

**White Paper on
International Economy and Trade 2009
(Summary)**

**June 2009
Trade Policy Bureau
Ministry of Economy, Trade and Industry**

2009 White Paper on International Economy and Trade

“Global Economic Strategy of Converting Crisis into Opportunities”

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Chapter 1

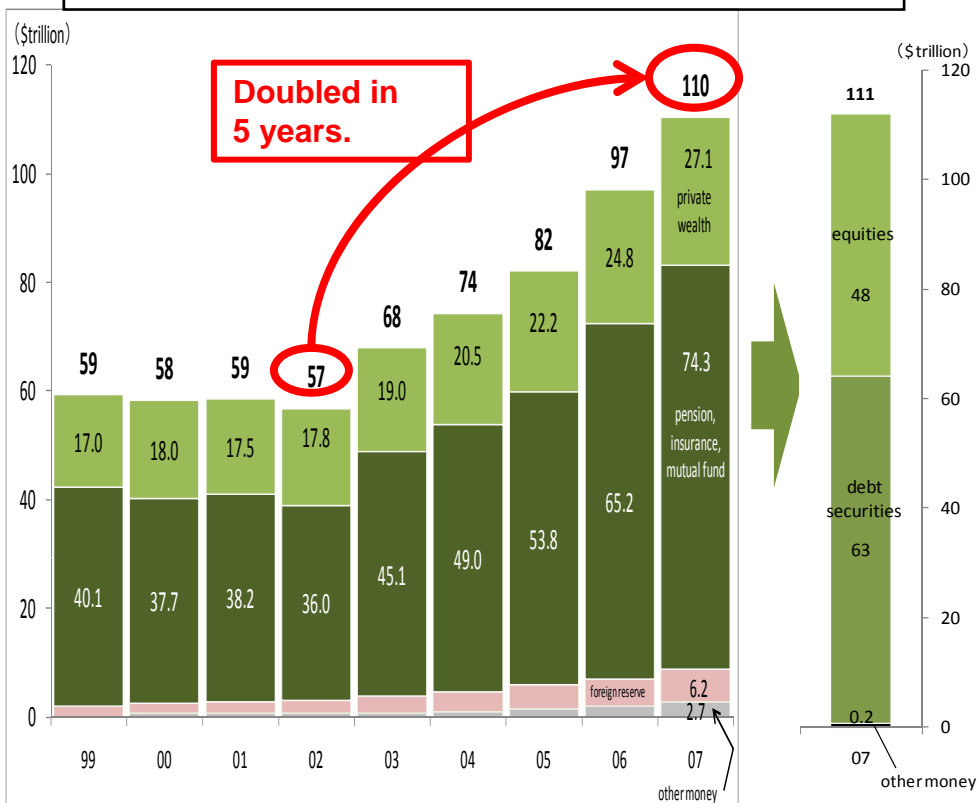
The Global Economy Facing Challenges, its Current Situation and Issues

1. The increased amount of global money under management and the collapse of its management in U.S. as the background of the global financial crisis

○ Money under management including US pension funds and other advanced countries / foreign exchange reserves of the emerging countries increased globally.

○ This money mainly flowed into residential mortgage-backed securities (RMBS) in the U.S. forming a housing bubble. The collapse of the bubble triggered a global financial crisis.

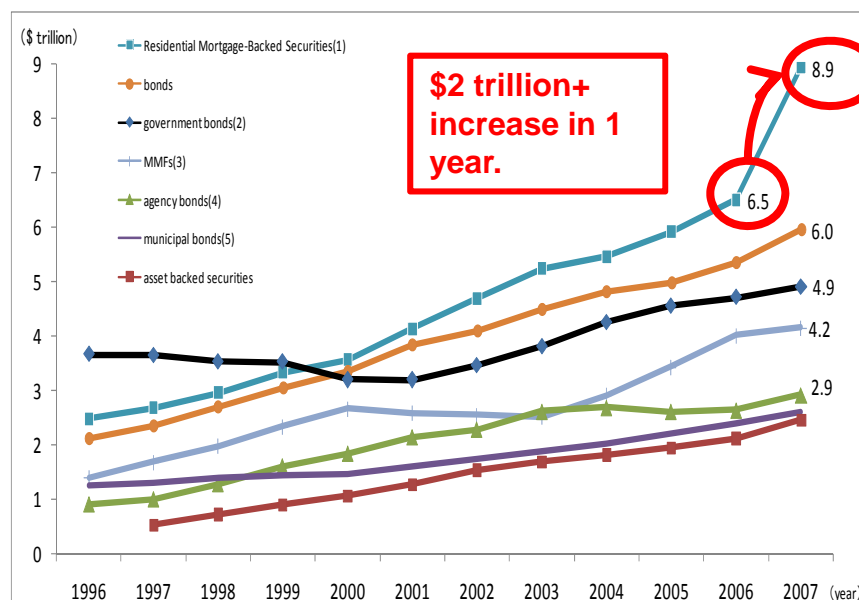
Global money under management doubled in 5 years



Note: 1. Foreign reserve excludes gold. Other money: Total of Private Equity Fund and Hedge Fund. 2. Debt securities and stocks are total of US, Canada, UK, France, Germany, Italy, Netherlands, Switzerland, Japan, Australia, Singapore and Hong Kong. 3. Pension, insurance, mutual funds, private investors money and other money are mainly consisted with advanced countries and do not include ones for emerging countries.
Data: International Financial Services, London; CBS Fund Management 2003-2008.

Surge in US residential mortgage-backed securities

Amount of Debt Securities Outstanding Issued in the U.S.



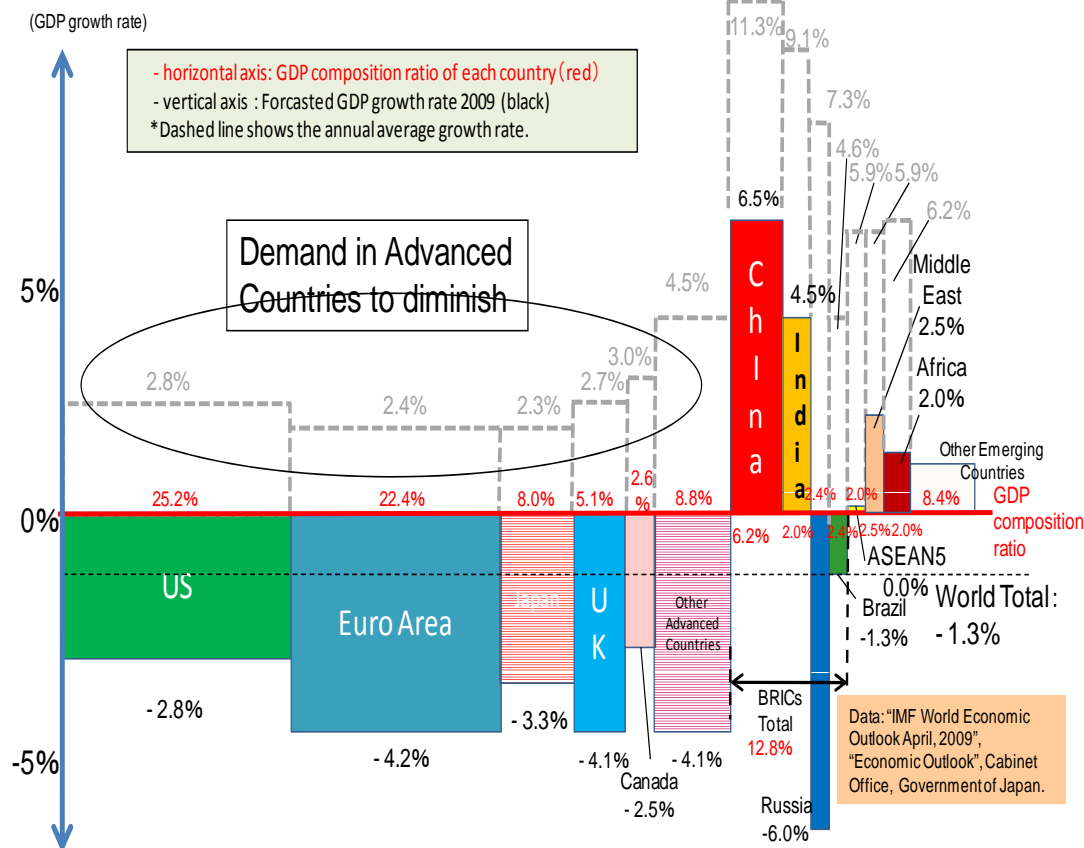
Note: (1) refers to residential mortgage-backed securities collateralized by claims on mortgages (RMBS) issued by Fannie Mae, Freddie Mac, etc.
(2) refers to commercial Paper, bank acceptances and large time deposits etc.
(3) refers to securities issued by governmental agencies established to facilitate loans to students, homeowners or farmers (excl. (1)).
(4) refers to securities issued by States, Cities or Countries for their funds raising.
(5) refers to securities collateralized by claims on auto loans or credit cards.
Data: SIFMA (http://www.sifma.org/research/pdf/Overall_Outstanding.pdf).

2. Impacted by the financial crisis, the global economy flying on two engines of the advanced countries and emerging economies is now forced to fly on a single engine, that of the emerging economies

○ Financial crisis hit Main Street causing a worldwide decline in asset values and consumption caused by the worldwide credit crunch.

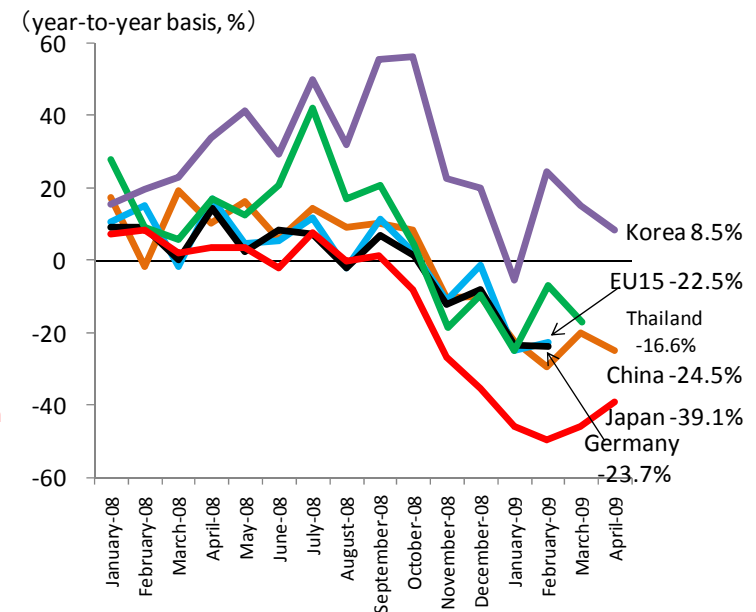
○ China, India (and Middle East/Africa) have continued to maintain growth while all the advanced countries marked negative growth, the first time for this since WWII.

Investment money doubled globally over 5 years



Japan Marked the Biggest Drop in Export Among the Major Countries.

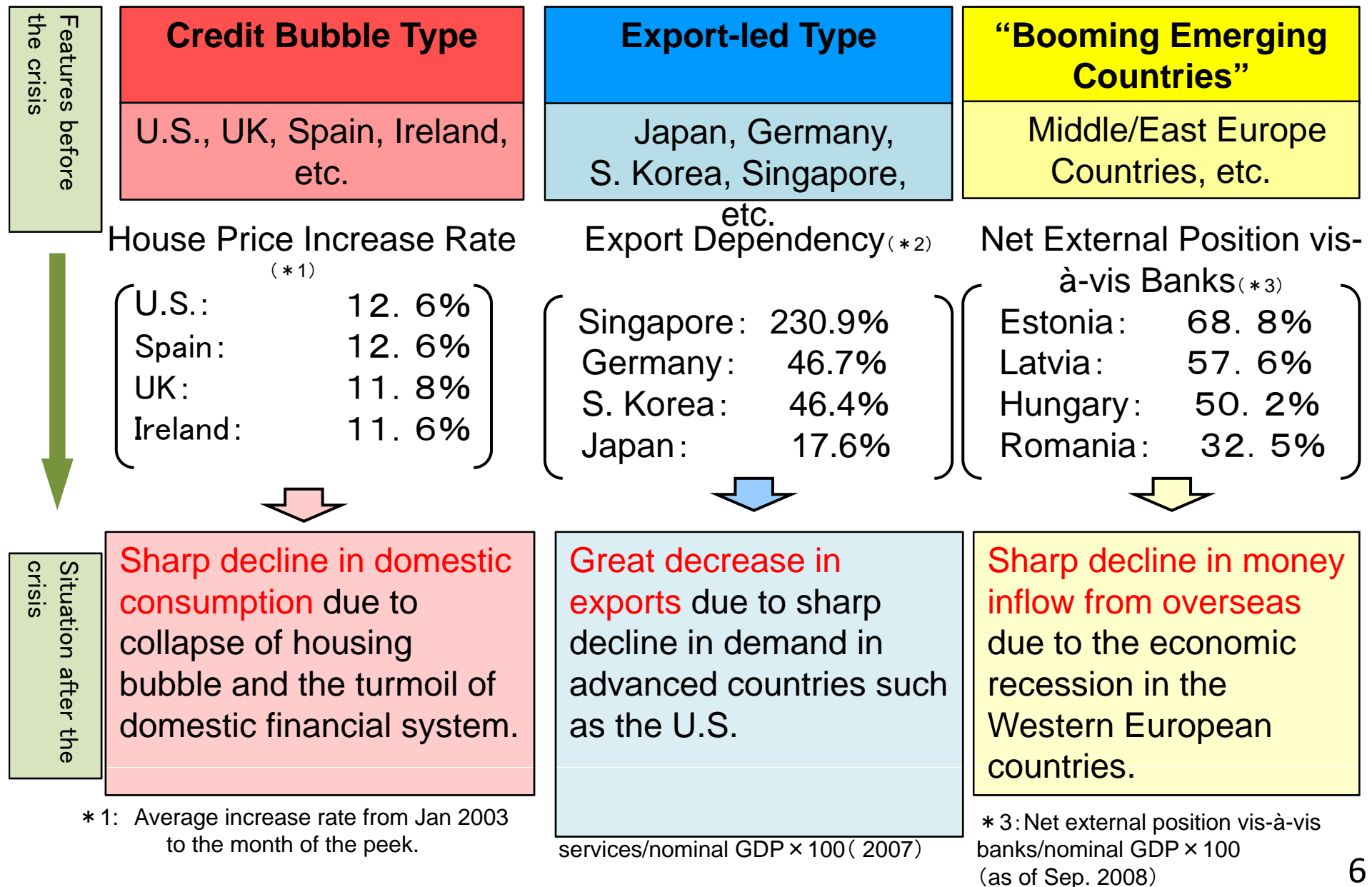
Growth rates of exports in goods to the world market of major countries



Note: Local currency basis.

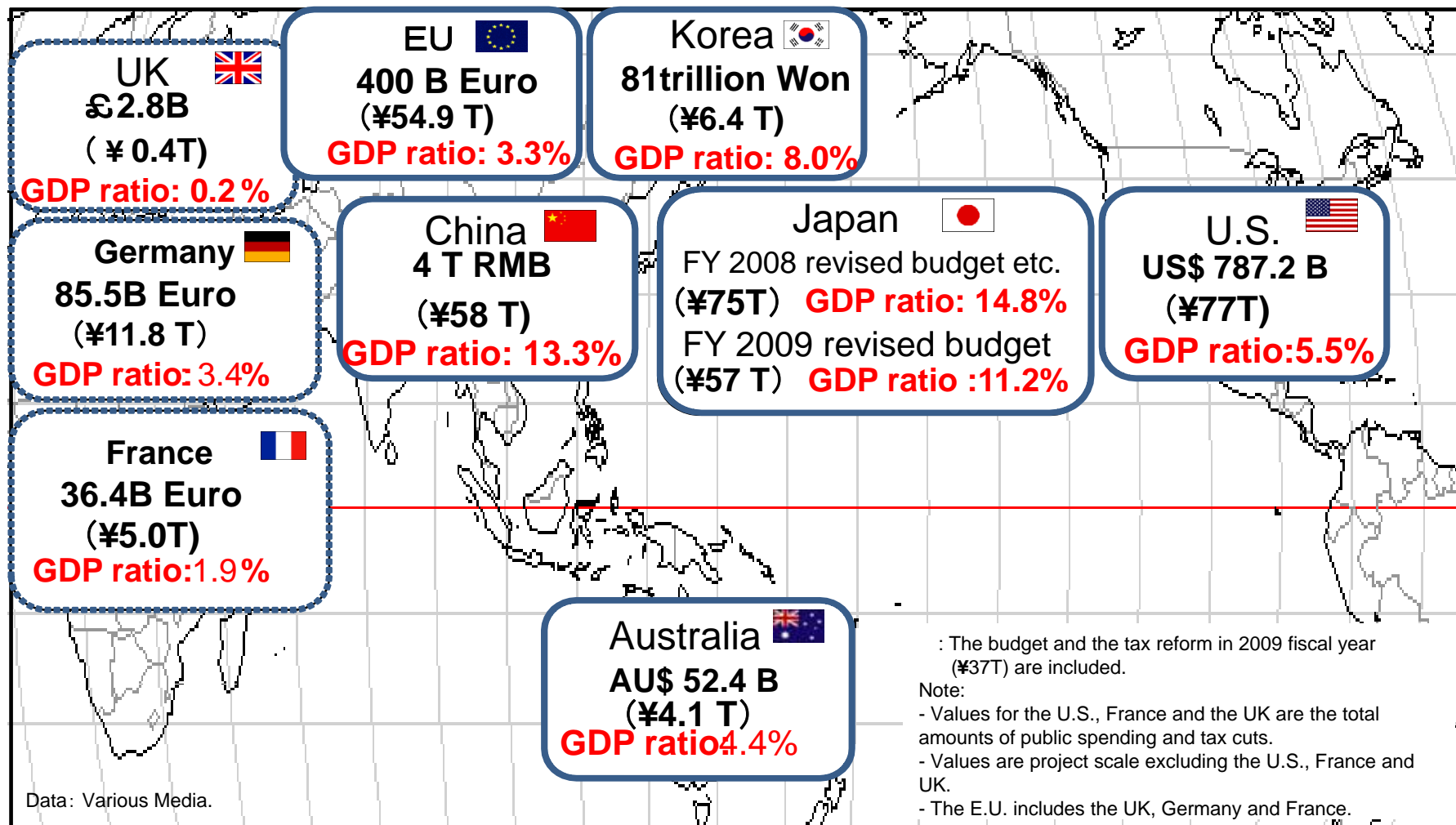
Data: World Trade Atlas.

3. How were economies affected? Three patterns were identified



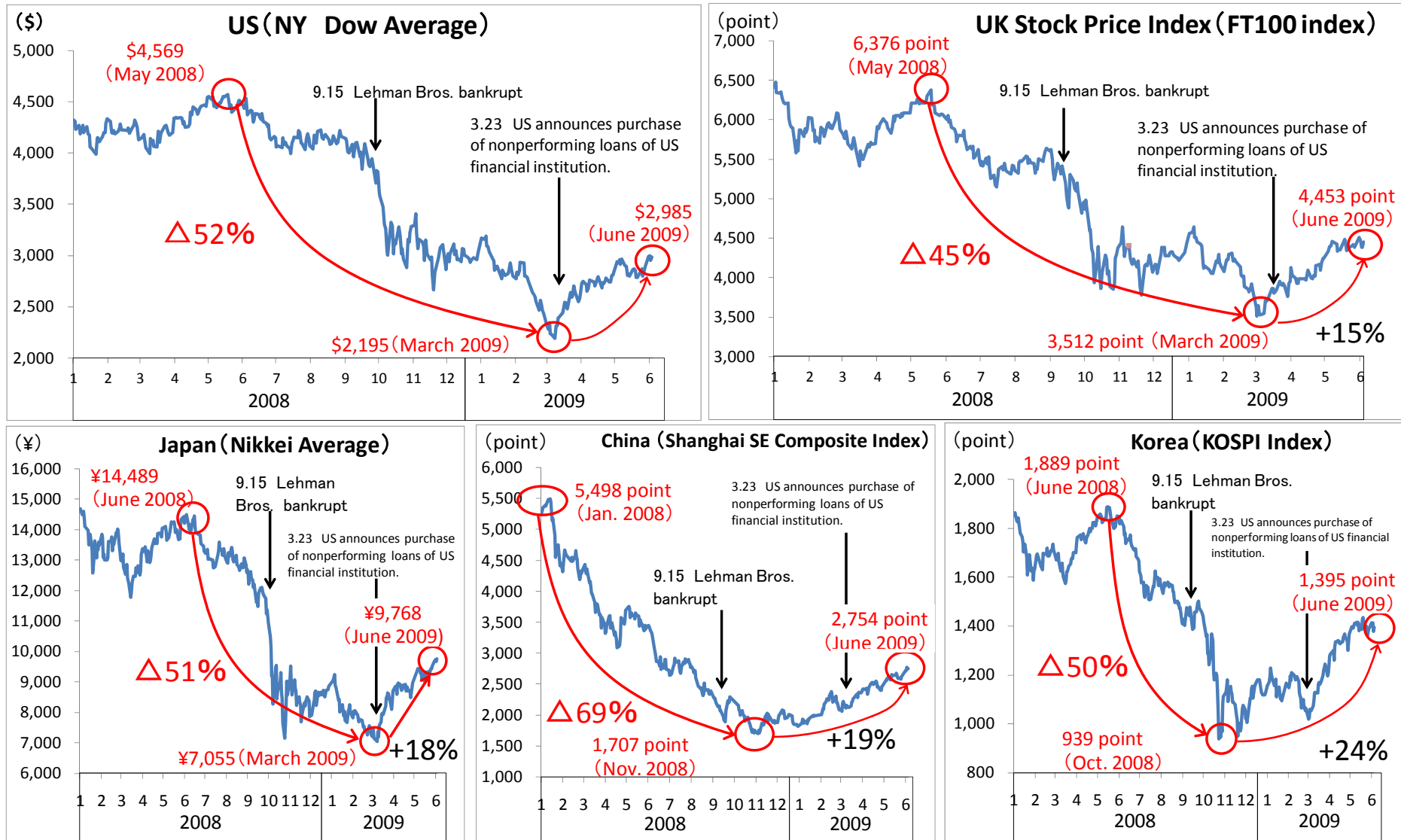
4. Economic measures of each country for today's global recession

- Major countries took large-scale economic measures as well as a variety of financial stability measures.
- Confirmed total of \$5,000 B (approx. ¥500T) of public spending by the participating countries at the April 2009 London Summit.



5. Economic measures of each country /regions in terms of effects ①

○ Thanks to large-scale economic measures, global stock prices have at least bottomed out

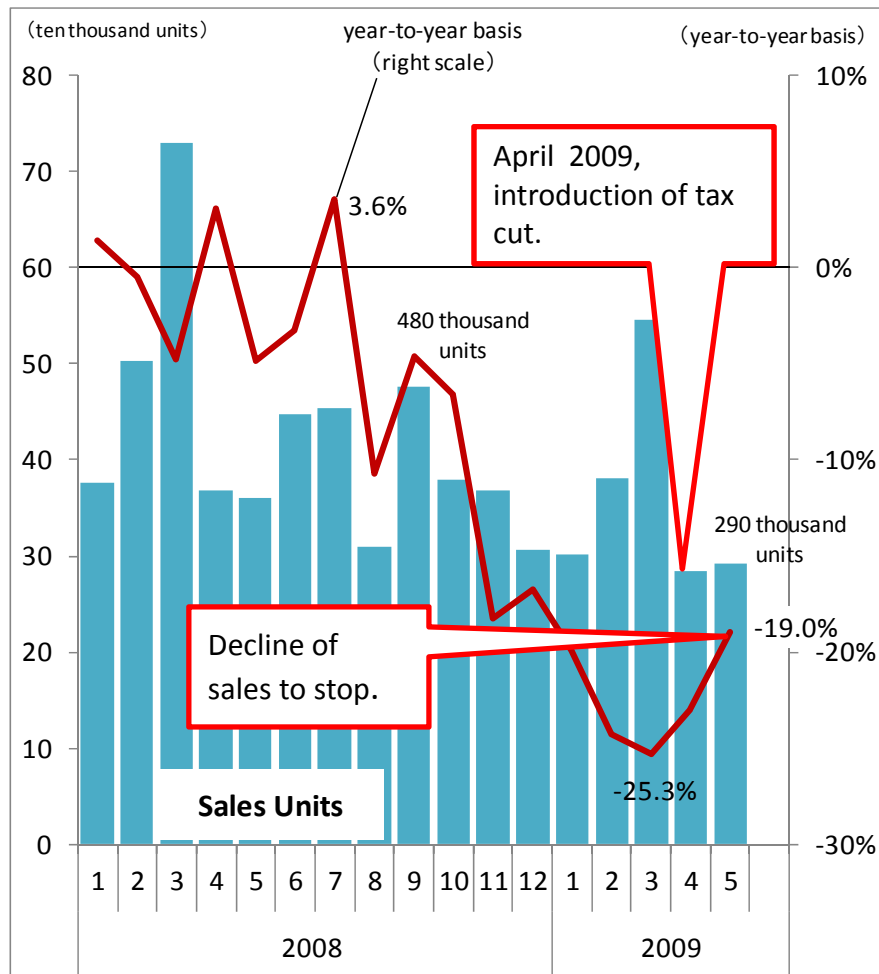


Data: Bloomberg. Negative percentages show the ratios of the bottom prices against the recent peak prices in 2008, and positive percentages show difference between the ratios of latest prices (Jun 2009) and the bottoms.

5. Economic measures of each country / regions in terms of effects ②

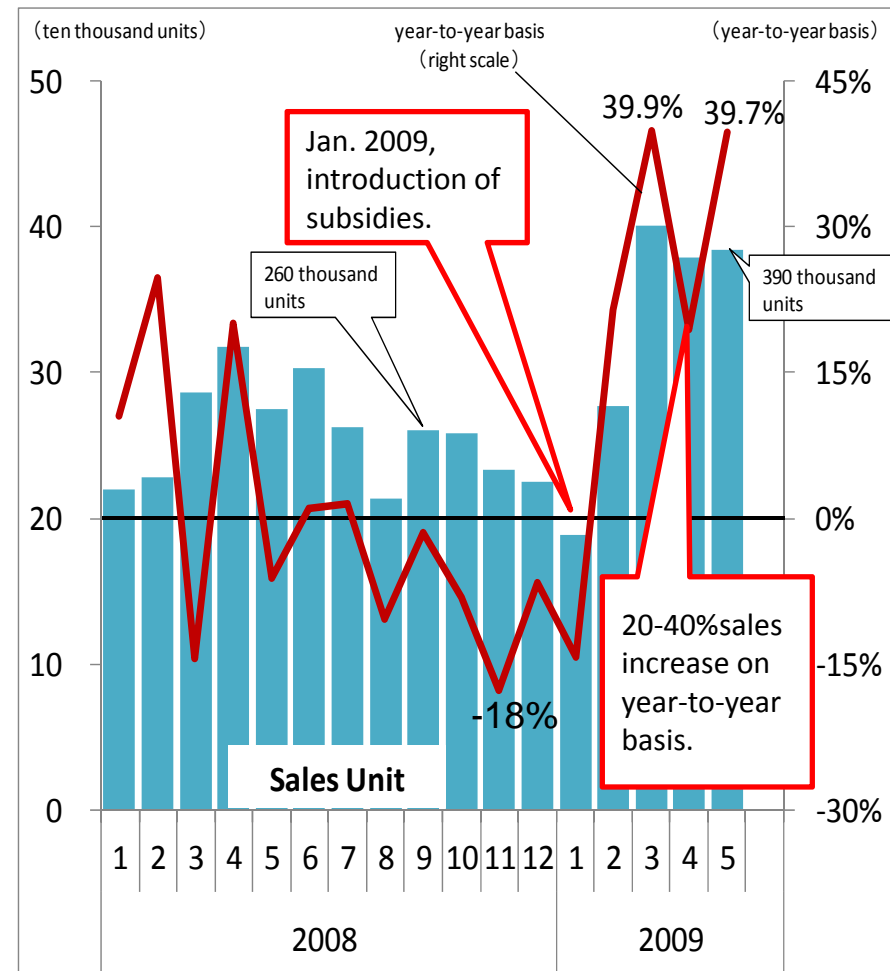
- Economic measures of each countries to gradually stimulate downturned consumption.
- For Instance , in Japan and Germany, tax reduction and subsidies for automobile purchase worked positively for automobile sales to a certain degree.

◆ Japan (automobile)



Data: Japan Automobile Manufacturers Association.

◆ Germany (passenger automobile)



Data: Association des Constructeurs Europeens Automobiles (ACEA), Association Auxiliaire de l'Automobile. (Figure of May 2009 from The German Association of the Automotive Industry(VDA)).

Chapter 2

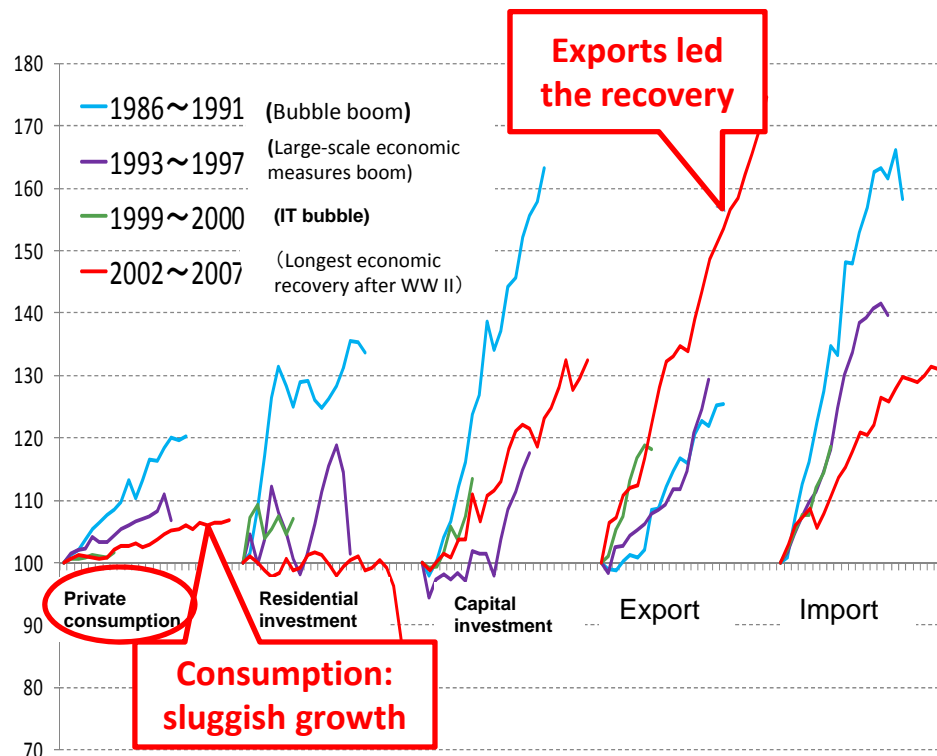
Direction of Japanese Economy in the Global Economic Crisis

1. The longest economic recovery was led by exports.

- From 2002 to 2007, Japan's economy experienced the longest recovery after world war II, led by exports.
- Japan's export dependence increased in the 2000's and became the highest in 2007.

Consumption grew sluggishly. Exports grew rapidly.

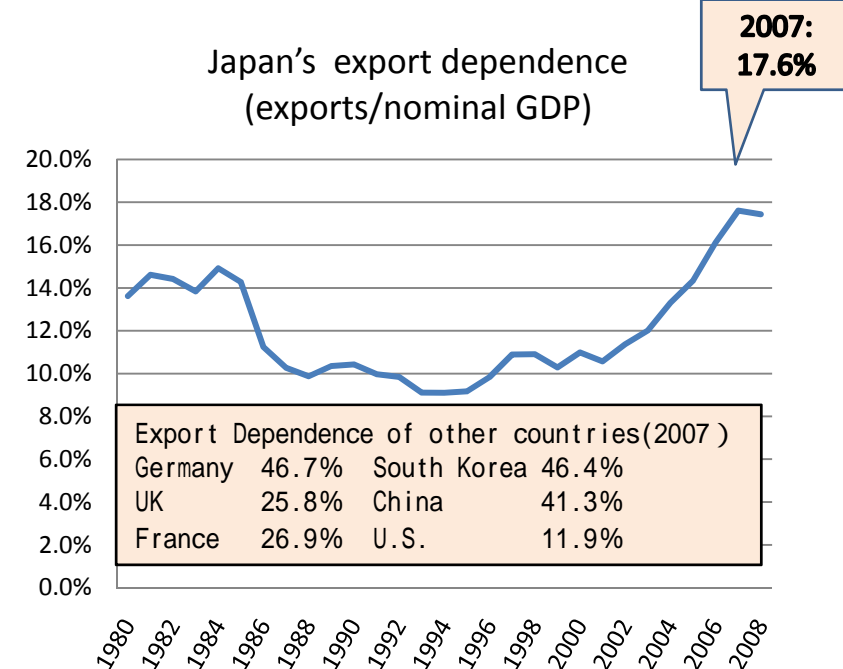
Comparison of Demand Components in Recovering Periods



Note: Figure of each first quarter was indexed as 100.

Source: Prepared from SNA (National Accounts of Japan), Cabinet Office, Government of Japan.

Recently Japan's export dependence increased rapidly, though it is lower than those of other countries.



Source: Cabinet Office "SNA statistics," UN statistics.

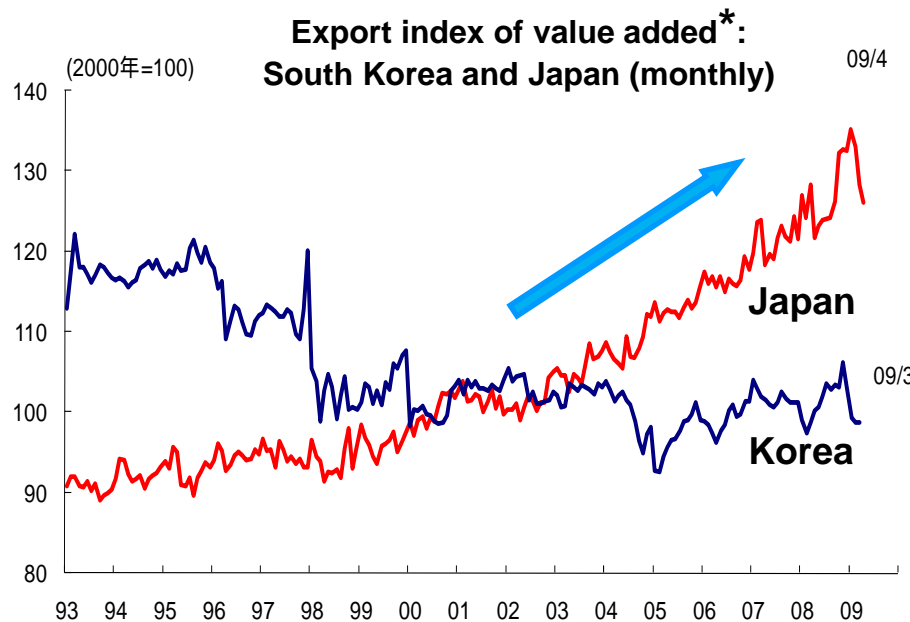
2. Background to the economic downturn ①:

Industrial structural change toward high value-added production

- After the global financial crisis, Japan's export decreased drastically and Japan's economy entered into a full-scale recession.
- Japan's exports shifted toward high value-added goods. Therefore, Japan's economy was severely impacted by the global recession. (The recovery of the global economy may lead to a increase in production of high value-added goods.)

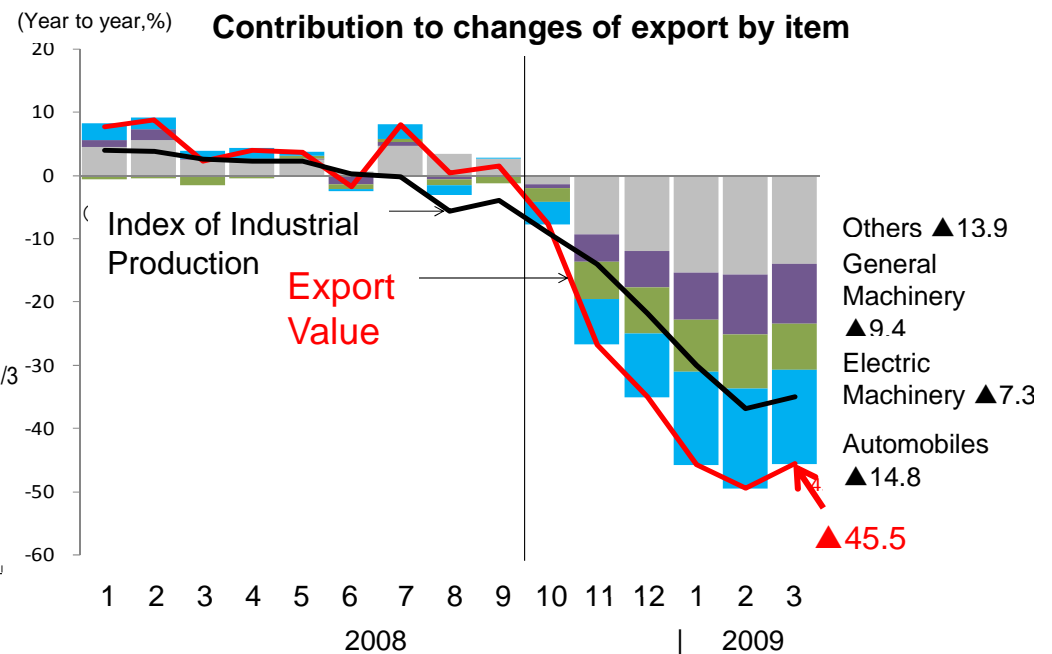
Japan's export index of added value is increasing more rapidly than that of South Korea.

Decrease of exports concentrated on high value-added goods such as automobiles, electric machinery and general machinery.



Source : Mitsubishi UFJ securities

* General Index created from prices of exports. When exports become more value-added, this index goes up through price increase.



Source : World Trade Atlas

General machinery: engines, PCs, etc.

Electric machinery : semiconductors, VCRs audio equipment, etc.

2. Background to the economic downturn ②:

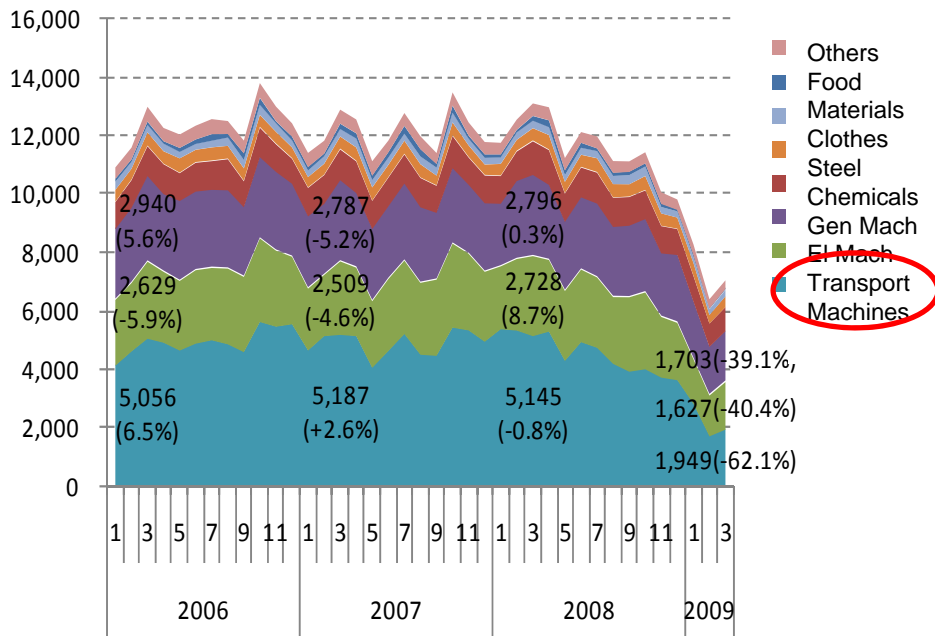
○ The large share of consumer durables (high value-added) in Japanese exports to the U.S. is a background of the huge decline in Japanese exports. In contrary, Chinese exports to the U.S. contains more basic goods (low value-added products).

Change of export to US Japan -46.1%
(Mar. 09, year to year, US\$) China - 5.5%

In Japanese exports to the U.S., the share of automobiles is large.

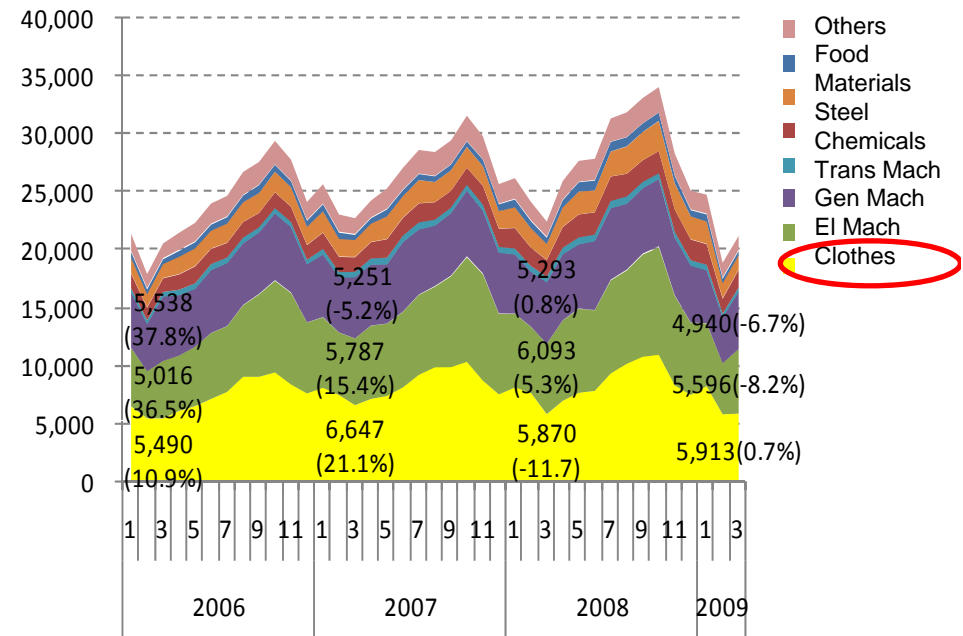
China's U.S. exports are dominated by basic goods such as clothes and miscellaneous goods.

(Million \$) Goods component of Japanese exports to the U.S.



Note : Figures are export values of March in each year.
Parentheses are year on year change, %.
Source: Census Bureau, U.S. government

(Million \$) Goods component of Chinese exports to the U.S.

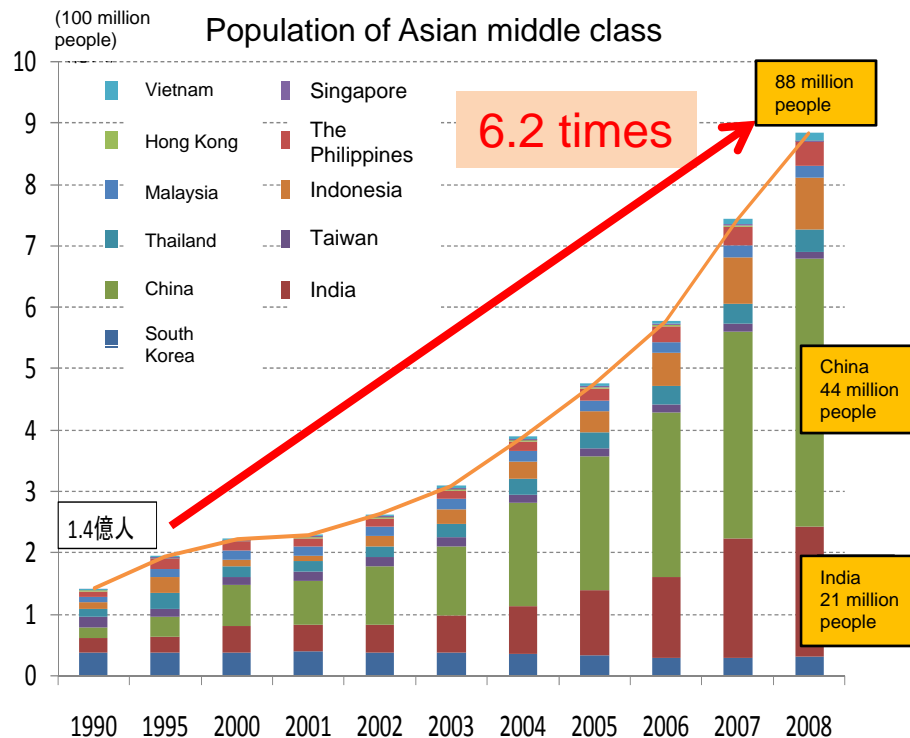


Note : Figures are export values of March in each year.
Parentheses are year on year change, %.
Source: Census Bureau, U.S. government

3. Converting crisis into opportunities ~ ①Market exploration of Asia and emerging economies

- The markets of emerging economies that have a rising middle-class offers Japanese companies great opportunities.
- In such markets, however, the competition with South Korean and Chinese companies is severe.
- In order to succeed, localization of product development and procurement, and recruitment of local staff are necessary.

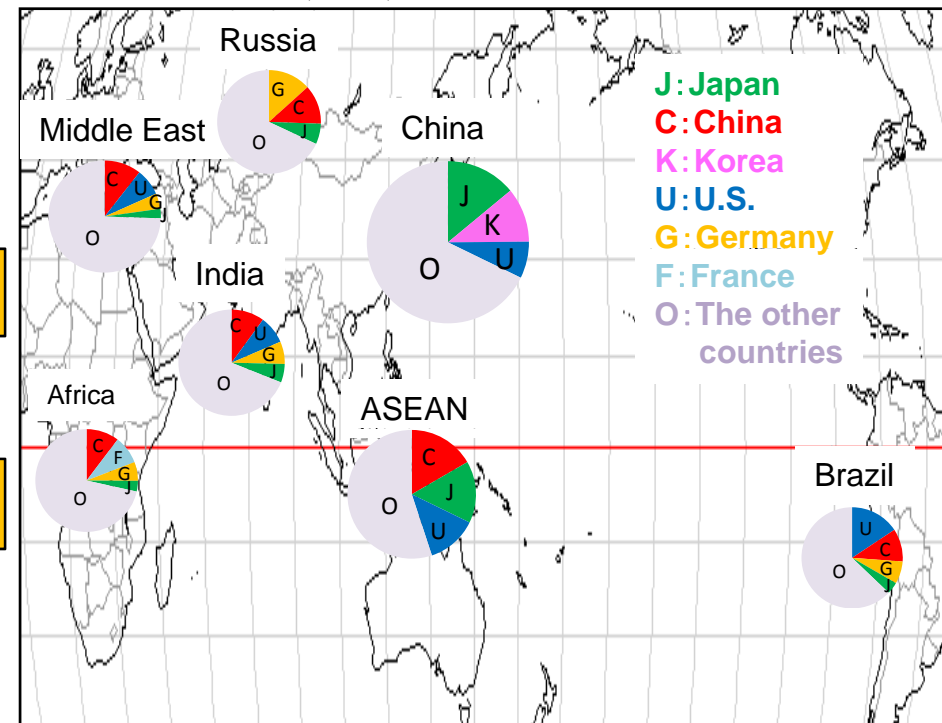
The Asian middle class market is drastically expanding.



Middle Class: Population of households with disposable incomes ranging from \$5,001 ~ \$35,000

Competition with Korean companies in the Chinese market, with Chinese companies in other emerging markets is getting severe.

Imports of emerging economies from main export countries (2007)



Note: This figure shows imports of emerging economies from three main export countries, (Japan,) and "the other countries"

4. Converting crisis into opportunities~ ② Appealing for Japanese attractive points to the rest of the world

○ It is important for Japan to disseminate its excellent/ leading technology (e.g. environmental, energy saving and water disposal, technology) and culture (animation, fashion and sightseeing resources, etc.) abroad. Such exports can also help provide solutions to global problems.

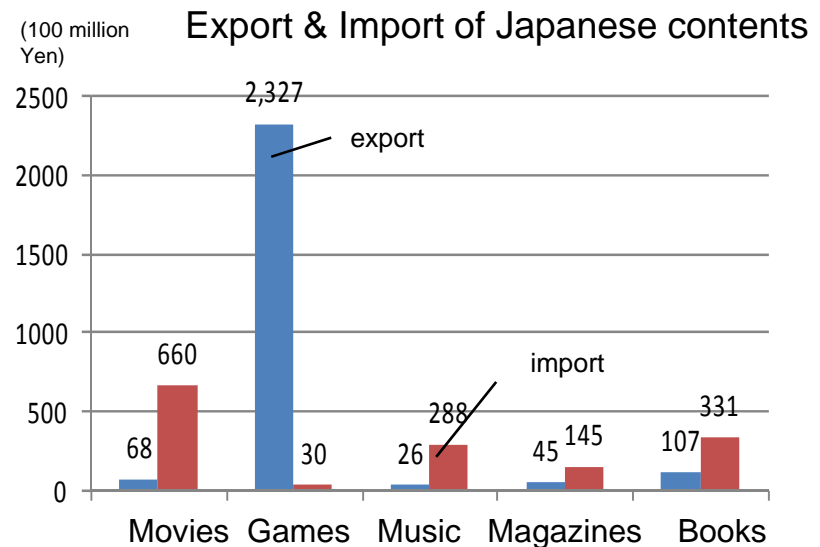
Green Factory

A system which cultivates vegetables and fruits using artificial culture and light, without soil. It is not affected by weather or injury by continuous cropping. 20 harvests per year are possible. Export potential exists.



Sample : Fairy Angel (Kitayama, Kyoto)

The contents industry (except the game industry) has an import surplus. It is necessary to enter into world market which is 10 times the size of the market in Japan.



Source: Ministry of Internal Affairs and Communications, Institute for Information and Communications Policy, "Realities of Production of media software and circulation(2006)."

5. Converting crisis into opportunities ~ ③ Developing the future by expanding domestic demand

- Japan has a 300 trillion-yen consumption market and 1,500 trillion-yen in household financial assets. Taking consumer demand is inevitable for growth.
- Even in this economic crisis, there are many companies which ensure profit by ingenuity.

Companies Actively Fighting the Recession

Characteristic	Field and Companies
In-depth customer service	Tokyo Disney Resort Hiiragi-ya (high-class Japanese style hotel), etc.
High-quality, low price goods	UNIQLO, Nitori, Kappa-Sushi, etc.
New goods / services	Blu-ray, Home-delivery DVD rental shops, etc.
Niche Market	ROYCE' (chocolate sold only in Hokkaido) Tombo (frozen jelly sold only in zoos) etc.
Solution for inconvenience or dissatisfaction	Maruetsu (Supermarket: home delivery) Nakamura Brace (orthopedic & rehabilitation devices) etc.
Focusing on "individual market" rather than "mass marketing"	Benesse (Shinkenzemi) Sony Music Entertainment (reissued CDs) etc.

Chapter 3

Global Economic Strategy and Foreign Economic Policy of Japan

Global economic strategy and foreign economic policy of Japan

- The four prioritized fields

1. “Domestic and foreign integrated economic measures”

Japan as a trade-oriented nation, growth in foreign demand around the world is the greatest economic measure.

- Drive forward the concept of doubling the size of Asia's economy
- Deterrence of protectionism (WTO Doha Round and Economic Partnership Agreements, etc.)
- International development of infrastructures-related businesses including electric power supply, transportation, water supply, services industries and

contents industry

2. Promotion of innovation in the “volume zone”

The market development of the emerging countries is essential for the diversification of the investment destination.

- Promotion of new innovation by low cost technology
- Maintenance of the investment environment by investment-protection treaties and intellectual property protection
- Encourage home remittances of profit on foreign investment

3. Global development of the low carbon revolution

Aim to become a “problem solving nation” tackling global issues.

- Promotion of international energy conservation cooperation, etc.
- Promotion of overseas market expansion strategy that centers on low carbon technology.

4. Multi-layer cooperation including industrial cooperation with countries rich in natural resources

Multilayer development of industrial cooperation, etc. with resource country

- Support resource countries by providing technologies, etc.
- Strengthening international exchange in various fields as sightseeing and education, etc.

1. Domestic and foreign integrated economic measures

○ Adding to domestic demand expansion, Japan will promote domestic and foreign integrated economic measures aiming to grow with Asia by promoting expansion of domestic growth of Asia, the “Growth center in the world.”

(1) Drive forward the concept of doubling the size of Asia's economy

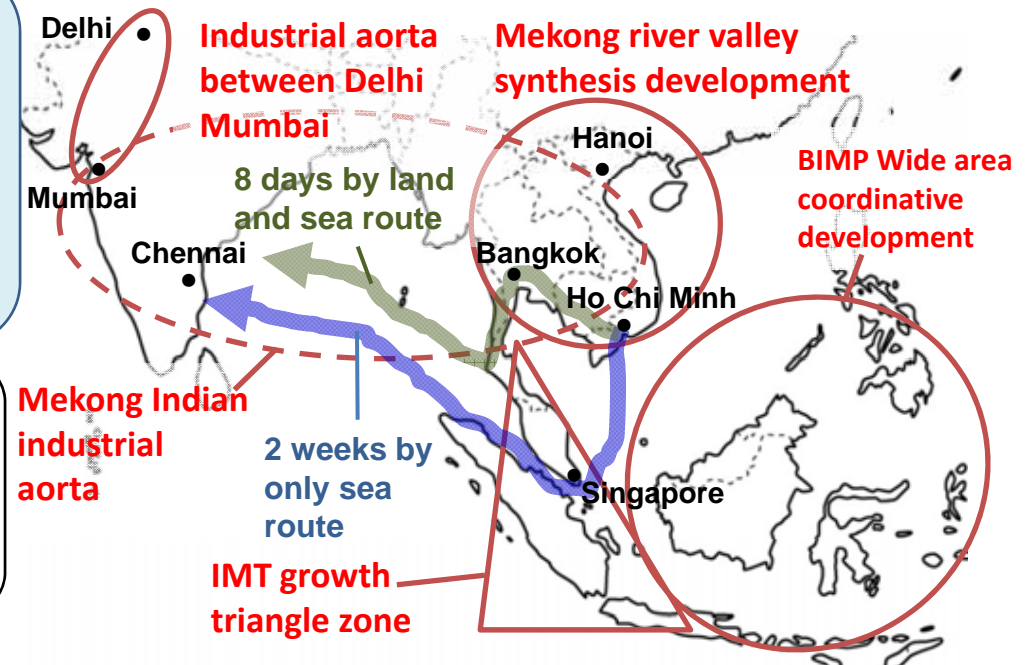
- Cooperation in maintenance of the large area infrastructure and the social security system, etc. to expand domestic demand of Asia.
- Promote economic cooperation with Asia such as system sharing is promoted (utilizing APEC 2010 in Japan).

By utilizing the Economic Research Institute for ASEAN and East Asia (ERIA), establish the foundation for distribution infrastructure (industrial aorta, etc.) aiming for market integration of east Asia. (Right figure)



June 3, 2008

ASEAN board of directors when ERIA is established



e.g. Approx. 2 weeks is needed to go from Ho Chi Minh (Vietnam) to Chennai (India) via sea route of Strait of Malacca.

When the land /sea route connecting Cambodia and Thailand is established, it will be shortened to 10 days and will be 8 days if Japanese traffic technology etc. were to be introduced .

Note: BIMP: Brunei, Indonesia, Malaysia, and the Philippines.
IMT: Indonesia, Malaysia, and Thailand.

(2) Promotion of trade investment liberalization and deterrence of protectionism

- Promotion of WTO Doha Round
- Promotion of Economic Partnership Agreements (EPA), etc.

Measures for protectionism

The measures of the governments around the world that can influence export and the investment is increasing rapidly after the economic crisis.

The understood protected trade measures goes up to about 130 by 30 countries. They took effect after Sep. 2008 which were against the declaration of the head of the London summit. Measures that Japan could be influenced by amount to 24 by 9 countries.

Examples of trade measures

- Introduction of Buy American articles (U.S.)
- Introduction of expansion of import permission system introduction (Argentina)
- 13% tariff raise in cross-sectoral articles (Ukraine).
- Tariff rate increase for cars and flat panel TVs, etc. (Russia)

One Village, One Product activity

Implemented as a development support plan for developing countries by the WTO Doha Round promotion.

Aimed to discover specialties of the developing countries, and to foster the development of attractive commodities that can be bought also by foreign countries.

A "One Village, One Product Market" is set up in Narita Airport and Kansai Int'l airport. It is an exhibition and spot sale featuring 380 articles from 36 countries.



Market in Narita Airport



《example of commodity》

Tinplate bicycles
produced by recycled
empty cans, etc.
(Madagascar)



2. Promotion of innovation in the “Volume Zone”

- Aims market gain of interlayer segment (population about 880 mil.) of the Emerging market= “Volume Zone”
- Support enterprises that aim to gain in the “Volume Zone innovation” in areas of developing of the technology of lowering the cost while maintaining the quality of products /consulting in marketing approach method, etc.

(1) Promotion of “Volume Zone Innovation”

- Developing technology of lowering the cost (local procurement and single function design, etc.)
- Marketing for interlayer (Fostering local human resource, local R&D, etc.)

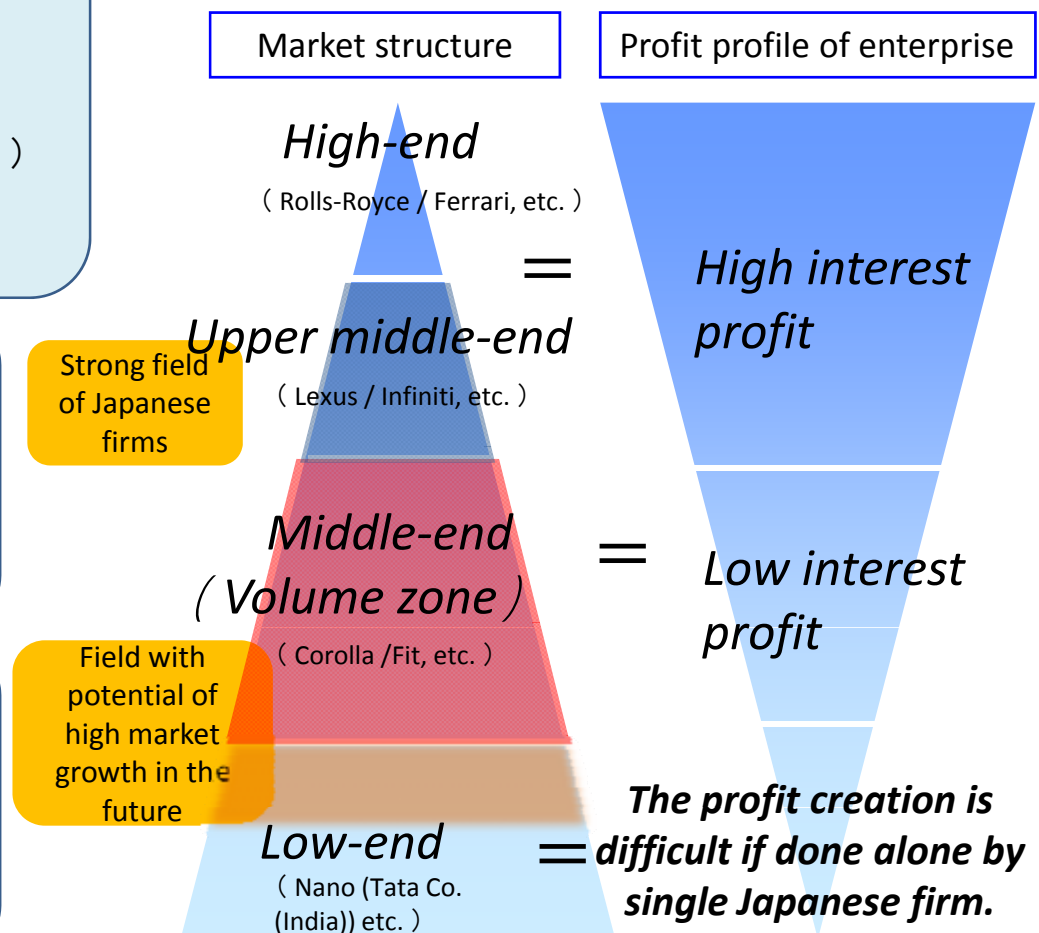
(2) Environmental maintenance for licensed production

- Proactive conclusion of investment treaty
- Protection of intellectual property rights (Anti-Counterfeiting Trade Agreement : ACTA etc.)

(3) Encourage home remittances of profit on foreign investment

- Cancellation of duplicate taxation
- Encourage home remittances of dividends from overseas subsidiary companies' profit

Product portfolio of Japanese firms (example of automobile)



3. Global development of the low carbon revolution

- Build foundation for framework in global cooperation in the energy conservation and environmental areas and strengthen the global basis for the development of a low carbon society.
- Additionally, promote an overseas market strategy that centers on low carbon technology, etc. which is one of Japan's major strengths.

(1) Promotion of international conservation of energy cooperation

- The discussion in G8 led by Japanese initiative.
- International Partnership for Energy Efficiency Cooperation (IPEEC)
- Japan-China Energy Conservation and Environmental Forum
- Japan-U.S. cooperation in leading edge environmental technology field

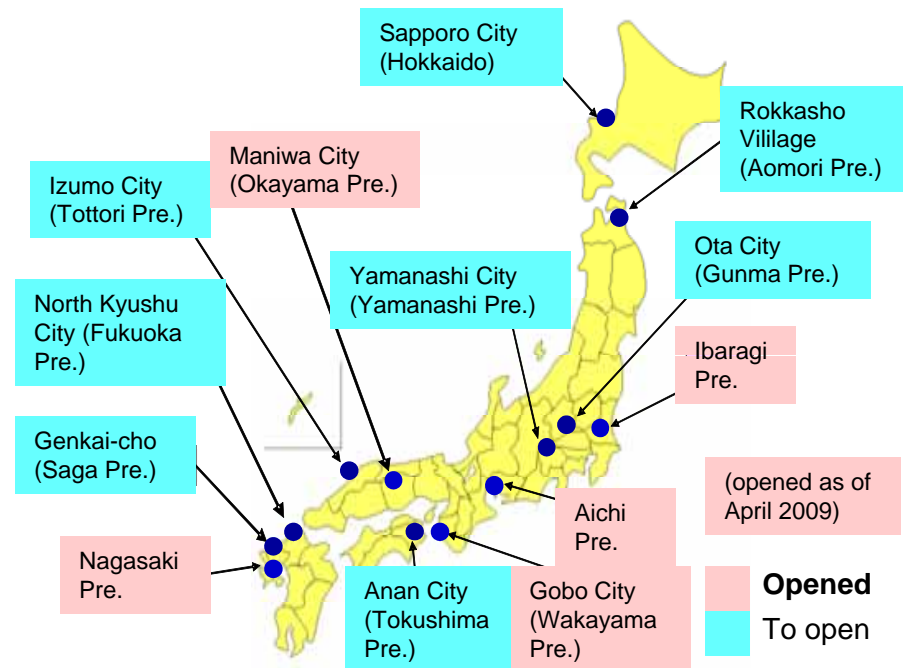
(2) Promotion of cooperation in environmental areas between industries

- Worldwide Japanese Business Alliance for Smart Energy etc.



G8 Energy Ministerial Meeting
(May 2009, Rome)

The next generation energy parks



*The next generation energy parks:
Experience-based study facilities with equipment such as solar energy generation. Inventiveness that makes the best use of traits of each places can be seen.

4. Multi-layer cooperation including industrial cooperation with countries rich in natural resources

○ In addition to top diplomacy to the resource countries, promote wide industrial cooperation as cooperation in universities and environmental, technical spheres, etc.

(1) Ministerial-level top diplomacy and dispatch of public and private missions, and the promotion of concluding EPAs and investment treaties.

(2) Support resource countries by providing technologies, etc. and build reciprocity relations.

(3) Strengthening international exchange in various fields as sightseeing and education, etc.

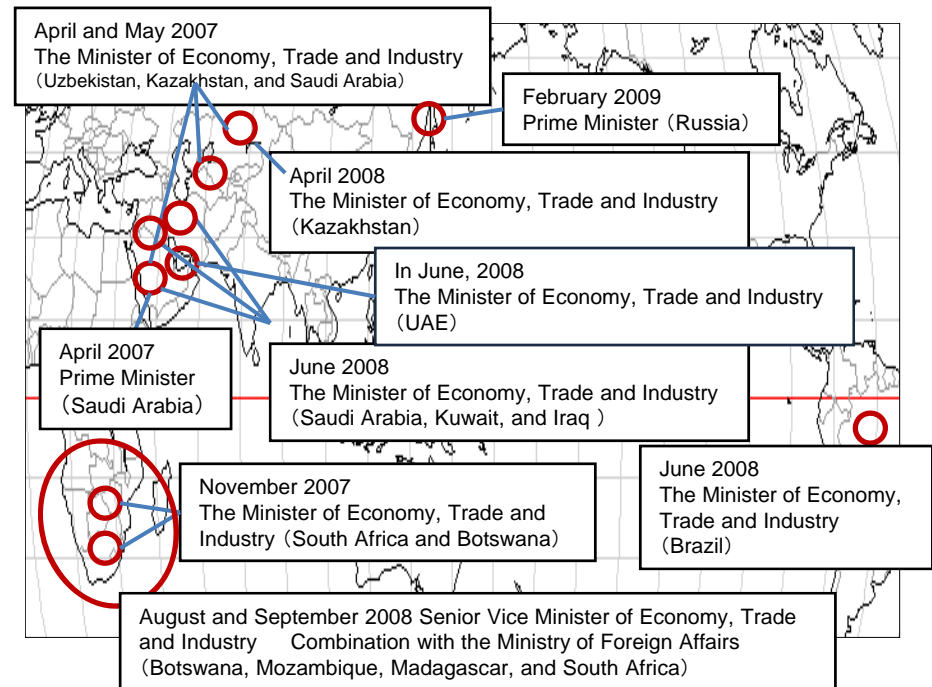
(e.g.)

- Make presentation at the largest travel exposition in Dubai.
- Establish direct flight from resource countries to Japan.
- Introduce Japanese education system, which has a high reputation, into the Middle East.



In April 2009, Asian Ministerial Energy Roundtable

Main countries/cities of resource country visited by Prime minister and Minister of economy, trade and industry (after 2007)



December 2008: Attended the London Energy Ministerial Meeting.
April 2009: Sponsored Asian Ministerial Energy Roundtable Meeting.
May 2009: Attended the G8 Energy Ministerial Meeting.