White Paper on International Economy and Trade 2011 Summary

Overcoming the earthquake disaster, and restoring and strengthening global economic networks

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August 2011

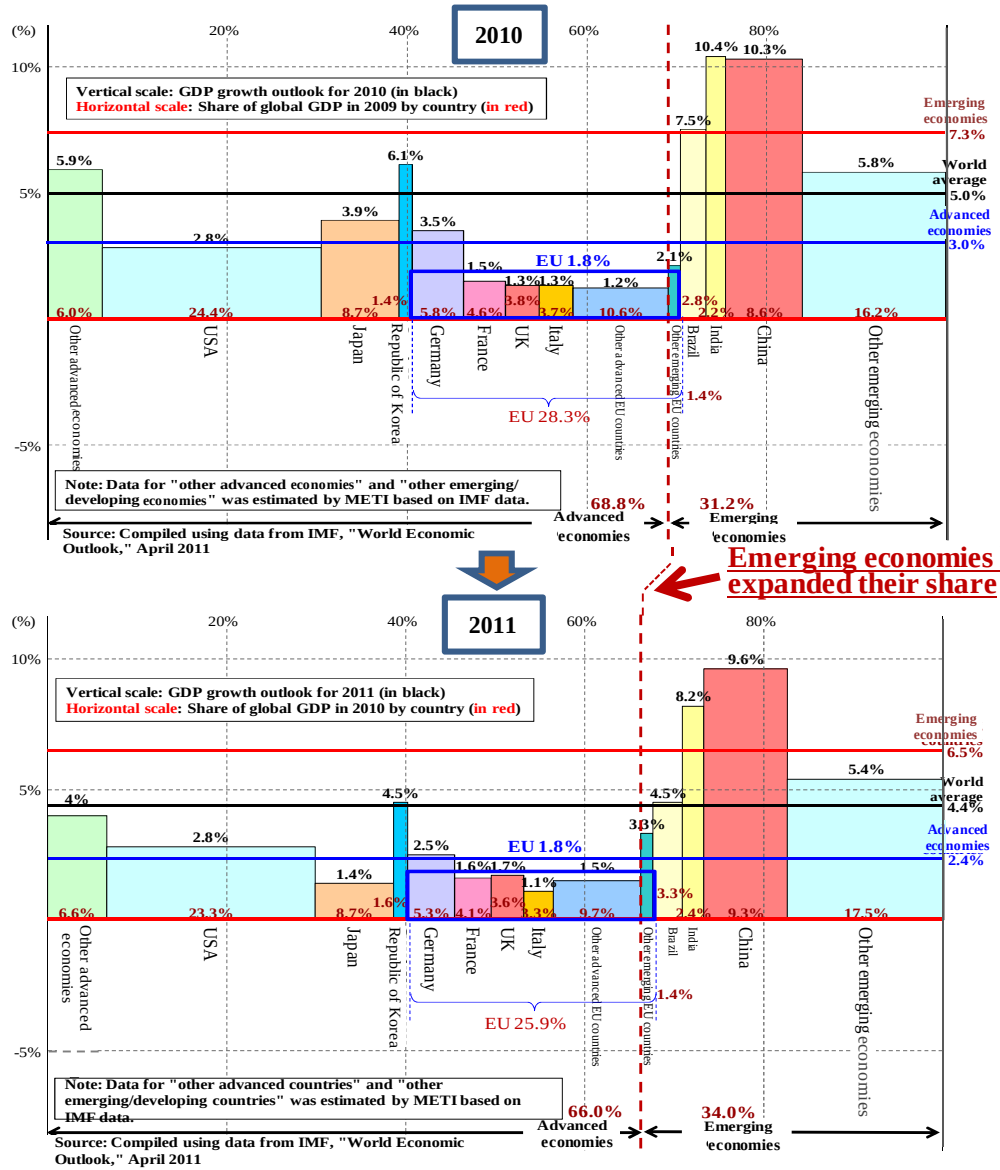
Policy Planning and Research Office,

Trade Policy Bureau,

Ministry of Economy, Trade and Industry

1-1 While emerging economies are driving the world economy, advanced economies are slow to recover

○ The world economy continues to recover moderately, driven by emerging economies.
○ However, with advanced economies failing to narrow the growth rate gap with emerging economies, emerging economies have further increased their presence.



Emerging economies have expanded their share

Share of global GDP

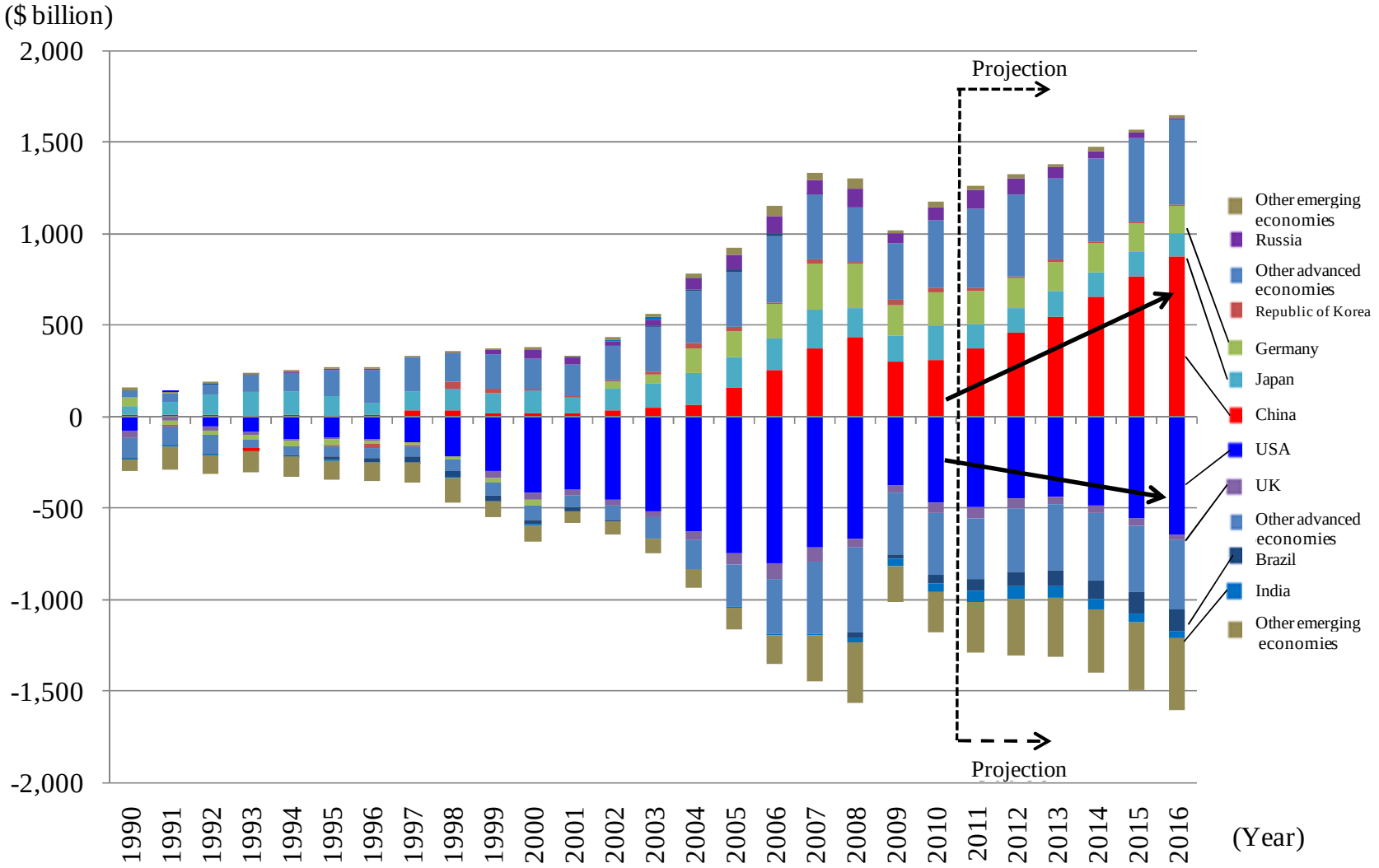
Share of emerging economies has expanded.
(31.2% in 2010 → 34.0% in 2011)

GDP growth

Average growth in emerging economies is more than two times higher than in advanced economies.
(2.4 times higher in 2010 → 2.7 times higher in 2011)

1-2 Global imbalances temporarily declined through the financial crisis, but are increasing again.

- IMF's projection of current account balances indicates that a decline in imbalances cannot be expected in the medium term.
- Such factors as defaults by unsustainable budget deficits, instability of financial institutions, and further inflation by increased capital inflows to emerging economies could exert downward pressure on the world economy.

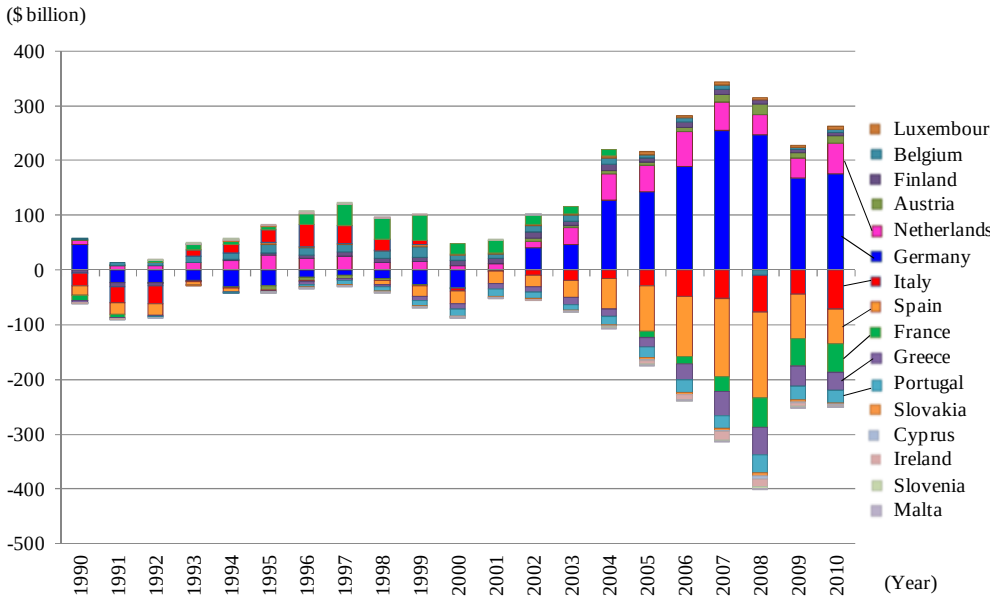


Source: Compiled using data from IMF, "World Economic Outlook," April 2011

1-3 European economy has recovered moderately, though failing to clear away concerns about worsening of debt crisis

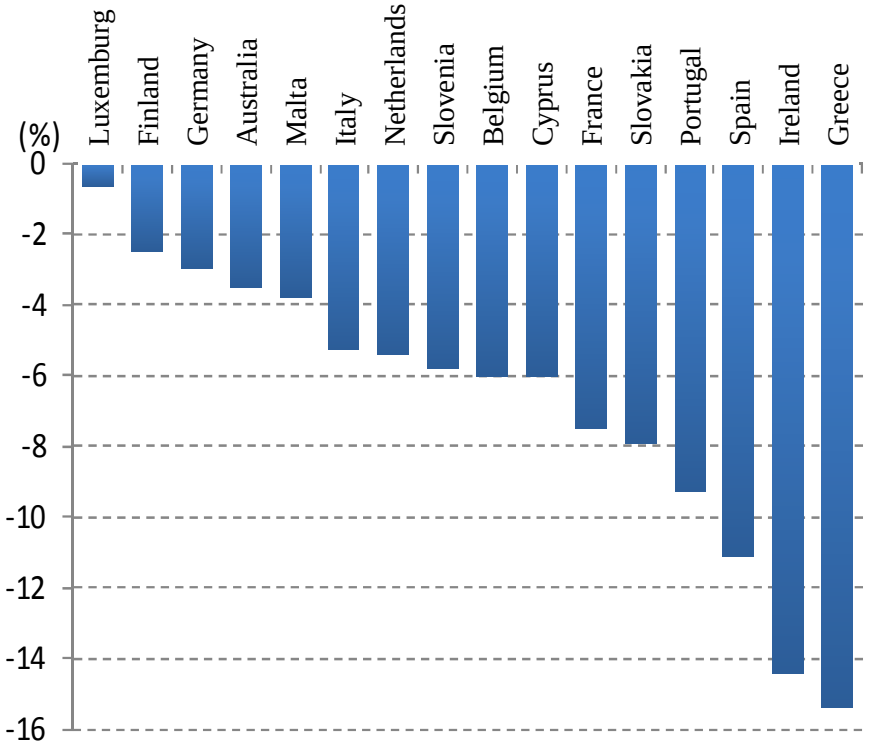
- In 2010, the European economy as a whole recovered moderately. However, the situation differs considerably between European countries, and current account imbalances within the euro area are gradually increasing.
- Concerns about worsening of the European debt crisis are not cleared away. In addition to the requests from Greece, Ireland, and Portugal for support from the IMF and EU, there is uncertainty over self-reliant fiscal reconstruction of other European countries facing difficult fiscal conditions. Establishment of a reliable relief system (expansion of the EFSE) will be the key.

Increasing current account imbalances within the euro area



Note: Excluding Estonia, which joined the euro area in 2011
Source: Compiled using data from IMF, "World Economic Outlook," April 2011

Government Deficit-to-GDP ratio of euro area countries (2009)

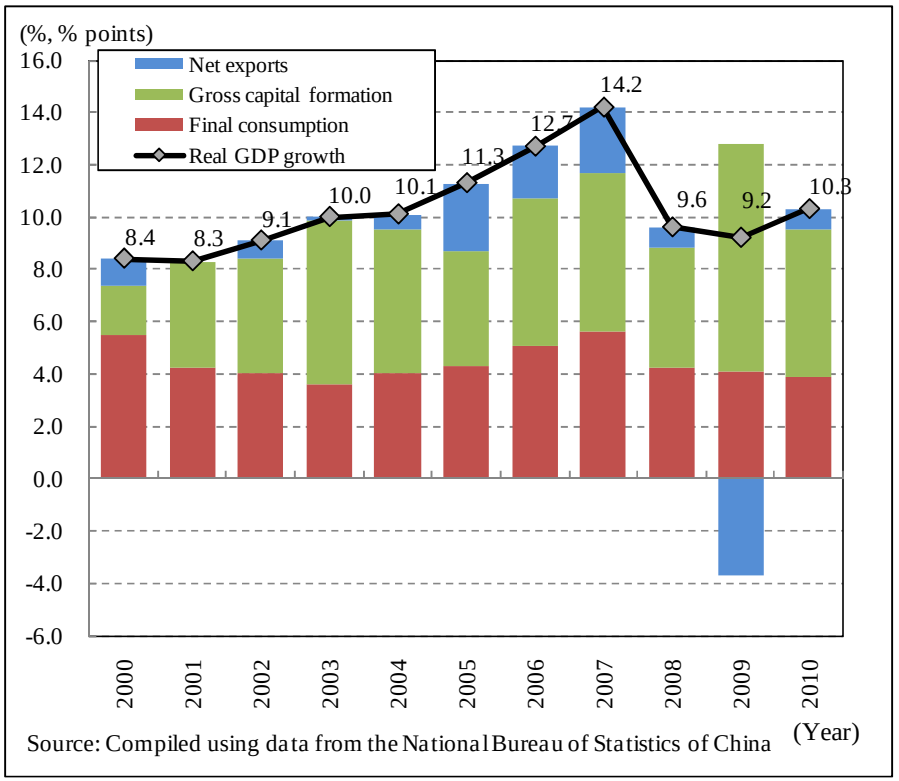


Note: Excluding Estonia, which joined the euro area in 2011
Source: Compiled using data from Eurostat.

1-4 China is driving the world economy. Price stability is the largest issue.

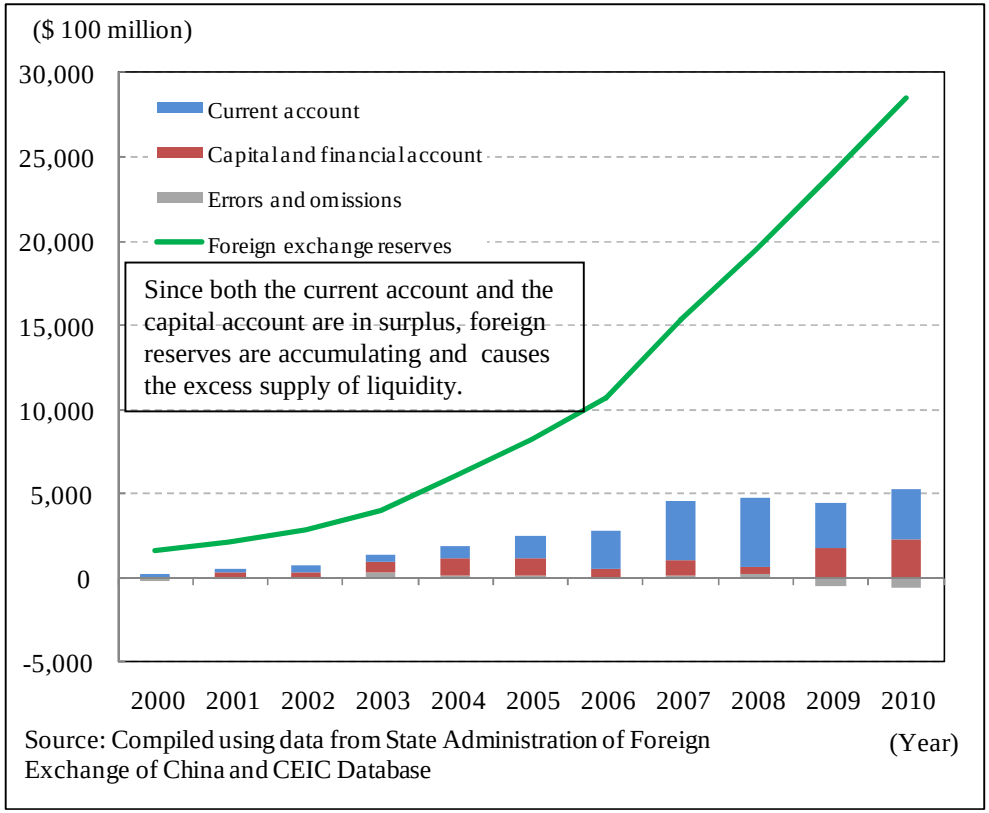
- After the world economic crisis, the Chinese economy recovered ahead of others, and has been driving the world economy.
- However, China is currently facing continued inflation, and its largest issue in economic management is to achieve price stability.
- In order to resolve its external economic imbalances and excess domestic savings, China needs to adjust its foreign-exchange and trade policies, to promote reform of the domestic economic structure, and to shift to a consumption-driven economy.

Changes in China's real GDP growth and contribution thereto by component of expenditures (annual basis)



Source: Compiled using data from the National Bureau of Statistics of China

Changes in China's balance of payments and foreign exchange reserves

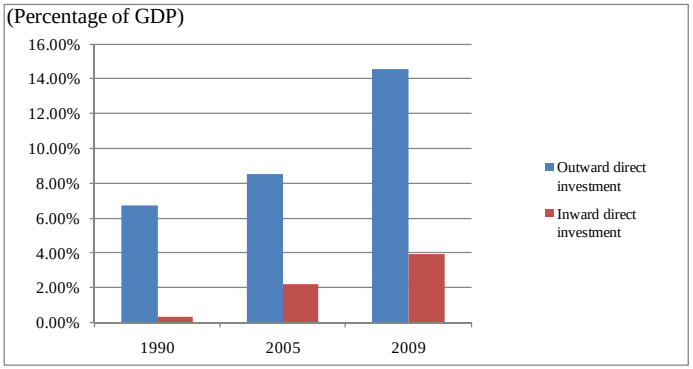


Source: Compiled using data from State Administration of Foreign Exchange of China and CEIC Database

2-1 Japanese economy is further strengthening its ties with overseas economies both in terms of investment and trade

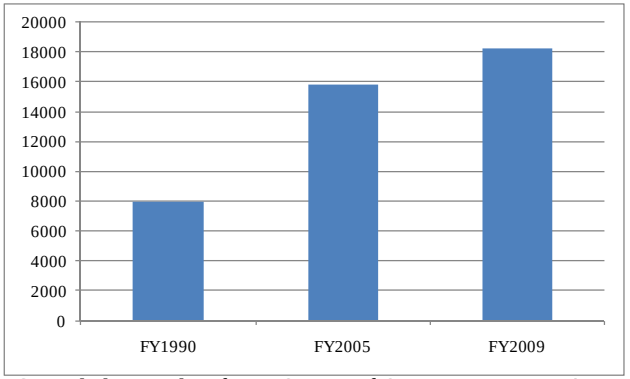
- When comparing 1990 and 2009, inward/outward direct investment and imports/exports have expanded as a percentage of GDP, indicating that the Japanese economy has strengthened its ties with overseas economies both in terms of investment and trade.
- In FY2009, the number of Japanese companies engaged in overseas operations exceeded 18,000, and the overseas production ratio in the manufacturing industry rose to 17%, both being on an increasing trend.

Changes in inward/outward direct investment



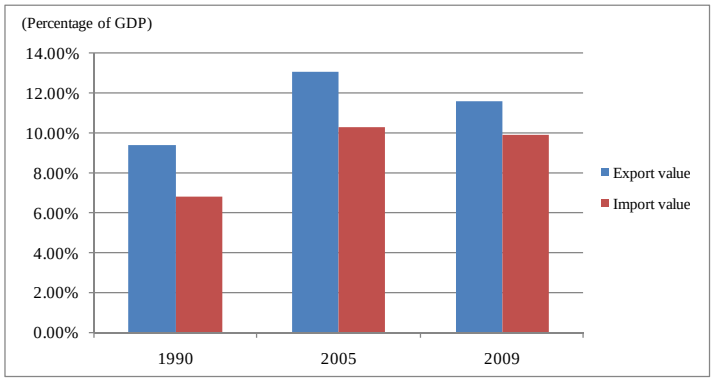
Source: Compiled using data from "Balance of Payments Statistics"

Number of Japanese companies engaged in overseas operations



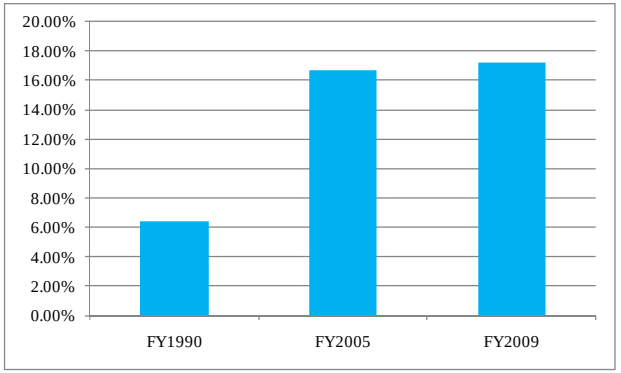
Source: Compiled using data from "Survey of Overseas Business Activities"

Changes in imports/exports



Source: Compiled using data from "Trade Statistics of Japan"

Overseas production ratio (based on the total number of domestic companies in the manufacturing industry)

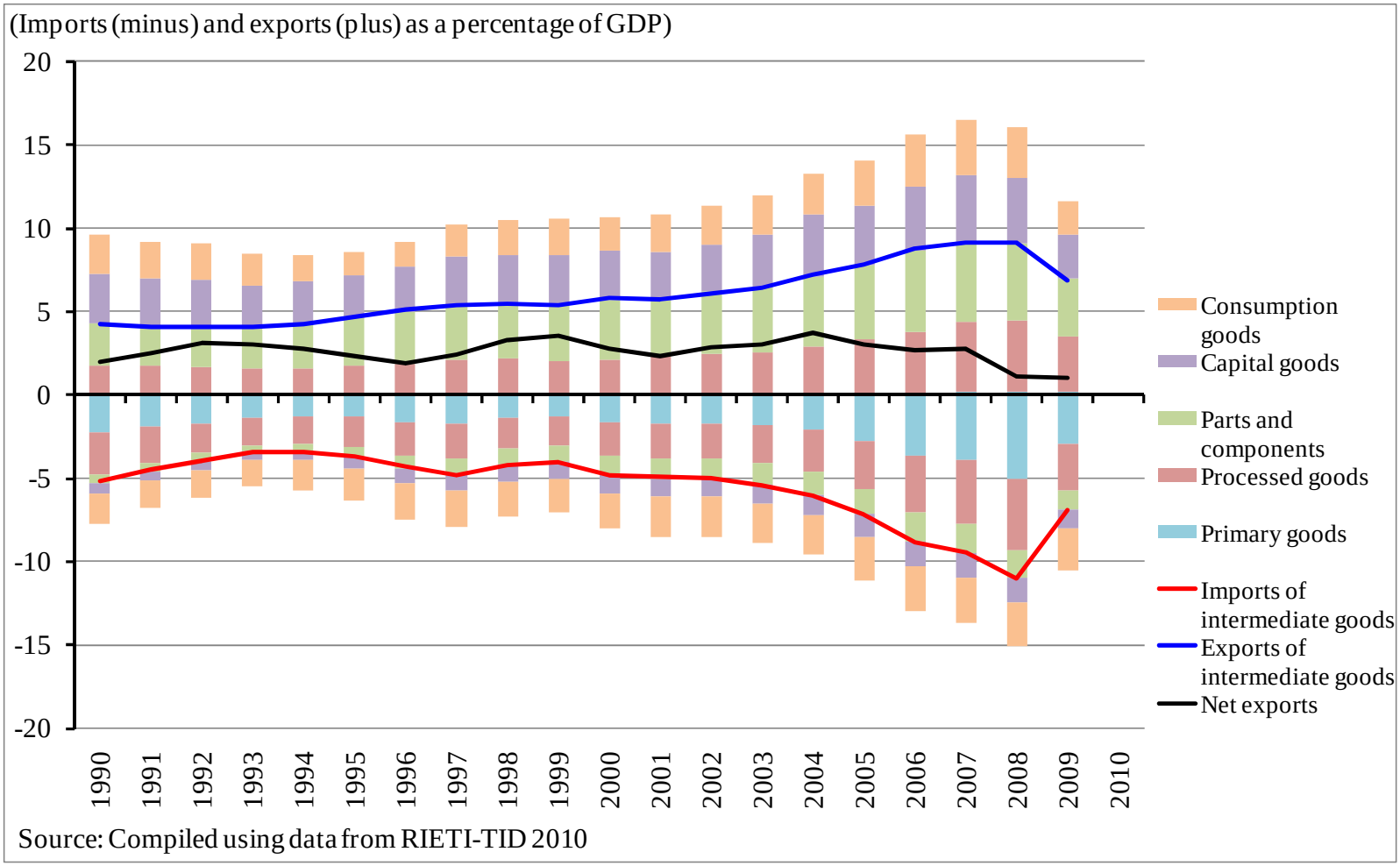


Source: Compiled using data from "Survey of Overseas Business Activities"

2-2 Japan has strengthened its ties with the world economy mainly via intermediate goods

○ Looking at Japan's trade since 1990, the percentages of primary goods and intermediate goods have increased in imports, and the percentage of intermediate goods has increased in exports.

Japan's trade in goods by production stage as a percentage of GDP

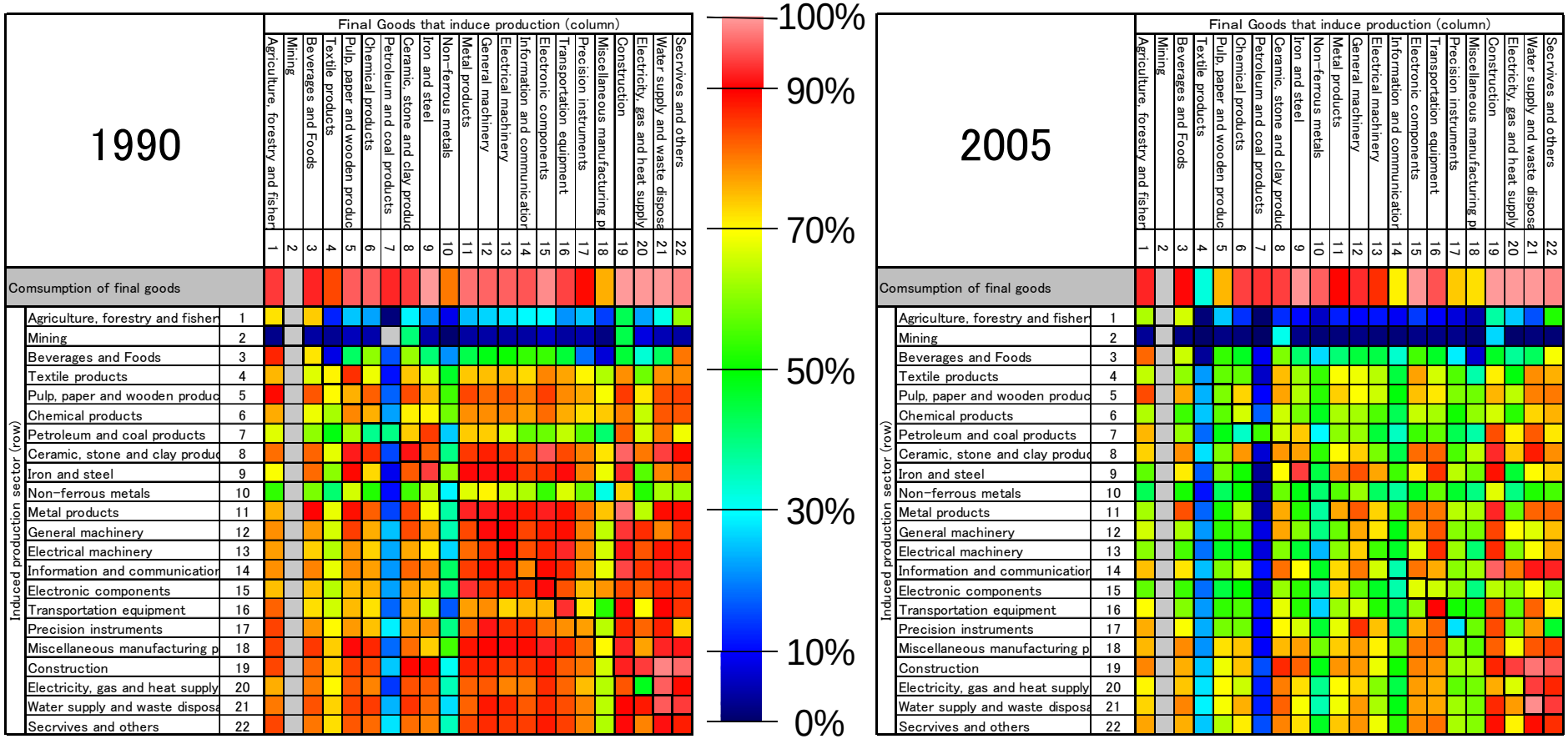


Source: Compiled using data from RIETI-TID 2010

2-3 Japan's industrial structure strengthened its ties with overseas production networks

- From 1990 to 2005, Japan has shifted to a structure of importing not only resources and food, but a wide range of goods and services.
- Due to the strengthened ties between domestic industry and overseas, there is a need to further increase exports in order to secure domestic production activities and employment.

Red cells indicate that inducement effect remained in home. Meanwhile, blue indicate that it overflowed to abroad.

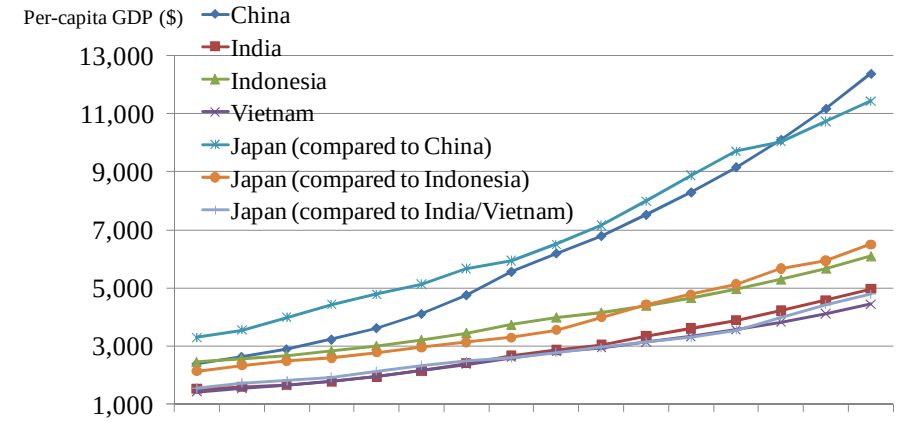


Source: Compiled using data from Input-Output Tables for Japan (1990 and 2005)

3-1 Surging personnel costs pose a growth challenge for emerging economies. Japan's strategic sector is expected to contribute to the growth of Asia.

- ○Emerging Asian economies are now in a stage equivalent to Japan's high-growth period, and facing a surge in personnel costs.
- ○ The Chinese manufacturing industry is in a transition from labor-intensive manufacturing to automated manufacturing due to a rapid wage increase.
- ○ Japan‘s automation technology (industrial robots), which holds a world-leading position, is expected to contribute to resolving the growth challenge in emerging Asian economies.

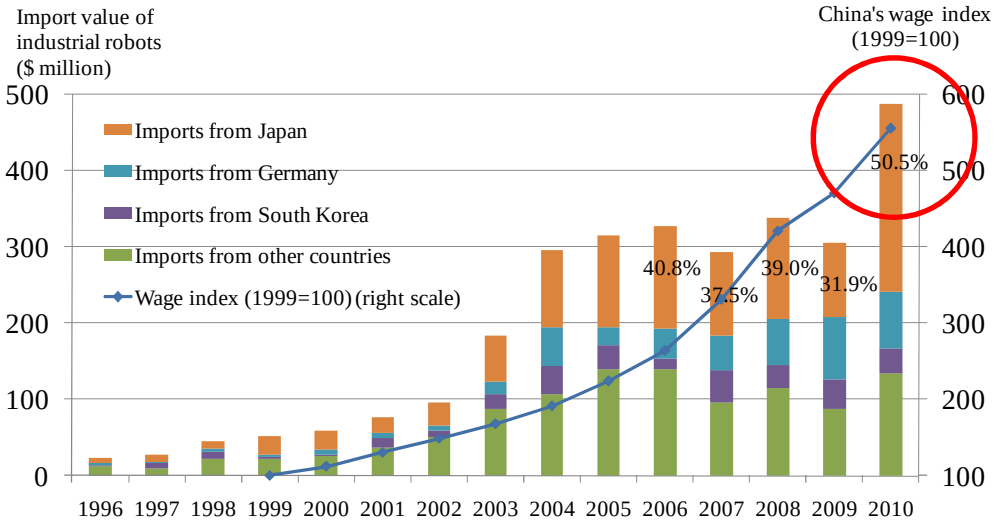
Comparison between changes in per-capita GDP (PPP) of China, India, Indonesia, and Vietnam and those of Japan



China/India/Indonesia/ Vietnam	2000	2005	2010	2015
Japan (compared to China)	1958	1963	1968	1973
Japan (compared to Indonesia)	1951	1956	1961	1966
Japan (compared to India/Vietnam)	1947	1952	1957	1962

Source: Compiled using data from IMF "World Economic Outlook," April 2011 and Angus Maddison

Changes in the wage level and the import value of industrial robots in China

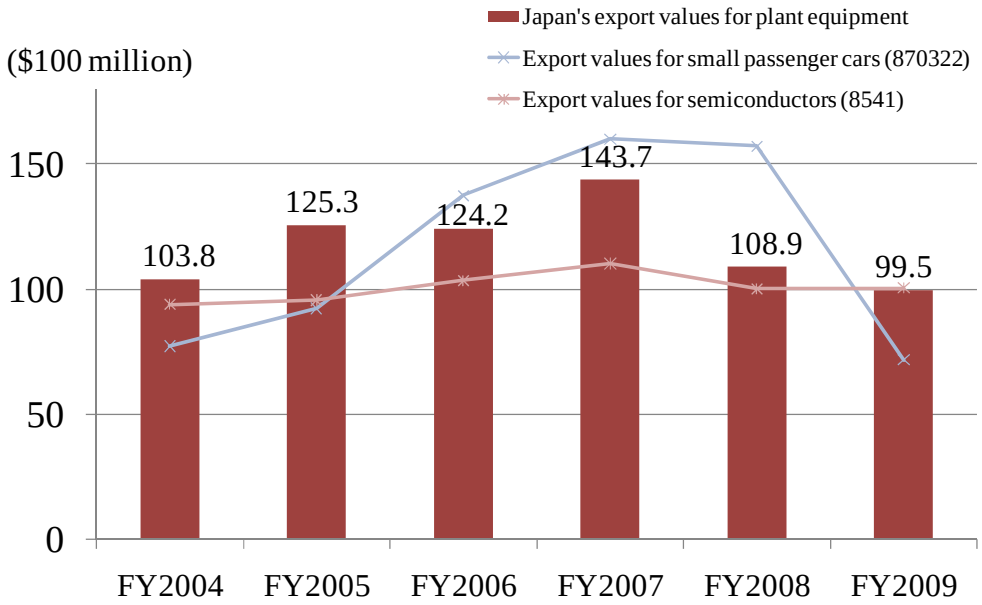


Note: Percentage of imports from Japan indicates the proportion of the value of imports from Japan in the total value of China's imports.
Source: Compiled using data from CEIC (China's wage data) and Global Trade Atlas (China's import data, HS code: 847950)

3-2 Infrastructure orders have substantial spillover effects on domestic industry. Japan should achieve coexistence with Asia having high demand.

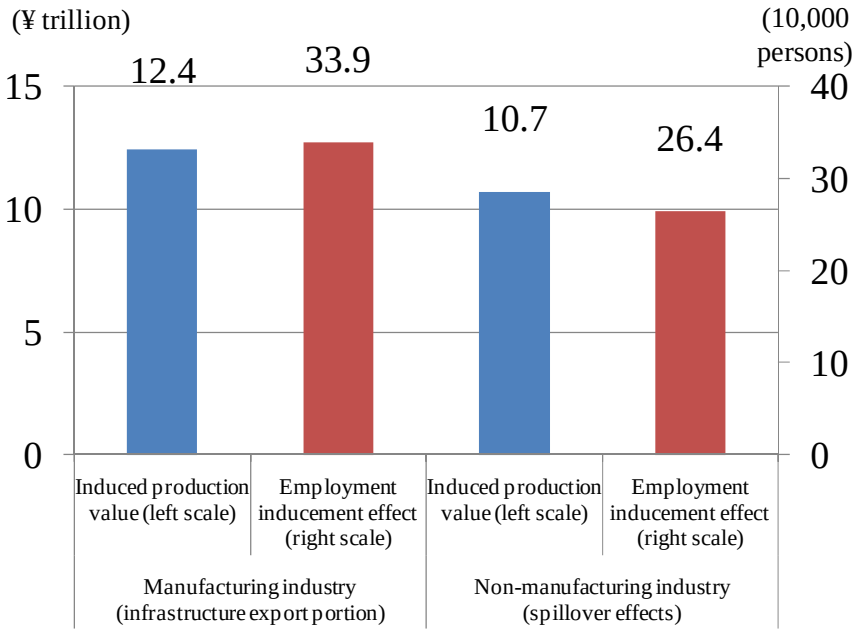
- ○ Asia's needs for infrastructure investment projected up to 2020 amount to about 8 trillion dollars.
- ○ Orders for infrastructure projects have substantial spillover effects on domestic production and employment.
- ○ Japan should contribute to resolving the growth challenges of emerging Asian economies, while at the same time achieving its own growth.

Japan's export values for equipment related to overseas plant engineering
(Export values for related equipment are about the same level as those for small passenger cars and semiconductors)



Note: Contracts for exported equipment covered in this chart are those worth $500,000 or more per contract for years up to FY2007, and those worth $1 million or more per contract for years in and after FY2008.
Figures in parentheses shown for small passenger cars and semiconductors are HS codes.
Source: Compiled using data from the Global Trade Atlas, and the Japan Machinery Center for Trade and Investment, "Report on Survey and Analysis of Overseas Plant Engineering Contracts"

Effects of achieving the target envisioned by the New Growth Strategy to create a ¥19.7 trillion infrastructure improvement market by 2020

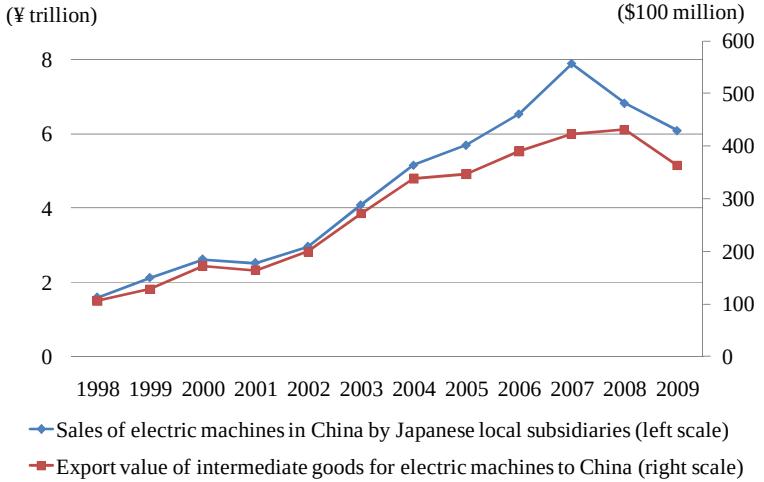


Source: Compiled using data from Cabinet Office "Documents for Ministerial Council on Monthly Economic Report and Other Relative Issues" (February 21, 2011)

3-3 Amid increased localization in emerging economies, exports of intermediate goods from Japan and return flow of dividends from the local bases are on an increase.

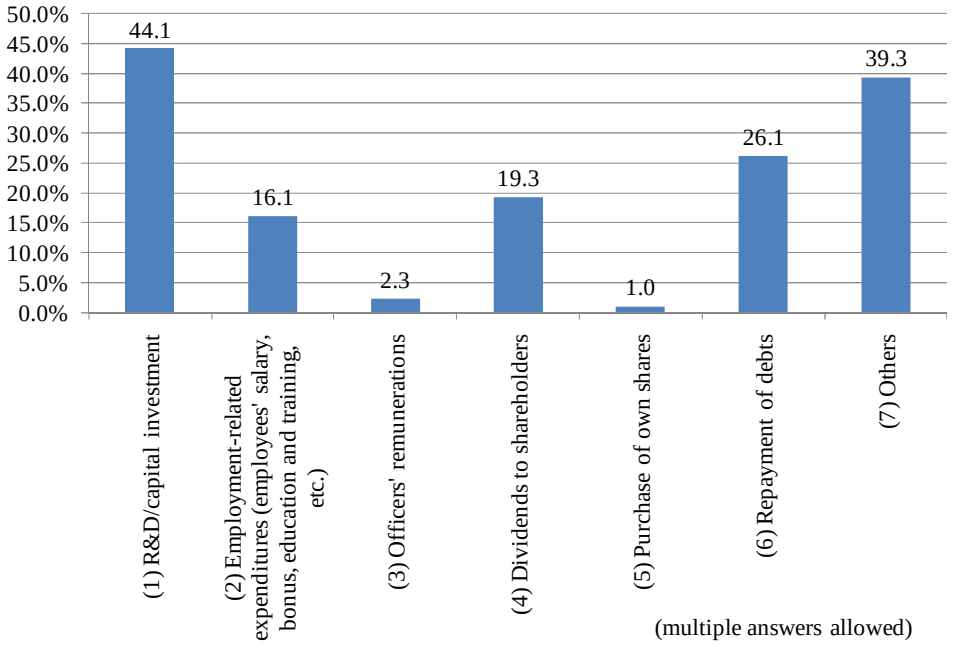
- Direct investment to emerging Asian economies has largely increased recently to a level comparable to Europe and the United States.
- With an increase in local sales by Japanese companies located overseas, exports of intermediate goods (parts and components, primary goods) from Japan have increased having a positive effect on the Japanese economy (production, capital investment, etc.).
- While revenue earned overseas has expanded due to an increase in direct investment, since the introduction of the foreign dividend exemption (FDE) system, an increasing number of companies have made their profits flow back to Japan and have used such funds for R&D and capital investment.
- It is important to encourage strengthening of the export competitiveness of intermediate goods and further facilitation of return flow of dividends through economic partnerships, etc.

Relation between sales of overseas subsidiaries of Japanese companies and exports of intermediate goods



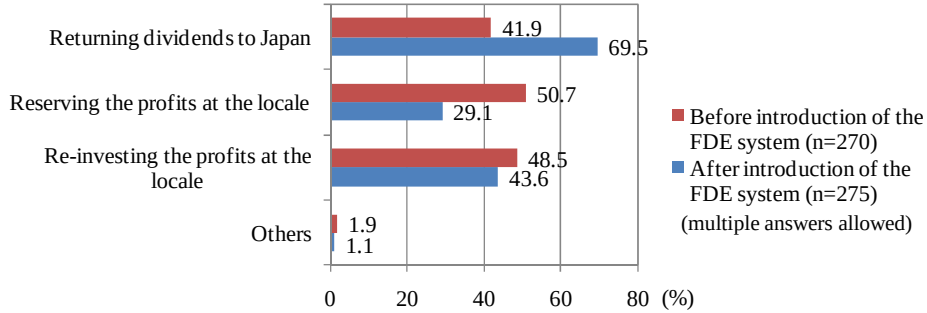
Source: Compiled using data from METI Survey of Overseas Business Activities and RIETI-TID2009

Use of the dividends flowed back from overseas subsidiaries



Source: METI 470th Survey of Overseas Business Activities

Return flow of dividends in the manufacturing industry

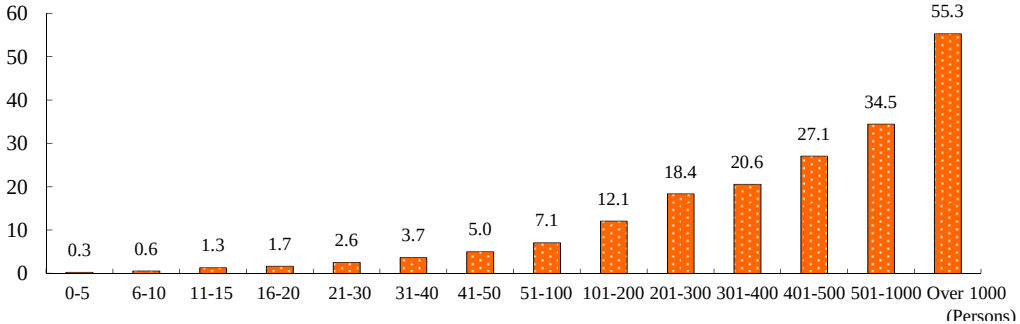


Source: Compiled using data from the Japan Economic Foundation, "Survey and Research on the Strengthening of the Competitiveness of the Japanese Industry Adapting to Changes in the Competition Environment"

3-4 Since only a small proportion of SMEs carry out exports and direct investment, their overseas business expansion should be encouraged.

- ○ The smaller the size of SMEs, the lower the proportion is of such SMEs engaged in exports and direct investment compared to large companies.
- ○ However, when SMEs were asked the reason for starting to engage in international operations (export or direct investment), the most frequently given answer was a positive response that they have confidence in their own products and that they intended to sell their products overseas.
- ○ It is important to actively encourage SMEs that are enthusiastic about expanding their business overseas.

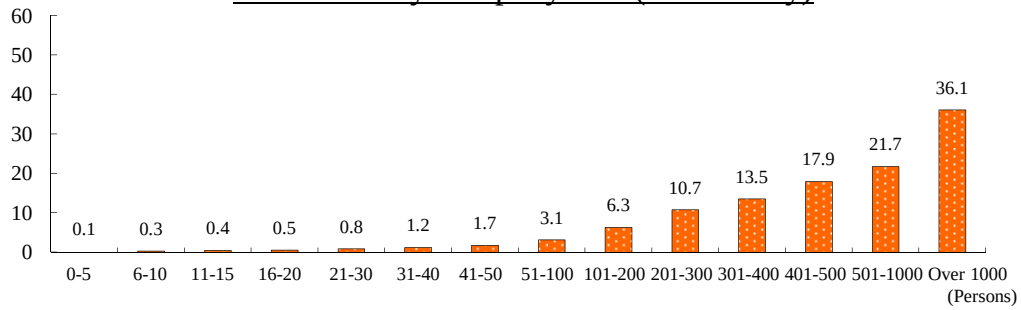
Comparison of the proportion of companies engaged in exports by company size (manufacturing industry)



Source: Re-edited and processed data from METI 2007 Census of Manufactures

Note: Since the company size is calculated by aggregating the number of employees in business establishments into the number of employees in each company based on the 2005 Census of Manufactures, the graph does not include companies for which the business establishment number has been changed by subsequent municipal mergers.

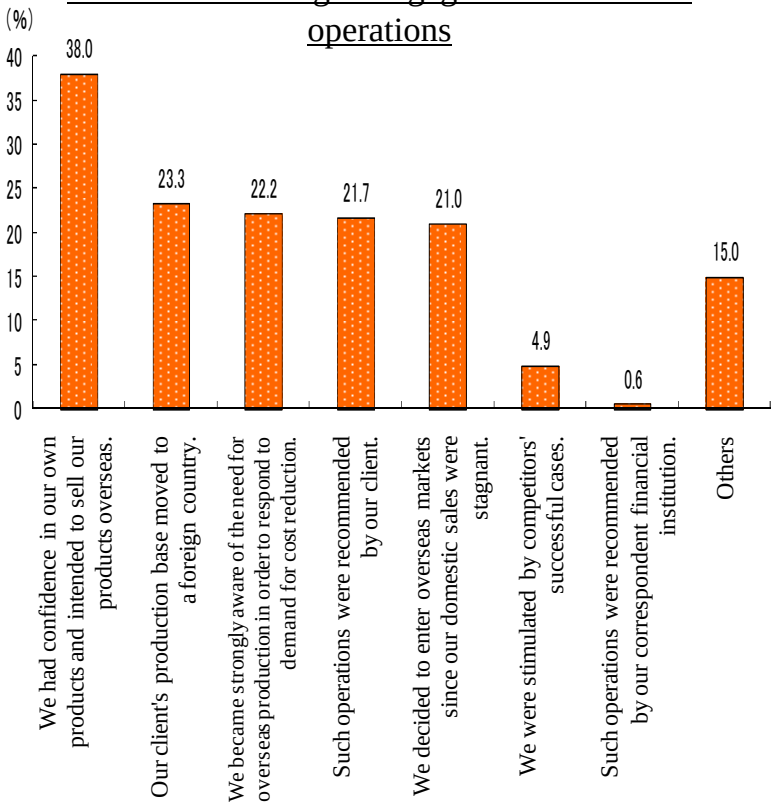
Comparison of the proportion of companies engaged in direct investment by company size (all industry)



Source: Re-edited and processed data from the Ministry of Internal Affairs and the Communications 2006 Establishment and Enterprise Census

Note: The graph does not include business establishments of sole proprietorships.

Reason for starting to engage in international operations



Source: Commissioned by the Small and Medium Enterprise Agency "Questionnaire Survey on Internationalization and Corporate Activities" (November 2009, Mitsubishi UFJ Research and Consulting Co., Ltd.)

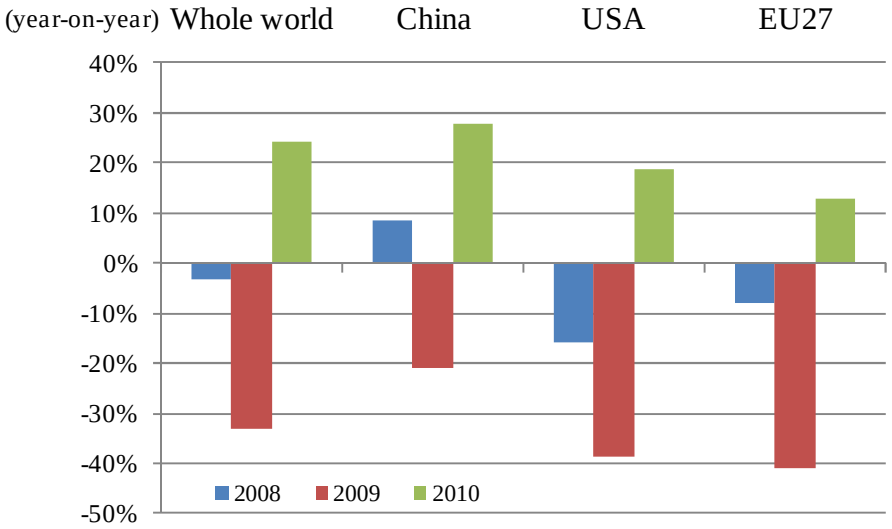
Notes: 1. The graph only shows data of SMEs that have responded that they engage in international operations.

2. Since multiple answers are allowed, the data do not necessarily add up to 100.

4-1 Before the earthquake disaster, Japan's exports recorded high growth mainly in general machinery and electrical machinery

○ Although Japan's exports in 2009 declined sharply due to the world economic crisis, exports returned to a recovery path in 2010. In early March 2011 alone, exports had increased by 14.8% over the same period of the previous year.
○ Exports in January and February 2011 recorded high growth mainly in general machinery and electrical machinery.

Changes in exports from Japan to major countries/regions



Source: Compiled using data from the Ministry of Finance, "Trade Statistics of Japan."

Japan's exports since the beginning of 2011

2011	January	February	March	April
Whole world	1.4%	9.0%	-2.3%	-12.4%
China	0.9%	29.1%	3.7%	-6.8%
USA	6.0%	2.0%	-3.5%	-23.3%
UE27	-0.7%	12.7%	4.2%	-10.7%

Note: Values are those compared to the same period of the previous year.

Source: Compiled using data from the Ministry of Finance, "Trade Statistics of Japan."

Items for which exports recorded two-digit growth over the previous year in both January and February 2011

Item	Mineral fuels	Iron and steel products	General machinery	Metalworking machinery	Construction machines	Mechanical handling equipment	Textile machines	Bearings	Television receivers	Electrical measuring equipment
January 2011	44.4%	11.1%	19.3%	45.5%	58.0%	29.7%	12.3%	19.6%	13.2%	13.7%
February 2011	28.4%	20.5%	23.2%	60.1%	49.7%	50.7%	62.9%	24.6%	43.2%	21.0%

Note: Values are those compared to the same period of the previous year.

Source: Compiled using data from the Ministry of Finance, "Trade Statistics of Japan."

4-2 Transport equipment industry received the largest negative effect in terms of production and exports immediately after the earthquake disaster

○ While production as a whole dropped substantially in March 2011 due to the earthquake disaster, transport equipment made the largest negative contribution among all industries, posting a 46.7% decline from the previous month (seasonally adjusted) (among which motor vehicle parts posted a 42.1% decline from the previous month).
○ Production in April showed a recovery as a whole, including general machinery. Further recovery is expected in the future.

The Survey of Production Forecast predicts an 8.0% increase over the previous month (seasonally adjusted) in May and a further 7.7% increase over that in June.

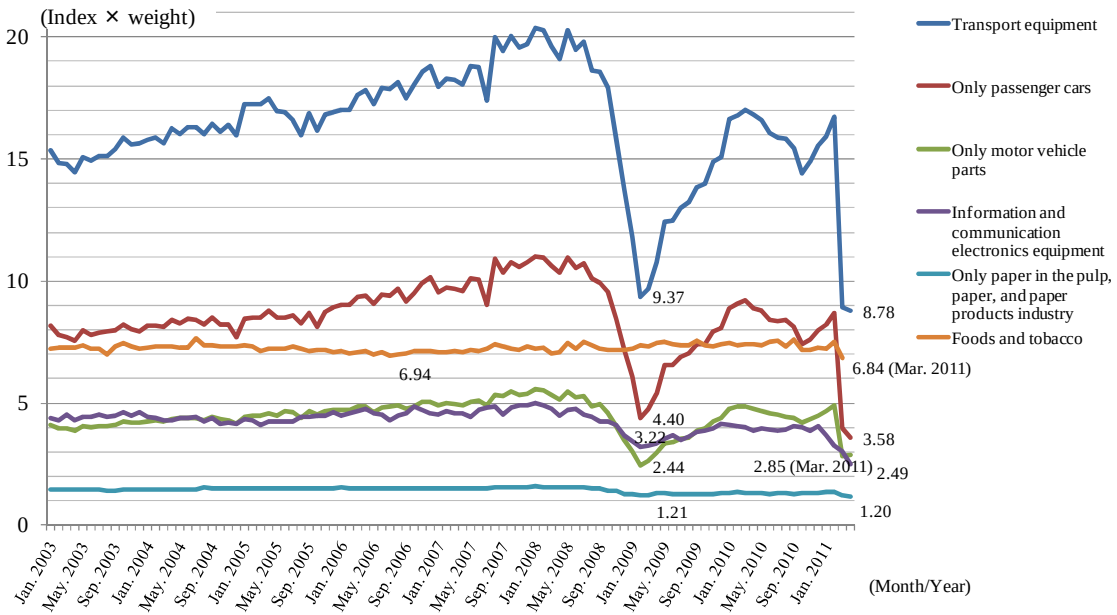
Trend of industrial production (by industry) in March and April 2011

Industry	March		April	
	Contribution (% point)	Compared to the previous month (seasonally adjusted, %)	Contribution (% point)	Compared to the previous month (seasonally adjusted, %)
All mining and manufacturing industries	-15.5%	-15.5%	1.0%	1.0%
Transport equipment	-8.0%	-46.7%	-0.2%	-1.5%
(Only passenger cars)	-4.8%	-54.2%	-0.5%	-9.9%
(Only motor vehicle parts)	-2.1%	-42.1%	0.0%	1.4%
General machinery	-1.8%	-14.5%	1.6%	12.8%
Electronic parts and devices	-0.7%	-6.6%	-1.5%	-12.7%
(Only integrated circuits (IC))	-0.5%	-11.7%	-0.5%	-13.1%
Foods and tobacco	-0.7%	-8.7%	-	-
Iron and steel	-0.6%	-10.2%	-0.1%	-2.0%
Electrical machinery	-0.6%	-10.2%	0.3%	4.6%
Fabricated metals	-0.5%	-10.7%	0.1%	2.3%
Other manufacturing	-0.5%	-9.4%	0.3%	6.0%
Plastic products	-0.4%	-11.9%	0.2%	5.7%
Non-ferrous metals	-0.3%	-16.5%	0.0%	2.2%
Information and communication electronics equipment	-0.3%	-8.0%	-0.6%	-17.2%
Chemicals	-0.3%	-2.3%	-	-
(Only chemicals (excl. drugs))	-0.9%	-11.2%	-0.1%	-1.4%
Pulp, paper, and paper products	-0.2%	-8.3%	0.0%	-0.4%
Precision instruments	-0.1%	-12.9%	0.3%	24.7%
Ceramics, stone, and clay products	-0.1%	-5.1%	0.0%	0.5%
Petroleum and coal products	-0.1%	-12.3%	0.0%	-0.4%
Textiles	0.0%	-1.8%	0.0%	-0.6%

Note: Items are arranged in the order making the largest negative contribution in March 2011. Values for March 2011 are revised values, and those for April 2011 are preliminary values. For cells containing no values, there were no published data as of the release of preliminary values. Shaded cells indicate industries posting negative growth from the previous month (seasonally adjusted) both in March and April 2011.

Source: Compiled using data from METI, "Indices of Industrial Production"

Production trend of major industries and items for which the production in March and April 2011 recorded the lowest levels in recent years



Note: From indices of industrial production (seasonally adjusted), major industries and items for which indices in March 2011 (revised values) or April 2011 (preliminary values; values for foods and tobacco are unpublished) recorded the lowest since January 2033 were extracted (only in the case of motor vehicle parts, the March 2011 value was the lowest following the values in February and March 2009), and their index and weight were multiplied for each month. Major industries and items in this graph are those for which the product of index multiplied by the weight is at least 1 or larger. The index in 2005 is deemed to be 100.0. Values in the graph are the value for March or April 2011 and the value for the next lowest month (foods and tobacco: July 2006; only paper in the pulp, paper, and paper products industry: March 2009; and other industries: February 2009).
Source: Compiled using data from METI, "Indices of Industrial Production"

4-3 Influence of Japan's stagnant production of motor vehicle parts also surfaced in the United States in April.

○ In exports in April 2011, transport equipment indicated a 43.2% year-on-year decline (among which motor vehicle parts showed a 14.8% year-on-year decline), making the largest negative contribution among all industries. The decline was larger than that in the March exports.

○ Due to the decrease of exports of motor vehicle parts from Japan, production of motor vehicle and parts in the United States dropped sharply in April, indicating an 8.9% decline from the previous month (seasonally adjusted). The FRB analyzed that this was largely due to shortage of parts and components associated with the earthquake in Japan.

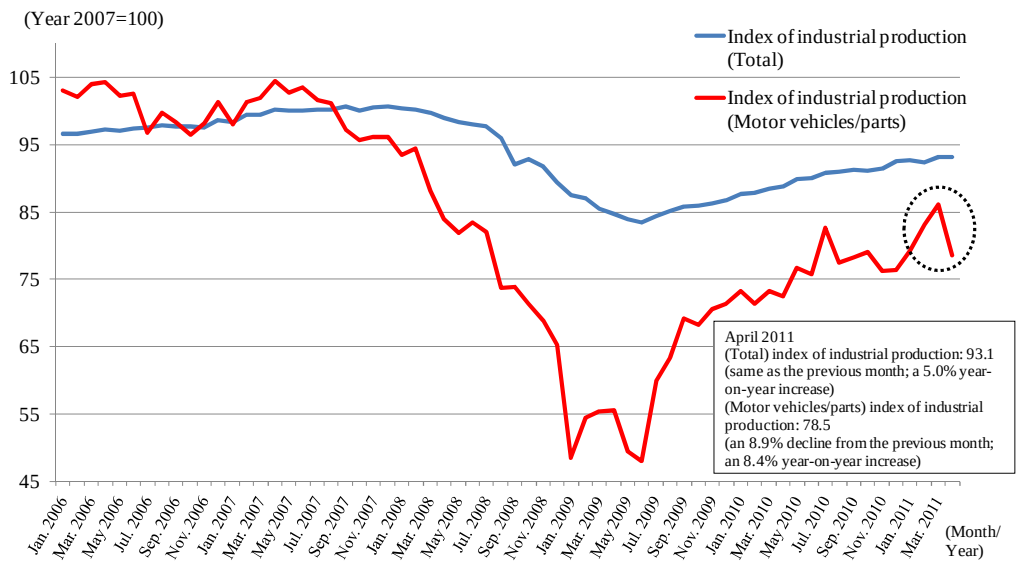
Trend of exports (by item) in March and April 2011

Item	March		April	
	Contribution (% point)	Year-on-year (%)	Contribution (% point)	Year-on-year (%)
All items	-2.3%	-2.3%	-12.4%	-12.4%
Transport equipment	-4.5%	-19.1%	-9.8%	-43.2%
(Only passenger cars)	-3.3%	-27.3%	-7.7%	-67.9%
(Only motor vehicle parts)	-0.2%	-5.0%	-0.7%	-14.8%
Electronic parts and devices	-1.1%	-6.1%	-2.3%	-12.5%
(Only integrated circuits (IC))	-0.3%	-8.6%	-1.0%	-24.0%
Others	-0.1%	-0.8%	-0.5%	-4.3%
Foods	0.0%	4.7%	-0.1%	-22.9%
Raw materials	0.1%	7.3%	-0.2%	-12.6%
Mineral fuels	0.4%	26.7%	-0.8%	-46.1%
Chemicals	0.7%	6.6%	0.8%	8.0%
Manufactured goods	0.9%	6.8%	0.2%	1.6%
General machinery	1.4%	7.0%	0.3%	1.5%

Note: Items are arranged in the order making the largest negative contribution in March 2011. Values for March and April 2011 are revised values. Shaded cells indicate items posting negative growth year-on-year both in March and April 2011.

Source: Compiled using data from METI, "Trade Statistics"

Trend of U.S. industrial production



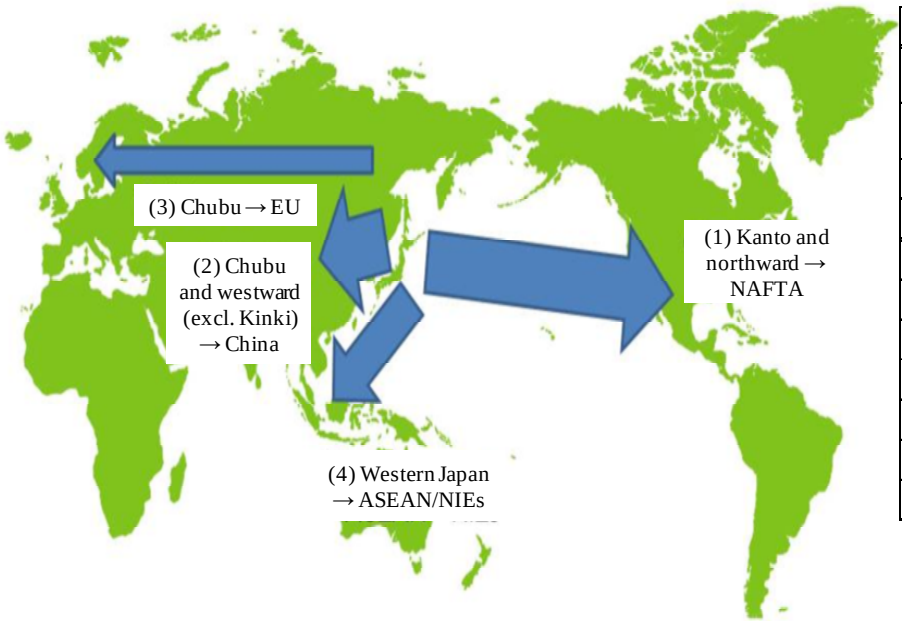
Note: Values are seasonally adjusted.
Source: Compiled using data from FRB and CEIC Database

4-4 Disrupted production of motor vehicle parts in eastern Japan caused by the earthquake disaster had an adverse effect mainly on parts exported to North America

○ After the earthquake disaster, concerns about global supply chains have been actively indicated for motor vehicle parts exported to North America. Such concerns were particularly mentioned in relation to Japan's industrial production in April 2011.

○ In Japan, motor vehicle parts for North America are mainly exported from eastern Japan, and those for Asia are mainly exported from western Japan. Therefore, the disrupted production of motor vehicle parts in eastern Japan had an adverse effect mainly on parts exported to North America.

Global supply chains of motor vehicle parts starting from Japan



Source: Compiled by METI

Shares of exports of motor vehicle parts (*) from Japan's respective regions in Japan's total exports to the respective countries/regions in the world (total for 2010)

Export destination	Whole world	NAFTA	USA	China	ASEAN4	NIEs	EU27
Export value (100 million yen)	30,833	9,182	6,653	6,912	4,979	1,880	3,981
Share in exports to the whole world	100.0%	29.8%	21.6%	22.4%	16.1%	6.1%	12.9%
Export unit value	1.07	1.12	1.17	1.26	0.90	1.07	1.14
Exporting region	Each region's share in Japan's total exports						
Hokkaido	1.5%	4.4%	4.2%	0.2%	0.2%	0.1%	0.3%
Tohoku	0.3%	0.7%	1.0%	0.2%	0.1%	0.0%	0.3%
Kanto	35.5%	44.5%	46.1%	27.4%	41.2%	29.1%	30.9%
Chubu	48.2%	41.2%	37.4%	56.7%	35.2%	41.9%	59.7%
Kinki	7.4%	5.4%	7.2%	2.3%	16.0%	17.5%	5.2%
Chugoku	5.9%	2.6%	2.7%	11.4%	6.1%	9.5%	3.4%
Kyushu	1.2%	1.2%	1.3%	1.8%	1.3%	1.8%	0.2%

Note: The Shikoku region and the Okinawa region are omitted in the table since their shares in total exports are all below 0.1%. Shaded cells indicate regions for which the share in exports to the relevant country or region is higher than the share in exports to the whole world. Since the shares are rounded off, they do not necessarily add up to 100%. The export unit value is in units of 1,000 yen/kg.

Source: Compiled using data from the Ministry of Finance, "Trade Statistics of Japan" (total values for 2010)

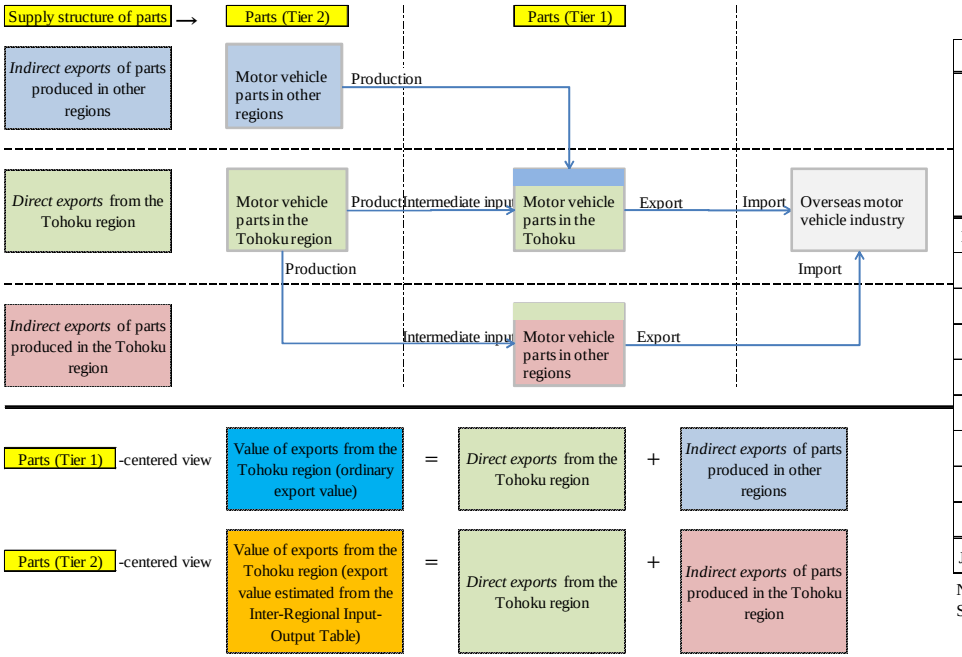
* Export values for principal commodity code 70505 (parts of motor vehicles) were extracted from the Ministry of Finance, "Trade Statistics of Japan" (Principal Commodity by Country). These values are equal to the total for 4-digit HS code 8707 (bodies) and 8708 (parts and accessories).

4-5 Disrupted production of motor vehicle parts in the Tohoku region caused by the earthquake disaster had an adverse effect mainly on parts exported via the Kanto region.

○ When looking at the export structure of Japan's motor vehicle parts industry, which adopts a vertical specialization system, in global supply chains, it is important to also consider not only direct exports of parts from the respective regions, but also indirect exports by parts manufacturers, etc. in the Tohoku region.

○ *Indirect exports* account for more than 60% of exports of motor vehicle parts from the Tohoku region, and those parts are used as intermediate input for motor vehicle parts produced in and exported from mainly the Kanto region.

Global supply chains of motor vehicle parts starting from the Tohoku region



Note: *Direct exports* refer to cases where the production and intermediate input of the entirety of parts (both Tier 1 and Tier 2) are completed within the same region, and *indirect exports* refer to cases where parts produced in a region (Tier 2) are input as intermediate goods in parts produced in another region (Tier 1) before being exported.

Source: Compiled by METI

Export structure of motor vehicle parts that takes indirect exports into consideration (Unit: ¥ million, %)

	①	②	③	①+②		①+③				
Region name	*Direct exports* from the region	*Indirect exports* of parts produced in another region	*Indirect exports* of parts produced in the region	Value of exports from the region (Tier 1-centered view)	Share by region	Value of exports from the region (Tier 2-centered view)	Share by region	Proportion of *direct exports*	Proportion of *indirect exports*	Region in which the largest input is made (share in the total input)
Hokkaido	15,601	8,857	16,154	24,458	0.61%	31,754	0.79%	49.1%	50.9%	Chubu (86.6%)
Tohoku	22,355	11,488	40,534	33,843	0.84%	62,889	1.57%	35.5%	64.5%	Kanto (73.8%)
Kanto	1,142,951	175,817	204,750	1,318,768	32.91%	1,347,701	33.64%	84.8%	15.2%	Chubu (55.8%)
Chubu	1,573,766	200,960	271,634	1,774,726	44.29%	1,845,400	46.06%	85.3%	14.7%	Kanto (39.5%)
Kinki	162,353	97,320	76,240	259,673	6.48%	238,594	5.95%	68.0%	32.0%	Chubu (59.0%)
Chugoku	170,959	47,372	48,892	218,331	5.45%	219,851	5.49%	77.8%	22.2%	Kyushu (26.2%)
Shikoku	194	169	938	363	0.01%	1,133	0.03%	17.2%	82.8%	Kinki (73.5%)
Kyushu	233,656	142,881	25,726	376,537	9.40%	259,383	6.47%	90.1%	9.9%	Chubu (52.4%)
Okinawa	5	5	0	10	0.00%	5	0.00%	100.0%	0.0%	N/A
Japan total	3,321,840	684,869	684,869	4,006,709	100.00%	4,006,709	100.00%	82.9%	17.1%	Chubu (29.3%)

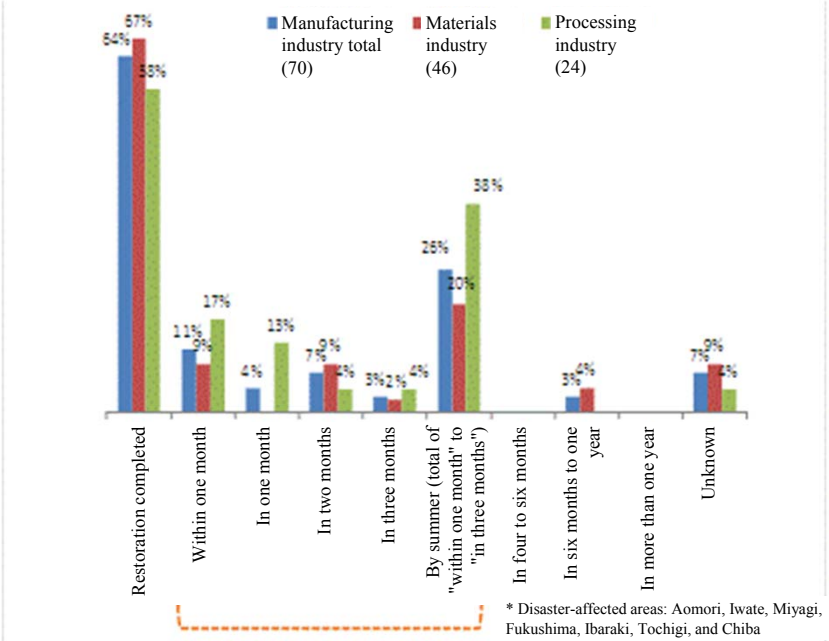
Note: Values other than percentages are in units of ¥million.
Source: Compiled using data from METI, "2005 Inter-Regional Input-Output Table (53 sector table) (March 2010)

4-6 More than 60% of production bases in the disaster-affected areas had been restored by April. Procurement shortage is also expected to be resolved to a considerable extent by July.

- A survey as of April 2011 revealed that more than 60% of disaster-affected production bases in the manufacturing industry had been completed restored. With restoration work also underway for the other bases, the remaining bases (a little less than 30%) are expected to be restored by summer.
- More than 70%-80% of the survey respondents answered that the procurement shortage of raw materials and parts and components are expected to be resolved to a considerable extent by July, and that the procurement is likely to be normalized by the end of October.
- The restoration work has been progressing more quickly than expected due to the earnest efforts of companies and regions, connecting up the disrupted internal and external supply chains.

Status/prospect of restoration of production bases in disaster-affected areas*

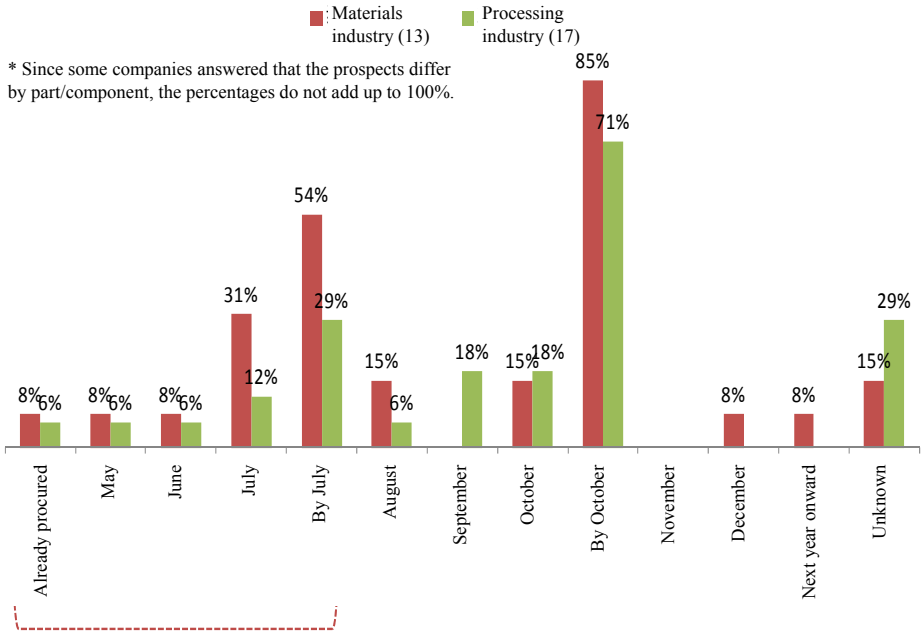
Status/prospect of restoration of production bases in disaster-affected areas



Note: Since some companies have multiple bases affected by the disaster, the number of bases (70) is larger than the number of companies (55).
Source: METI, " Emergency Survey on Actual Status of Industries after the Great East Japan Earthquake" (April 2011)

Time in which sufficient procurement volume can be secured (prospect)

Time in which sufficient procurement volume can be secured (prospect)



Source: METI, " Emergency Survey on Actual Status of Industries after the Great East Japan Earthquake" (April 2011)

5-1 Concerns grew about the radioactivity levels of export cargoes. Relevant organizations have been exerting efforts to sweep away the concerns through monitoring and offer of information.

○ After the accident of the Fukushima Dai-ichi Nuclear Power Plant (NPP), some countries/regions took steps to strengthen inspections and regulations of cargoes imported from Japan.

○ Japan took prompt measures to offer accurate information speedily. The safety of Japanese goods has been confirmed from various viewpoints, and the safety has also been expressly indicated by international organizations. Japan will continue to carry out reliable monitoring and send out the message that Japan is safe and secure to the world.

Examples of steps taken by foreign countries/companies after the earthquake and the NPP accident and measures taken by Japan

●Examples of steps taken by foreign countries/companies after the earthquake and the NPP accident

(1) Foreign countries advising their people to refrain from traveling to Japan and having their people leave from Japan, causing a surge in the number of foreign nationals in Japan leaving the country

(2) Foreign embassies in Tokyo and Japanese bases of foreign companies temporarily closing or transferring their functions

(3) Foreign countries strengthening radioactivity inspections of and regulations of Japan's export items

●Japan's measures

(1) Enhancing monitoring systems within a short term

- Surveying and publishing environmental radioactivity levels in each prefecture
- Measuring radioactivity levels of bulk containers, vessels, air, seawater, etc. at ports and harbors

(2) Confirming *safety*

(Food and agricultural products)

- Setting provisional regulation values for radioactivity in food
- Instructing shipment/intake restrictions for certain areas or items

(Mineral and industrial products)

- Subsidizing fees for radioactivity inspections of export items by government-designated inspection agencies

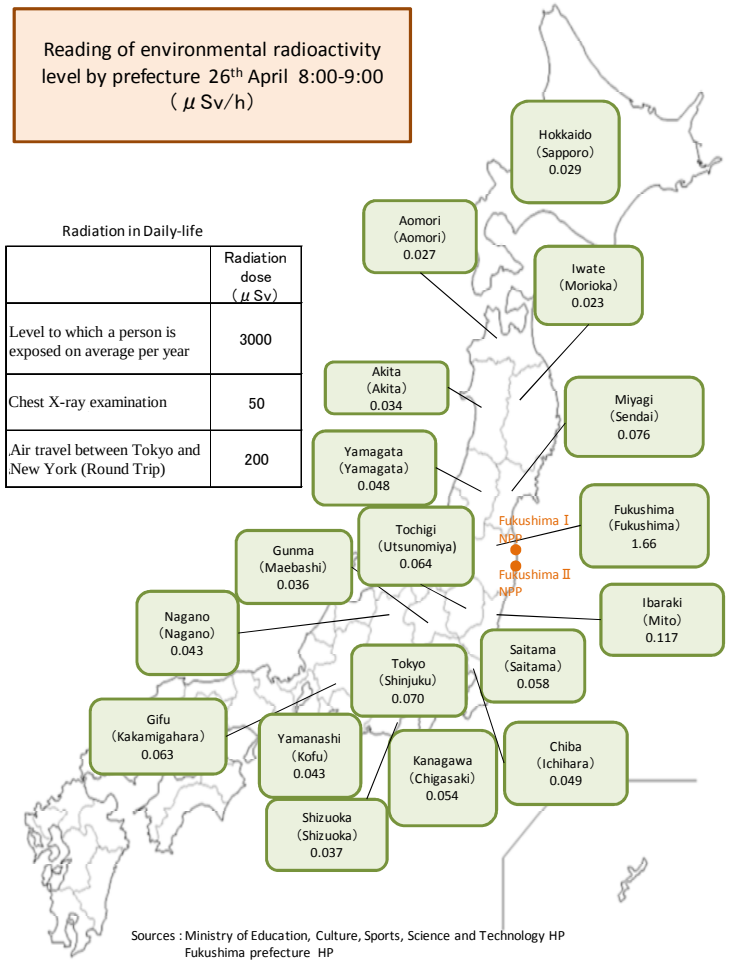
(3) Offering accurate information speedily

- Offering information at high levels (summit or ministerial levels), such as at a Japan-Australia summit meeting
- Holding briefing sessions at organizations located overseas, such as local briefing sessions by JETRO's overseas offices
- Holding briefing sessions to Japanese industry [Held in Tokyo on March 31 (170 participants) and April 28]
- Daily e-mail service to foreign governments, media, experts, etc. [Service started on March 14; a total of about 41,760 messages sent]

Monitoring of radioactivity levels by prefecture

(Daily e-mail service to foreign governments, media, experts, etc.)

Reading of environmental radioactivity level by prefecture 26th April 8:00-9:00 (μSv/h)



Radiation in Daily-life

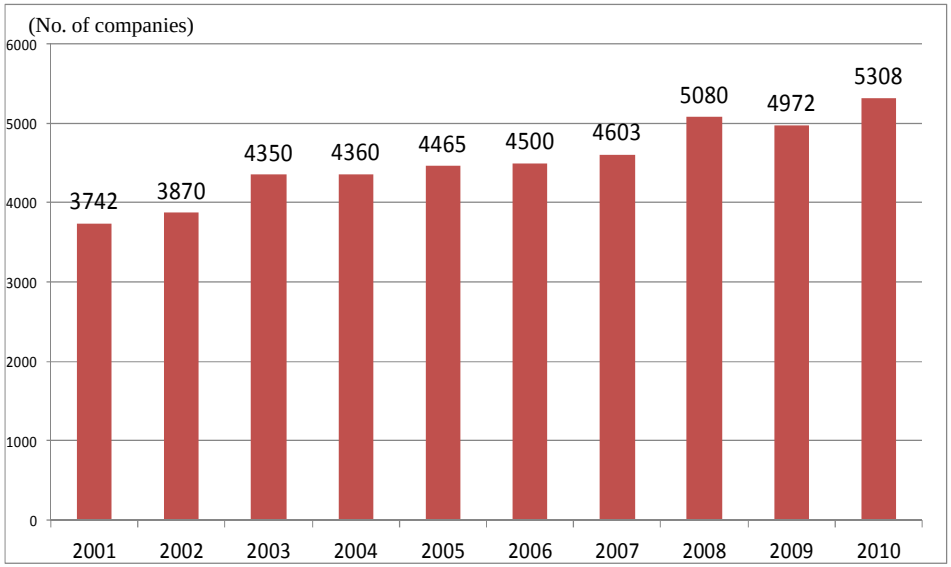
	Radiation dose (μSv)
Level to which a person is exposed on average per year	3000
Chest X-ray examination	50
Air travel between Tokyo and New York (Round Trip)	200

Sources : Ministry of Education, Culture, Sports, Science and Technology HP
Fukushima prefecture HP

5-2 Efforts are made to provide information in order to remove the anxieties of foreign companies and foreign nationals in Japan.

○ The number of foreign companies located in Japan has been on a rise recently.
○ However, following the earthquake disaster and the NPP accident, many foreign companies and government agencies temporarily withdrew from Tokyo, etc.
○ The Japanese government is making efforts to remove the anxieties of foreign companies and foreign nationals in Japan by providing information both in and outside Japan.

Changes in the number of foreign companies located in Japan



Source: Compiled using data from METI, "Survey of Trends in Business Activities of Foreign Affiliates"

Efforts to remove anxieties

◇Measures to remove anxieties by offering accurate information

○ Holding briefing sessions for foreign government agencies located in Tokyo (MOFA)
○ Setting up a consultation service for foreign companies located in Japan (JETRO)
○ Holding briefing sessions at Japanese diplomatic offices overseas for the local government and companies (MOFA, JETRO)

Effects of the earthquake disaster and the NPP accident on foreign companies, etc. in Japan

1. Foreign companies temporarily withdrawing from Tokyo (based on news reports)

○ Foreign Company A had most of its foreign staff return to their home country with their family (March 23).
○ Foreign Financial Institution B transferred its employees (about 10 persons) to Hong Kong and Singapore (March 23).
○ Foreign Retailer C temporarily closed its three stores in Kanto (March 28). The store operations have already been resumed.
○ Foreign Retailer D temporarily closed its ten stores in Kanto (March 28). The store operations have already been resumed.
* However, some foreign financial institutions jointly declared that they will continue their business operations.

2. Some foreign government agencies withdrawing from Tokyo

○ Embassies of 32 countries, including Germany, Switzerland, Nepal, Kenya, and Ecuador, closed or moved outside Tokyo.
○ As of the end of May, all foreign diplomatic offices had resumed their operations in Tokyo.

3. Foreign workers leaving Japan

○ At Restaurant Chain A, the number of foreign part-time workers decreased from about 800 to 600.
○ About 270 financial workers withdrew to Hong Kong.
○ At English Conversation Company F, 40% of 800 foreign teachers returned to their home country or moved to Kansai.

5-3 Measures for overcoming the energy problem are being enhanced.

○ Utmost measures will be taken to address the energy concerns, based on the "Electricity supply-demand measures in summer time." In addition, discussions will be commenced for reviewing the energy strategy.

Electricity supply-demand measures in summer time

●Basic framework of electricity supply-demand measures

(1) Advance indication of the peak period/time

Promoting a shift in operational hours and an increase/redistribution of shutdown days and holidays

(2) Rolling blackouts as a safety net

(3) Concurrent implementation of supply-demand measures for the period after this summer

●Electricity supply-demand measures after this summer

Taking the following measures while securing safety of nuclear power stations

(1) Supply-side

- The restoration, launch and proliferation of thermal power stations
- The new establishment of emergent power sources
- Active use of private power generation
- The expansion of distributed power sources and renewable energy sources introduction

(2) Demand-side

- Further promotion of energy saving
- The introduction of smart meters
- The active use of gas

Source: Electricity Supply-Demand Review Meeting

Review of the energy strategy

●Innovative strategy for energy and the environment

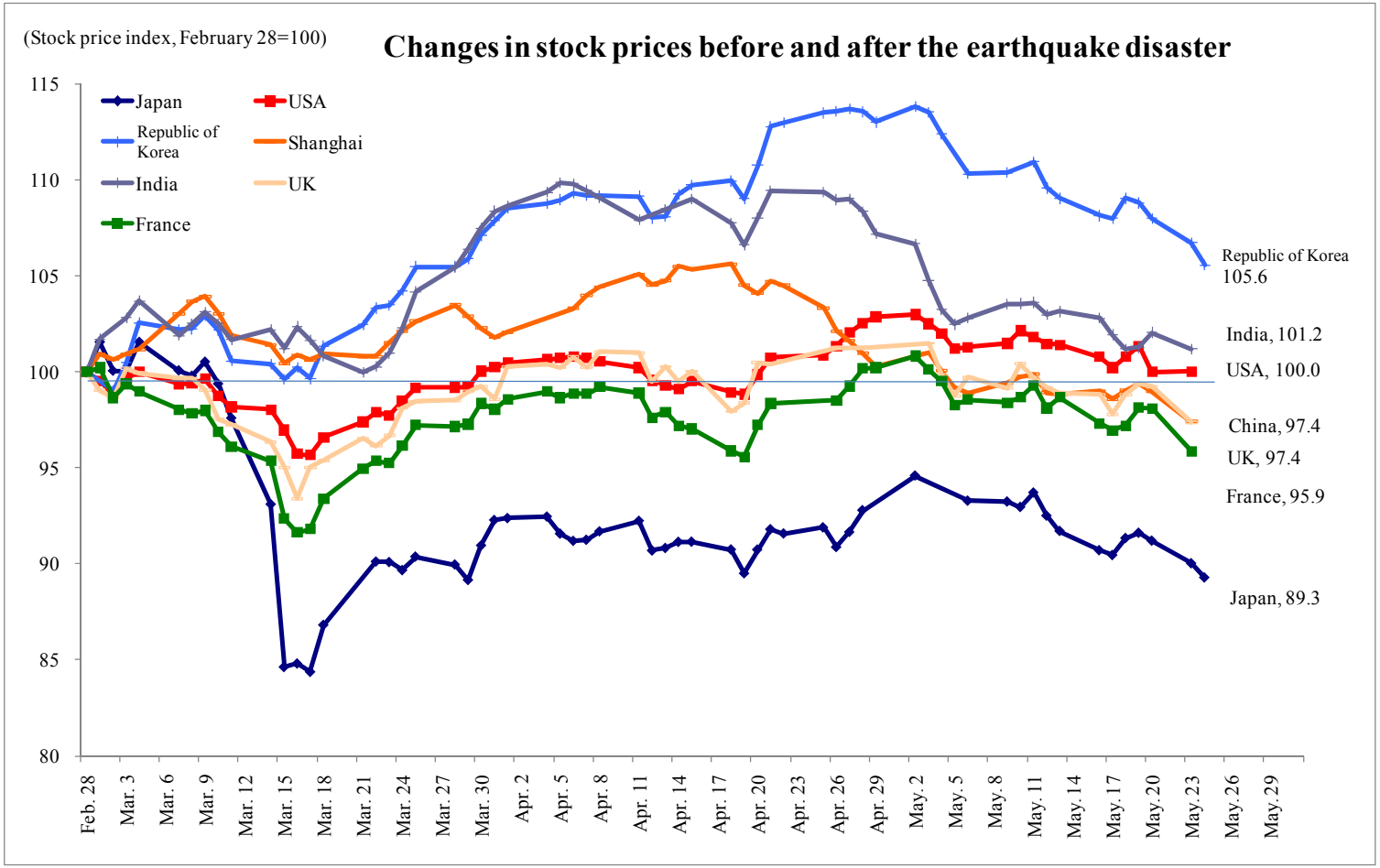
○ The Council on the Realization of the New Growth Strategy will start making considerations for revising the strategy for becoming an environment and energy power.

○ We will consider an innovative strategy for energy and the environment consisting of a short, medium, and long-term that not only overcomes the power restrictions and strengthens safety measures, but which also corrects the distortions and vulnerabilities in the energy system and meets appeals for a safe and stable supply, efficiency, and for the environment.

Source: "The Guideline on Policy Promotion For the Revitalization of Japan" decided by the Cabinet on May 17, 2011

5-4 Stock prices have been sluggish after the earthquake disaster. Concerns have emerged that Japan's locational competitiveness may decline through economic contraction.

- After the Great East Japan Earthquake, Japan's stock prices have been sluggish compared to those in other major countries.
- There are concerns that, because stock prices, which are one of the evaluation factors of the Japanese economy, have not returned to the level before the earthquake disaster, Japan's locational competitiveness could decline through contraction of the Japanese economy as a whole.



Source: Compiled using data from Reuter 3000 Xtra

5-5 Japan needs to develop a business environment that is attractive for domestic and foreign companies.

- Due to the relative shrinkage of the Japanese market in line with the economic growth of emerging Asian economies and due to such countries' measures to support foreign companies, Japan's attractiveness as an international business activity base has declined.
- Because the earthquake disaster could further this tendency, it is critical to promote measures to attract regional headquarters and R&D bases of foreign companies to Japan.
- In addition, due to concerns that overseas transfers of Japanese companies could be accelerated by the earthquake disaster, it is important to consider and implement "Strategy for Preventing the Hollowing-Out of Industry and for Developing Overseas Markets" toward increasing Japan's locational competitiveness.

Attractiveness as a business activity base

	Japan	China	India	Singapore	South Korea	Hong Kong
Central headquarters for Asia region	①23%	18%	8%	16%	4%	②20%
Manufacturing base	3%	①62%	②12%	2%	5%	5%
R&D base	①30%	②25%	16%	9%	4%	6%
Back office	②15%	①24%	②15%	12%	5%	②15%
Distribution base	11%	①41%	8%	9%	7%	②13%
Financial base	–	–	–	–	–	–
Sales base	–	–	–	–	–	–

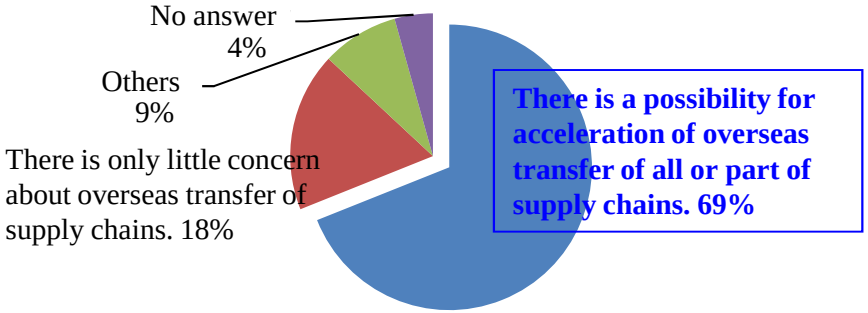
<Most attractive Asian country/region for each base function (2007 → 2009)>

	Japan	China	India	Singapore	South Korea	Hong Kong
Central headquarters for Asia region	10%	①42%	10%	②16%	2%	13%
Manufacturing base	1%	①64%	②14%	2%	2%	2%
R&D base	②21%	①33%	20%	8%	4%	2%
Back office	8%	①39%	②19%	15%	2%	9%
Distribution base	3%	①63%	8%	② 11%	2%	6%
Financial base	10%	①30%	9%	21%	4%	②23%
Sales base	7%	①50%	7%	11%	4%	②13%

Source: Survey on Attitudes of Foreign-Affiliated Companies toward Direct Investment in Japan (METI: FY2009, FY2007)

Concerns about acceleration of overseas transfer of Japanese companies

Question: Is there a possibility that overseas transfer of supply chains will be accelerated by the recent earthquake disaster?



Source: METI, "Emergency Questionnaire Survey on the Status of Restoration, Reconstruction, and Hollowing-out of Supply Chains after the Great East Japan Earthquake"

[Companies' comments after the earthquake disaster]

Electronic Parts Manufacturer A	Measure against earthquake disaster risk

"**We must seriously think about a plan to set up a second headquarters in China.** If we keep our management system mostly based in Japan, we may not be able to continue business when a Tokai/Tonankai Earthquake occurs."

Metal Manufacturer B	Measure against electricity supply risk

(In response to the electricity supply restriction in the Metropolitan area)
"We intend to consider overseas transfer of a part of our production process."

Chemical Manufacturer C	Request from an overseas downstream company

(In response to a request from a major mobile music player manufacturer to decentralize supply)
"Overseas transfer of our production bases will be accelerated by the recent earthquake disaster. That is the only way a company like ours can survive."

Source: Compiled by METI using data from various new reports

5-6 Economic partnerships should be promoted in order to strengthen Japan's locational competitiveness.

○ While Japan is behind in efforts to conclude EPAs/FTAs with major trading partners (China, USA, and EU), South Korea has actively promoted EPAs/FTAs with these countries.

○ While the significance of exports has been growing due to changes in Japan's industrial structure, there are concerns that Japan's locational competitiveness could decline as an effect of the earthquake disaster. Under such circumstances, it is necessary to pay attention once again to the significance of economic partnerships.

Status of EPA/FTA efforts: □ under joint study, ■ joint study completed, △ under negotiation, ○ signed, ◎ became effective

	Number of EPAs/ FTAs *1	Japan	Republic of Korea	China	USA	EU	ASEAN	Individual EPA/FTA efforts	India	Australia	New Zealand	Canada	Mexico	Chili	Peru	Switzer-land	GCC
Japan	13		△ (suspended)				◎	Effective with seven countries	○ *2	△		□	◎	◎	○	◎	△
Republic of Korea	8	△ (suspended)		□	○	◎ *3	◎	Effective with one country	◎	△	△	△	△	◎	○	◎ EFTA	△
China	8		□				◎	Effective with one country	■	△	◎			◎	◎	□	△
USA	14		○					Effective with one country Under negotiation with one country		◎	△ TPP	◎ NAFTA	◎ NAFTA	◎	◎		◎ Bahrain, Oman △ UAE
EU *1	30		◎ *3				△	Under negotiation with one country	△			△	◎	◎	△	◎	△

*1 The number of EPAs/FTAs is the total of effective and signed agreements (as of July 1, 2011).
*2 To become effective in August 1, 2011
*3 Became provisionally effective on July 1, 2011

5-7 Strategic efforts are important for overcoming the earthquake disaster and strengthening Japan's locational competitiveness.

○ Although Japan is taking utmost measures to deal with the shock brought by the great earthquake disaster, concerns about Japan's locational competitiveness have not been completely wiped away.
○ Meanwhile, Japan can contribute to emerging economies, particularly those in Asia, in terms of growth of both exports and direct investment, and can also share the growth outcome through such contribution.
○ Strategic efforts to that end are required.

○Strategy for strengthening bonds between countries

- The Minister-level Meeting on FTAAP (Free Trade Area of the Asia-Pacific)/EPA(Economic Partnership Agreements) will consider the basic policy for strengthening "kizuna" (the bonds of friendship) with other countries, such as promoting high-level economic partnerships based on "Basic Policy on Comprehensive Economic Partnership" (cabinet decision adopted in November 2010) and establishing economic security, taking into consideration factors such as the sentiments of the farmers and fishermen who have suffered enormous damage by the earthquake and the nuclear incident, the progresses in the international negotiations, and concerns of de-industrialization.

- The timing of a decision on whether to join negotiations for the Trans-Pacific Partnership (TPP) Agreement will be considered from an overall perspective.

○Strategy for preventing the hollowing-out of industry and for developing overseas markets

- The Council on the Realization of the New Growth Strategy will re-examine initiatives such as the Inward Investment Promotion Program and promotion of Japan as an Asian Industrial Center, foster global talents, and deployment of integrated infrastructure systems.

- In addition to the responses that should be taken immediately (restoring and reconstructing supply chains, prevent harmful rumors, etc.), we will also explore a number of other measures. These include competitiveness of business locations, creating economic and industrial structures which are fortified against enormous risks, and promoting strategic and focused innovations that will pave the way to future.

Source: Extracts from the Guideline on Policy Promotion For the Revitalization of Japan (decided by the Cabinet on May 17, 2011)