



Japan External Trade Organization

Provisional Translation

**2007 JETRO White Paper**  
**on International Trade and Foreign Direct Investment**  
**— Increasing Utilization of Asian FTAs and**  
**Growth Strategies for Japanese Companies—**

**Summary and Reference Materials**

**August 8, 2007**

**Overseas Research Department**



**Japan External Trade Organization**

# Chapter I

## The World Economy, Trade, and Foreign Direct Investment

## 2006 Global Economy Posts Highest Growth Since 1980

### Global economy, trade and FDI all grow rapidly for third consecutive year

In 2006, the world real GDP growth rate was 5.4% (IMF, Purchasing Power Parity basis), the highest since 1980, the earliest year for which comparable statistics are available. World trade grew by double digits for the fourth year in a row, while world foreign direct investment (FDI) increased for the third consecutive year and surpassed one trillion dollars for the second year in a row.

### Global economy grows around 5% for the third year running; highest growth since the 1980s

Since 2004, the global economy has experienced rapid growth, of around 5%, for three consecutive years. The growth in advanced countries was more balanced and not overly dependent on U.S. growth in 2006, since EU25 growth (3.0%) exceeded that of the U.S. (2.9%). Growth in developing countries was 7.9%, more than double the 3.1% posted by the advanced countries. Among the developing countries, China and India marked growth of around 10%, contributing 39.7% to global economic growth.

### Overheating in Chinese and Indian economies and turmoil in financial market are risk factors

The global economy is forecast to grow at 5.2% in 2007 (IMF, as of July 2007), slowing slightly compared to 2006 but still remaining strong. Looking at risk factors, we see overheating in the Chinese and Indian economies, overvalued stock prices and the sub-prime loan issue in the U.S. and hedge fund bankruptcies resulting in turmoil in global financial markets as causes for concern.

**Fig. I-1 World economy, trade and FDI**

(% , US\$ billion)

	2000	2001	2002	2003	2004	2005	2006
GDP growth rate (real growth based on purchasing power parity)	4.8	2.5	3.1	4.0	5.3	4.9	5.4
World trade (nominal exports)	6,391	6,146	6,447	7,498	9,111	10,381	11,874
Growth rate	13.0	-3.8	4.9	16.3	21.5	13.9	15.4
Foreign direct investment (inward)	1,588	930	775	702	745	1,130	1,421
Growth rate	42.9	-41.4	-16.7	-9.3	6.1	51.7	25.8

Sources: IMF and JETRO

**Fig. I-2 GDP growth and contribution by country and region**

(%)

	2003		2004		2005		2006	
	Growth rate	Contribution	Growth rate	Contribution	Growth rate	Contribution	Growth rate	Contribution
U.S.	2.5	13.1	3.9	15.2	3.2	13.3	3.3	12.3
EU25	1.3	7.4	2.4	10.1	1.8	8.0	3.0	11.7
Japan	1.4	2.5	2.7	3.5	1.9	2.6	2.2	2.6
East Asia	8.0	39.7	8.6	33.6	8.6	37.2	9.2	37.3
China	10.0	30.8	10.1	24.9	10.4	28.9	11.1	29.4
ROK	3.1	1.4	4.7	1.6	4.2	1.5	5.0	1.6
ASEAN10	5.9	6.2	6.5	5.3	6.0	5.3	5.9	4.9
India	7.3	10.1	7.8	8.4	9.2	10.9	9.2	10.3
Latin America	2.4	4.6	6.0	8.5	4.6	7.1	5.5	7.7
Brazil	1.1	0.8	5.7	2.9	2.9	1.6	3.7	1.8
Russia	7.3	4.4	7.2	3.4	6.4	3.3	6.7	3.2
World	4.0	100.0	5.3	100.0	4.9	100.0	5.4	100.0
For reference								
Developing countries	6.7	73.0	7.7	65.0	7.5	70.0	7.9	68.6
BRICs	8.0	46.1	8.8	39.5	8.9	44.8	9.4	44.7

Notes: 1. The world growth rate was calculated by the IMF using purchasing power parity weighting.  
2. Each country or region's contribution rate was calculated using 2006 prices and purchasing power parity weighting.  
3. Figures may differ from those found elsewhere due to revisions, differing source data, and other factors.  
4. East Asia includes the ASEAN10, China, the ROK, Hong Kong, and Taiwan.  
5. Developing countries are as defined by WEO (IMF).  
Sources: WEO (IMF) and national economic statistics.

## 2006 Fourth Consecutive Year for Double-Digit Growth in World Trade

### In 2006, world trade increased by 15.4% to \$11,874 billion in the fourth consecutive year of double-digit growth

According to JETRO estimates, world merchandise trade in 2006 (export basis) achieved growth of 15.4% to reach \$11,874 billion, driven by a buoyant global economy and the rapid rise in prices of petroleum, metals and other primary products. World trade posted double-digit expansion for the fourth year running. Industrial country exports increased by 11.7% to reach \$6,669 billion, while developing country exports soared nearly twice as fast, 20.5%, to reach \$5,206 billion.

### EU, East Asia, and raw material-exporting countries driving expansion in world trade

Looking at 2006 world trade figures: (1) the EU25 (12.5% increase to \$4,536 billion) and East Asia (19.1% increase to \$2,581 billion) were the engines of growth; (2) the surge in primary product prices contributed to a dramatic expansion in exports by countries exporting raw materials: 25.7% in the Middle East, 16.5% in Australia, 16.2% in Brazil, 22.5% in Russia. In the EU, Germany (14.8%) and the three Central and Eastern European countries (21.8%) showed steady export growth. In East Asia, China posted the most dramatic gain, 27.2%.

**Fig. I-3 World trade indices**

		Unit	2002	2003	2004	2005	2006
World merchandise trade (based on exports)		US\$ billion	6,447	7,498	9,111	10,381	11,874
	Nominal growth rate	%	4.9	16.3	21.5	13.9	15.4
	Real growth rate	%	4.1	6.1	12.6	8.8	9.8
	Export price growth rate	%	0.8	10.2	9.0	5.2	5.6
World trade in services		US\$ billion	1,608	1,842	2,211	2,452	2,711
	Growth rate	%	7.3	14.6	20.0	10.9	10.6
World real GDP growth rate		%	3.1	4.0	5.3	4.9	5.4
Growth in industrial production index (22 industrialized economies)		%	-0.5	1.3	2.9	1.8	3.7
Crude oil	Price (average)	US\$/barrel	25.0	28.9	37.8	53.4	64.3
	Demand	Million barrels/day	77.7	79.2	81.9	83.1	83.7
Change in nominal effective exchange rate of U.S. dollar		%	-1.6	-12.3	-8.2	-1.5	-0.9

Notes: 1. 2006 trade value and growth rates are JETRO estimates.

2. Real GDP growth rates based on purchasing power parity.

3. A negative change in the nominal effective exchange rate of the U.S. dollar indicates depreciation.

Sources: IMF, *IFS*, and *WEO*; WTO; BP; and national trade statistics.

**Fig. I-4 World trade by country and region (2006)**

(US\$ million, %)

		Exports				Imports			
		Value	Growth rate	Share	Contribution	Value	Growth rate	Share	Contribution
NAFTA		1,675,209	13.1	14.1	12.3	2,459,938	11.3	20.1	16.1
	U.S.A.	1,036,635	14.4	8.7	8.2	1,853,938	10.8	15.1	11.6
	Canada	388,113	7.6	3.3	1.7	349,795	11.2	2.9	2.3
	Mexico	250,461	17.0	2.1	2.3	256,205	15.7	2.1	2.2
EU25		4,536,175	12.5	38.2	31.9	4,624,074	13.7	37.8	35.8
	EU15	4,156,494	11.7	35.0	27.4	4,187,369	12.7	34.2	30.4
	Germany	1,113,036	14.8	9.4	9.0	909,523	17.3	7.4	8.6
	France	489,853	5.8	4.1	1.7	534,845	6.2	4.4	2.0
	UK	447,619	13.6	3.8	3.4	566,031	12.7	4.6	4.1
	Italy	411,234	10.3	3.5	2.4	437,759	13.8	3.6	3.4
	Netherlands	462,848	14.1	3.9	3.6	416,892	14.8	3.4	3.5
	Belgium	369,328	10.5	3.1	2.2	353,843	11.1	2.9	2.3
	Spain	205,482	6.7	1.7	0.8	316,621	9.8	2.6	1.8
	Sweden	147,506	13.3	1.2	1.1	126,771	13.9	1.0	1.0
	New EU members	379,681	22.9	3.2	4.5	430,255	23.7	3.5	5.3
	3 central and eastern European countries	280,249	21.8	2.4	3.2	296,683	21.5	2.4	3.4
Japan		647,290	8.2	5.5	3.1	579,294	11.7	4.7	3.9
East Asia		2,581,248	19.1	21.7	26.1	2,295,051	16.2	18.8	20.6
	China	969,073	27.2	8.2	13.1	791,614	19.9	6.5	8.5
	ROK	325,465	14.4	2.7	2.6	309,383	18.4	2.5	3.1
	Taiwan	213,004	12.7	1.8	1.5	202,038	11.2	1.7	1.3
	Hong Kong	322,664	10.4	2.7	1.9	335,753	11.7	2.7	2.3
	ASEAN	751,043	17.4	6.3	7.0	656,264	14.8	5.4	5.4
	Thailand	130,621	18.9	1.1	1.3	128,652	8.9	1.1	0.7
	Malaysia	160,845	14.1	1.4	1.3	131,223	14.5	1.1	1.1
	Indonesia	100,799	17.7	0.8	1.0	61,065	5.8	0.5	0.2
	Philippines	47,037	14.7	0.4	0.4	51,533	17.0	0.4	0.5
	Singapore	271,916	18.4	2.3	2.7	238,900	19.4	2.0	2.5
	Vietnam	39,826	22.8	0.3	0.5	44,891	21.4	0.4	0.5
India		121,259	21.7	1.0	1.4	172,876	24.9	1.4	2.2
Switzerland		147,884	13.1	1.2	1.1	141,468	11.9	1.2	1.0
Australia		123,372	16.5	1.0	1.1	132,753	11.9	1.1	0.9
Brazil		137,470	16.2	1.2	1.2	91,396	24.3	0.7	1.1
Argentina		46,528	15.3	0.4	0.4	34,159	19.1	0.3	0.4
Russia		226,524	22.5	1.9	2.6	128,151	40.1	1.0	2.4
Turkey		85,502	16.4	0.7	0.8	138,295	18.4	1.1	1.4
South Africa		57,897	11.6	0.5	0.4	68,157	23.9	0.6	0.8
World		11,874,183	15.4	100.0	100.0	12,239,837	14.6	100.0	100.0
Industrial countries		6,668,707	11.7	56.2	44.0	7,362,212	12.0	60.1	50.8
Developing countries		5,205,476	20.5	43.8	56.0	4,877,625	18.6	39.9	49.2
BRICs		1,454,326	24.8	12.2	18.3	1,184,036	22.9	9.7	14.2

Notes: 1. Value of world trade and for the EU25, new EU members, industrial countries, and developing countries based on JETRO estimates.

2. The 3 central and eastern European countries are Poland, Hungary, and the Czech Republic.

3. ASEAN consists of 6 countries: Thailand, Malaysia, Indonesia, the Philippines, Singapore, and Vietnam.

4. Definitions of industrial countries and developing countries are based on the IFS (IMF).

Sources: National trade statistics.

## 2006 Fourth Consecutive Year of Double-Digit Growth in World Trade

### **Mineral fuels and base metals are engines of growth for world trade**

Mineral fuel exports soared by 25.7% and totaled \$1,494 billion. Base metals and related products grew by 26.4% to \$966 billion. Both were engines of growth for world trade. Mineral fuel exports have risen in the 25-35% range for four consecutive years; between 2002 and 2006 the average growth rate was 30.8%. During this period, the mineral fuel share of total world trade rose from 8.1% in 2002 to 12.6% in 2006. In 2006, petroleum exports grew by 30.0% to \$852 billion, with growth somewhat slower than the 38.9% posted in 2005. Particularly remarkable was the increase in exports from Russia and Africa. Liquefied natural gas (LNG) exports also continued to grow as prices rose and global demand increased. LNG exports increased by 32.9% with growth in exports from Qatar and Australia especially rapid.

### **In 2006, China surpassed Japan to become the no. 3 exporter of machinery and equipment**

Machinery and equipment exports grew by 12.9% to \$4,927 billion, accounting for about 40% of exports worldwide. In the machinery and equipment sector, exports from China accounted for 9.9% of total exports, while Japan accounted for 9.1%, making China no.3 in the world, behind Germany at 12.5% and the US at 11.3%.

### **Global IT trade grows 13.9% to \$1,898 billion**

Exports of IT products (computers, video equipment and other finished IT products and semiconductors and other IT parts) grew by 13.9% to \$1,898 billion. Flat panel displays, office equipment and telecommunications equipment all experienced strong 20% growth. The most notable phenomenon of the year was the stunning growth in IT exports from developing countries, whose share rose from 42.0% in 2000 to 55.9% in 2006. China became the world's largest exporter of finished IT products in 2003, of IT parts in 2005, and of all IT products as a whole in 2004. As of 2006, China accounted for 16.7% of IT exports worldwide.

### **Developing country passenger vehicle exports also growing**

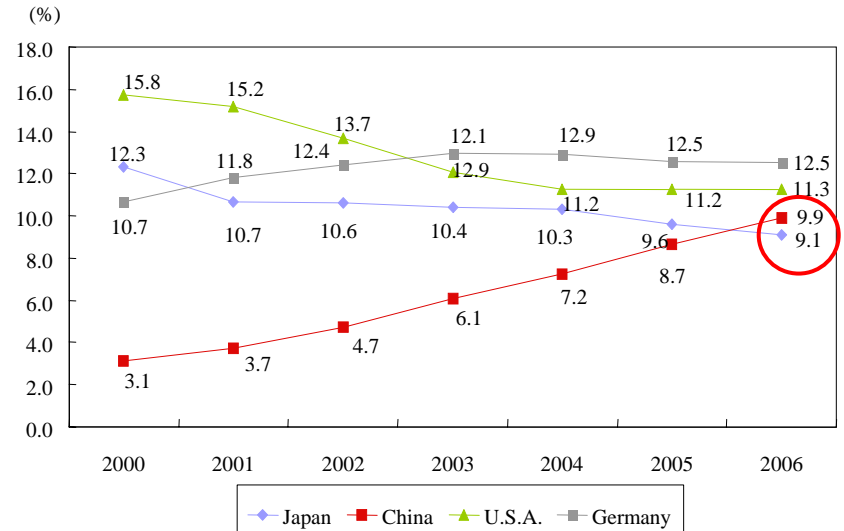
With demand for automobiles growing in both the US and Europe, automotive exports grew by 10.2% to \$644 billion. With major automakers shifting production overseas, there has been growth in passenger vehicle exports from China, Thailand, Mexico, South Africa and other developing countries. In 2006, developing countries accounted for 18.2% of all passenger vehicle exports, up 4.8 points from the 13.4% posted in 2003.

**Fig. I-5 World trade (exports) in 2006**

	Value	Growth rate	Share	Contribution
(US\$ million, %)				
Total value	11,874,183	15.4	100.0	100.0
Machinery and equipment	4,926,611	12.9	41.5	35.6
General machinery	1,583,395	12.0	13.3	10.7
Air conditioners	24,841	9.9	0.2	0.1
Electrical equipment	1,633,948	15.4	13.8	13.8
Transport equipment	1,307,632	10.9	11.0	8.1
Automobiles	644,231	10.2	5.4	3.8
Passenger vehicles	541,039	9.6	4.6	3.0
Motorcycles	18,310	11.1	0.2	0.1
Automotive parts	281,531	9.3	2.4	1.5
Precision instruments	401,663	13.2	3.4	3.0
Chemicals	1,502,311	12.5	12.7	10.5
Industrial chemicals	1,005,270	12.1	8.5	6.8
Pharmaceuticals and medical supplies	289,964	15.2	2.4	2.4
Plastics and rubber	497,041	13.3	4.2	3.7
Foodstuffs	686,362	9.6	5.8	3.8
Seafood	62,202	7.7	0.5	0.3
Tuna	2,262	-10.8	0.0	0.0
Grains	46,675	11.8	0.4	0.3
Corn	12,960	16.4	0.1	0.1
Processed food products	309,768	12.2	2.6	2.1
Ethanol (Ethyl alcohol)	3,495	64.9	0.0	0.1
Oils, fats, and other animal and vegetable products	78,688	10.4	0.7	0.5
Soybeans	16,056	2.9	0.1	0.0
Animal and plant fats	43,125	15.6	0.4	0.4
Miscellaneous manufactured goods	342,855	10.2	2.9	2.0
Iron ore	33,760	18.7	0.3	0.3
Mineral fuels, etc.	1,559,176	25.0	13.1	10.7
Mineral fuels	1,494,286	25.7	12.6	19.3
Coal	50,346	7.5	0.4	0.2
LNG	51,209	32.9	0.4	0.8
Petroleum and petroleum products	1,276,577	28.4	10.8	17.8
Crude oil	852,016	30.0	7.2	12.4
Textiles and textile products	551,806	8.7	4.6	2.8
Synthetic fibers and textiles	66,456	3.0	0.5	0.1
Clothing	306,229	11.9	2.6	2.1
Knit products	147,777	16.3	1.2	1.3
Cloth	158,452	8.1	1.3	4.7
Base metals and base metal products	965,735	26.1	8.1	12.1
Steel	531,721	16.9	4.5	4.8
Primary steel products	326,775	15.0	2.8	2.7
Steel products	204,947	20.0	1.7	2.2
Copper	49,969	81.4	0.4	1.4
Nickel	15,229	55.2	0.1	0.3
Aluminum	51,640	35.9	0.4	0.9
Lead	3,260	30.6	0.0	0.0
IT products				
Computers and peripherals	522,716	9.6	4.4	2.9
Computers and peripherals	307,871	9.0	2.6	1.6
Parts for computers and peripherals	214,846	10.4	1.8	1.3
Office equipment	22,169	18.8	0.2	0.2
Telecommunications equipment	278,854	19.2	2.3	2.8
Semiconductors and electronic components	422,160	14.2	3.6	3.3
Electron tubes and semiconductors	73,493	12.8	0.6	0.5
Integrated circuits	348,667	14.5	2.9	2.8
Other electronic components	354,596	15.9	3.0	3.1
Flat panel displays	98,206	21.2	0.8	1.1
Video equipment	135,013	17.5	1.1	1.3
Audio equipment	13,455	-8.7	0.1	-0.1
Measuring and testing equipment	149,751	13.5	1.3	1.1
IT parts	991,602	14.0	8.4	7.7
Finished IT products	906,394	13.9	7.6	7.0
Total IT equipment	1,897,996	13.9	16.0	14.6

Sources: National trade statistics.

**Fig. I-6 Shares of world machinery and equipment exports**



Sources: National trade statistics.

**Fig. I-7 Top ten countries/regions in IT-related exports**

Rank	IT Products (total)					
	IT parts		IT finished products			
	Countries/regions	Share	Countries/regions	Share	Countries/regions	Share
1	China	16.7	China	12.6	China	21.1
2	U.S.A.	9.7	U.S.A.	10.2	U.S.A.	9.2
3	Japan	7.3	Japan	9.4	UK	8.0
4	Germany	6.2	Taiwan	6.6	Germany	7.1
5	UK	5.1	ROK	5.9	Netherlands	5.4
6	ROK	5.0	Germany	5.3	Japan	4.9
7	Netherlands	4.4	Malaysia	4.5	Mexico	4.6
8	Taiwan	4.2	Singapore	4.0	ROK	4.1
9	Malaysia	3.9	Netherlands	3.5	Malaysia	3.2
10	Mexico	3.0	UK	2.4	France	2.7

Sources: National trade statistics.

## China's Trade Structure Changing, Imports of Intermediate Goods Slowing

### China's trade surplus is growing; trade composition changing and imports of intermediate goods slowing

China's trade surplus has been growing rapidly since 2005. In 2006 the trade surplus rose sharply to \$177 billion, up \$76 billion from the previous year. Until this point, export and import growth rates had been similar. Since 2005, however, exports have grown 7-10 points faster than imports. The expansion of foreign-affiliated parts manufacturers' production and China's growing technological capability have resulted in rapid growth in local production of intermediate goods. The previous pattern of importing intermediate goods for assembly in China, followed by export of final goods, is changing.

Growth in China's imports of intermediate goods and exports of final goods had previously been almost in balance. But growth in imports of intermediate goods peaked at 46.8% in 2002. In 2006, it grew only 17.5%. Meanwhile, the final goods' growth rate was much higher, at 25.0% in 2006. Imports of intermediate goods, which accounted for 61.4% of China's total imports in 2002, accounted for only 56.0% in 2006. The share of final goods in total exports also declined, but the fall was small compared to that of imports of intermediate goods.

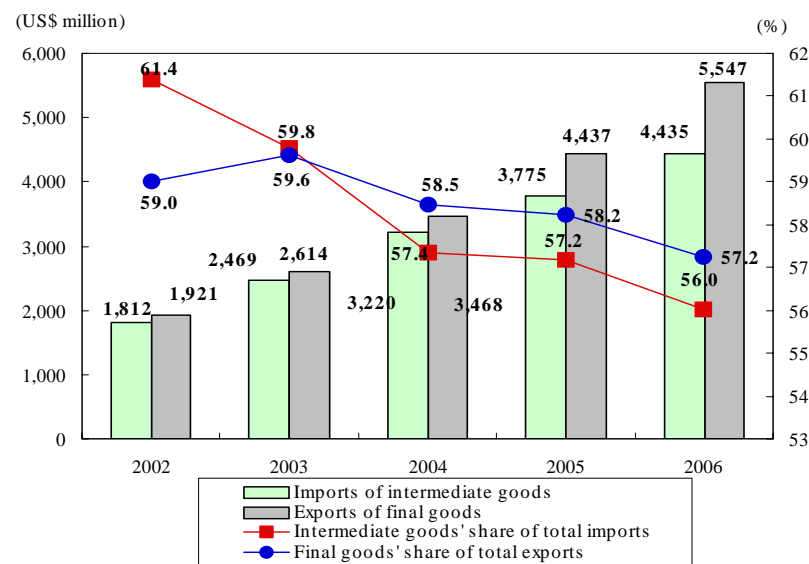
Japanese companies are working to expand local procurement in China. In JETRO's November-December 2006 survey of Japanese manufacturers in Asia, we found the percentage of Japanese companies doing business in China that are increasing local procurement was up 4 points to 50.9%.

**Fig. I-8 China's trade balance**

	(US\$ million, %)						
	2000	2001	2002	2003	2004	2005	2006
Trade balance	24,115	22,541	30,362	25,534	31,946	101,881	177,459
Change	-5,098	-1,574	7,821	-4,828	6,411	69,935	75,579
Exports	249,212	266,155	325,565	438,371	593,369	761,999	969,073
Growth rate	27.8	6.8	22.3	34.6	35.4	28.4	27.2
Imports	225,097	243,613	295,203	412,836	561,423	660,119	791,614
Growth rate	35.8	8.2	21.2	39.8	36.0	17.6	19.9

Source: China's trade statistics.

**Fig. I-9 China's exports of final goods and imports of intermediate goods**



Note: Based on the UN BEC classification. Intermediate goods do not include processed fuels.  
Source: China's trade statistics.



## Global FDI Exceeds US\$1 Trillion for the Second Consecutive Year

### Global FDI rose by 25.8% to \$1,422 billion, in second consecutive year topping one trillion dollars

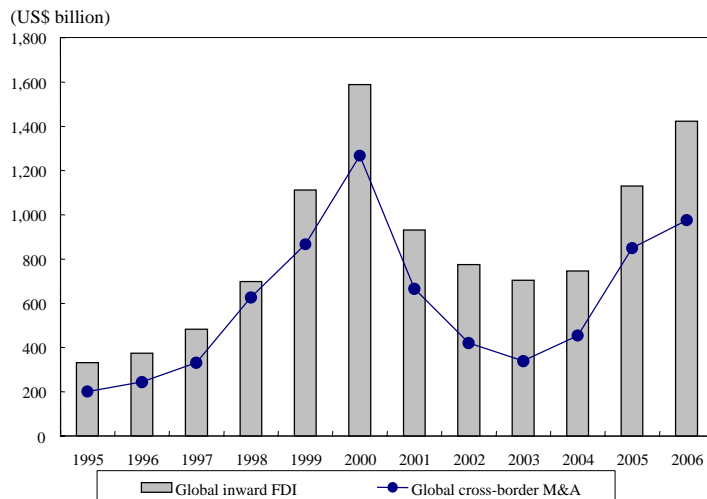
According to JETRO estimates, global foreign direct investment (balance of payments and inward FDI basis) rose 25.8% to \$1,422 billion, topping the one trillion dollar mark for the second straight year (the figure in 2006 was \$1,130 billion). This is also the third year since global FDI began an upward trend in 2004. Global FDI in 2006 was driven by improved corporate profits resulting from strong growth worldwide and low interest rates. These factors energized both cross-border M&A and investment in developing countries.

### Inward direct investment in China declines for first time in three years

US foreign direct investment (both inward and outward), grew substantially in 2006. Strikingly, the \$235 billion in outward direct investment in 2006 marked a sharp reversal from the negative figure recorded in 2005. The American Jobs Creation Act of 2004 spurred companies to repatriate profits in 2005, which resulted in a net minus investment in reinvested earnings; no such special factor was in play in 2006, and outward direct investment rebounded. EU25 inward direct investment rose 2.1% to \$669 billion.

Inward direct investment in East Asia rose by 15.9% to \$174 billion, accounting for 12.3% of total direct investment worldwide. China continued to attract the largest amounts of overseas capital, but a 1.3% decline to \$78.1 billion was the first downturn in three years (since the 4.5% drop in 2003). Factors behind the decline included rising labor costs and changes in government policy in favor of foreign capital, such as a reduction in VAT rebates, all of which altered the investment environment. India, meanwhile, saw inward direct investment rise 2.5 times to \$16.9 billion, and Israel saw it triple to reach \$14.2 billion.

Fig. I-10 Global FDI and cross-border M&A trends



Sources: IMF, national and regional balance of payments statistics, Eurostat and Thomson Financial.

Fig. I-11 FDI in China, Thailand, India, and Vietnam

(US\$ million, %)

Year	China		Thailand		India		Vietnam	
	FDI	Growth rate	FDI	Growth rate	FDI	Growth rate	FDI	Growth rate
2002	49,308	11.5	3,335	-34.1	5,627	2.8	1,558	38.4
2003	47,077	-4.5	5,235	57.0	4,585	-18.5	1,914	22.9
2004	54,936	16.7	5,862	12.0	5,474	19.4	2,222	16.1
2005	79,127	44.0	8,957	52.8	6,676	22.0	4,268	92.1
2006	78,095	-1.3	9,751	8.9	16,881	152.9	8,827	106.8

Note: For Vietnam, a new approval basis.

Sources: National trade statistics and balance of payments data.

## Global FDI Exceeds US\$1 Trillion for the Second Consecutive Year

Fig. I-12 FDI of major economies (net flows based on balance of payments)

(US\$ million, %)

	Inward FDI					Outward FDI				
	2005	2006	Growth rate	Share	Contribution	2005	2006	Growth rate	Share	Contribution
U.S.A.	108,996	180,580	65.7	12.7	24.5	-7,662	235,358	n.a.	16.4	56.0
Canada	28,922	69,041	138.7	4.9	13.8	33,542	45,243	34.9	3.2	2.7
EU25	654,761	668,688	2.1	47.0	4.8	779,470	794,904	2.0	55.4	3.6
EU15	616,767	629,882	2.1	44.3	4.5	771,821	782,922	1.4	54.5	2.6
Luxembourg	116,373	96,960	-16.7	6.8	-6.7	124,029	81,507	-34.3	5.7	-9.8
France	81,063	81,076	0.0	5.7	0.0	120,971	115,036	-4.9	8.0	-1.4
Germany	35,866	42,868	19.5	3.0	2.4	55,514	79,422	43.1	5.5	5.5
Italy	19,922	39,114	96.3	2.8	6.6	41,754	41,994	0.6	2.9	0.1
Netherlands	97,663	77,423	-20.7	5.4	-6.9	190,952	169,892	-11.0	11.8	-4.9
Spain	25,020	20,016	-20.0	1.4	-1.7	41,829	89,679	114.4	6.2	11.0
UK	195,990	139,543	-28.8	9.8	-19.4	90,913	79,457	-12.6	5.5	-2.6
Ten new EU members	37,994	38,806	2.1	2.7	0.3	7,649	11,982	56.6	0.8	1.0
Poland	9,602	13,922	45.0	1.0	1.5	3,024	4,266	41.1	0.3	0.3
Slovakia	2,107	4,165	97.7	0.3	0.7	157	368	134.7	0.0	0.0
Switzerland	-1,266	25,089	n.a.	1.8	9.0	54,308	81,506	50.1	5.7	6.3
Australia	-35,056	24,531	n.a.	1.7	20.4	-34,376	20,973	n.a.	1.5	12.7
Japan	3,223	-6,789	n.a.	n.a.	-3.4	45,461	50,165	10.3	3.5	1.1
East Asia	150,467	174,407	15.9	12.3	8.2	57,574	91,378	58.7	6.4	7.8
China	79,127	78,095	-1.3	5.5	-0.4	11,306	17,830	57.7	1.2	1.5
ROK	6,309	3,645	-42.2	0.3	-0.9	4,298	7,129	65.9	0.5	0.7
Taiwan	1,625	7,424	356.9	0.5	2.0	6,028	7,399	22.7	0.5	0.3
Hong Kong	33,625	42,894	27.6	3.0	3.2	27,196	43,460	59.8	3.0	3.7
ASEAN	29,782	42,350	42.2	3.0	4.3	8,747	15,561	77.9	1.1	1.6
Thailand	8,957	9,751	8.9	0.7	0.3	552	790	43.2	0.1	0.1
Malaysia	3,967	6,047	52.4	0.4	0.7	2,971	6,041	103.3	0.4	0.7
Singapore	15,004	24,207	61.3	1.7	3.2	5,034	8,626	71.3	0.6	0.8
India	6,676	16,881	152.9	1.2	3.5	2,495	9,676	287.8	0.7	1.7
Brazil	15,066	18,782	24.7	1.3	1.3	2,517	28,202	1020.6	2.0	5.9
Mexico	15,763	19,037	20.8	1.3	1.1	6,474	5,758	-11.1	0.4	-0.2
Russia	12,766	28,732	125.1	2.0	5.5	12,763	17,979	40.9	1.3	1.2
Israel	4,754	14,150	197.7	1.0	3.2	3,323	13,633	310.2	0.9	2.4
World	1,129,748	1,421,452	25.8	100.0	100.0	1,001,596	1,435,762	43.3	100.0	100.0

Notes: 1. JETRO estimates for the world.

2. ASEAN consists of Thailand, Malaysia, Indonesia, the Philippines, and Singapore.

3. For the Netherlands, from the 2007 JETRO White Paper on, the data include special-purpose entities (SPE).

Sources: IMF, national and regional balance of payments statistics, Eurostat and other sources.

## Global Cross-border M&amp;A Second only to 2000

**Global cross-border M&A up 14.8% to 974.5 billion dollar peak, second only to year 2000**

According to Thomson Financial data, 2006 cross-border M&A (completed mergers and acquisitions) totaled \$974.5 billion, up 14.8% year-on-year. The number of such transactions also rose, by 11.5%, totaling 7,953. The value of transactions approached the record set in 2000, when it totaled \$1,267 billion. Major transactions occurred in the financial services and insurance, telecommunications, and mining sectors.

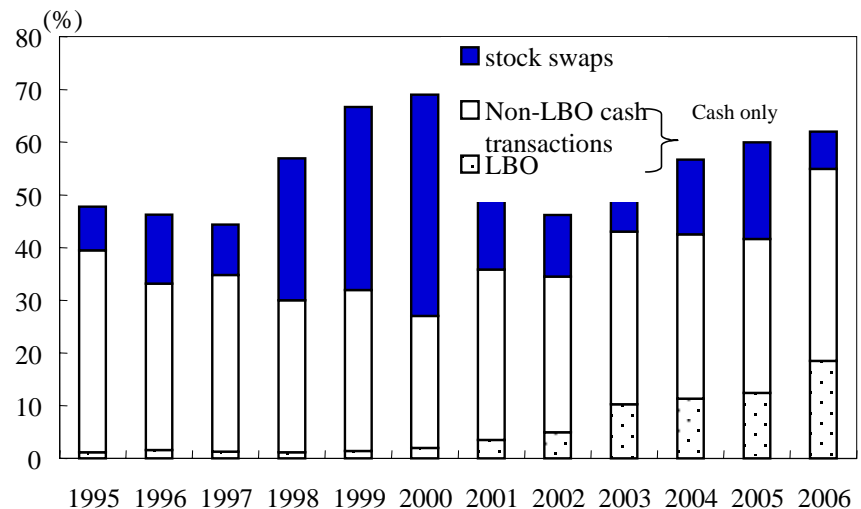
Out-in M&A in the US was up 39.8% to \$183 billion, while out-in M&A in Canada grew 2.5 times to \$74 billion.

**Major growth in investment fund cross-border LBOs**

In 2006, cross-border leveraged buyouts (LBOs) in which acquirers raise funds from financial institutions with the value of acquired assets they are acquiring as collateral increased 71.2% to \$180 billion, accounting for 18.5% of global M&A on a transaction value basis and contributed 59.9% of 2006 growth in global M&A. Almost all cross-border LBO transactions involved acquisitions by investment funds.

As institutional investors poured capital into investment funds in search of yield, low interest rates, excess liquidity and banks actively lending LBO loans, LBO firms found it easier to raise funds. This became a major factor driving increased LBO activity. Nearly 80% of cross-border LBOs were between/within the US and Europe.

During the 2000 M&A boom, stock swaps (including those that also involved cash transactions) accounted for 42.0% of total M&A activity. In 2006, however, such stock swaps were involved in only 7.1% of M&A transactions. LBOs and other cash-only acquisitions accounted for 54.9% of M&A transactions, more than double the 27.0% recorded in 2000.

**Fig. I-13 Means of acquisition in cross-border M&A**

Note: Transaction value basis.

Source: Thomson Financial.

## Major growth in financial services and insurance, telecommunications, and mining sectors

Breaking down M&A transactions by industry sector of acquisition targets, the financial services and insurance industry increased by 43.8% to \$156.4 billion, telecommunications by 49.5% to \$109 billion; mining soared 4.4 times to \$60.4 billion. Major transactions included the following: In the financial services and insurance sector, French bank BNP Paribas' May and July 2006 acquisition of Banca Nazionale del Lavoro in Italy was valued at \$11.1 billion; In the telecommunications sector, Spain's Telefonica SA acquired UK-based O2 for \$31.8 billion; In the mining sector, Brazil's COMPANHIA VALE DO RIO DOCE acquired Canadian nickel producer Inco for \$18.4 billion.

Fig. I-14 Cross-border M&amp;A: 10 largest in 2006

Date	Acquirer company		Target Company			Amount (US\$ million)	
	Nationality	Industry	Nationality	Industry			
January-06	Telefonica SA	Spain	Telecommunications	O2 PLC	UK	Telecommunications	31,798
June-06	Airport Development	Spain	Finance (investment)	BAA PLC	UK	Air transport	30,190
November-06	COMPANHIA VALE DO RIO DOCE	Brazil	Mining	Inco Ltd	Canada	Petroleum & natural gas	18,372
August-06	Xstrata PLC	Switzerland	Mining	Falconbridge Ltd	Canada	Petroleum & natural gas	18,236
September-06	Linde AG	Germany	General machinery	BOC Group PLC	UK	Chemical product related	15,545
December-06	Kemble Water Ltd	Luxembourg	Finance (investment)	Thames Water PLC	UK	Electric, gas, water utilities	14,889
November-06	Alcatel SA	France	Communication equipment	Lucent Technologies Inc	U.S.A.	Communication equipment	14,674
July-06	Valcon Acquisition BV	U.S.A.	Finance (investment)	VNU NV	Netherlands	Publishing and printing	11,287
January-06	Nordic Telephone Co ApS	U.S.A.	Telecommunications	TDC A/S	Denmark	Telecommunications	10,618
November-06	Osprey Acquisitions Ltd	Australia	Finance (investment)	AWG PLC	UK	Electric, gas, water utilities	10,409

Notes: 1. The date is the completion date of the transaction.

2. The nationality of the acquirer is that of its ultimate parent company.

3. The definition of M&A follows Thomson Financial's (including the founding of a joint venture by integrating existing assets).

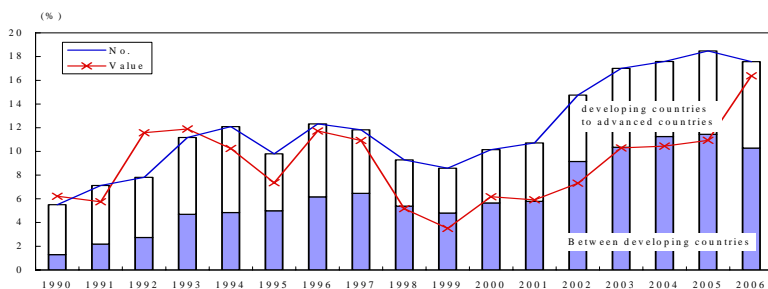
4. The ranking is based on the value of a single transaction.

Source: Thomson Financial.

## Growth in developing country M&amp;A

In 2006, M&A activity by developing countries increased 71.9% to reach \$160 billion. At the start of the 1990s, developing country M&A accounted for less than 10% of global M&A transactions in both value and number of transactions. Since then the trend has been steadily upward, reaching 16.4% by value and 17.6% by number of transactions in 2006. Acquisitions by BRIC-based companies have been especially lively, with outbound M&A in 2006 rising 8.9 times in the case of Brazil to \$19.7 billion; China was up 66.5% to \$14.3 billion; India was up 3.3 times to \$7.1 billion. In all three cases, growth was far above that of global M&As. Acquisitions were driven by rapid economic growth and the need to secure essential natural resources. Developing country companies with more funds from increased profitability were also using M&A as a way to acquire technology and brands.

Fig. I-15 M&amp;A by companies in developing countries



Note: Definitions of industrial and developing countries are based on IFS (IMF), with the Caribbean financial centers (Bermuda, the Caymans) included in the industrial countries. The bar graph shows the breakdown by number of M&As (acquisition of corporations in advanced countries by corporations in developing countries, acquisitions of one corporation in a developing country by another.)

Source: Thomson Financial.

Fig. I-16 Cross-border M&amp;A in BRICs

		(US\$ million, %)				
		2002	2003	2004	2005	2006
BRICs total	Value	3,675	8,903	14,167	19,758	45,384
	Growth rate	-37.8	142.2	59.1	39.5	129.7
Brazil	Value	353	2,047	8,600	2,212	19,725
	Growth rate	-83.6	479.7	320.2	-74.3	791.9
Russia	Value	561	1,035	2,414	6,781	4,245
	Growth rate	48.1	84.5	133.3	180.9	-37.4
India	Value	182	1,137	857	2,157	7,084
	Growth rate	-90.3	525.9	-24.7	151.8	228.3
China	Value	2,580	4,684	2,297	8,606	14,331
	Growth rate	71.9	81.6	-51.0	274.7	66.5
World	Value	418,766	338,302	453,462	848,603	974,459
	Growth rate	-37.0	-19.2	34.0	87.1	14.8

Source: Thomson Financial.

Fig. I-17 Major cross-border M&amp;A by BRICs (2003 to June 2007)

	Completed	Purchaser		Company purchased			Amount (US\$ million)
			Industry		Nationality	Industry	
Brazil	January-07	COMPANHIA VALE DO RIO DOCE	Mining	Inco Ltd.	Canada	Mining	20,688
	August-04	Ambev	Beverages	John Labatt Ltd.	Canada	Beverages	7,758
	May-03	Petroleo Brasileiro SA	Petroleum & natural gas	Perez Companc SA	Argentina	Petroleum & natural gas	1,028
Russia	January-07	Evraz Group SA	Metals and metal products	Oregon Steel Mills Inc.	U.S.A.	Metals and metal products	2,107
	December-05	Lukoil Overseas Holding Ltd.	Petroleum & natural gas	Nelson Resources Ltd.	UK	Mining	2,088
	November-05	Alfa Group	Finance (banking)	Turkcell Iletisim Hizmetleri	Turkey	Telecommunications	1,602
India	April-07	Tata Steel UK Ltd.	Finance (investment)	Corus Group PLC	UK	Metals and metal products	15,856
	May-07	AV Aluminum Inc.	Finance (investment)	Novelis Inc.	U.S.A.	Metals and metal products	5,767
	June-07	Essar Global Ltd.	Finance (investment)	Algoma Steel Inc.	Canada	Metals and metal products	1,467
China	October-05	CNPC International Ltd.	Petroleum & natural gas	PetroKazakhstan Inc.	UK	Petroleum & natural gas	3,957
	August-06	Sinopec Corp Qingdao Br. China	Petroleum & natural gas	OAO Udmurtneft	Russia	Petroleum & natural gas	3,500
	April-06	CNOOC Ltd.	Petroleum & natural gas	NNPC-OML 130	Nigeria	Petroleum & natural gas	2,692

Note: Rio Doce of Brazil's acquisition of Canada's Inco was carried out in two stages, in November 2006 (US\$18.4 billion) and January 2007 (US\$2.3 billion); the figure stated is the total purchase price.

Source: Thomson Financial.

## Japan's Trade Trends

### Five consecutive years of export growth, the longest continuous expansion since 1995

In 2006 Japan's exports grew 8.2% (on a customs clearance basis) to \$647.3 billion, while imports grew 11.7% to \$579.3 billion. Exports increased for the fifth consecutive year, while imports increased for the fourth consecutive year. In 2006 the first time since 1995 that Japan recorded the fifth consecutive year of export growth, Japan's exports exceeded the \$600 billion mark for the first time. Total value of trade (exports plus imports) increased 9.8% to \$1,226.6 billion. Japan's trade balance shrank for two consecutive years, mainly because of the rise in the value of Japan's imports, which was attributed to growth in the Japanese economy, primarily in private sector demand, and a sharp rise in the price of petroleum imports.

**Fig. I-18 Trends in Japan's trade**

(US\$ million, %)

	2005	2006	2006				2007
			I	II	III	IV	I
Exports	598,215	647,290	151,191	158,145	166,258	171,696	166,410
(YoY change, %)	5.9	8.2	4.8	7.3	10.4	10.1	10.1
Imports	518,638	579,294	138,741	142,591	148,608	149,354	144,651
(YoY change, %)	14.1	11.7	14.2	11.5	11.5	9.9	4.3
Current account	79,577	67,997	12,450	15,554	17,651	22,342	21,759
(YoY change)	-30,792	-11,581	-10,370	-3,932	327	2,395	9,308
Export volume index	114.4	123.2	119.2	122.5	125.6	125.4	122.0
(YoY change, %)	0.8	7.7	11.2	8.8	8.3	3.3	2.4
Import volume index	117.9	122.3	117.8	121.9	122.7	126.8	117.7
(YoY change, %)	2.9	3.7	2.6	4.5	3.0	4.9	-0.1
Crude oil import price (US\$/barrel)	51.1	63.9	59.5	64.9	70.7	60.8	57.5
(YoY change, %)	40.5	25.1	46.1	30.6	26.0	6.2	-3.4
Ratio of oil imports	15.4	17.1	17.4	17.4	18.3	15.5	15.6
Ratio of manufactured imports	58.6	56.8	56.2	56.3	56.3	58.3	58.2
Exchange rate (?/\$ avg.)	110.2	116.3	116.9	114.4	116.2	117.8	119.4
(YoY change, %)	-1.8	-5.3	-10.6	-5.9	-4.3	-0.4	-2.1

Notes: 1. The base year for volume indices is 2000.

2. Exchange rates are the interbank rate central averages for the period.

3. Quarterly growth rates are YoY comparisons.

Sources: Ministry of Finance, *Trade Statistics*, and Bank of Japan, *Economic Statistics Monthly*.

## Japan's Trade Breakdown by Region

### Exports to China grew by double digits; exports to the US were strong

Looking at 2006 exports (customs clearance basis) by country and region, we find (1) exports to China increased by double digits in both value and volume and (2) exports to the US remained strong. Exports to China grew 15.6% year-on-year to \$92.9 billion, a return to double-digit growth after the 8.8% posted in 2005. Exports to the US increased 8.0% to \$145.7 billion. The contribution of exports to the US to total exports increased 21.9%, with 18.7% accounted for by automotive exports. Auto exports were the factor driving more than half of the rise in exports to the US.

### Import growth driven by Middle East, while imports from China slowed

Looking at imports by country and region, we find that the sharp rise in the price of petroleum imported from the Middle East was the primary driver of import growth. In contrast, growth in imports from China slowed during 2006, largely because of deceleration in machinery and equipment imports.

A particularly noteworthy factor is the 5.8% decline to \$7.1 billion in the audio-visual equipment sector, a drop driven by falling prices. Other categories in which imports from China declined include coal (down 18.2%), reflecting a decline in surplus available for export as China gave priority to domestic consumption.

Fig. I-19 Japan's import/export trends with major trading partners

			(US\$ million, %)									
			2005	2006	2006				2007			
					I	II	III	IV	I			
World	Exports	Value	598,215	647,290	151,191	158,145	166,258	171,696	166,410			
		YoY change	5.9	8.2	4.8	7.3	10.4	10.1	10.1			
	Imports	Value	518,638	579,294	138,741	142,591	148,608	149,354	144,651			
U.S.A.	Exports	Value	134,889	145,651	34,427	35,516	37,256	38,452	35,285			
		YoY change	6.4	8.0	5.0	6.7	7.2	7.8	2.5			
	Imports	Value	64,497	68,071	16,404	17,016	17,344	17,307	17,079			
EU25	Exports	Value	88,036	93,869	22,696	23,207	23,107	24,860	25,470			
		YoY change	1.0	6.6	0.3	7.3	9.1	10.1	11.9			
	Imports	Value	59,066	59,830	14,884	14,577	14,838	15,531	15,673			
East Asia	Exports	Value	283,336	300,142	68,777	73,891	77,710	79,764	76,041			
		YoY change	5.6	5.9	2.5	4.9	7.1	8.9	10.6			
	Imports	Value	226,485	247,716	58,814	60,389	62,483	66,030	62,110			
China	Exports	Value	80,340	92,852	20,318	22,536	24,009	25,988	24,247			
		YoY change	8.8	15.6	17.4	17.4	14.3	17.3	19.3			
	Imports	Value	109,105	118,516	27,671	28,731	29,876	32,239	29,806			
ASEAN 10	Exports	Value	76074	76349	17668	18588	20106	19987	19440			
		YoY change	4.4	0.4	-4.0	-4.9	3.7	6.7	10.0			
	Imports	Value	73076	79990	19108	19605	20462	20815	20323			
ROK	Exports	Value	46880	50321	12033	12522	12634	13132	13154			
		YoY change	6.1	7.3	6.5	10.4	5.8	6.8	9.3			
	Imports	Value	24536	27345	6722	6730	6659	7233	6493			
Taiwan	Exports	Value	43910	44152	10610	11229	11162	11149	10172			
		YoY change	4.7	0.6	-3.4	-2.8	3.7	5.0	-4.1			
	Imports	Value	18187	20345	4927	4963	5091	5364	5107			
Hong Kong	Exports	Value	36132	36469	8148	9015	9798	9509	9027			
		YoY change	2.1	0.9	-3.2	2.5	3.4	0.8	10.8			
	Imports	Value	1580	1521	386	361	395	379	381			
Middle East	Exports	Value	16575	19194	4585	4268	4990	5350	5985			
		YoY change	14.6	15.8	19.7	10.8	15.5	17.0	30.5			
	Imports	Value	87667	109190	26546	26774	29989	25880	25349			
Latin America	Exports	Value	25112	30574	7399	6598	8387	8189	8423			
		YoY change	16.0	21.8	24.9	14.1	28.0	19.6	13.8			
	Imports	Value	16107	20411	5071	5703	5210	5126	5192			
		YoY change	17.2	26.7	33.1	20.5	20.3	26.8	2.4			

Notes: 1. The ASEAN 10 are Singapore, Thailand, Malaysia, the Philippines, Indonesia, Brunei, Myanmar, Cambodia, Laos and Vietnam.  
 2. East Asia is China, ROK, Taiwan, Hong Kong, Singapore, Thailand, Malaysia, the Philippines, Indonesia, Brunei, Myanmar, Cambodia, Laos and Vietnam.  
 3. For the first quarter of 2007, the EU25 data are calculated on an EU27 basis.  
 Source: Ministry of Finance, *Trade Statistics*.



## Japan's 2006 Outward Foreign Direct Investment Largest Ever

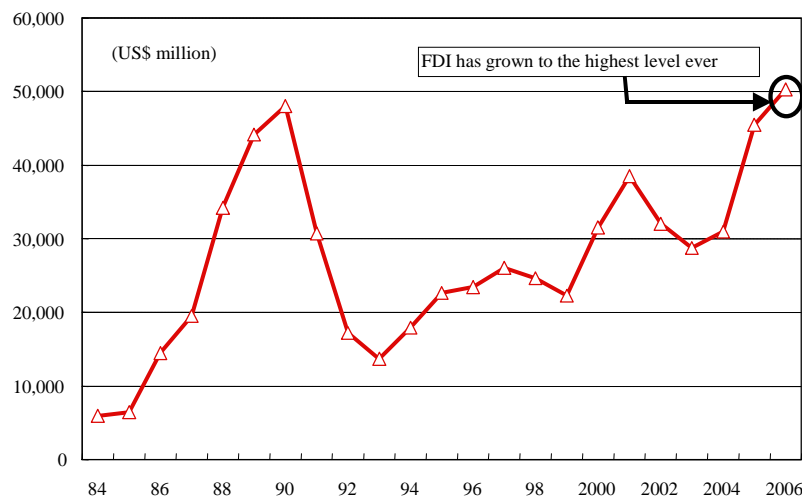
### First new peak in 16 years

Foreign direct investment by companies in Japan rose by 10.3% year-on-year in 2006, reaching \$50.2 billion and setting a new record for the first time since 1990. This is due to (1) vigorous expansion by firms in developing countries, especially in Asia, (2) investment to develop to secure interests in energy resources, especially petroleum and natural gas and (3) large overseas M&A deals to secure market share.

### Investment in China declines for first time in seven years

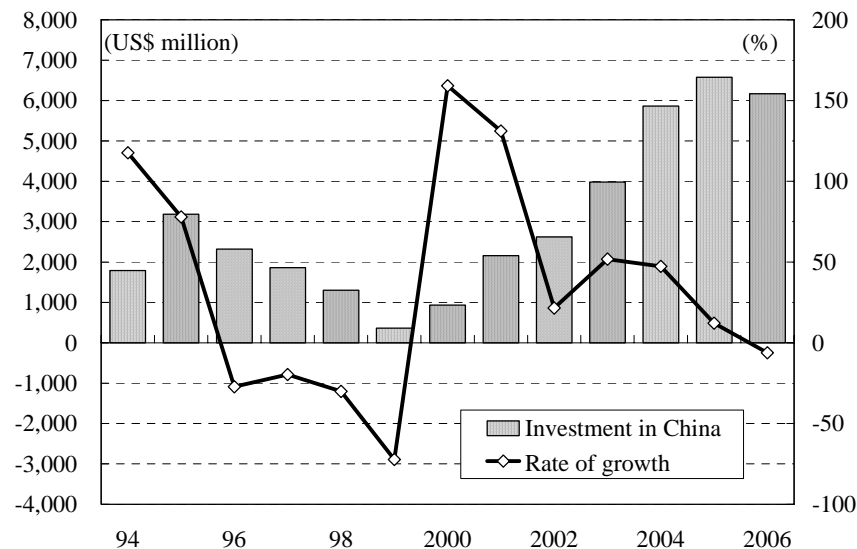
Investments in Asia accounted for 34.2% of Japan's outward FDI, increasing 6.0% to \$17.2 billion. Asia remained the primary engine of growth in this period, but growth flattened substantially compared to 2005, which saw a 53.7% increase. Investments in China, in particular, had grown steadily since 2000 but declined in 2006 for the first time in seven years, falling by 6.2% to \$6.2 billion. Background factors included a rebound from rapid increases since 2003, the rising cost of investing in China, and investment strategies revised to include rising concern about country risk.

**Fig. I-20 Trends in Japan's FDI (based on balance of payments)**



Note: These data lack strict continuity due to differences in yen-dollar exchange rate calculation methods, changing definitions of direct investment, and other factors. For 1985-1994, dollar-denominated published values were used. For 1995 yen-denominated published values were converted to dollars for each six-month period using the average Bank of Japan interbank rate for the period. For 1996 on, yen-denominated published values were converted to dollars for each quarter using the average Bank of Japan interbank rate for the period. Sources: Ministry of Finance, *Balance of Payments Statistics*; Bank of Japan, *Foreign Exchange Rates*; and others.

**Fig. I-21 Investment in China**



Sources: Ministry of Finance, *Balance of Payments Statistics*; Bank of Japan, *Foreign Exchange Rates*.



## Japanese Companies' Overseas Profits Growing

### Profits from Asia increasing

Financial results of listed companies compiled by JETRO indicate that Japanese companies are deriving about 30% of both sales and profits from overseas, of which about 30% is derived from Asia. Overseas sales and operating income from overseas operations, especially those in Asia, are showing a long-term upward trend. The profitability of Japanese companies' overseas operations, especially those in Asia, is steadily rising as well.

**Fig. I-25 Overseas sales and profits trends among listed companies**

Sales changes (YoY, %)									Sales share by region (%)							
Fiscal year	No. of companies	World	Domestic	Overseas					World	Domestic	Overseas					
					Americas	Europe	Asia-Pacific	Other				Americas	Europe	Asia-Pacific	Other	
1998	(556)	-7.0	-7.5	-5.8	3.0	3.0	-21.6	-29.3	100.0	71.1	28.9	13.4	6.0	4.9	4.6	
1999	(576)	-3.6	-2.9	-5.3	-9.6	-9.6	11.5	-10.1	100.0	72.5	27.5	12.4	5.4	5.5	4.2	
2000	(620)	4.2	3.0	7.5	1.2	1.2	22.2	-3.8	100.0	71.9	28.1	12.6	5.2	6.4	3.9	
2001	(650)	-2.7	-6.0	5.8	4.8	4.8	1.2	9.1	100.0	69.7	30.3	13.7	5.5	6.7	4.4	
2002	(683)	2.4	0.0	7.7	11.3	11.3	16.8	6.4	100.0	68.0	32.0	13.7	6.0	7.8	4.6	
2003	(694)	-0.4	-0.9	0.9	5.4	5.4	3.6	7.5	100.0	67.9	32.1	12.9	6.1	8.2	4.9	
2004	(710)	7.4	6.1	10.0	11.7	11.7	17.1	15.1	100.0	67.3	32.7	12.2	6.4	8.8	5.3	
2005	(748)	10.3	7.8	15.4	10.5	10.5	28.0	4.2	100.0	66.1	33.9	12.5	6.3	10.1	5.0	
2006	(773)	13.9	14.3	13.0	18.7	18.7	16.7	3.9	100.0	66.2	33.8	12.6	6.9	10.3	4.1	

Operating profits changes (YoY, %)									Operating profits share by region (%)							
Fiscal year	No. of companies	World	Domestic	Overseas					World	Domestic	Overseas					
					Americas	Europe	Asia-Pacific	Other				Americas	Europe	Asia-Pacific	Other	
1998	(556)	-20.0	-23.7	-8.0	12.9	14.9	-26.4	-45.7	100.0	73.4	26.6	13.8	4.8	4.4	3.6	
1999	(576)	7.8	9.7	2.7	13.1	-50.6	22.0	10.9	100.0	75.0	25.0	14.1	2.1	5.0	3.7	
2000	(620)	26.8	34.8	2.9	-4.7	-58.5	51.4	2.1	100.0	79.9	20.1	10.4	0.7	6.0	3.0	
2001	(650)	-31.3	-35.6	-14.6	-13.2	-33.0	-22.1	-0.2	100.0	76.0	24.0	12.4	0.6	6.7	4.2	
2002	(683)	40.2	35.7	54.0	40.8	389.8	49.0	38.1	100.0	72.9	27.1	13.0	2.8	7.2	4.1	
2003	(694)	15.5	15.7	15.2	-0.4	86.3	24.4	2.6	100.0	73.3	26.7	11.1	4.3	7.5	3.7	
2004	(710)	15.4	14.4	18.0	17.6	6.7	21.1	26.3	100.0	71.8	28.2	10.9	4.7	8.6	4.0	
2005	(748)	14.6	12.4	20.3	16.1	18.2	33.7	5.4	100.0	70.8	29.2	10.8	4.7	10.0	3.7	
2006	(773)	28.2	33.4	14.9	6.5	38.2	2.9	47.8	100.0	73.5	26.5	9.1	4.1	8.3	5.1	

Notes: 1. The data cover listed companies whose fiscal years end between December and March (excluding banks and insurance companies) and whose consolidated financial statements included segment information by region.

2. For FY2006, the data include corporations that had released their consolidated financial results by May 31, 2007.

3. The totals are totals of each region prior to exclusion of internal transactions within the consolidation. Total sales thus include inter-segment sales.

4. The YoY growth rate is based on the same companies as sampled in the previous year.

5. The data include some listed subsidiaries and thus are duplicated in some cases.

6. "Other," in regions, includes data covering multiple regions, such as "Europe and America" or "overseas."

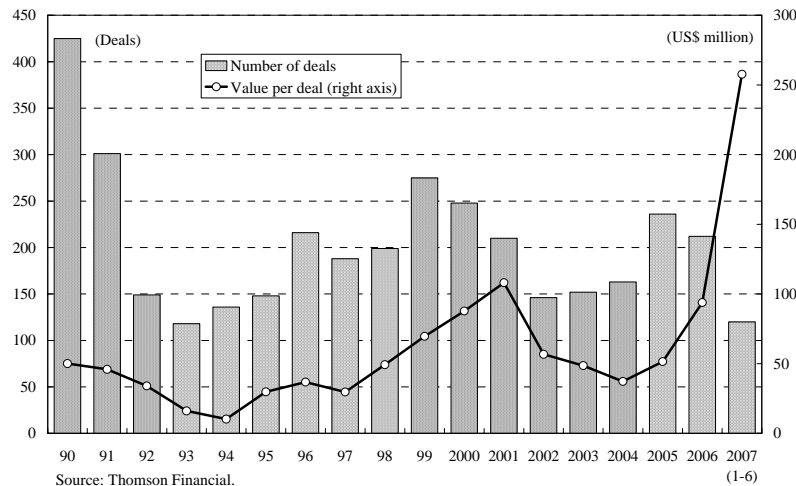
Sources: Toyo Keizai Inc. *CD-ROM of corporate financial records* (to FY2005); corporations' consolidated financial statements (FY2006).

## Outward M&A Driven by Large Transactions

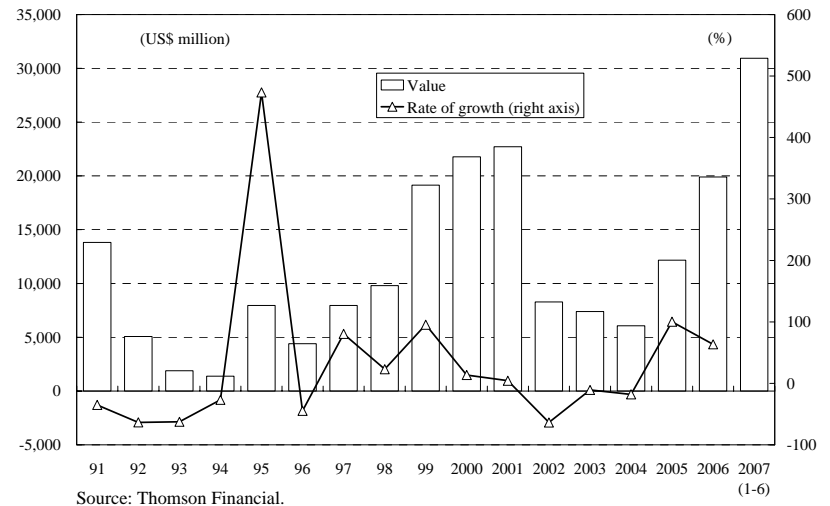
### In outward cross-border M&A, scale of deals increasing

In 2006 Japan's outward cross-border M&A increased 63.6% year-on-year to \$19.9 billion, while the number of transactions declined by 24 to 212. The total value reached its highest level since the IT boom in 2000. What distinguished 2006 was the increasing scale of deals, a trend that is continuing in 2007. In addition, the diversification seen in the 1990s has given way to a focus on core businesses.

**Fig. I-22 Outward cross-border M&A activity**



**Fig. I-23 Outward M&A value**



**Fig. I-24 Japan's major outward M&A (2006 and first half of 2007)**

Year	Purchaser	Company purchased			Amount (US\$ million)	Equity ownership after purchase (%)	
		Industry	Nationality	Industry			
April 2007	Japan Tobacco	Cigarettes	Gulliver International	UK	Cigarettes	18,800	100.0
October 2006	Toshiba, Shaw Group, Ishikawajima Harima Heavy Industries (IHI)	-	Westinghouse	U.S.A.	Electric power	5,402	100.0
June 2006	Nippon Sheet Glass	Glass	Pilkington	UK	Glass	4,001	100.0
June 2007	Marubeni, Tokyo Electric Power	-	Mirant Asia Pacific	Philippines	Electric power	3,420	100.0
October, November 2006	Daikin	Air conditioning equipment	O.Y.L. Industries	Malaysia	Air conditioning equipment	2,116	99.3
March 2006	Marubeni Offshore Production	Oil and gas drilling	Pioneer Natural Resources U.S.A.	U.S.A.	Oil and gas drilling	1,300	100.0
February 2007	Nomura Holdings	Finance	Instinet	U.S.A.	Securities and commodities service	1,200	100.0

Notes: 1. The Thomson Financial definition of an M&A was followed (including the founding of a joint venture by integrating existing assets).

2. In the JT, Toshiba, and Marubeni cases, the acquisition was carried out through a corporation set up for that purpose.

Source: Thomson Financial.

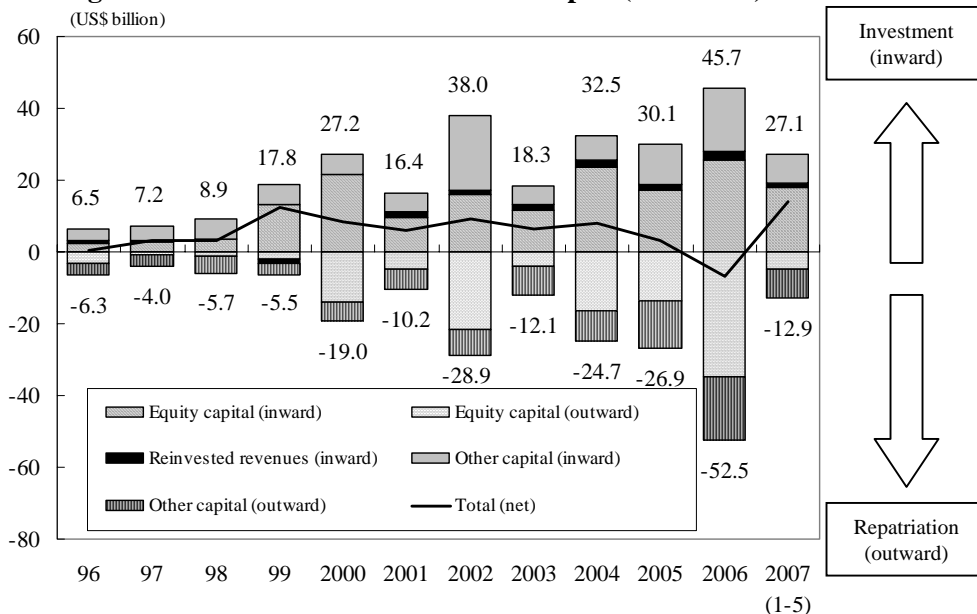
## Inward Direct Investments Largest Ever, both Outflow and Inflow

### Inward direct investment in 2006 (international balance of payments base)

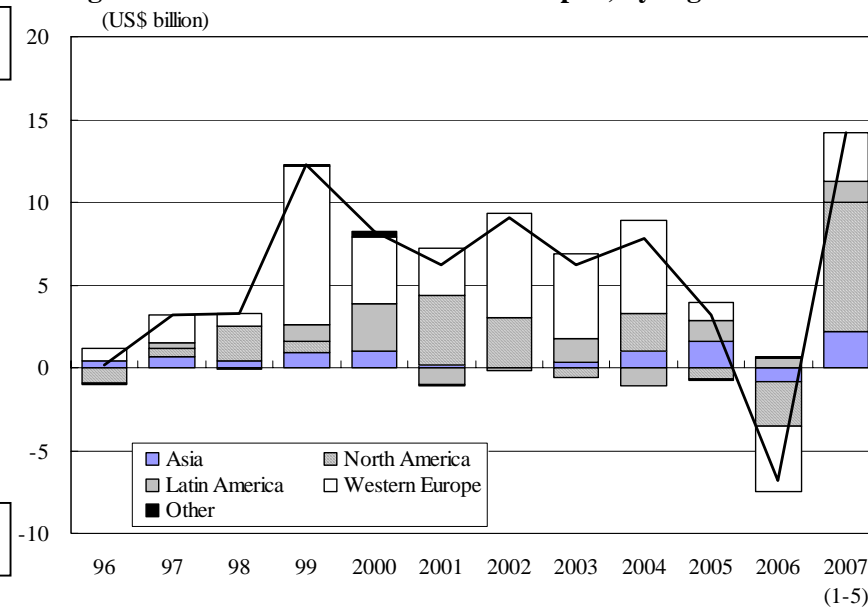
In 2006, Japan's direct inward and outward investment (balance of payments basis, net) resulted in net capital outflow of \$6.8 billion, the first negative result since 1996. Both inflow and outflow were, however, at historic peaks. Capital inflow set a new record, increasing by 51.7% to \$45.6 billion, primarily the result of European and Asian investments in the financial services sector and European and US investments in the chemicals and pharmaceuticals sectors. Capital outflow also set a new record, reaching \$52.5 billion. The largest transactions were the sale of UK-based Vodafone's operations in Japan to Softbank (\$17.5 billion) and General Motor's dissolution of its capital tie-up with Suzuki Motor Corporation (\$2.0 billion).

In 2007, the Citigroup buyout of the Nikko Cordial group had already generated \$14.2 billion of capital inflow in the January-May 2007 period.

**Fig. I-26 Inward direct investment in Japan (flow basis)**



**Fig. I-27 Inward direct investment in Japan, by region**



Note: Using published yen-denominated published values were converted to dollars for each three month period using the average Bank of Japan interbank rate for the period.

Source: Bank of Japan and Ministry of Finance.



**Japan External Trade Organization**

## Chapter II

# Increasing Importance of FTAs

## Free Trade Agreements Throughout the World: 143

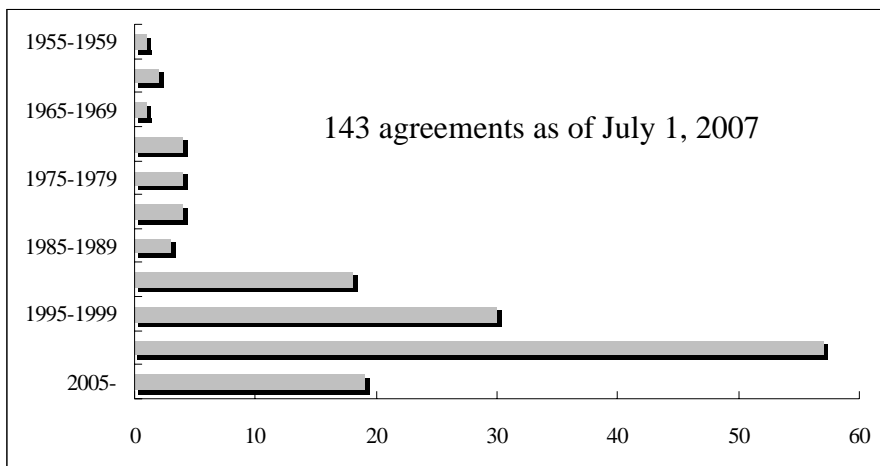
### ◆ 143 free trade agreements (FTAs) throughout the world (as of July 2007), and 14 in effect in the ASEAN+6 region

As of July 2007, 143 free trade agreements (FTAs) were in effect worldwide. Until 1989 there were only 19, but starting in the 1990s the number has increased dramatically. In the 1990s, 48 agreements were formed, and 76 new agreements have been created since 2000. Factors behind this sudden acceleration in new FTAs may include the fact that, as WTO talks in the previous Uruguay Round and the current Doha Round have been slow to bear fruit, more countries started to pursue FTAs to supplement the lagging WTO. The shift toward FTAs by the major trading countries such as the US, which has driven other competing countries to turn to FTAs, is, we believe, another reason for this acceleration. In other words, each new FTA spurs the creation of yet more FTAs.

### ◆ Cross-regional FTAs also increasing

Recent years have also seen an increase in regional FTAs that cut across regional boundaries and create a global network of agreements: 21 FTAs, 14.7% of the total, are placed in the cross-regional FTA category.

Fig. II-1 Worldwide FTA Trends



- Notes:
1. Of the 194 regional trade agreements listed on the WTO website (listing signifies that WTO has been notified of the agreement and it is currently in effect), we have excluded 54 as duplicates due to new participants in existing FTAs, notification of both GATT and GATS, and etc.
  2. The year is based on the date of the agreement becoming effective. If that is unclear, the date of notification to GATT or the WTO is used.
  3. The graph includes the non-reported FTAs, namely ROK-ASEAN FTA, Thailand-India FTA as well as Singapore-India FTA.
- Source: WTO website ([www.wto.org/English/tratop\\_e/region/region.htm](http://www.wto.org/English/tratop_e/region/region.htm)) as of March 1, 2007.

Fig. II-2 FTAs by Region

	Europe, Russia and the CIS, Middle East, Africa	Americas	Asia-Pacific	Cross-Regional	Total
1955-1959	1				1
1960-1964	1	1			2
1965-1969				1	1
1970-1974	1	1		2	4
1975-1979	2		2		4
1980-1984	1	1	2		4
1985-1989		1		2	3
1990-1994	13	2	3		18
1995-1999	24	4	1	1	30
2000-2004	32	8	8	9	57
2005-	6	1	6	6	19
<b>Total</b>	<b>81</b>	<b>19</b>	<b>22</b>	<b>21</b>	<b>143</b>

Source: WTO.

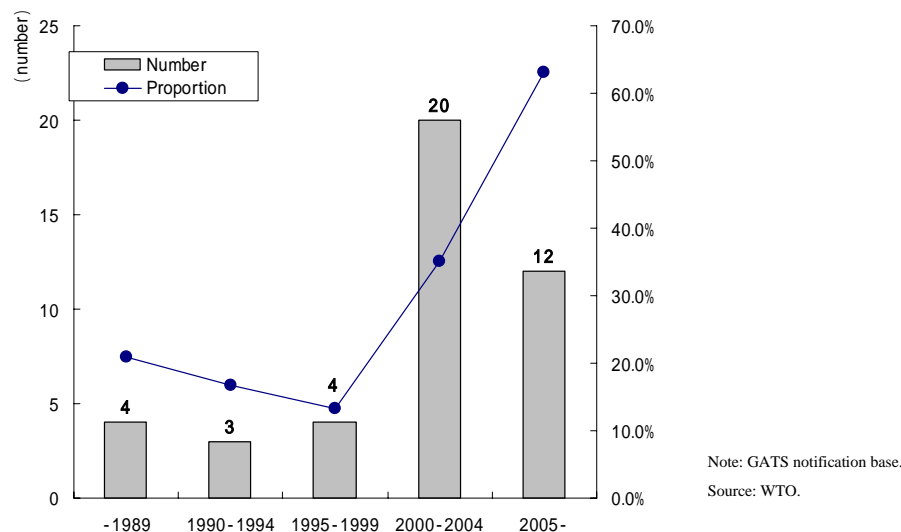
## FTAs Between Advanced and Developing Countries and FTAs That Cover Services Move into the Mainstream

**FTAs that link advanced and developing countries and comprehensive FTAs that cover a wide range of sectors including services are on the increase.**

FTAs between advanced and developing countries are on the rise. This type of FTA represented only about 30% of all agreements prior to 2004, but the figure has increased to more than 50% since 2005. On a regional basis, notable examples include the EU with the Middle East, Eastern Europe and Africa, the US with Central and South America, and Japan with other Asian nations, including those in ASEAN, aimed at securing fast-growing markets in each region.

Recent FTAs go beyond the elimination of tariff and non-tariff barriers to cover a wide range of fields including services, investments, intellectual property, competition policy and dispute settlement. According to a WTO report, until 1999 there were only 11 FTAs that included services. Since 2000, that number has increased by 32 to a total of 43. Particularly noteworthy is the fact that 63.2% of FTAs concluded since 2005 include services.

**Fig. II-4 Trend of FTAs that include services: number and proportion**



# FTA Trends in Asia: Japan's EPA Strategy Aimed at Building Asia-wide Economic Partnerships

## 14 FTAs involve ASEAN+6 countries

The countries making up ASEAN+6 (ASEAN plus Japan, China, ROK, India, Australia and New Zealand) participate in 14 FTAs (including Early Harvest Schemes).

ASEAN is the core of the FTA network covering the Asia-Pacific region. Japan, ROK, China, Australia, New Zealand and India have all either signed or are currently negotiating FTAs with ASEAN.

**Japan's EPAs include three in effect, four signed, one agreed in principle and seven for which negotiations are still underway.**

Japan has three EPAs already in effect, with Singapore, Mexico, and Malaysia, and has signed agreements with the Philippines, Chile, Thailand and Brunei. In addition, major issues have been reached on an agreement with Indonesia and negotiations are underway on an EPA with ASEAN as a whole. Concluding EPAs with ASEAN and also India, Vietnam and Australia, for which negotiations began in 2007, will further Japan's goal of building strong economic partnerships in East Asia.

**Fig. II-5 FTAs in effect in the Asia-Pacific region**

FTA	Date, Status
Australia-New Zealand	January 1983
Laos-Thailand	June 1991
Asean Free Trade Area (AFTA)	January 1992 (start of tariff reduction: January 1993)
Singapore-New Zealand	January 2001
Japan-Singapore	November 2002
Singapore-Australia	July 2003
Asean-China	July 2003 (EH for agricultural and fisheries products: January 2004) (tariff reduction for non-agricultural products: July 2005)
Thailand-India	September 2004 (start of EH)
Thailand-Australia	January 2005
Thailand-New Zealand	July 2005
Singapore-India	August 2005
Singapore-ROK	March 2006
Japan-Malaysia	July 2006
ASEAN-ROK	June 2007

Note: EH stands for the FTA Early Harvest Scheme.

Source: Governments

**Fig. II-6 Japan's EPAs: in effect, signed, being negotiated**

Country/Region	Consideration	Negotiation	Agreement in Principle, Signed, In Effect
Singapore		Joint study group, March-Sept. 2000	Negotiations from Jan. 2001 Signed Jan. 2002 In effect November 2002
Mexico		Japan-Mexico joint study group, Sept. 2001-July 2002	Negotiations from Nov. 2002 Signed Sept. 2004 In effect April 2005
Malaysia	Intergovernmental working group, May-July 2003	Joint study group, Sept.-Nov. 2003	Negotiations from Jan. 2004 Signed Dec. 2005 In effect July 2006
Philippines	Intergovernmental working group, Oct. 2002-July 2003	Joint coordinating team, Sept.-Nov. 2003	Negotiations from Feb. 2004 Signed Sept. 2006
Chile		Joint study group, Jan.-Sept. 2005	Negotiations from Feb. 2006 Signed March 2007
Thailand	Intergovernmental working group, Sept. 2002-May 2003	JTEPA Task Force, July-Nov. 2003	Negotiations from Feb. 2004 Signed April 2007
Brunei		Intergovernmental preparatory meetings, Feb.-April 2006	Negotiations from June 2006 Signed June 2007
Indonesia	Preparatory meeting, Sept.-Dec. 2003	Joint study group, Jan.-April 2005	Negotiations from July 2005 Agreement in principle Nov. 2006
ASEAN	Intergovernmental committee, March-Oct. 2003	Intergovernmental preparatory meeting, Jan.-Dec. 2004	Negotiations from April 2005 Framework agreement May 2007
ROK		Joint study group July 2002-Oct. 2003	Negotiations from Dec. 2003
Gulf Cooperation Council		Intergovernmental preparatory meeting, May 2006	Negotiations from Sept. 2006
Vietnam		Intergovernmental joint discussion group, Feb.-April 2006	Negotiations begin Jan. 2007
India		Joint study group, July 2005-June 2006	Negotiations begin Jan. 2007
Australia	Intergovernmental preparatory meeting, Sept. 2002-July 2003	Joint study group, Nov. 2005-Dec. 2006	Negotiations begin April 2007
Switzerland		Joint governmental study group, Oct. 2005-Nov. 2006	Negotiations begin May 2007

Source: Ministry of Foreign Affairs, METI.

# Economic Effects of FTAs: 1.3% Real GDP Increase for Entire ASEAN+6 , Larger Effect Due to Removal of Non-Tariff Measures

## 1.3% Real GDP Increase for entire ASEAN+6

Our GTAP model analysis (details on next page) estimates that the ASEAN+6 FTA will increase real GDP for its member countries by 1.3%, provided that the FTA eliminates all tariffs and cuts non-tariff measures (NTMs) by half. For ASEAN+3, the increase will be 1.0%.

## Larger Effect Due to Removal of Non-Tariff Measures

If we examine the effect of tariff eliminations, the ASEAN+6 FTA will increase ASEAN+6 GDP by only 0.2%. This is because import tariffs from ASEAN+6 member countries in major countries are already low: ASEAN 4.2%, Japan 5.0% and Australia 6.4%. Thus, the impact of slashing NTMs in half is larger than that of eliminating tariffs. (If we assume reducing 25% of NTMs besides eliminating tariffs, the result would be a 0.7% increase in GDP for the entire ASEAN+6.)

FTAs should consolidate a framework upon which companies can reduce “service link costs” (tariffs, NTMs and transportation costs, etc.) from one production location to another. With that, FTAs can help companies to achieve optimal production and economies of scale by taking advantage of comparative advantages and regional agglomeration, all of which contribute to enhanced productivity and competitiveness for Japanese companies.

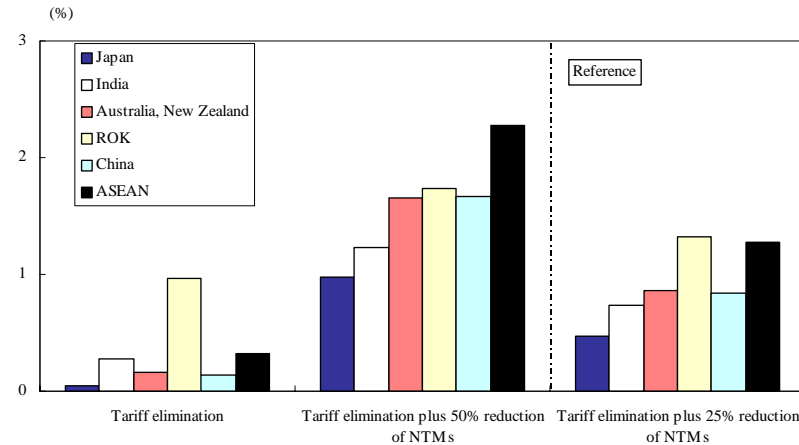
**Fig. II-7 Effects of various FTAs on GDP (tariff elimination and 50% reduction in NTMs)**

	Intra ASEAN (AFTA)	ASEAN-China	ASEAN-ROK	ASEAN-Japan	ASEAN-Australia	ASEAN India	ASEAN +3	ASEAN +6
All member countries	0.9	0.7	0.7	0.5	0.8	0.9	1.0	1.3
ASEAN	0.9	1.3	1.0	1.4	1.0	1.0	2.0	2.3
Japan	-	-0.01	-	0.3	-0.01	-	0.7	1.0
China	-0.01	0.4	-0.02	-0.02	-0.01	-0.01	1.5	1.7
ROK	-0.01	-0.04	0.3	-0.02	-0.01	-	1.6	1.7
India	-0.01	-0.03	-0.02	-0.1	-0.02	0.9	-0.1	1.2
Australia	-	-0.02	-0.01	-0.04	0.5	-0.01	-0.1	1.4

Note: Rounded off below two decimal places; regard 0.00% as no influence and indicate as “-.” Shaded boxes indicate FTA member countries/regions.

Source: Estimated from GTAP

**Fig. II-8 Effects of ASEAN+6 FTA on GDP**



Source: Estimated from GTAP



# Overview of GTAP Model Analysis (for Reference )

## Analytic Model

GTAP is the most standard computable general equilibrium (CGE) model and is frequently used to analyze the economic effects of FTAs. We used the sixth (most recent) edition with 2001 base data. The model analysis of FTA's economic effects is based on certain assumptions and therefore subject to certain limitations. However, the model analysis, with assumptions fully disclosed, can offer meaningful insights into the discussion of future FTAs and the practical issues on their implementation.

## Assumptions of Model Analysis

We compare the “base” data or pre-FTA 2001 data to the “updated” post-FTA implementation data, and examine changes in trade and GDP due to each FTA. In this analysis we change the intra-ASEAN tariff rate to the CEPT 2003 tariff rate. To measure the effects of FTAs, we assume a complete elimination of tariffs as well as a 50% reduction in NTMs. The tariff equivalents of NTMs are derived from the study conducted by Prof. Mitsuyo Ando's “Estimating Tariff Equivalents of Non-tariff Measures in APEC Member Economies” in the paper by Philippa Dee and Michael Ferrantino, eds., entitled *Quantitative Methods for Assessing the Effects of Non-tariff Measures and Trade Facilitation*, Singapore: World Scientific Publishing Co., Inc., 2005. In our analysis, we focus on “technical measures” and “quantity control measures” among the NTMs specified in UNCTAD definitions.

## NTMs observed in ASEAN+6 countries

According to available data supplied by the ASEAN Secretariat, the total number of NTMs is between 100 and 400 per country in major ASEAN countries. In the cases of Thailand, Malaysia and Indonesia, the number of quantity control measures exceeds 100. For other countries the range is between 60 and 80. Examples include non-automatic import licensing on a discretionary basis, import quotas, and import prohibitions. Technical measures include a wide variety of regulations, such as quality inspections, labeling, specification standards, and rules governing advertising.

China requires import licenses for iron ore and inspection and quarantine of agricultural products which are also among the NTMs identified in the US Trade Representative (USTR) National Trade Estimate Report on Foreign Trade Barriers for 2006. Concerning India, the USTR points to 109 food and home electronics products that are required to satisfy Bureau of Indian Standards (BIS) criteria.

**Fig. II-10 NTMs in ASEAN countries**

	Number of NTMs, by country						Main examples
	Thailand	Malaysia	Indonesia	Singapore	Philippines	Vietnam	
Quantity control measures	113	123	189	64	67	82	Non-automatic licensing on a discretionary basis (foods, electrical equipment, etc.); import quotas (iron and steel, automobiles, foods, etc.), prohibitions on imports (used cars, etc.)
Technical measures	22	6	134	29	90	158	Quality inspections, labeling and specifications standards, advertising restrictions
Monopolistic measures	0	1	13	0	2	8	Monopolistic import company system for rice, petroleum, etc.
Price control measures	0	0	0	1	0	34	Price regulations on imports (in Vietnam, on beverages, glass, etc.), anti-dumping measures (in Singapore, on iron and steel products)
Other	6	4	71	8	0	1	Automatic licensing measures
Total	141	134	407	102	159	283	

Note: APEC, UNCTAD etc. have compiled figures on NTMs mainly from statements made by each government; JETRO has summarized information published by the ASEAN Secretariat. The date of the data varies by country, between 2001 to 2003. We count the numbers of NTMs regardless of the level of HS digit in question. For instance, a measure affecting HS tariff lines (products) at two digit level is counted as one while another measure affecting products at HS eight digit level is also counted as one. Thus, that a country is shown as having a large number of NTMs in this table does not necessarily mean that it does have many NTMs or that the impact of the NTMs applied is large.

## Increasingly Tight Economic Ties in Asia

### Trade between FTA signatories in ASEAN+6 region accounts for 44.3% of all trade in the region

As FTAs have gone into effect one after the other in the Asia-Pacific region, trade between FTA signatories has reached \$521.7 billion, or 44.3% of the US\$1.1768 trillion total of trade inside the ASEAN+6 region. Assuming that FTA negotiations now underway between ASEAN countries and Japan, India, and Australia move forward, the proportion of trade accounted for by FTA signatories is sure to increase.

### Intra-regional trade within ASEAN+6 countries now accounts for 43.3% of the region's total trade

Intra-regional trade has expanded and, as of 2006, already accounted for 43.3% of ASEAN+6's total trade, a rise of 2.7 points from 1999 (40.6%).

**Fig. II-11 Value of trade between FTA signatories in the Asia-Pacific region (2006)**

	Japan	China	ROK	Thailand	Indonesia	Malaysia	Philippines	Singapore	Brunei	Vietnam	CLM	India	Australia	New Zealand	Total	Trade with FTA signatories	Composition ratio
Japan	-	93,955	49,893	22,670	7,522	13,404	9,020	19,393	98	4,061	194	4,351	12,410	2,060	239,030	32,797	13.7
China	91,773	-	44,558	9,763	9,457	13,540	5,738	23,188	100	7,468	2,074	14,588	13,626	1,620	237,494	71,328	30.0
ROK	24,910	81,653	-	4,610	6,229	6,425	3,544	9,525	72	4,026	326	5,394	5,145	707	152,568	34,758	22.8
Thailand	16,571	11,806	2,652	-	3,337	6,667	2,611	8,421	83	3,098	3,039	1,818	4,384	531	65,018	48,447	74.5
Indonesia	21,972	8,746	8,908	3,147	-	4,502	1,668	13,415	49	853	218	3,619	3,036	523	70,656	41,507	58.7
Malaysia	14,241	11,646	5,806	8,502	4,074	-	2,173	24,744	346	1,758	279	5,129	4,553	674	83,925	73,569	87.7
Philippines	7,318	14,620	1,619	1,820	570	2,636	-	4,946	11	250	23	97	530	82	34,521	26,494	76.7
Singapore	14,854	26,513	8,736	11,312	24,901	35,536	5,079	-	574	5,459	1,064	7,673	10,186	1,393	153,280	153,280	100.0
Brunei	2,070	196	839	117	1,344	69	1	200	-	-	0	1	750	199	5,785	2,766	47.8
Vietnam	4,927	2,260	740	822	579	1,287	960	1,500	-	-	721	115	3,657	87	17,655	8,869	50.2
CLM	338	307	63	2,621	17	177	2	165	0	172	1	527	47	1	4,437	3,524	79.4
India	3,660	9,518	1,906	1,478	1,681	1,212	533	4,440	39	768	162	-	946	148	26,490	5,917	22.3
Australia	23,570	15,106	8,992	3,226	3,335	2,110	769	3,421	21	1,105	74	6,568	-	6,536	74,833	13,184	17.6
New Zealand	2,303	1,220	881	284	399	323	334	346	67	158	4	218	4,598	-	11,134	5,228	47.0
<b>Total</b>	<b>228,507</b>	<b>277,544</b>	<b>135,593</b>	<b>70,373</b>	<b>63,446</b>	<b>87,887</b>	<b>32,432</b>	<b>113,702</b>	<b>1,460</b>	<b>29,176</b>	<b>8,180</b>	<b>50,097</b>	<b>63,867</b>	<b>14,563</b>	<b>1,176,826</b>	<b>521,667</b>	<b>44.3</b>

Notes: 1. Reticular cells are trades between FTA signatories.  
 2. Composition ratio is the ratio of exports between FTA signatories to total exports to ASEAN+6.  
 3. Trades between the ROK and all ASEAN member countries are counted, the FTA between India and Thailand is only in the Early Harvest stage but the total trade value was counted.  
 4. The CLM countries are Cambodia, Lao PDR and Myanmar.  
 Source: IMF, "DOT May 2007."

**Fig. II-12 Intra-regional trade within major regions of the world**

		1980	1985	1990	1995	1999	2000	2005	2006
Asia	ASEAN + 6 (adjusted for re-exports)	-	-	-	-	40.6	42.1	44.2	43.3
	ASEAN + 6	34.6	34.8	33.7	40.8	38.9	40.5	43.1	42.7
	ASEAN + 3	30.2	30.2	29.4	37.6	35.4	37.3	38.9	38.4
	ASEAN	17.9	20.3	18.8	24.0	23.8	24.7	27.2	27.2
	ASEAN + China	16.4	17.4	17.0	20.6	20.1	21.0	21.3	21.6
	ASEAN + India	17.4	18.7	18.1	23.5	23.4	24.4	26.9	26.8
ASEAN + Japan	24.6	20.6	22.4	29.1	26.2	27.8	27.6	27.2	
North America	NAFTA	33.8	38.7	37.9	43.1	48.5	48.8	46.1	44.2
Europe	EU25	61.3	59.8	67.0	67.4	68.6	66.8	66.4	66.1
	EU27	61.6	59.9	67.1	67.7	69.0	67.3	67.2	66.9

Notes: 1. ASEAN + 6 is the ASEAN countries plus Japan, China, the ROK, Australia, New Zealand, and India.  
 2. ASEAN + 3 is ASEAN plus Japan, China, and the ROK.  
 3. Adjustments for re-exports among the ASEAN + 6 (adjusted for re-exports) were made as follows: For Hong Kong, a non-member of the ASEAN + 6, the value of exports from the ASEAN + 6 to ASEAN + 6 via Hong Kong trade statistics. Exports from China to China via Hong Kong were regarded as domestic trade and excluded. For Singapore, instead of the total value of exports to the ASEAN + 6, using Singapore trade statistics, the value of exports calculated as re-exports to ASEAN + 6 countries was excluded from total exports to ASEAN + 6 countries; the resulting figure is regarded as exports of Singapore origin and used. The same method was used to calculate its world export figure. In addition, of exports from other ASEAN + 6 countries to Singapore, a given percentage was regarded as being re-exported to non ASEAN + 6 countries. The ratio of re-exports to non ASEAN + 6 countries in Singapore's total imports (converted to FOB by multiplying by 0.9) was calculated for each calendar year, and that ratio multiplied by the value of Source: IMF, "DOT May 2007."

## FTAs Advancing Step-by-Step in Asia

**Original ASEAN members have eliminated tariffs on 76% of categories and lowered almost all tariffs to no more than 5%.**

As a result of the Common Effective Preferential Tariff (CEPT) scheme for lowering tariffs for trade inside the ASEAN Free Trade Area (AFTA), as of 2007, original ASEAN members have eliminated tariffs on 75.7% of all categories of goods. Tariffs on the remaining 22.4% have been lowered to 5% or less.

### Utilization of CEPT accounts for 23.5% of all exports from Thailand and Malaysia

In 2006 the total value of exports from Thailand and Malaysia taking advantage of CEPT was \$8.4 billion (this excludes Singapore, which had never imposed tariffs on anything except alcohol). This figure accounted for 23.5% of all exports from the two countries to ASEAN, excluding Singapore. If we look at breakdowns by destination country, the highest proportion of CEPT utilization was for exports to Vietnam, where the share of exports falling under CEPT was 42.4% for both Thailand and Malaysia. Given that Vietnam's simple average most favored nation (MFN) tariff rate had been a high 16.8%, the January 2006 reduction for most products to the AFTA's 0-5% level significantly expanded use of the CEPT advantage.

**Fig. II-13 CEPT tariff reductions (2007)**

(Number of categories, %)

	Number of categories	Products on the inclusion list (IL)										Temporary exclusion list (TEL)	General exception list (GEL)	SL/HSL
		Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio			
Thailand	8,301	8,301	100.0	8,288	99.8	4,513	54.4	3,775	45.5	13	0	0	0	0
Malaysia	12,593	12,504	99.3	12,439	98.8	9,785	77.7	2,654	21.1	34	31	0	89	0
Indonesia	8,732	8,619	98.7	8,619	98.7	5,730	65.6	2,889	33.1	0	0	0	96	17
Philippines	11,490	11,444	99.6	11,369	98.9	8,149	70.9	3,220	28.0	75	0	0	27	19
Singapore	10,705	10,705	100.0	10,705	100.0	10,705	100.0	0	0.0	0	0	0	0	0
Brunei	10,702	10,598	99.0	9,924	92.7	8,444	78.9	1,480	13.8	674	0	0	104	0
ASEAN countries	62,523	62,171	99.4	61,344	98.1	47,325	75.7	14,018	22.4	796	31	0	316	36
Vietnam	10,689	10,523	98.4	10,285	96.2	5,478	51.2	4,807	45.0	238	0	0	166	0
Laos	10,690	10,389	97.2	9,960	93.2	629	5.9	9,331	87.3	429	0	0	98	203
Cambodia	10,689	10,454	97.8	5,301	49.6	603	5.6	4,698	44.0	5,153	0	0	181	54
Myanmar	10,689	10,611	99.3	9,325	87.2	365	3.4	8,960	83.8	1,286	0	0	51	27
CLMV	42,757	41,977	98.2	34,871	81.6	7,075	16.5	27,796	65.0	7,106	0	0	496	284
Total	105,280	104,148	98.9	96,215	91.4	54,401	51.7	41,814	39.7	7,902	31	0	812	320

Notes: 1. Products on the inclusion list (IL) are subject to tariff reductions.

Products on the temporary exclusion list (TEL) are temporarily shielded from tariff reductions (preparations for reductions are not complete).

General exception list (GEL) items are generally excluded from tariff reductions (defense-related categories, items of scholarly value, etc.).

SL: The sensitive list items (unprocessed agricultural products, for which a flexible approach to transfer to the IL is taken).

HSL: Highly sensitive list items (rice-related).

2. The number of items is based on ASEAN Harmonized Tariff Nomenclature 2002 (AHTN 2002), except for Indonesia and Thailand, for which AHTN 2007 was used.

3. These calculations assume that tariffs on all items slated for tariff elimination in the eleven priority sectors for integration have been entirely eliminated.

4. The items for which tariffs exceed 5% include items for which specific duties rather than ad valorem duties apply. "Other" is 31 items on which Malaysia applies a special tax.

5. 2007 shifts to the IL included Brunei's transfer of items from the GEL and Malaysia, Thailand, and the Philippines from the SL. Vietnam, which had delat

6. The CLMV countries are Cambodia, Lao PDR, Myanmar, and Vietnam.

Source: ASEAN Secretariat.

**Fig. II-14. AFTA (CEPT) utilization rates in Thailand and Malaysia**

(%)

Trading partner		1998	2000	2002	2003	2004	2005	2006
Total for Thailand and Malaysia	Vietnam	0.8	5.3	12.8	30.3	33.3	38.3	42.4
	Philippines	9.3	10.9	18.2	24.9	29.6	33.2	31.9
	Indonesia	5.0	10.5	15.0	20.6	27.1	33.9	29.6
	Malaysia	11.9	12.7	20.4	20.7	22.1	22.4	20.5
	Thailand	3.9	6.8	11.3	13.0	16.0	16.2	14.9
	Brunei	0.1	0.1	1.1	0.7	0.8	1.3	3.3
	Laos	0.0	0.0	0.0	0.9	3.1	2.8	2.3
	Myanmar	0.0	0.0	0.0	0.4	0.6	0.6	0.4
	Cambodia	0.0	0.1	0.1	0.0	0.0	0.1	0.1
	<b>Total (exclusive of Singapore)</b>	<b>5.6</b>	<b>8.4</b>	<b>13.7</b>	<b>18.4</b>	<b>22.2</b>	<b>24.6</b>	<b>23.5</b>
Thailand	<b>Total (exclusive of Singapore)</b>	<b>7.4</b>	<b>11.5</b>	<b>17.7</b>	<b>23.0</b>	<b>27.5</b>	<b>30.0</b>	<b>28.2</b>
Malaysia	<b>Total (exclusive of Singapore)</b>	<b>3.8</b>	<b>5.6</b>	<b>9.8</b>	<b>13.2</b>	<b>16.4</b>	<b>18.5</b>	<b>18.4</b>

Note: The CEPT usage rate is value of exports using CEPT/total value of exports.

Source: Ministry of International Trade and Industry, Malaysia and Ministry of Commerce, Thailand and trade statistics of Thailand and Malaysia.

## FTAs Advancing Step-by-Step in Asia

**Utilization of FTAs between ASEAN countries and China remains limited, but the trend is upward (for Thailand and Malaysia, the total is 10.6%)**

Turning now to FTAs between ASEAN countries and China, in 2006, Thailand's exports to China totaled US\$11.8 billion. Exports using FTAs were \$1.5 billion or 12.3% of the total. That was, however, twice the 6.7% posted in 2005. This reflects not only Early Harvest scheme (HS01-08 categories), but also the start of additional tariff reductions for non-agricultural products from July 2005. In the case of Malaysia, 2006 utilization of FTAs accounted for 8.9% of total exports, up dramatically from 2.9% in 2005. Of total exports for both countries, utilization of FTAs rose from 4.8% in 2005 to 10.6% in 2006.

If we look at trade between ASEAN and China after the FTA went into effect, comparing 2006 figures with those from 2003 before the FTA went into effect, we see little change in the total; however, the share of ASEAN in Early Harvest trade has risen.

Fig. II-15 FTA utilization in Thailand and Malaysia

(US\$ million, %)

		Trading partner	2005	2006
Thailand	Value of exports using an FTA	China	614	1,450
		Australia	2,122	2,746
		India	267	328
		ASEAN (exclusive of Singapore)	4,942	5,299
		<b>Total</b>	<b>7,944</b>	<b>9,824</b>
	FTA utilization rate	China	6.7	12.3
		Australia	67.3	62.6
		India	17.6	18.1
		(The 82 Early Harvest items only)	79.0	89.1
		ASEAN (exclusive of Singapore)	30.0	28.2
<b>Total</b>	<b>26.3</b>	<b>26.7</b>		
Malaysia	Value of exports using an FTA	China	274	1,045
		ASEAN (exclusive of Singapore)	2,731	3,150
		<b>Total</b>	<b>3,005</b>	<b>4,194</b>
	FTA utilization rate	China	2.9	8.9
		ASEAN (exclusive of Singapore)	18.5	18.4
<b>Total</b>	<b>12.5</b>	<b>14.5</b>		
Total	Value of exports using an FTA	China	888	2,495
		ASEAN (exclusive of Singapore)	7,673	8,449
		<b>Total</b>	<b>8,561</b>	<b>10,944</b>
	FTA utilization rate	China	4.8	10.6
		ASEAN (exclusive of Singapore)	24.6	23.5
<b>Total</b>	<b>17.2</b>	<b>18.4</b>		

Note: The utilization rate is value of exports using an FTA/total value of exports.  
Source: Ministry of International Trade and Industry, Malaysia and Ministry of Commerce, Thailand and trade statistics of Thailand and Malaysia.

Fig. II-16. Major ASEAN trade categories with China

(US\$ million, %)

Category	Exports				Category	Imports			
	2003		2006			2003		2006	
	Value	% of all external trade	Value	% of all external trade		Value	% of all external trade	Value	% of all external trade
Electrical equipment	7,195	8.1	19,360	8.5	Electrical equipment	17,248	16.6	39,914	18.2
General machinery	6,360	7.6	12,636	6.8	General machinery	8,203	11.5	14,186	13.0
Textiles & textile products	3,627	4.9	7,071	5.1	Chemicals	7,237	12.8	13,808	13.5
Iron & steel	1,107	8.6	6,406	12.3	Mineral fuel	5,511	19.2	7,160	8.1
Chemicals	2,814	9.1	6,045	9.0	Animal, vegetable oils and fats and cleavage products	1,675	19.2	2,813	23.0
EH (agricultural and fisheries products)	694	8.4	1,303	10.7	EH (agricultural and fisheries products)	567	13.9	1,207	19.4
Total	30,935	7.1	71,325	7.4	Total	47,350	11.5	89,538	11.3

Notes: 1. EH stands for "Early Harvest" (HS01-08).  
2. The % of all external trade is the ratio of ASEAN exports (or imports) to total world exports (or imports) of items in this category.  
Source: China Foreign Trade Statistics.

# FTAs Advancing Step-by-Step in Asia

## Utilization of the FTA between Thailand and India was 18%, for only 82 categories

The Thailand-India FTA implemented in September 2004 applied to only 82 Early Harvest categories. Step-by-step reduction of tariffs resulted in their complete elimination in September 2006. While only some categories of products were covered by this agreement, it attracted strong interest among Japanese companies since its implementation, and it is known that the FTA reversed the balance of trade between the two countries. Until 2004, Thailand had always had a trade deficit with India. Starting in 2005, the balance shifted to surplus. Among the categories affected, exports of color TV sets, TV tubes, air conditioners and polycarbonates from Thailand to India expanded dramatically. Imports of gear boxes, an item in the automotive parts category, from India to Thailand, also experienced dramatic growth. In 2006, Thai exports to India covered by the FTA totaled \$300 million. While only 82 categories are covered by the agreement, this amounted to 18.1% of all Thai exports to India. Among exports in the Early Harvest categories, it accounted for 89.1% of exports from India to Thailand, meaning that the majority utilized the FTA. Since most exports to India are not toward export processing units but intended to satisfy domestic demand in India, most make use of the FTA instead of the in-bond system and other exemption schemes for export processing units.

## Thailand-Australia FTA expands trade in finished vehicles

In 2006, exports covered by the FTA accounted for 62.7% of the \$2.7 billion of exports from Thailand to Australia. Looking at trends after the Thailand-Australia FTA went into effect, we find growth in automotive exports from Thailand to Australia particularly noteworthy. Australia had levied tariffs of 5% on commercial vehicles and 5-10% on passenger cars, but the FTA eliminated these duties. In 2005, after the FTA went into effect, Australia's imports of commercial vehicles from Thailand rose to \$1.2 billion (up 78.6%) while passenger car imports rose to \$200 million (up 124.5%). In 2006, commercial vehicles imports declined slightly, to \$1.1 billion, but passenger cars imports rose to \$500 million (up 128.5%). Thailand's share of Australia's commercial car imports rose from 25.3% in 2005 to 32.0% in 2006, while passenger cars' share rose sharply from 1.1% to 4.8%. In 2005, Thailand surpassed Japan to become the single largest source of imported commercial vehicles for Australia.

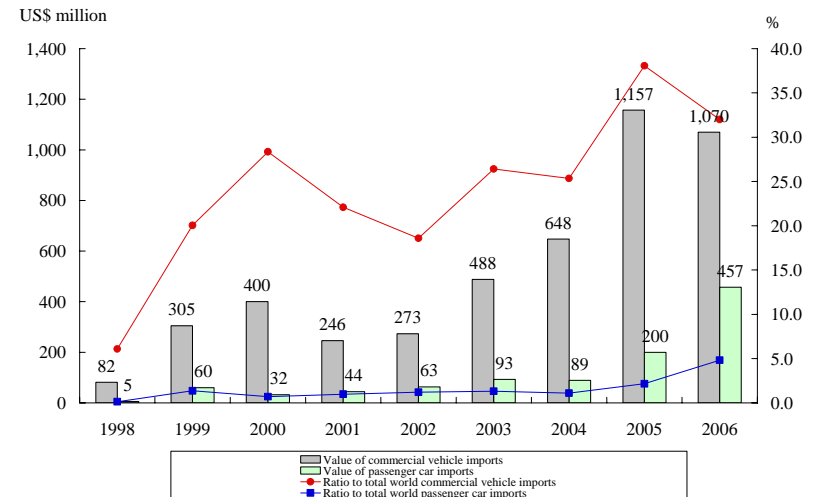
Fig. II-17. Top five by value of trade among the 82 Thailand-India Early Harvest categories

		(US\$ million, %)				
	Category	2003	2004	2005	2006	Annual average growth rate, 2004-2006
Exports	Color TVs	0	43	96	125	70.5
	Polycarbonates	11	17	112	52	77.6
	CRTs for TVs	0	5	21	32	160.1
	Air conditioners	9	8	16	28	90.4
	Epoxy resins	3	5	11	16	80.1
	EH total	66	146	338	368	58.7
	Total exports	639	905	1,519	1,815	41.6
Imports	Gear boxes	0	4	30	40	206.1
	Ferrous and non-metal products	30	36	6	12	-41.7
	Cocks, valves, etc.	1	2	4	6	84.3
	Anodized aluminum	2	4	6	6	16.0
	Other polyester	0	1	2	6	151.8
	EH total	73	70	88	101	20.0
	Total exports	877	1,138	1,275	1,625	19.5
	Balance of trade	-239	-233	244	190	-

Note: EH stands for Early Harvest.

Source: Thai trade statistics.

Fig. II-18 Australian imports of automobiles from Thailand



Note: Passenger cars are HS code 8703; commercial vehicles HS code is 8704.  
Source: Australian trade statistics.

## Rules of Origin an issue for FTAs in Asia

### Five types of Asia-Pacific rules of origin

At present, rules of origin in ASEAN+6 FTAs already in effect currently come in five types: (1) value added-criteria, (2) change in tariff classification criteria, (3) a choice of criteria (either value added or change in tariff classification), (4) dual criteria (both value added and change in tariff classification) and (5) manufacturing process criteria. Ordinarily, the dual criteria type is the strictest, the choice of criteria type the most flexible.

The value added-criteria used in AFTA, the FTA between ASEAN and China normally require more than 40% of cumulative added value. Change in tariff classification criteria is used in the FTA between Thailand and Australia, the EPA between Japan and Singapore, and the FTA between Singapore and ROK. The choice of criteria type used in the EPA between Japan and Malaysia allows use of four or six-digit HS codes or 40% or more of cumulative value added. The dual criteria type used in the Thailand-India FTA, the Singapore-India CECA require both a change in tariff classification and 40% or more of cumulative added value. The manufacturing process criterion is used in FTAs between China and Hong Kong and China and Macao.

**Fig. II-19 Rules of origin in major FTAs in the Asia-Pacific region**

	FTA	Rules of origin
Value added-criteria	ASEAN Free Trade Agreement (AFTA)	40% or more of cumulative added value. For iron and steel products and some other categories, the change in tariff classification criteria is applied.
	China-ASEAN	40% or more of cumulative added value.
	Singapore-New Zealand	40% or more of cumulative added value.
	Singapore-Australia	50% or more of cumulative added value. (For some categories, 30% or more.)
	Australia-New Zealand	50% or more of cumulative added value.
Change in tariff classification criteria	Japan-Singapore	Change in tariff classification criteria (at 4-digit HS level) But for 264 categories, the choice of a change in tariff classification or 60% or more of cumulative added value applies (to be reduced to 40% in the future).
	Thailand-Australia	Change in tariff classification criteria (at 4-digit or 6-digit HS level) But for some categories, a cumulative added value criteria also applies.
	Thailand-New Zealand	Change in tariff classification criterion (at 4-digit or 6-digit HS level) But for some categories, a cumulative added value criteria also applies.
	Singapore-ROK	Change in tariff classification criteria (at 4-digit or 6-digit HS level) But for some categories, a cumulative added value criteria also applies.
Choice of criteria	Japan-Malaysia	Either the 40% or more of cumulative added value criteria or the change in tariff classification (at 4-digit or 6-digit HS level)
	ASEAN-ROK	Either the 40% or more of cumulative added value criteria or the change in tariff classification (at 4-digit HS level) criteria.
Dual criteria	Thailand-India (only the 82 Early Harvest items)	Both the 40% or more of cumulative added value criteria and the change in tariff classification (at 6-digit HS level) criteria must be met. But for some items only the change in tariff classification (at 4-digit or 6-digit HS level) or only the added value criteria applies.
	Singapore-India	Both the 40% or more of cumulative added value criteria and the change in tariff classification (at 4-digit or 6-digit HS level) criteria must be met. For a fairly large number of items, however, only the change in tariff classification criteria is applied.
Manufacturing process criteria	China-Hong Kong	The manufacturing process criteria applies in a majority of cases, but the change in tariff classification (at 4-digit HS level) and 30% or more added value criteria are applied to some categories.
	China-Macao	The manufacturing process criteria applies in a majority of cases, but the change in tariff classification (at 4-digit HS level) and 30% or more added value criteria are applied to some categories.

Note: The above rules of origin are those provided in the FTA to apply to a majority of categories; there are exceptions, depending on category.  
Source: FTA agreements



**Japan External Trade Organization**

## Chapter III

Keeping Pace with

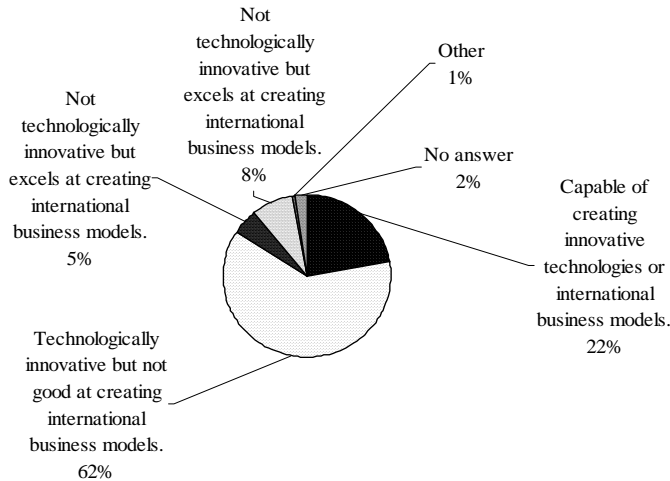
Changing Global Business Trends

## Creation of a New International Business Model is challenging

70% of companies find it difficult to create an international business model

According to the results of a March-May 2007 JETRO survey of Japanese companies' competitive strengths and business development, of 1,605 Japanese manufacturing companies (467 effective answers), 84% claim to possess the capability to develop innovative technology. 70%, however, find it difficult to create an international business model that uses their technology in a profitable manner (Fig. III-1). Sectors in which this issue is particularly observed, with more than 80% experiencing difficulty, are lumber, wood products, furniture, construction materials, paper and pulp (90%) and electrical equipment/communication equipment, electronic components and devices (83.4%).

**Fig. III-1 Innovative capacity of Japanese corporations (single answer, N= 467)**



Source: JETRO survey on Japanese firms' international competitiveness and business development, March-May, 2007.

**Fig. III-2 Innovativeness by industry type (single answer, N = 467)**

	Number of companies	Capable of creating innovative technologies and international business models.	Technologically innovative but not good at creating international business models.	Not technologically innovative but excels at creating international business models.	Not technologically innovative but excels at creating international business models.	Other
Total	467	22.3	61.9	4.9	8.1	0.6
Large corporations	189	19.6	69.3	5.3	3.2	1.1
Smaller corporations	278	24.1	56.8	4.7	11.5	0.4
Foodstuffs and beverages	45	20.0	66.7	4.4	4.4	-
Textiles and textile products, apparel	19	21.1	68.4	5.3	5.3	-
Lumber, wood products, furniture, construction materials, paper, pulp	10	10.0	80.0	-	10.0	-
Chemicals	41	22.0	65.9	4.9	7.3	-
Drugs, medicines, cosmetics	16	12.5	75.0	12.5	-	-
Petroleum and coal products, plastic and rubber products	29	17.2	65.5	3.4	6.9	-
Ceramic, stone, and clay products	15	33.3	53.3	-	13.3	-
Ferrous and nonferrous metals, metal products	39	28.2	43.6	2.6	20.5	-
General machinery	56	19.6	67.9	1.8	7.1	1.8
Electrical equipment	42	28.6	61.9	7.1	-	-
Communication equipment, electronic components and devices	30	16.7	76.7	-	6.7	-
Automobiles and parts, other transpo equipment	45	24.4	48.9	8.9	13.3	2.2
Precision parts	29	20.7	48.3	13.8	13.8	-
Other manufacturing industries	51	25.5	62.7	3.9	5.9	2.0

Source: JETRO survey on Japanese firms' international competitiveness and business development, March-May, 2007.



# Electronics Manufacturers Addressing Modularization

## Electronics Industry Products and Component Standardization

The proportion of communications equipment, electronic components and device producers who say that their overseas business environment is worse than five years ago has reached 43.3%. In the same industry category, 69.2% think that modularization, the standardization of products and components, is driving prices down (Fig. III-4). In addition, 53.8% mention competitors from other countries catching up in technology. These factors are not causing shrinking demand for high performance, high value-added products, and Japanese brand power is not weakening. But semiconductors, which are part of the electronics components and devices industry, show how Japanese manufacturers' share of the world market is shrinking year after year.

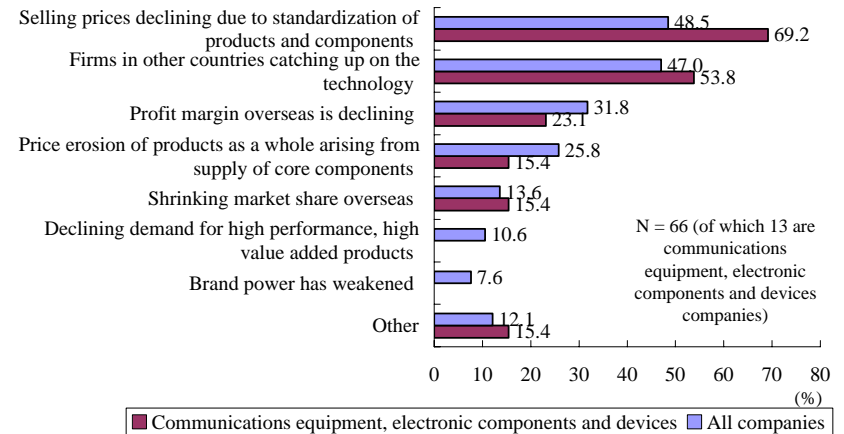
**Fig. III-3 Changes in the overseas business environment, compared with five years ago (by industry, N= 467)**

Rank	Industries reporting improvement	Industries reporting worsening	Industries reporting no change
1	General machinery (80.4%)	Communications equipment, electronic components and devices (43.3%)	Lumber, wood products, furniture, construction materials, paper, pulp (50.0%)
2	Automobiles, parts, other transport equipment (71.1%)	Textiles and textile products, apparel (21.1%)	Ceramic, stone and clay products (33.3%)
3	Textiles and textile products, apparel (68.4%)	Precision parts (20.7%)	Drugs, medicines, cosmetics (31.3%)
4	Chemicals (68.3%)	Electrical equipment (14.3%)	Petroleum and coal products, plastic and rubber products (27.6%)
5	Ferrous and nonferrous metals, metal products (66.7%)	Petroleum and coal products, plastic and rubber products (13.8%)	Electrical equipment (23.8%)

Note: The percentages in parentheses are the proportion of replies by companies in each industry. Please refer to Fig. -2 for number of respondents.

Source: JETRO survey on Japanese firms' international competitiveness and business development, March-May, 2007.

**Fig. III-4 Reasons given for a worsening environment**



Source: JETRO survey on Japanese firms' international competitiveness and business development, March-May, 2007.

## Semiconductor Manufacturer Global Rankings

### Only two from Japan are in the top ten

In 1990, six Japanese companies were among the top 10 in market shares of the global semiconductor market. In 2006 there were only two.

**Fig. III-5 Rankings of semiconductor manufacturers by sales**

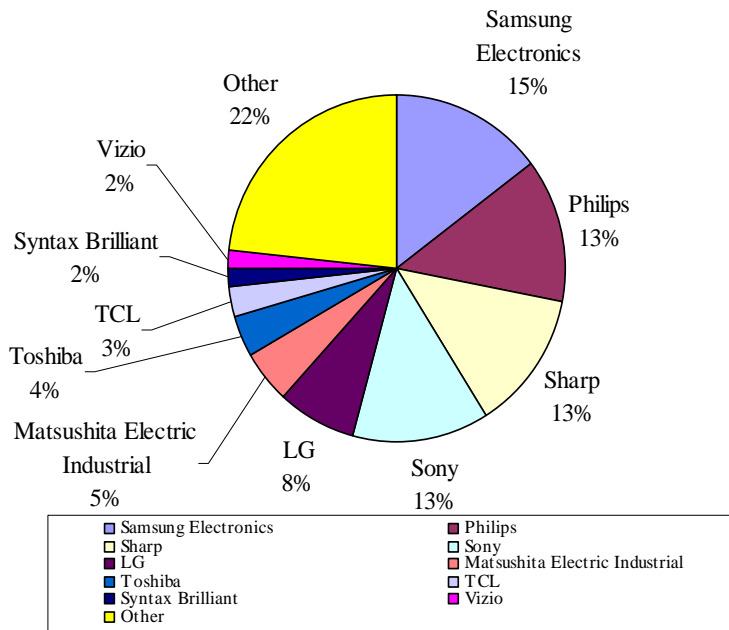
1990				2006			
Rank	Company	Country	Sales (US\$ 1 million)	Rank	Company	Country	Sales (US\$ 1 million)
1	NEC Semiconductors	Japan	4,774	1	Intel	U.S.A.	31,542
2	Toshiba Semiconductors	Japan	4,579	2	Samsung Electronics	ROK	19,842
3	Intel	U.S.A.	4,019	3	Texas Instruments	U.S.A.	12,600
4	Motorola Semiconductors	U.S.A.	3,802	4	Toshiba	Japan	10,141
5	Hitachi Semiconductors	Japan	3,765	5	STMicroelectronics	France-Italy	9,854
6	Texas Instruments	U.S.A.	2,738	6	Renesas technology	Japan	7,900
7	Fujitsu Semiconductors	Japan	2,705	7	Hynix	ROK	7,865
8	Mitsubishi Semiconductors	Japan	2,303	8	AMD	U.S.A.	7,506
9	Matsushita Semiconductors	Japan	2,037	9	Freescale Semiconductor	U.S.A.	5,988
10	Philips Semiconductors	Netherlands	2,022	10	NXP	Netherlands	5,874
11	National Semiconductors	U.S.A.	1,602	11	NEC Electronics	Japan	5,679
12	Samsung Semiconductors	ROK	1,473	12	Qimonda	Germany	5,413
13	SGS-Thomson	France-Italy	1,362	13	Micron technology	U.S.A.	5,210
14	Sanyo Semiconductors	Japan	1,462	14	Infineon Technologies	Germany	5,119
15	Sharp Semiconductors	Japan	1,218	15	Sony	Japan	4,852
16	Siemens Semiconductors	Germany	1,263	16	Qualcomm	U.S.A.	4,529
17	AMD	U.S.A.	1,226	17	Matsushita Electric	Japan	4,022
18	Sony Semiconductors	Japan	1,196	18	Broadcom	U.S.A.	3,668
19	OKI Semiconductors	Japan	981	19	Elpida Memory	Japan	3,527
20	Rohm	Japan	934	20	Sharp Electronics	Japan	3,341

## Digitalization Driving Prices Down

Lower prices also affecting digital home electronics

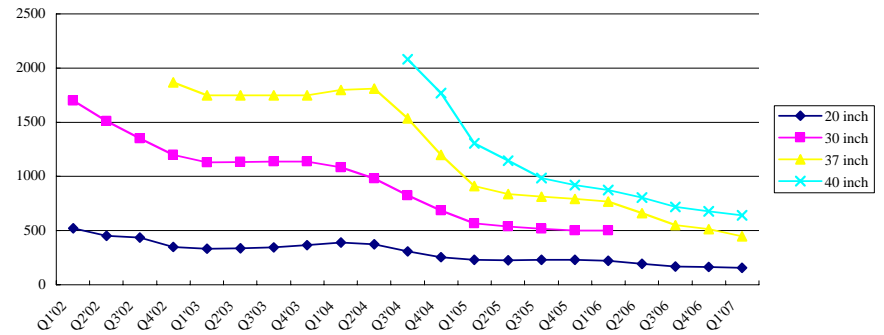
As in the case of semiconductors, digital home electronics manufacturers are seeing prices fall worldwide. The “Japan brand” continues to stand for high performance and high value-added, but year after year, developing country manufacturers and such US-based fabless manufacturers as Syntax Brilliant and Vizio are eating into their global market share. The majority of these manufacturers assemble semiconductors and panels procured from external suppliers.

**Fig. III-6 2006 global LCD TV market share by manufacturer (unit base)**



Note: The 2002 global market shares were Sharp 60%, Matsushita 8%, Sony 5%. (Nikkei Market Research survey).  
Source: iSuppli

**Fig. III-7 Prices of panels for LCD TVs**



Source: DisplaySearch

**Fig. III-8 Selling prices of large-screen TVs in Japan and the U.S.A.**

(40-49 inch; April, 2007)

	\$1,499 or less	\$1,500-1,999	\$2,000-2,699	\$2,700-3,299	\$3,300-3,999	\$4,000 or more
U.S.A.						
Best Buy	13 models	10 models	9 models	4 models	0 models	0 models
Japan	¥179,999 or less	¥180,000~239,999	¥240,000~323,999	¥324,000~395,999	¥396,000~479,999	¥480,000 or more
Yamada Denki	0 models	0 models	2 models	13 models	4 models	19 models

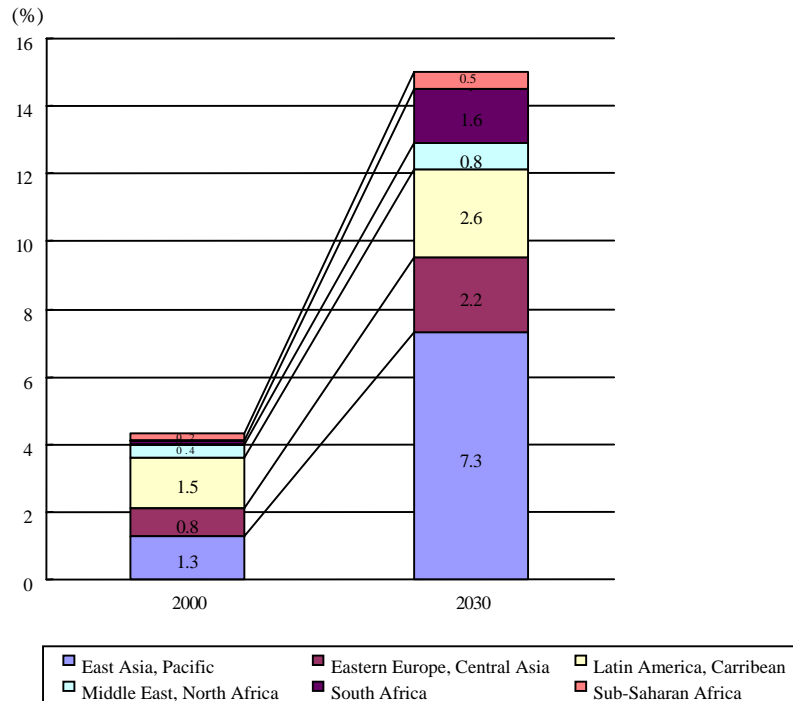
Note: The table covers LCD and plasma televisions.  
Source: Each company's website.

# Virtuous Cycle of Developing Country Growth

## Japanese firms' long-term growth strategies target growing middle class in developing countries

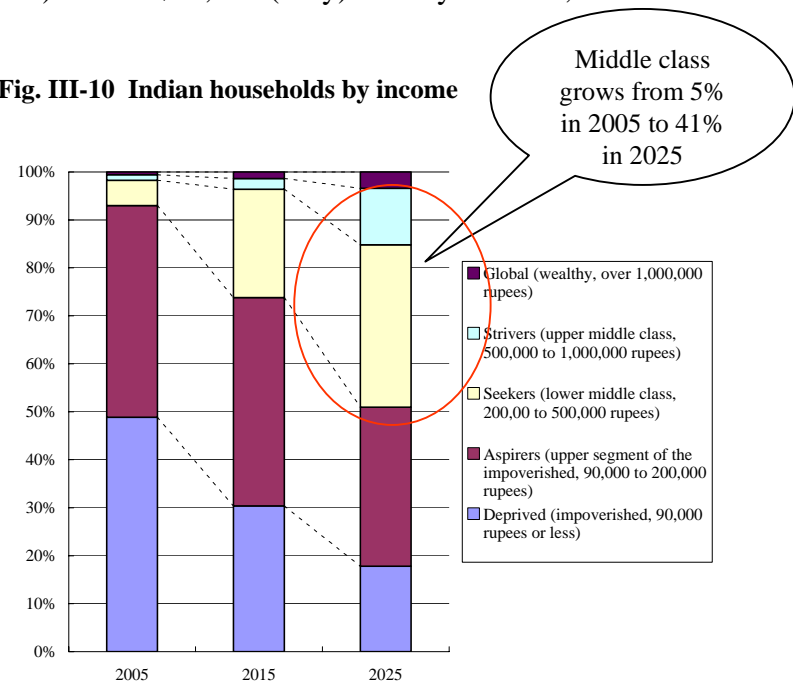
As Japanese companies prepare for the arrival of an aging society and declining birthrate, efforts to ensure stable growth not only include retention and expansion of established markets in Europe and the US, but also stress the importance of virtuous cycles of growth in developing countries. Since, however, developing countries differ in consumption patterns and culture, each country requires its own approach. Since Japanese companies focus on high performance, high value-added products, they tend to target high-income segments of developing country markets. The middle class is, however, expanding along with economic growth in all of the BRICs. It is thus vital to construct business models that include this segment as well. According to the World Bank projections, global economic development will result in an increase in the world's middle class population from 400 million in 2000 to 1.2 billion in 2030. By 2030, the global middle class, with average purchasing power equivalent to between US\$4,000 (Brazil) and US\$17,000 (Italy) in the year 2000, will account for 15% of the world's total population.

**Fig. III-9 Developing country share of global middle class**



Source: "Global Economic Prospects 2007", World Bank.

**Fig. III-10 Indian households by income**



Source: "The Bird of Gold: The Rise of India's Consumer Market", McKinsey & Company.

## From High-end to Middle Market

### Target Markets Changing

Developing country markets include a variety of income groups, whose consumption characteristics differ. It is, thus, essential for companies entering developing markets to define clearly what their target market segments are.

One possibility is to target market segments previously not included within the scope of a company's strategy. Broadening a company's target may, for example, involve a shift from high-end to middle-income segments.

For example, in China's cell phone market, Nokia has been strengthening sales in regional cities and rural areas. In cosmetics, P&G had been focused on bringing its Olay brand to the mass-market since 1999. In recent years, with consumer incomes increasing, the company has been successful in building solid product lines in the middle and higher price segments.

In China's cities, durable goods penetration has outstripped that in rural areas (for cell phones the ratio is 153:63, for air conditioners 88:7). Consumer demand in rural areas offers high growth potential.

**Fig. III-11 Average household income trends in China's cities (US\$)**

	Proportion	2000	2005	Growth rate, % (2000 ~ 2005)
Highest Income	90 ~ 100%	359	839	133.7
High income	80 ~ 90%	274	509	85.8
Upper middle income	60 ~ 80%	225	386	71.6
Middle income	40 ~ 60%	187	297	58.8
Lower middle income	20 ~ 40%	154	226	46.8
Low income	10 ~ 20%	125	170	36.0
Lowest income	0 ~ 10%	96	115	19.8
(impoverished)	0 ~ 5%	85	94	10.6

Source: *China Statistical Yearbook*.

**Fig. III-12 Chinese household durable goods ownership**

(Average units owned/100 households)

	Urban			Rural		
	2000	2006	Average growth rate (2000-2006)	2000	2006	Average growth rate (2000-2006)
Color TV	116.6	137.4	2.8	48.7	89.4	10.7
Refrigerator	80.1	91.8	2.3	12.3	22.5	10.6
Washing machine	90.5	96.8	1.1	28.6	43.0	7.0
Air conditioner	30.8	87.8	19.5	1.3	7.3	33.8
Cell phone	19.5	152.9	43.5	4.3	62.7	57.7
Computer	9.7	47.2	30.9	0.5	2.7	33.2
Camera	38.4	48.0	3.8	n.a.	n.a.	n.a.
Family car	0.5	4.3	44.0	n.a.	n.a.	n.a.
Motorcycle	18.8	25.3	5.1	21.9	44.6	12.6

Source: *China Statistical Abstract 2007*.

## From High-end to Middle Market, continued

### In Brazil, over half of households are targets for the mid-range market.

Typical families in Brazil have multiple wage earners. Thus, companies usually take monthly income per household as their criterion in marketing. In 2005, 52.3% of all Brazilian households were in the income category regarded as a target for mid-range goods, while 35.6% were in the low-end market range. Both grew significantly between 2003 and 2005: households in the mid-range market category by 11.6% and those in the low-end category by 22.4%.

For Turkey, looking at the average distribution of disposable income per household, we find that households in the upper 60-80% stratum (middle incomes, Fig. III-14) had grown by 3.6% between 1994 and 2005, while households in the 40-60% stratum had grown by 3.2%.

**Fig. III-13 Households for each market in Brazil**

(1,000 households)			
	2002	2005	Growth (%)
Households that are targets for the high-end market (over 10 times the minimum wage)	6,306	5,485	-13.0
Households that are targets for the mid-range market (over 2 to 10 times the minimum wage)	24,885	27,763	11.6
Households that are targets for the low-end market (less than 2 times the minimum wage, including those with no income)	15,455	18,912	22.4
Other (unknown; no income declaration filed)	961	935	-2.7
All households	47,606	53,095	11.5

Source: The Brazilian Institute of Geography and Statistics.

**Fig. III-14 Disposable income by stratum in Turkey (94-2005)**

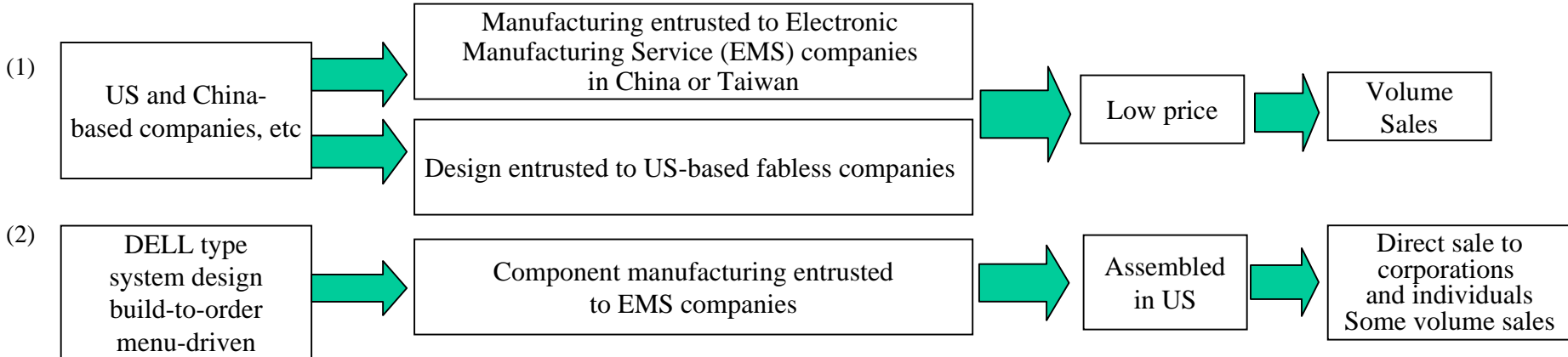
	Year	All income levels	Income level strata, at 20% intervals				
			Poorest	⇒			Richest
Distribution of household disposable income by stratum (%)	1994	100.0	4.9	8.6	12.6	19.0	54.9
	2003	100.0	6.0	10.3	14.5	20.9	48.3
	2005	100.0	6.1	11.1	15.8	22.6	44.4
Average disposable income per family (US\$)	1994	5,542	1,346	2,391	3,494	5,272	15,207
	2003	7,212	2,162	3,708	5,219	7,548	17,423
	2005	10,865	3,287	6,018	8,602	12,278	24,139

Source: The Turkish Statistical Institute.

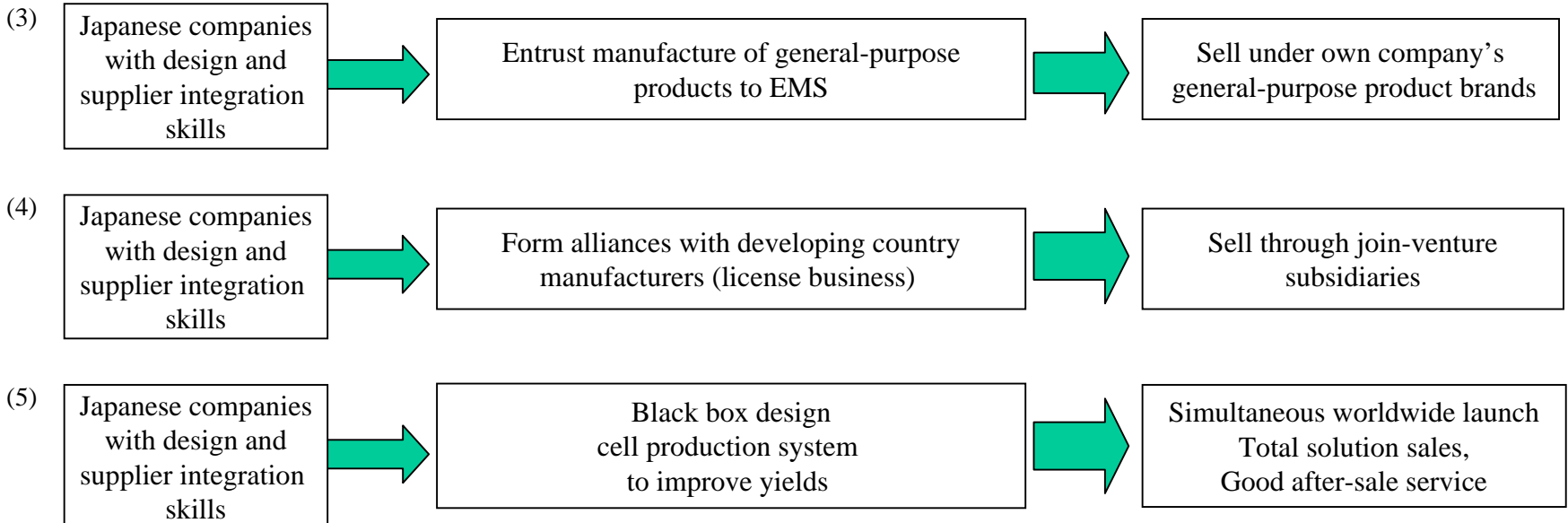
# Modular Design and Process Integration (Digital Home Electronics)

## 1. Digital Home Electronics

### *Overseas Manufacturers*



### *Japanese Manufacturer Options*

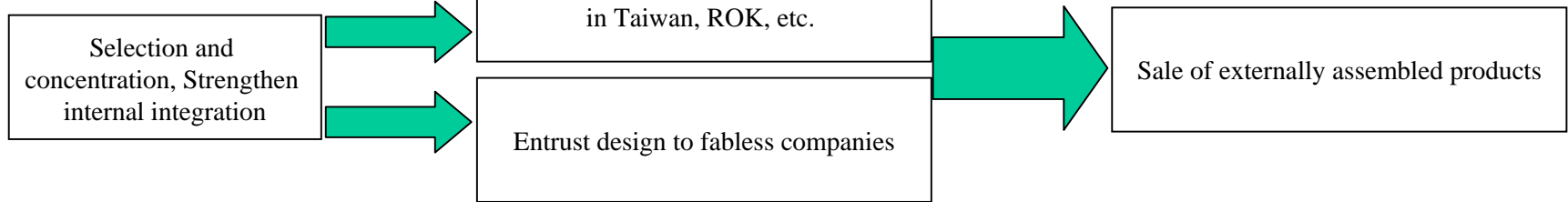


## Modular Design and Process Integration (Semiconductors)

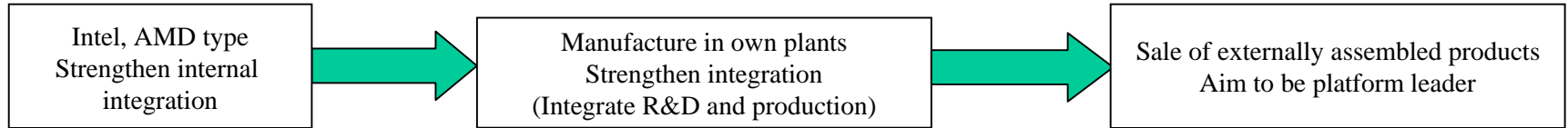
### 2. Semiconductors

#### *Overseas Manufacturers at present*

(1)

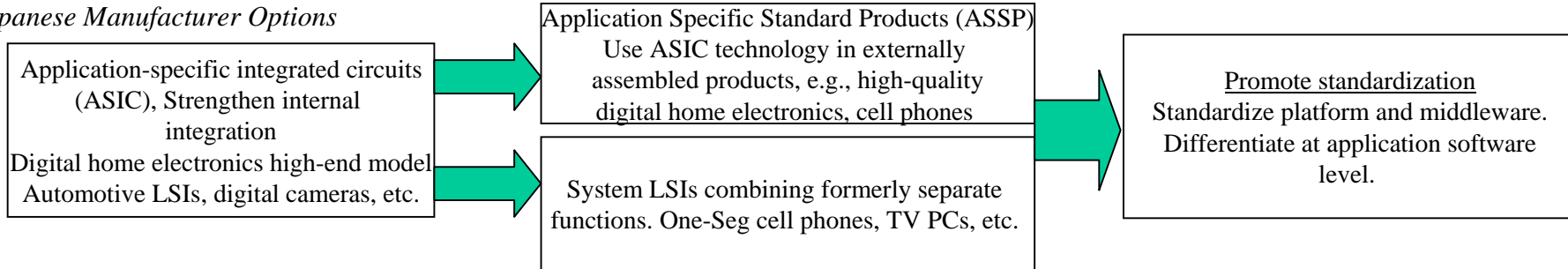


(2)

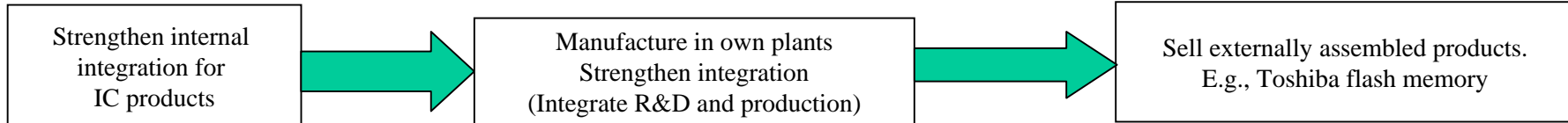


#### *Japanese Manufacturer Options*

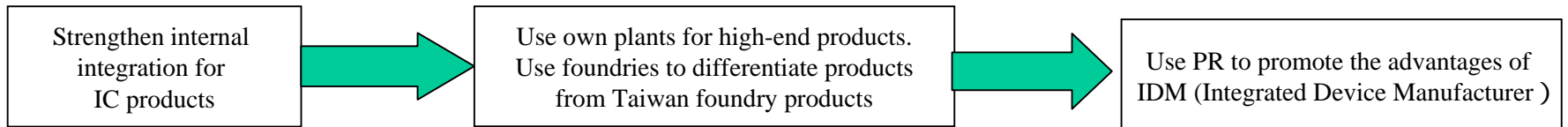
(3)



(4)



(5)

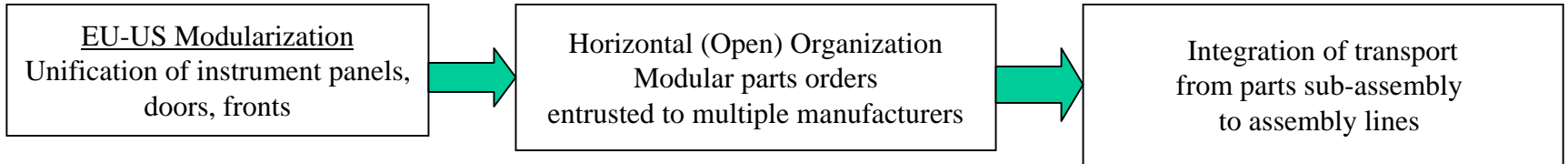




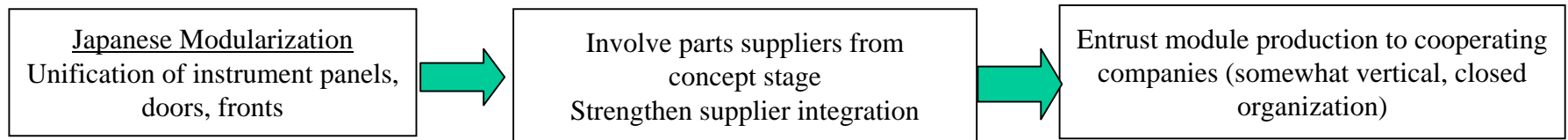
# Modular Design and Process Integration (Automotive)

## 3. Automotive

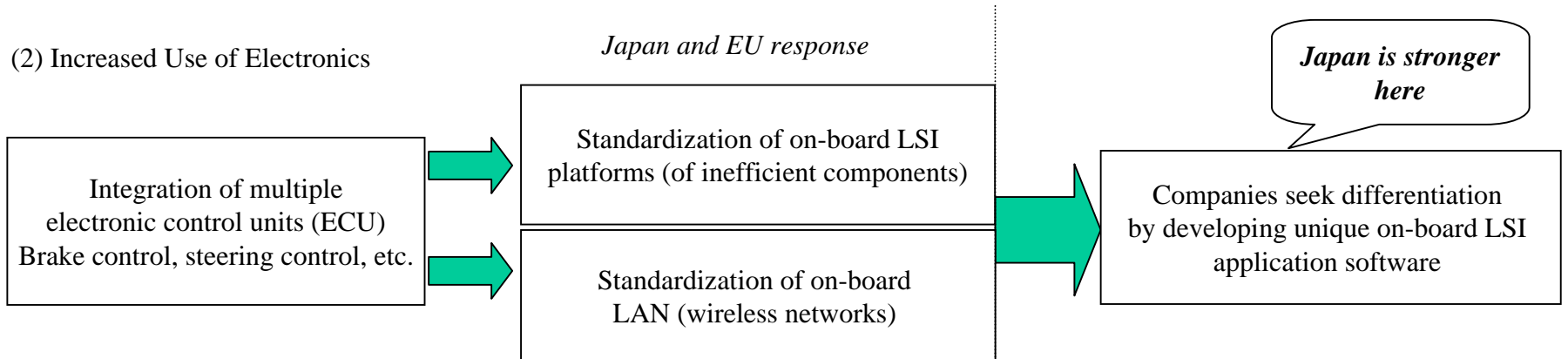
### (1) Mechanical Parts Modularization (Overseas manufacturers at present)



### Japanese Manufacturer Options



### (2) Increased Use of Electronics

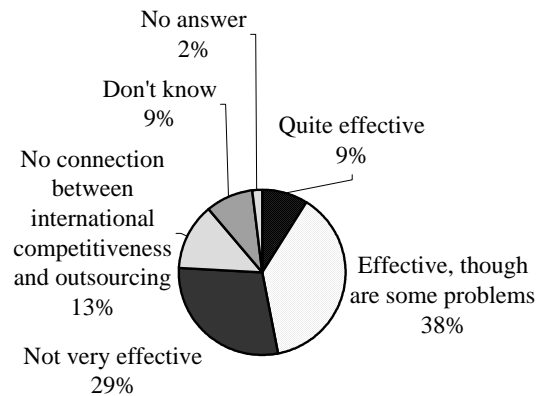


# Overseas Outsourcing Strategies

## Use of overseas outsourcing strategies

International business models should include overseas outsourcing strategies. According to a JETRO survey, 47% of companies see overseas outsourcing as an effective strategy, albeit with some problems, while 29% find it ineffective. By industry, 43% of companies in the telecommunications equipment and electronic components and devices sector answered “ineffective.” The most often cited reasons were risk of technology outflow (69%), problems with quality and delivery schedule (62%), and low value added (31%). Business alliances may help to reduce technology outflow and low quality problems. Restricting outsourcing to product assembly may be another solution.

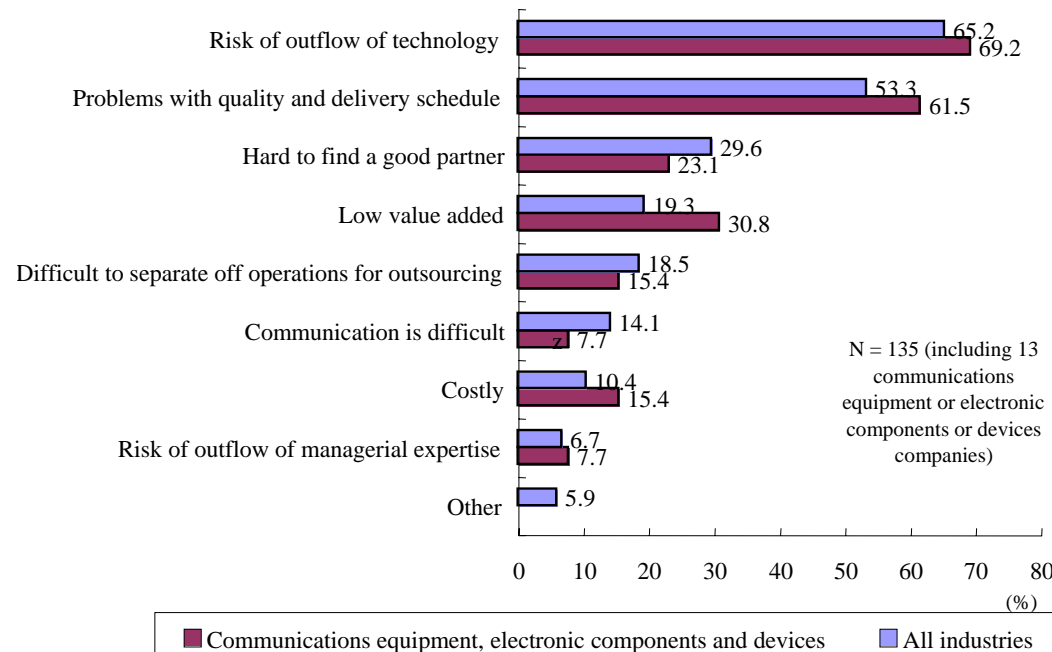
Fig. III-15 Effectiveness of overseas outsourcing (SA, N= 467)



Source: JETRO survey on Japanese firms' international competitiveness and business development, March-May 2007.

Fig. III-16 Reasons for not outsourcing overseas

(Telecommunications equipment/Electronic components and devices, MA)



Source: JETRO survey on Japanese firms' international competitiveness and business development, March-May 2007.

# Aggressively Promote Product Quality and Employ Local Personnel

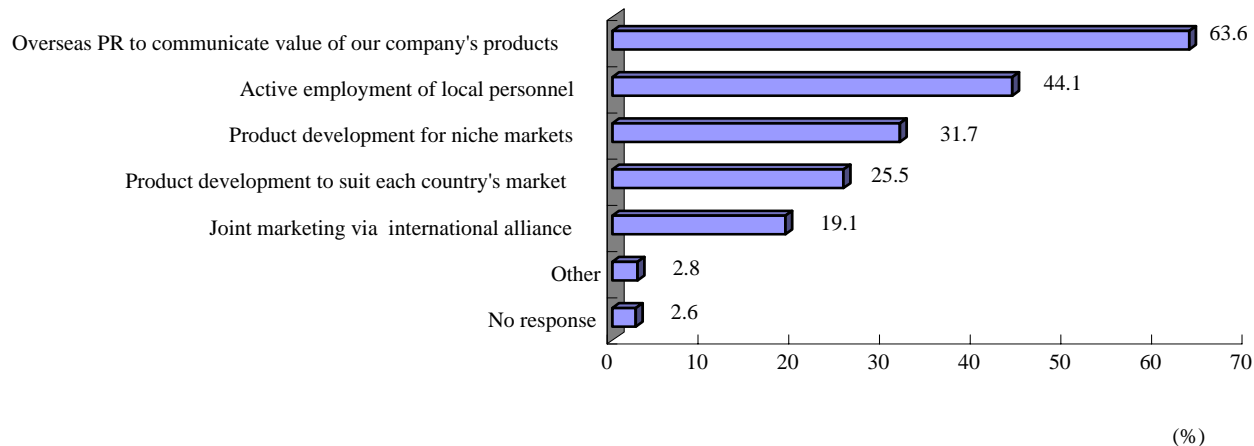
## Overseas Promotion of Product Value

When it comes to marketing directions to maintain and increase international competitiveness, 64% of companies recognize the importance of overseas PR to promote the quality of their products. There are also cases in which differences in culture or thinking make it difficult to communicate the manufacturer's intentions to overseas consumers or companies. In the case of digital home electronics, increasing digitalization has made it increasingly difficult to achieve differentiation through features. Thus companies are beginning to offer flat screen TVs and DVD recorders, PCs and digital cameras as total solutions, instead of pouring effort into selling individual products.

## Local Employees

In addition, 44% of companies say that they are aggressively recruiting local employees as part of their efforts to open new markets. Use of local employees with insight into national and local markets has become an essential component of overseas marketing activities.

**Fig. III-17 Future strategies for expanding overseas market share (MA, N= 467)**



Source: JETRO survey on Japanese firms' international competitiveness and business development, March-May 2007.