

10 Foreign Trade and Investment

Balance of Payments

Japan's Balance of Payments

(¥ billion)

	Current account			Financial account	Capital balance
	Total	Trade	Services		
1997	11,436	12,310	- 6,542	- 35,187	- 488
1998	15,758	15,984	- 6,455	- 12,552	- 1,931
1999	12,174	14,016	- 6,151	10,347	- 1,909
2000	12,876	12,563	- 5,134	- 1,452	- 955
2001	10,652	8,527	- 5,315	343	- 346
2002	14,140	11,733	- 5,264	322	- 422
2003	15,767	12,260	- 3,904	1,280	- 467
2004	18,618	13,902	- 3,706	- 21,390	- 513
2005	18,259	10,335	- 2,642	- 13,550	- 549

Source: Ministry of Finance.

Balance of Payments of Major Countries

(US\$ billion)

	Current account					Capital and financial account
	Total	Goods	Services	Income	Current transfers	
Japan	172.06	132.13	- 37.90	85.70	- 7.88	- 143.15
Germany	103.77	189.97	- 51.26	0.28	- 35.23	- 136.22
China	68.66	59.98	- 9.70	- 3.52	22.90	- 95.49
Korea (ROK)	27.61	38.16	- 8.77	0.73	- 2.50	- 30.36
France	- 4.83	- 7.94	12.79	12.08	- 21.76	3.49
UK	- 41.88	- 107.30	37.01	48.03	- 19.62	25.45
USA	- 668.07	- 661.93	44.35	30.44	- 80.93	582.94

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook*, 2005.

Note: Figures are for 2004.

Exchange Rate

After the Plaza Accord reached by the finance ministers and central bank governors of the Group of Five industrial nations in New York in September 1985, the yen appreciated from over ¥240 to the dollar in that month to under ¥120 in January 1988. It continued to climb, reaching a record ¥80 to the dollar in April 1995. After that it began to depreciate. On August 11, 1998, the yen was traded at ¥147.64 on the Tokyo foreign exchange market, but it began to appreciate sharply, reflecting confusion of the international financial market in the latter half of that year. In 2001,

as misgivings about the future of the Japanese economy increased, the yen quickly fell at the turn of the year. Eventually the yen weakened, with the dollar climbing above ¥130 at the end of December for the first time in about three years. After staying in the range of ¥102–¥121 in 2005, the yen stayed weak throughout 2006 at the ¥114–¥119 level in December, although it appreciated sharply to the level of ¥109 once in May. The Japanese currency was being traded at ¥118.05 to the dollar and ¥157.35 to the Euro as of the end of March 2007.

Trends of Yen's Exchange Rate Against Major Currencies

(end of year)

	US dollar	UK pound	Euro ^a
1995	102.91	159.54	135.14
2000	114.90	171.83	107.87
2001	131.47	191.68	117.32
2002	119.37	192.98	125.72
2003	106.97	191.09	134.91
2004	103.78	199.49	140.96
2005	117.48	202.77	139.70
2006	118.92	232.98	156.98

Source: Bank of Japan.

a. ECU prior to January 1999.

Foreign Trade

In the most striking development in Japan's international trade in 2004, China, including Hong Kong, replaced the United States as Japan's largest trading partner, the first time since the statistics started in 1947. This trend continued in 2006, and according to data released by the Finance Ministry in March 2007, Japan's two-way trade with China in 2006 reached ¥28.99 trillion, up 16.2% over 2005, exceeding that with the United States of ¥24.84 trillion. China accounted for 20.3% of Japan's international trade in 2006, topping 20% for three consecutive years. Japan's exports to China in 2006 amounted to ¥15.03 trillion, an increase of 17.4% over the previous year. Imports from China also rose by 14.9% to ¥13.96 trillion, with a sharp increase in computers.

The emergence of China as Japan's largest trading partner underscores, among other things, the growing dependence of Japanese manufacturers on China for the production of their exports. Exports to the whole of Asia climbed 12.5% to ¥35.78 trillion, while imports from Asia also jumped 16.1% to ¥29.36 trillion. Exports to the United States increased 14.7% to ¥18.09 trillion, and imports from that country also rose 11.8% to ¥7.91 trillion. The volume of trade with the EU went up only 10.8% to ¥17.87 trillion (¥10.91 trillion in exports and ¥6.96 trillion in imports).

Japan's overall exports and imports reached record high levels in 2006, with exports rising 14.6% to ¥75.25 trillion, backed by exports of automobiles to the

United States and electronics parts to Asia. Imports also jumped 18.3% to ¥67.34 trillion.

Economic Partnership Agreements (EPAs)/Free Trade Agreements (FTAs)

In recent years the Japanese government has been actively seeking bilateral free trade agreements with selected countries, mainly in Asia, as a complement of the multilateral free trade framework centered on the World Trade Organization. Since the agreements embrace more than trade matters, for instance, investment and labor, the government calls them Economic Partnership Agreements (EPAs).

Since Japan's first EPA was concluded with Singapore in November 2001, the Japanese government has signed EPAs with three other countries, Mexico, Malaysia, and the Philippines. Japan also reached basic agreements with Thailand in 2005 and Brunei, Indonesia, and Chile in 2006. It is currently conducting negotiations with the Republic of Korea, ASEAN (as an organization), Australia, Vietnam, the GCC (Cooperation Council for the Arab States of the Gulf), and India. The first round of negotiations with Switzerland will be conducted in the summer of 2007.

Total Exports and Imports (Customs Clearance Basis)

	Exports		Imports		Balance (¥ billion)
	Value (¥ billion)	Annual growth (%)	Value (¥ billion)	Annual growth (%)	
1995	41,531	2.6	31,549	12.3	9,982
2000	51,654	8.6	40,938	16.1	10,716
2001	48,979	- 5.2	42,416	3.6	6,564
2002	52,109	6.4	42,228	- 0.4	9,881
2003	54,548	4.7	44,362	5.1	10,186
2004	61,170	12.1	49,217	10.9	11,953
2005	65,657	7.3	56,949	15.7	8,707
2006	75,246	14.6	67,344	18.3	7,902

Source: Ministry of Finance.

Exports and Imports of Major Countries, 2005

(US\$ million)

	Exports	Imports
China	761,953	659,953
France	438,991	482,313
Germany	977,824	777,465
Japan	594,905	514,922
Korea (ROK)	284,419	261,238
UK	371,370	483,017
USA	907,000	1,732,000

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook 2006*.

Value of Japan's Exports by Destination and Commodity, 2005 (\$ million)

	Major categories							
	Total	Textiles	Chemical products	Metal and metal products	General machinery	Electrical machinery	Transport equipment	Precision instruments
USA	134,185	638	6,897	4,076	30,278	23,422	49,539	3,803
China	79,933	3,490	10,413	8,439	16,993	20,676	4,018	4,187
Korea (ROK)	46,643	418	8,491	6,912	8,418	11,258	1,303	2,910
Taiwan	43,693	353	7,357	4,216	9,239	10,131	3,031	3,645
Hong Kong	35,950	861	3,129	1,746	4,212	13,886	1,827	2,979
Thailand	22,486	291	2,161	4,307	5,647	5,156	2,342	409
Germany	18,665	154	1,209	432	4,054	5,702	3,509	1,058
Singapore	18,452	78	1,206	1,246	3,417	6,191	2,004	495
UK	15,098	78	827	531	3,567	3,146	4,827	408
Netherlands	13,137	56	982	201	5,676	2,692	1,180	472
World total	595,164	8,336	53,007	43,275	121,163	131,777	137,803	23,430

Source: Ministry of Economy, Trade and Industry.

Value of Japan's Imports by Source and Commodity, 2005 (\$ million)

	Major categories							
	Total	Food-stuffs	Raw materials	Mineral fuels	Chemical products	Machinery and equipment	Textiles	Metal and metal products
China	108,574	7,864	1,679	3,286	4,260	44,204	21,144	6,247
USA	64,185	13,313	3,561	1,212	8,046	30,265	550	1,741
Saudi Arabia	28,596	18	23	28,123	363	1	0	0
United Arab Emirates	25,199	7	8	24,914	0	3	1	212
Australia	24,485	4,207	4,937	12,294	262	187	10	1,351
Korea (ROK)	24,415	1,333	342	3,038	2,165	11,081	730	3,437
Indonesia	20,838	908	3,198	10,707	595	2,046	487	563
Taiwan	18,099	1,049	504	171	1,208	10,301	337	1,308
Germany	17,882	520	130	20	3,857	11,174	131	679
Thailand	15,587	2,361	1,023	264	914	7,292	461	688
World total	516,100	50,459	31,790	131,558	39,244	152,451	28,166	27,102

Source: Ministry of Economy, Trade and Industry.

Japan's Direct Investment Overseas

Japan's foreign direct investment in 2005 soared to the highest level in 15 years or since the bubble years, climbing 46.8% from the previous year to \$45.5 billion, according to the Japan External Trade Organization. Investment in the manufacturing sector accounted for \$26.1 billion, or 57.5% of the total direct investment abroad from Japan. Active investment by the automobile and related industries was a major factor. By destination, North America, Asia, and Latin America accounted for almost

entire expansion in Japan's foreign direct investment in 2005 as the buildup of automobile and electronics production bases progressed in North America and Asia.

Investment in Asia, where 35.6% of the total was made, jumped 53.4% to \$16.2 billion. Investment into China grew 12% to \$6.6 billion, but the growth rate was markedly lower compared with the 47.4% recorded in 2004. Investment into the ASEAN 10 countries rose 77.9% to \$5.0 billion, and that into Hong Kong, Taiwan, and the Republic of Korea rose 150% to \$4.3 billion, emerging as a leading force in Japanese foreign direct investment expansion.

Destination of Japan's Foreign Direct Investment

(US\$ million)

	2000	2003	2004	2005
North America	14,165	11,143	7,570	13,168
USA	14,112	10,831	7,527	12,126
Canada	58	312	43	1,042
Asia	2,173	4,961	10,552	16,188
China	937	3,982	5,868	6,575
Thailand	593	676	1,874	2,125
Korea (ROK)	1,082	332	771	1,736
Hong Kong	- 123	- 88	488	1,782
Indonesia	588	480	503	1,185
Europe	11,106	8,349	7,525	8,230
Netherlands	2,273	3,502	3,353	3,315
UK	6,801	2,463	1,628	2,903
France	292	1,145	26	541
Latin America	3,984	3,199	3,138	6,402
Cayman Islands	3,659	1,651	2,748	3,915
Brazil	-324	1,097	- 66	953
Oceania	290	1,127	1,862	943
Australia	161	952	1,653	640
Africa and Middle East	- 235	398	319	567
World total	31,556	28,895	30,968	45,461

Source: Japan External Trade Organization.

Note: Figures are based on balance of payments.

Local Hiring by Japanese Companies Overseas

(1,000 persons)

FY	1980	1985	1990	1995	2000	2005 ^a
Asia	405.3	529.1	676.0	1,236.3	2,038.2	3,052.6
North America	87.2	179.1	466.8	532.8	783.4	627.9
Europe	34.8	92.0	218.4	261.1	401.9	438.3
Latin America	124.1	146.1	115.1	112.1	138.2	158.0
Others	64.7	110.8	73.4	76.2	91.2	79.0
Total	716.1	1,057.1	1,549.7	2,218.5	3,452.9	4,355.8

Source: Ministry of Economy, Trade and Industry.

a. Preliminary figures.

Foreign Investment in Japan

Foreign direct investment in Japan in 2005 decreased 58.7% from the previous year to \$3.2 billion, according to the Japan External Trade Organization. By area of source, net direct investment from Asia increased 57.1% to \$1.6 billion, the largest source in the world. Investment from North America recorded a net outflow of \$636 million in 2005, in contrast with a \$2.2 billion net inflow in 2004. By industry, investment in the manufacturing sector recorded a net outflow of \$2.2 billion outflow; particularly notable was the decrease in investment in the electrical machinery, chemical and medical industries. Meanwhile, investment in the nonmanufacturing sector, notably transport and wholesale and retail, recorded a net inflow.

Foreign Direct Investment in Japan by Source

(\$ million)

	2000	2003	2004	2005
Netherlands	1,691	3,179	3,670	2,541
Hong Kong	569	38	298	960
Singapore	83	330	391	598
USA	- 976	- 612	1,370	308
Germany	1,932	1,751	1,162	237
UK	225	- 438	- 316	132
Korea (ROK)	48	- 97	249	31
France	2,277	655	1,067	- 78
Canada	1,036	26	881	- 944
World total	8,322	6,287	7,809	3,223

Source: Japan External Trade Organization.

Note: Figures are based on balance of payments.

Foreign Companies' Presence in the Japanese Market

FY	1995	2000	2003	2004
Sales volume (¥ billion)				
All industries	18,235 (1.2)	26,626 (1.9)	32,540 (2.4)	32,060 (2.3)
Manufacturing	11,923 (2.9)	18,345 (4.4)	19,303 (5.0)	18,775 (4.6)
Nonmanufacturing	6,312 (0.6)	8,282 (0.8)	13,237 (1.4)	13,286 (1.3)
Number of employees				
All industries	225,096 (0.6)	330,558 (0.8)	434,943 (1.0)	430,943 (1.0)
Manufacturing	163,135 (1.6)	240,327 (2.4)	236,217 (2.7)	229,154 (2.7)
Nonmanufacturing	61,961 (0.2)	90,231 (0.3)	198,726 (0.6)	201,733 (0.6)

Source: Ministry of Economy, Trade and Industry, *Gaishikei kigyō doko chosa* (Survey of Trends in Business Activities of Foreign Affiliates), 2005.

Note: Figures in parentheses show share of whole market (%).