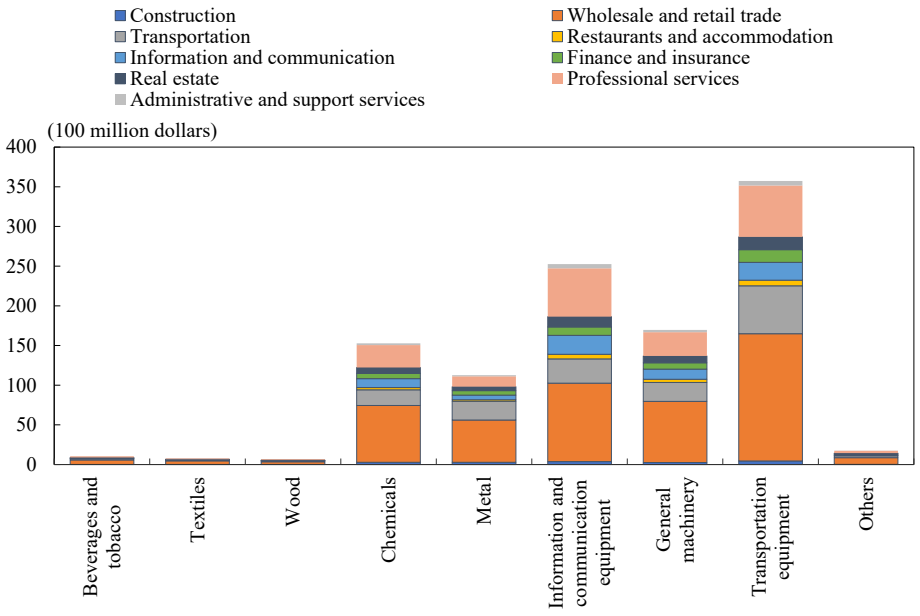
Figure II-3-3-31. Industry-by-industry breakdown by value added source of value added derived from domestic services industries in exports by manufacturers



Note: Wholesale and retail trade, etc. include automobile maintenance and repair.
Source: TiVA (OECD).

Moreover, an industry-by-industry breakdown shows that exports by the transportation machinery and information and communication machinery industries, whose total export values are large, contain large amounts of value added derived from domestic services industries (Figure II-3-3-32). A breakdown of value added sources by service category shows that although there are not pronounced differences across industries, the shares of professional services and information and communication in the total amount of value added included in exports by the information and communication machinery industry are somewhat large. That is presumably because value added related to IT software programs is included in the figures for those two categories of services.

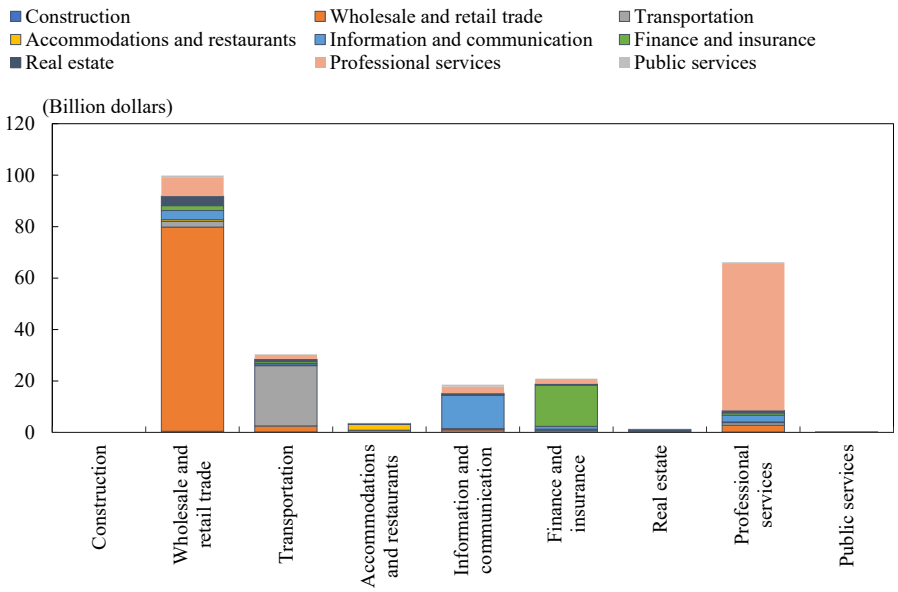
Figure II-3-3-32. Composition of service value added in exports by manufacturers by industry



Note: This figure shows values in 2020. Wholesale and retail trade, etc. include automobile maintenance and repair.
Source: TiVA (OECD).

Next, regarding exports by services providers, most exports by each services industry are composed of value added internally created (Figure II-3-3-33). A detailed look shows that professional services contribute value added to a broad range of services, including wholesale and retail trade, transportation, information and communication, and finance and insurance, although the amount of value added contributed is not very large. Demand for professional services may grow in line with increases in services exports in those services industries.

Figure II-3-3-33. Breakdown of service value added by domestic services industries in exports by service providers by industry



Note: This figure shows values in 2020.
Source: TiVA (OECD).

(3) Exports of services through overseas business bases (Mode 3)

(A) Overview of Mode 3 exports

As the estimation methodology concerning the value of Mode 3 exports is still being developed, there is not well-established comprehensive statistical data regarding the cross-border provision of services by mode in Japan. Therefore, when looking at exports of services by Japan's services industries through overseas business bases, it is necessary to use several sets of statistics and allow for a margin of variance.

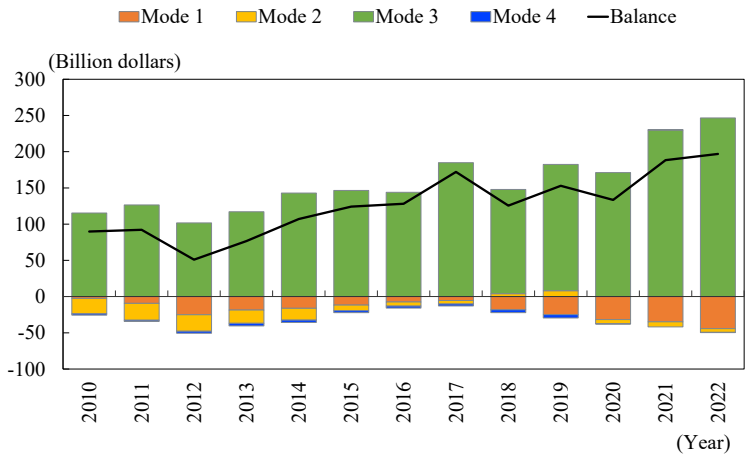
First, we will identify the characteristics of Japan's trade in services, including Mode 3 (but excluding Mode 5), based on TISMOS (trade in services by mode of supply dataset), provided by the WTO. Japan's services balance that incorporates Mode 3 is in surplus because of a large surplus

concerning Mode 3 (Figure II-3-3-34). Regarding the historical trend, the deficit concerning Mode 1 has recently expanded, but the surplus concerning Mode 3 has expanded at a higher pace, so the surplus in the overall services balance has trended upward, except during the period of the global financial crisis.

One factor behind that trend is the uptrend in Mode 3 exports. Figure II-3-3-35 shows that the value of Mode 3 exports has increased significantly compared with other modes of exports.

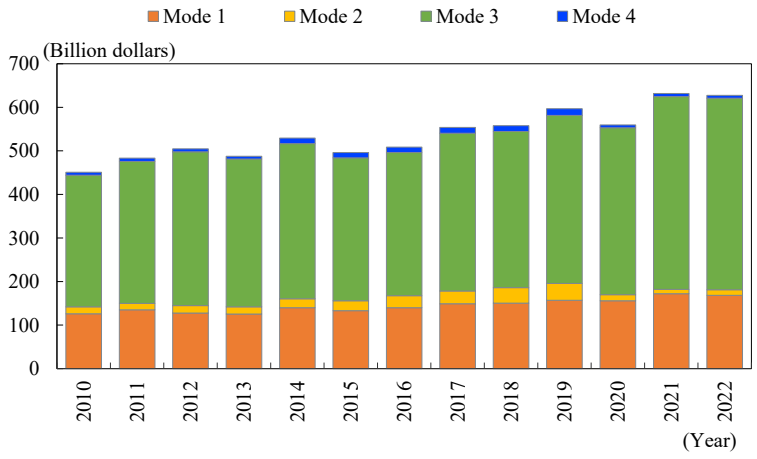
According to Figure II-3-3-36, regarding the size of services trade, including imports, by mode, the value of Mode 3 exports is around three times as large as the value of Mode 1 exports. On the import side, the value of Mode 3 imports is similar to the value of Mode 1 imports, indicating that the presence of services provided by foreign companies through their business bases in Japan has become non-negligible.

Figure II-3-3-34. Japan's service trade balance that incorporates Mode 3



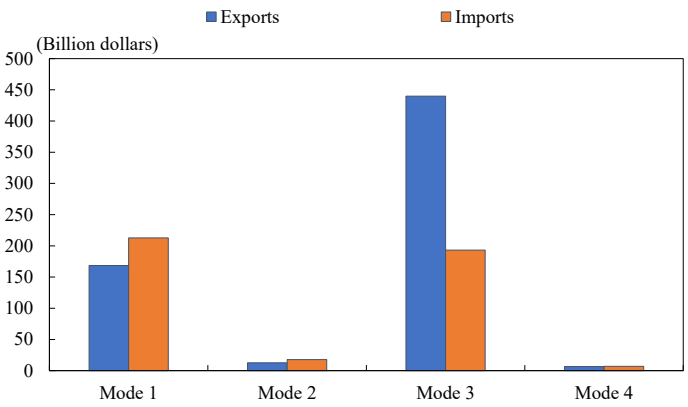
Source: TISMOS (WTO).

Figure II-3-3-35. Changes in Japan's export by mode



Source: TISMOS (WTO).

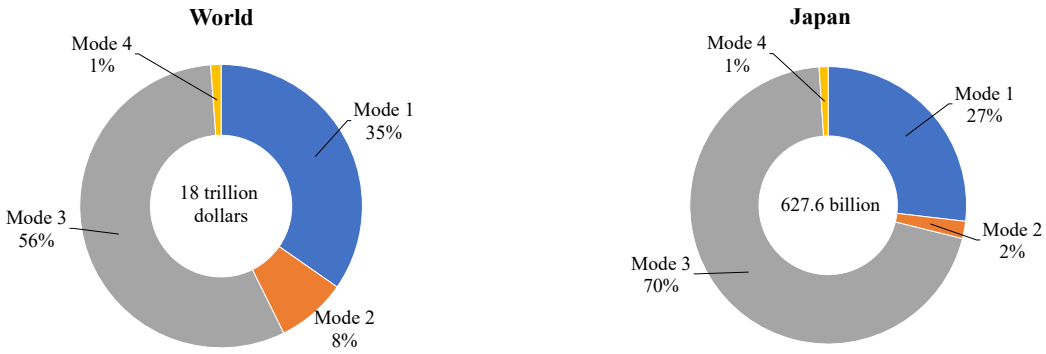
Figure II-3-3-36. Japan's imports and exports by mode



Note: This figure shows values in 2022.
Source: TISMOS (WTO).

The large value of Mode 3 exports is a characteristic of Japan's trade in services. Figure II-3-3-37 shows mode-by-mode shares in Japan's and global exports of services. According to the figure, while Mode 3 accounts for 56% of global exports of services, the share of Mode 3 in exports from Japan is as large as 70%. In other words, the figure indicates that Japanese companies export more services in the form of provision of services through overseas business bases than in the form of the provision of cross-border services (Modes 1, 2, and 4).

Figure II-3-3-37. Composition ratios of Japan's and global exports of services by mode

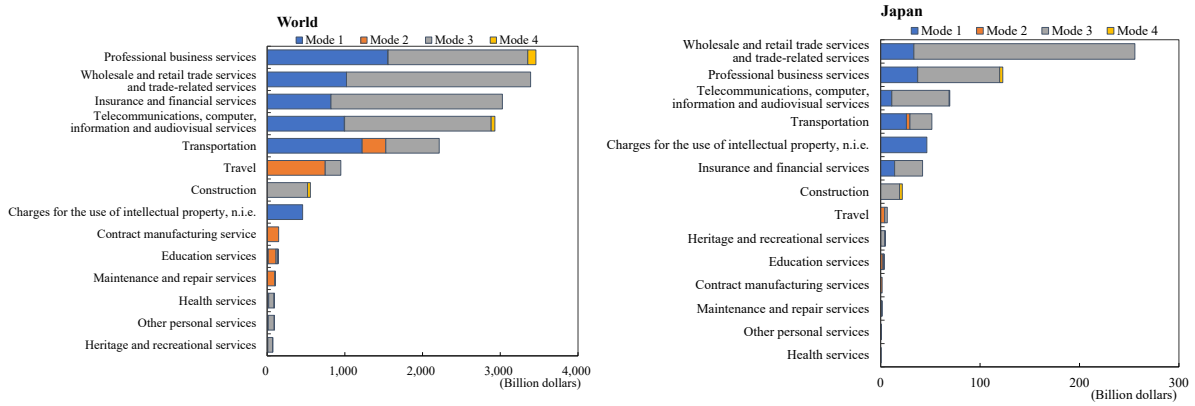


Note: This figure shows values in 2022.
Source: TISMOS (WTO).

Next, a comparison with global exports by service and by mode[319] shows that Japanese companies are markedly ahead in the provision of services to foreign countries through Mode 3 with respect to "wholesale and retail trade and trade-related services" (Figure II-3-3-38). Regarding "professional business services" and "telecommunications, computer, information and audio-visual services" as well, the overall export value and the share of Mode 3 in overall export value are large.

[319] The figure for Mode 2, which requires the movement of people, including "travel," may have been unusually low because the data used is for 2022, when there were lingering effects of the COVID-19 pandemic.

Figure II-3-3-38. Composition of modes by type of exports services in Japan and world

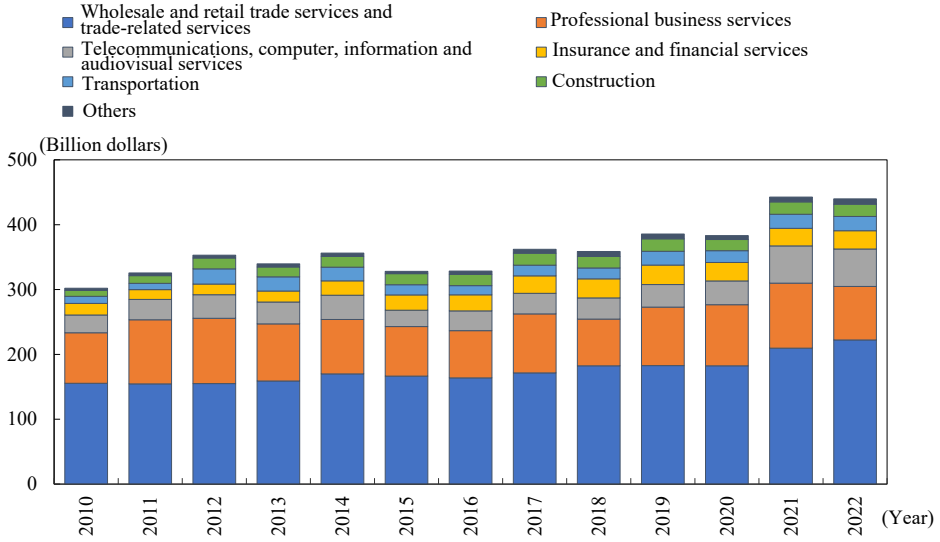


Note: This figure shows values in 2022.

Source: TISMOS (WTO).

By service category, the "wholesale and retail trade and trade-related services" category has continued to act as the main driver of the increase in Mode 3 exports (Figure II-3-3-39). Mode 3 exports of "telecommunications, computer, information and audio-visual services" and "insurance and financial services" have also increased moderately, although the shares of these two categories in overall Mode 3 exports are not large.

Figure II-3-3-39. Changes in Mode 3 exports by industry in Japan

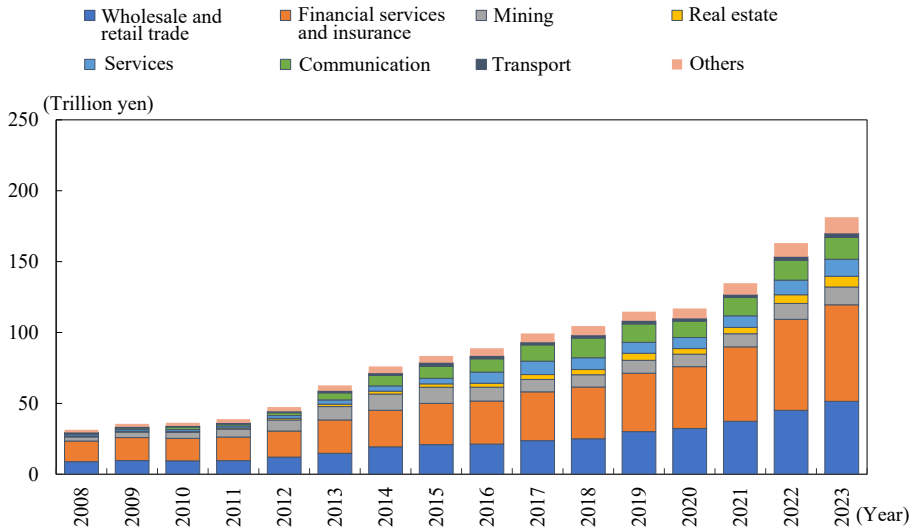


Source: TISMOS (WTO).

(B) Outward FDIs in services industries

Regarding Mode 3, TISMOS shows exports of services through overseas business bases in the form of estimation data. However, we can get a more accurate picture of exports of services if this data is combined with data on outward FDIs in overseas subsidiaries that provide services abroad. Indeed, international balance of payments statistics also show that stocks of FDIs in foreign non-manufacturing industries have been trending upward (Figure II-3-3-40).

Figure II-3-3-40. Outward FDI stocks in the non-manufacturing industry



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

TISMOS does not indicate which Japanese industries provide services in foreign countries through Mode 3 or provide information on the specific services included in the wholesale and retail trade category, which accounts for most of Mode 3 exports. Sakura and Kondo pointed out that regarding overseas business expansion by services industries, it is necessary to pay attention to differences between the industry types of parent companies and subsidiaries[320] (Table II-3-3-41). In industry-by-industry outward FDI data under international balance of payments statistics, industry classification for a certain FDI is determined by the industry type of the overseas subsidiary receiving the investment. For example, when a Japanese automaker makes an FDI to establish an overseas sales subsidiary, the investment is classified in the FDI data as the wholesale and retail trade category in accordance with the industry type of the overseas subsidiary, although the parent company belongs to a manufacturing industry.

Table II-3-3-41. Forms of business expansion by non-manufacturing industries

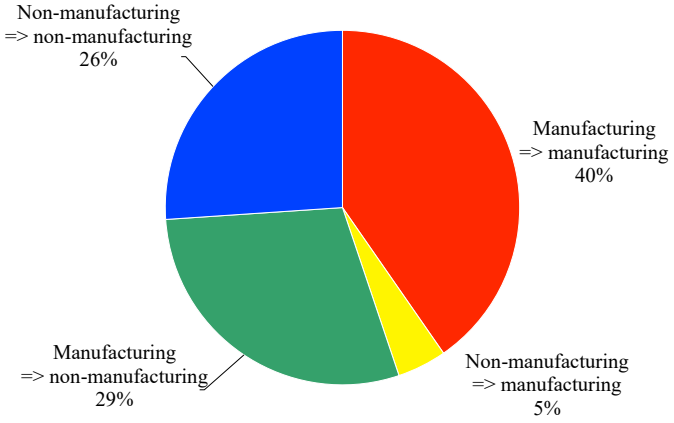
		Industry type of overseas subsidiaries	
		Manufacturing	Non-manufacturing
Industry type of Japanese parent company	Manufacturing	Example: An automobile company established a manufacturing base overseas.	Example: An automobile company established a sales base overseas.
	Non-manufacturing	Example: A retail company established a manufacturing plant overseas for its own brand products.	Example: A retail company established a store overseas.

Source: Sakura and Kondo (2013).

320 Sakura and Kondo (2013)

If we sort sales of overseas subsidiaries by industry type (manufacturing or non-manufacturing) of the parent company in Japan and by industry type of the overseas subsidiary based on the Basic Survey on Overseas Business Activities, the result is that subsidiaries categorized as non-manufacturing account for 55% of sales of overseas subsidiaries of Japanese companies. Of that share, subsidiaries of Japanese parent companies categorized as manufacturing account for the 29% portion and subsidiaries of Japanese companies categorized as non-manufacturing make up the 26% portion (Figure II-3-3-42). That provides a contrast to the finding that when overseas subsidiaries are categorized as manufacturing, their Japanese parent companies are manufacturers in most cases.

Figure II-3-3-42. Composition of sales by overseas subsidiaries of Japanese companies by industry type of Japanese parent companies and overseas subsidiaries



Notes: This figure shows values in FY2022. Each category name refers to "Industry type of the Japanese parent company => Industry type of the overseas subsidiary."
Source: *Basic Survey on Overseas Business Activities* (METI).

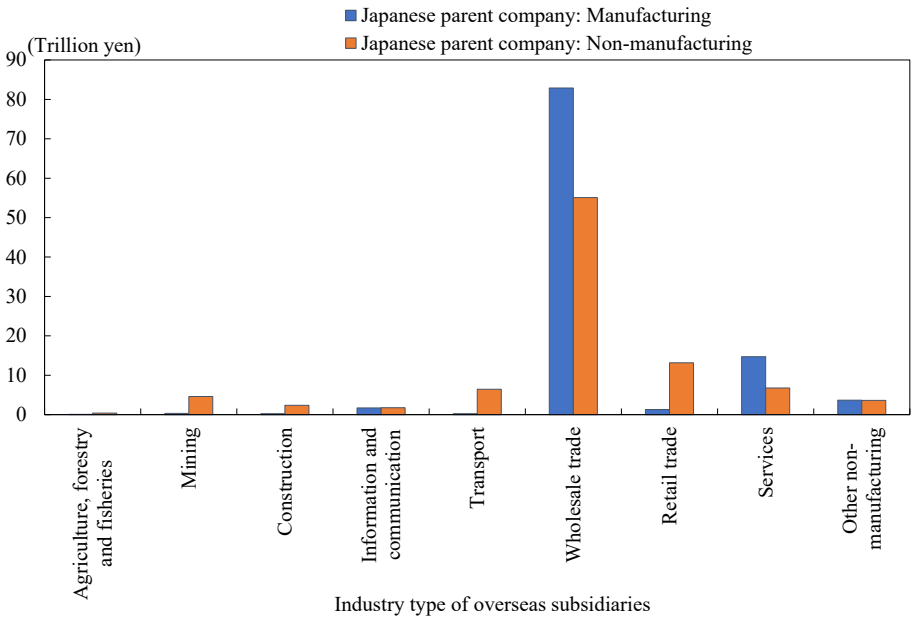
Figure II-3-3-43 shows an industry-by-industry breakdown of sales of non-manufacturing overseas subsidiaries. By industry type of the overseas subsidiary, the value of sales is largest for the wholesale industry. This is consistent with the finding that the "wholesale and retail trade and trade-related services" category has the largest share in Mode 3 exports, as shown by TISMOS estimation data.[321] A breakdown of sales of the wholesale industry by industry type of the Japanese parent company shows that manufacturing industries account for more of the total sales than non-manufacturing industries. This presumably reflects the fact that in many cases, Japanese manufacturing companies establish overseas subsidiaries in categories such as wholesale and retail trade, sales finance, and after-sale services in order to expand sales channels in foreign markets.

Those cases of overseas subsidiaries of Japanese manufacturing companies providing services are prime examples of outward FDI in services business complementing overseas business expansion, including exports of goods, in the value chain. In particular, establishing service facilities necessary for

[321] The estimation of Mode 3 under TISMOS is presumed to use data such as individual countries' Foreign Affiliates Statistics.

overseas sales becomes worthwhile by locating them in local markets. Overseas service facilities contribute to expanding sales channels, including exports of goods, and gathering information without undermining domestic business activity back in Japan. In that sense, investing in such facilities is an example of a virtual circle between exports and outward FDI.

Figure II-3-3-43. Sales of non-manufacturing overseas subsidiaries



Notes: This figure shows values in FY2022.

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