

White Paper on International Economy and Trade

June 2021

Trade Policy Bureau

Ministry of Economy, Trade and Industry

What is the White Paper on International Economy and Trade?

Status

- The longest continuing annual METI white paper. This white paper is the 73rd publication.
- Submitted to the Cabinet every year.

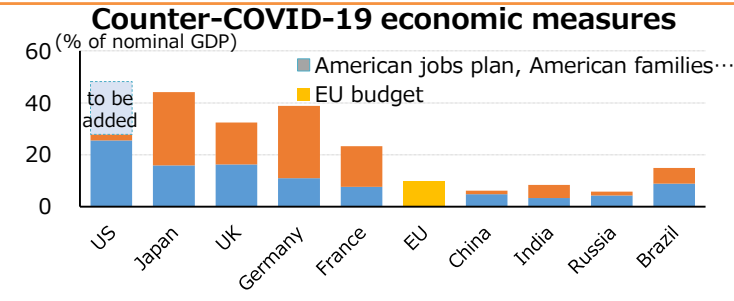
Purpose

- To contribute to the formation of trade strategies through the analysis of international economic trends and foreign policies that affect trade, and to provide the public with the ideas that form the basis of trade policy and directions.

The summary of the White Paper on International Economy and Trade

Global trend surrounding trade

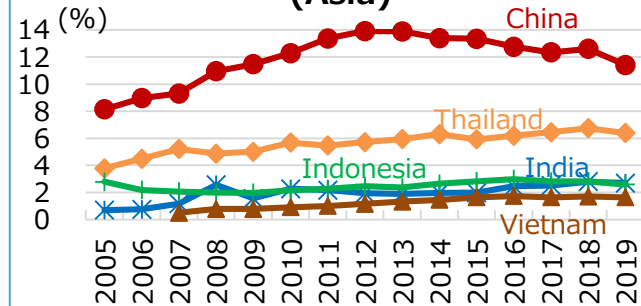
- Global trend 1: Expansion of government's economic roles
- Global trend 2: Strengthening economic security
- Global Trend 3: Sustainability considerations in economic activities
- Global trend 4: Digitalization of Business Activity



Building resilient supply chains

- Although China has a great share in global supply chain, the production sites have been diversified in other Asian countries.
- Digital technology is necessary to manage complicated supply chains.

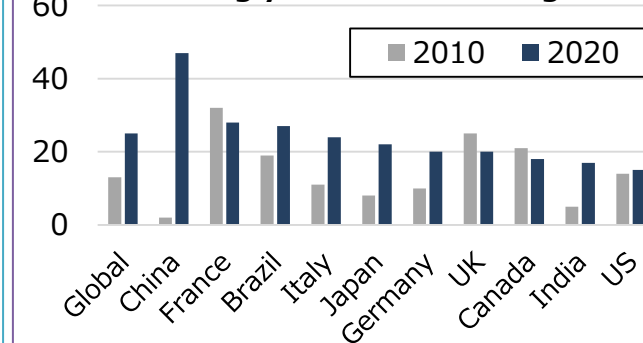
Japan's outstanding direct investment (Asia)



Meeting sustainable and inclusive growth needs

- Japanese companies need to understand the needs of sustainable growth in Asia and work together to solve social issues to create new business opportunities.

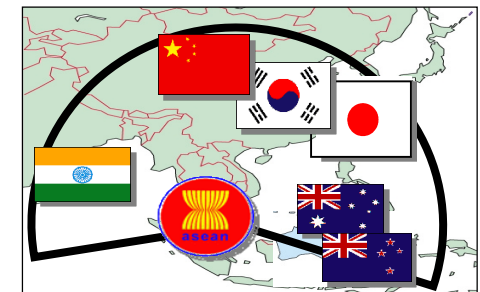
(%) **Climate change opportunities are increasingly embraced among CEOs**



Taking Measures toward Building a Trusted Global Value Chain

- Rule making and utilization in WTO, EPA
- Creating norms in fora such as OECD and APEC
- Creating a value chain that leverages Japan's strengths in the public and private sectors

Broadening regional integration



Part I. Global economy recovering from COVID-19

Chapter 1. Economic Situation Surrounding Japan and Trends that will shape Trade

Section 1. Global economy post COVID-19

Section 2. International trend that will shape trade

Chapter 2. Economic trends and Economic policies/growth strategies in major countries

Part II. Challenges Regarding Trade and How to Overcome Them

Chapter 1. Toward Building Resilient Supply Chains

Chapter 2. New Model for Growth That Incorporates Common Values

Chapter 3. Taking Measures toward Building a Global Value Chain with Trust

Part III. Policies

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Global economy shows divergent recovery

- **The real GDP growth rate of the world economy in 2021 is forecasted to be 6.0%, recovering from the decline in 2020.** The U.S. (6.4%), which implemented large-scale economic stimulus measures, and China (8.4%), which maintained a positive growth rate in 2020, will lead the global economic recovery, while Africa and Latin America are expected to see a sluggish recovery.
- By industry, the manufacturing industry in developed countries recovered quickly due to the return of demand for durable consumer goods (automobiles and home appliances) as a result of economic measures and the spread of remote-work, while the recovery of the face-to-face service industry will be sluggish, and the situation will continue to depend on the infection situation and the rollout and effectiveness of vaccines.

Real GDP Growth Rate Forecast by IMF

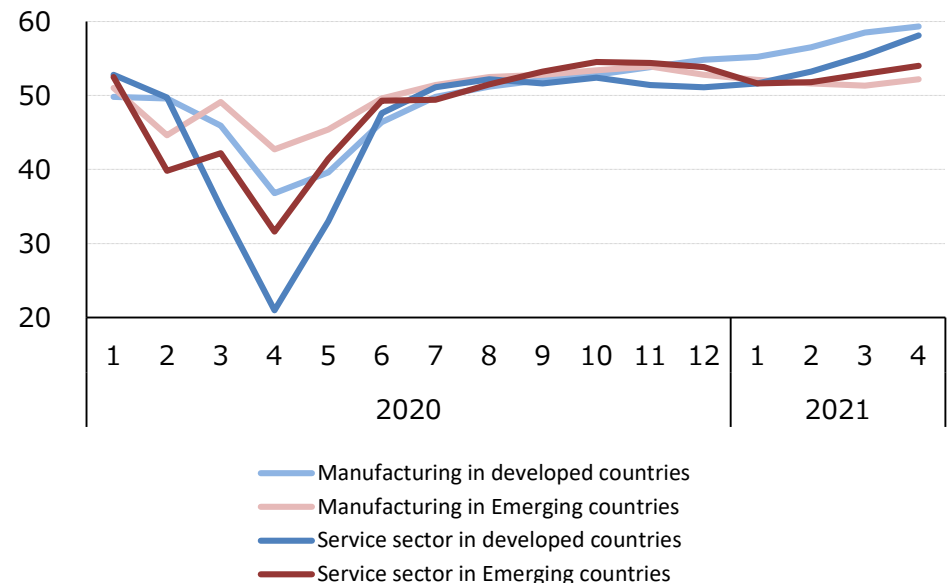
(%)	2020	2021	(%)	2020	2021
World	-3.3	6.0 (0.5)			
Advanced Economies	-4.7	5.1 (0.8)	Emerging and developing countries	-2.2	6.7 (0.4)
US	-3.5	6.4 (1.3)	Emerging and developing countries in Asia	-1.0	8.6 (0.3)
Germany	-4.9	3.6 (0.1)	China	2.3	8.4 (0.3)
France	-8.2	5.8 (0.3)	India	-8.0	12.5 (1.0)
Italy	-8.9	4.2 (1.2)	Emerging and developing countries in Europe	-2.0	4.4 (0.4)
Spain	-11.0	6.4 (0.5)	Russia	-3.1	3.8 (0.8)
Japan	-4.8	3.3 (0.2)	Emerging and developing countries in South America and the Caribbean	-7.0	4.6 (0.5)
UK	-9.9	5.3 (0.8)	Brazil	-4.1	3.7 (0.1)
Canada	-5.4	5.0 (1.4)	Emerging and developing countries in the Middle East and Central Asia	-2.9	3.7 (0.7)
Other developed countries	-2.1	4.4 (0.8)	Sub-Saharan Africa	-1.9	3.4 (0.2)

Note 1: Figures for 2020 are actual results; figures for 2021 are IMF projections.

Note 2: The figures in parentheses to the right of the projected figures for 2021 are the range of revisions from the previous January 2021 edition.

Source: Compiled from IMF World Economic Outlook April 2021.

PMIs for developed and emerging economies



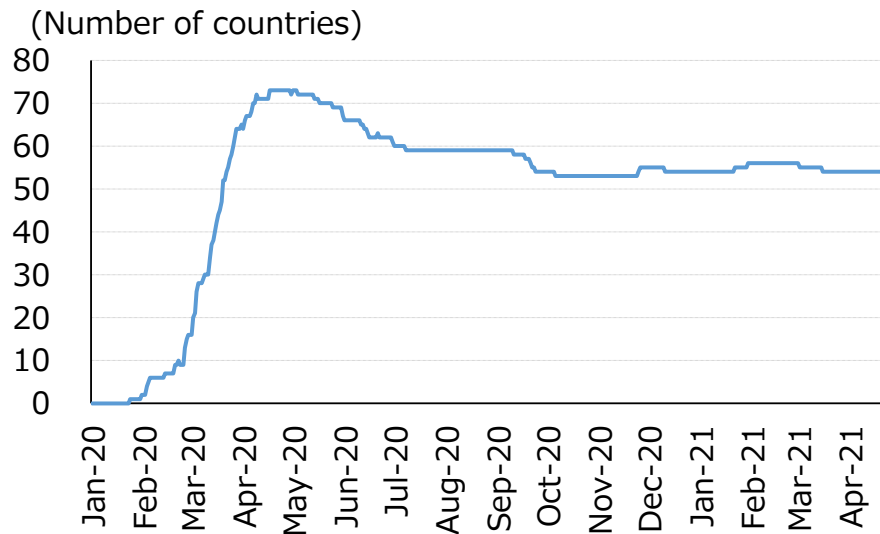
Note: A PMI above 50 indicates that a larger percentage of respondents answered that "the economy has expanded compared to the previous month."

Source: Compiled from IHS Markit.

Global trade volume will recover despite restrictive policies

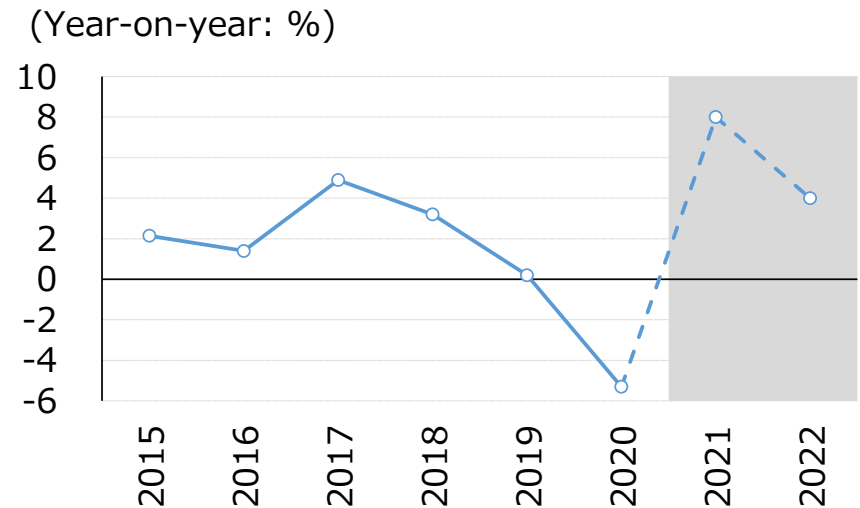
- **COVID-19 related trade restrictions in medical sector remain** though supply bottlenecks have eased for some items like face masks. More than 70 countries imposed export curbs on medical sector in 2020. **More than 50 countries still maintain those curbs** according to the most recent data.
- However, **recovery in global trade volume in 2021 will more than compensate for the decline in 2020.**

No. of countries imposing medical sector export curbs



Note: Data as of May 2021.
Source: Global Trade Alert "21st Century Tracking of Pandemic-Era Trade and Investment Policies in Food and Medical Products".

Global trade volume outlook

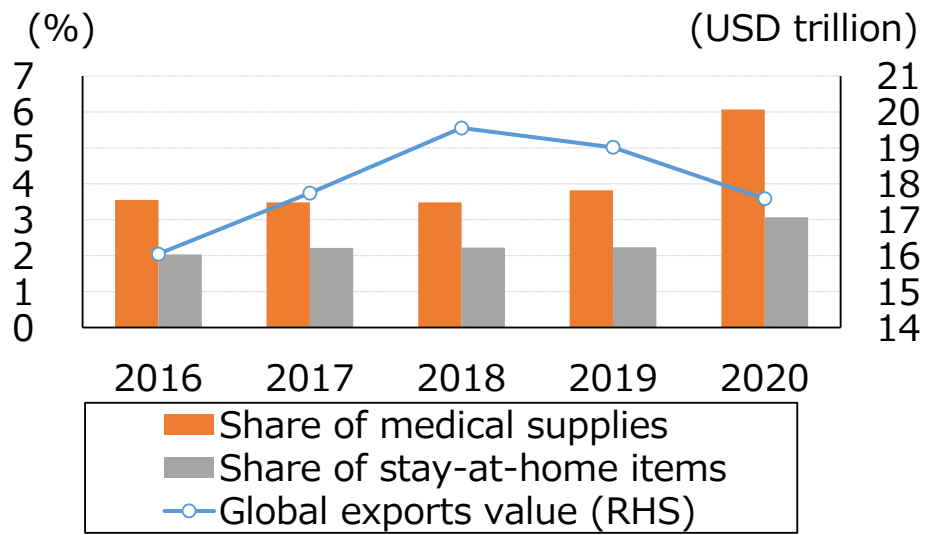


Note 1: Forecast as of March 2021.
Note 2: Average of exports and imports growth.
Note 3: Numbers for 2021 and 2022 are forecasts.
Source: WTO.

COVID-19 and stay-at-home items supported trade in 2020

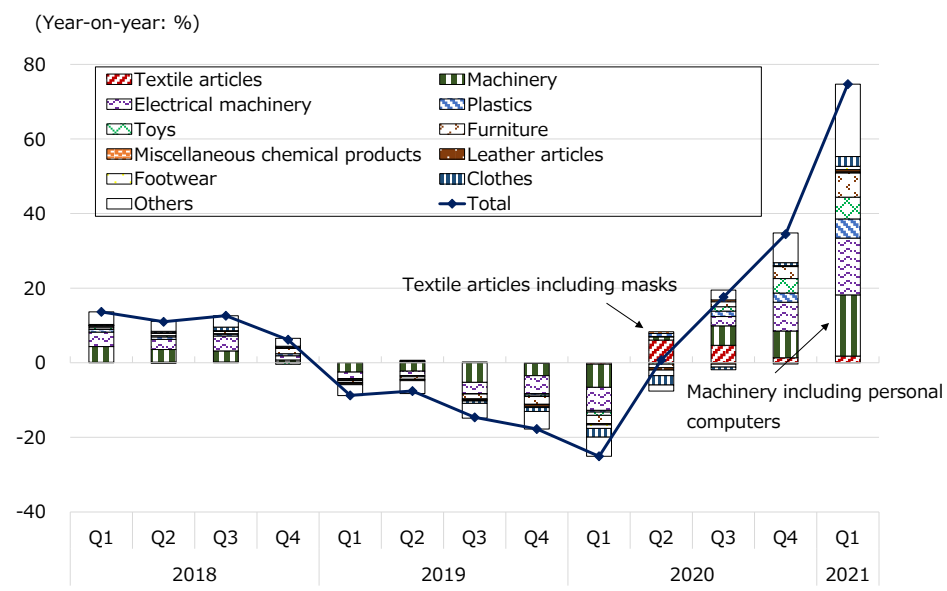
- Global trade value declined in 2020. However, **trade share of medical supplies sharply increased and that of stay-at-home items slightly increased**, supporting global trade value in 2020.
- US-China trade value increased on year-on-year basis. **China's exports of COVID-19 related items to the US also increased.**

Global exports value and shares of medical supplies and stay-at-home items



Note 1: Medical supplies include medical equipment, medicine, antiseptics, wet tissues, face masks etc.
Note 2: Stay-at-home items include microphones, headphones, earphones, PC monitors, PC projectors, PCs, Videogame consoles etc.
Source: WTO, UN Comtrade.

China's exports to the US

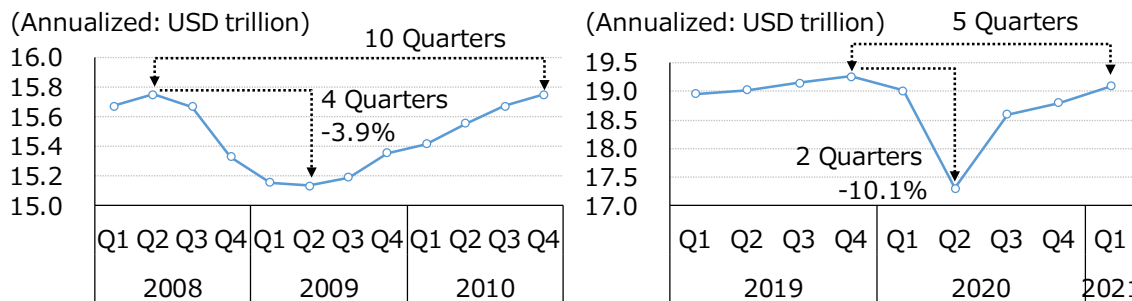


Note: Major contributors (both positive and negative) to 2020 exports growth on 2-digit HS codes.
Source: Global Trade Atlas.

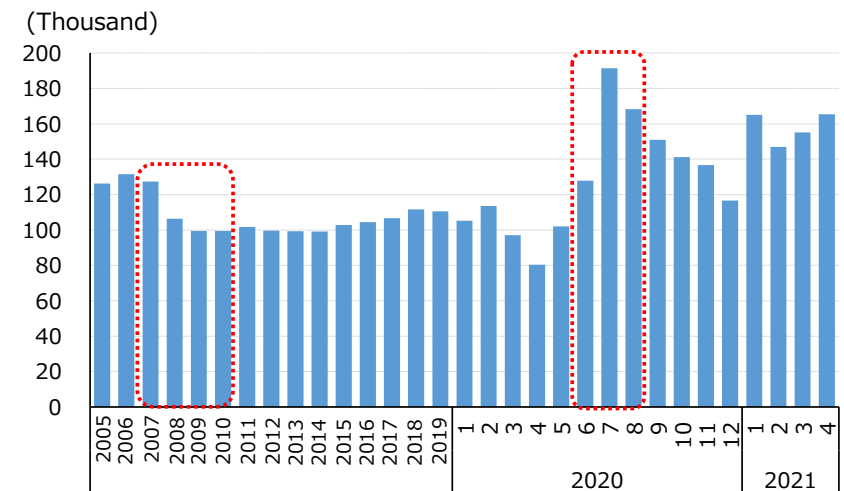
US economy on the recovery

- While the US real GDP under the COVID-19 pandemic declined faster and deeper than during the global financial crisis, the pace of recovery was faster **thanks to large-scale and swift economic measures including cash distribution and financial support measures**.
- There have been **increasing numbers of business applications** highly likely to turn into payroll businesses, showing entrepreneurship is **adapting to the social changes caused by COVID-19**.

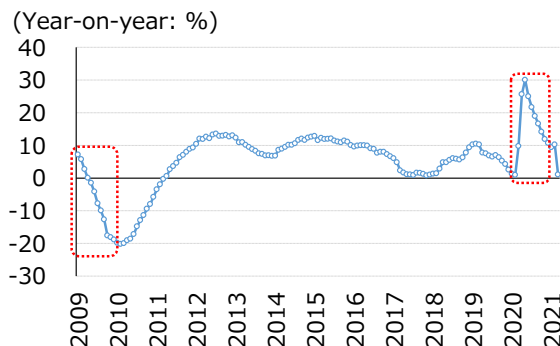
US real GDP (Global financial crisis vs COVID-19)



Business applications highly likely to turn into businesses with payroll



US Commercial and industrial loan growth



Note 1: Numbers for 2005-2019 are monthly averages.

Note 2: Numbers are based on the "High-propensity Business Applications".

Source: Census Bureau.

China's economic recovery to pre-COVID level and its structural problems

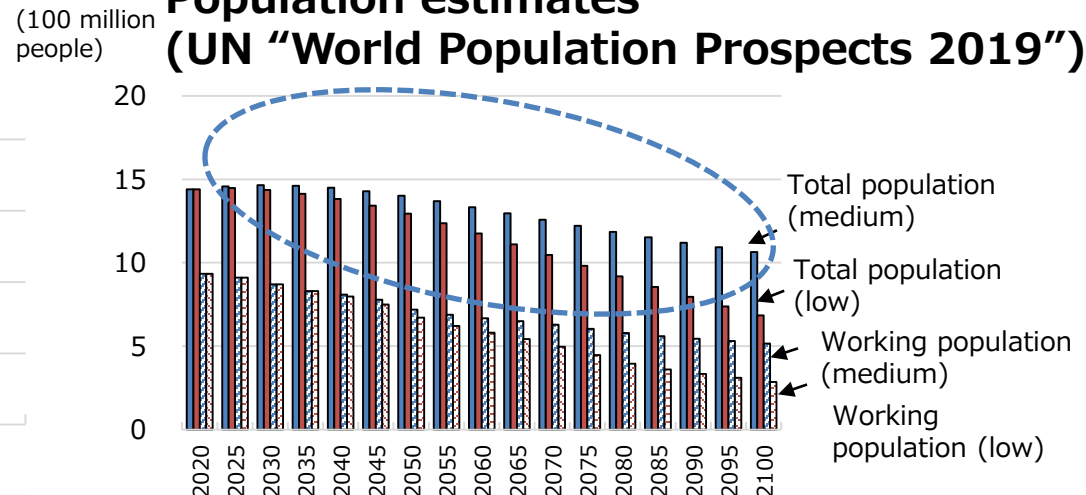
- **China is the only major country which succeeded in achieving positive economic growth in 2020.** China fell into negative growth in the first quarter, but **returned to positive growth in the second quarter** and maintained such growth afterwards.
- According to UN estimates, **the working population has already reduced and the total population is also projected to start declining after 2030.** As the calculated fertility rate is lower than the assumption in the UN medium variant case, the future population is likely to fluctuate between the medium variant and low variant case of UN estimates.

Real GDP growth of China (Y/Y)



Source : National Bureau of Statistics (NBS) of China, CEIC database.

Population estimates (UN "World Population Prospects 2019")



Fertility rates by UN estimates and NSB of China

	2018 Real	2020-2025 Assumption	2050-2055 Assumption	2095-2100 Assumption
Calculated, based on NBS data	1.54			
UN Estimates / Medium variant		1.70	1.75	1.77
UN Estimates / Low variant		1.45	1.25	1.27

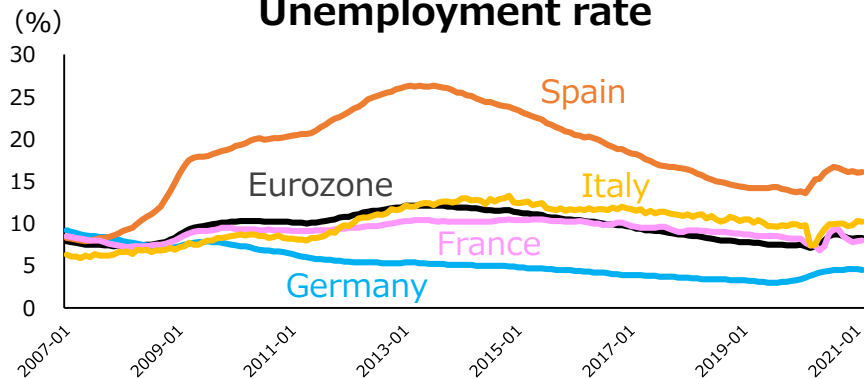
Source : UN, "World Population Prospects 2019"

NBS, "China population and employment statistics yearbook", CEIC database.9

Current European economic measures

- Europe has implemented fiscal stimulus measures **with an emphasis on employment retention to avoid a significant rise in the unemployment rate**. Based on the experience of the European debt crisis, the EU approved a moratorium of the application of fiscal discipline requirement to encourage flexible fiscal measures by member states, establishing the EU Recovery and Resilience Facility.
- The Facility includes the EU's **key industrial policies on green and digital transitions**, which have been reinforced. With the **recent policy shift to Electric Vehicles, the efforts to procure lithium-ion batteries from Europe is being promoted**. While China's share of the German lithium-ion battery market remains high, **procurement rate from the region is increasing**.

Unemployment rate



Source: Eurostat

Industrial policy and economic measures

Updating the 2020 Industrial Strategy

In addition to the existing ① Raw materials ② Batteries, and ③ Hydrogen, industrial alliances in strategic fields such as ④ Processors and semiconductor technologies, ⑤ Industrial data, edge and cloud ⑥ Space launchers, and ⑦ Zero emission aviation, are supported.

① Green transition, ② Digital transformation, ③ Smart, sustainable, and inclusive growth and employment, ④ Regional and social cohesion, ⑤ Health and resilience, ⑥ Policies for the next generation (for children and youth) including education and skill improvement

Recovery and Resilience Facility (€672.5 billion)

European Battery Alliance (EBA)

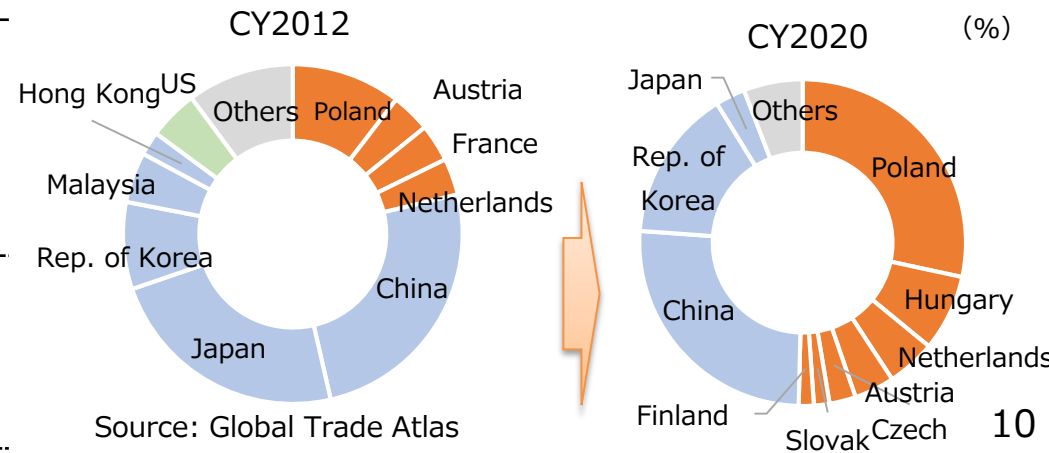
October 2017

The EBA was established by interested business partners with the support of the European Commission and member states, aiming to reduce dependence on Asia etc. and aimed to create a competitive battery industry throughout the battery value chain. Japanese and US companies also participate.

May 2018

The European Commission announced a comprehensive action plan for the promotion of the EV battery industry.

German import partners for lithium-ion batteries

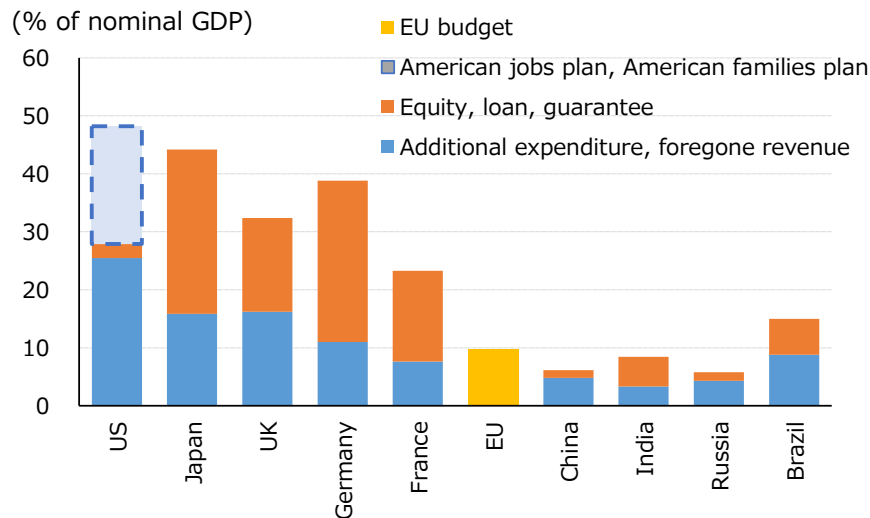


Source: Global Trade Atlas

Global trend 1: Expansion of government's economic roles

- Economic measures to counter COVID-19 actively **focused on severely damaged industries and workers.**
- The measures also include structural measures to **accelerate on-going support for creating a digital and green society**, in search of qualitative improvement in the function of governments.

Counter-COVID-19 economic measures



Note 1: Based on IMF calculation as of 17 March 2021, and information on US and EU are added.

Note 2: Numbers for China are based on employment and financial measures and do not include the latest 5-year plan.

Source: IMF, Committee For a Responsible Budget.

Major employment and industrial measures

Major employment measures	Major industrial measures
<ul style="list-style-type: none"> ■ Supplemental unemployment benefits (US) ■ Measures to maintain employment. Support for reduced work/business hours (EU) ■ Accelerated payment of unemployment benefits. Tax deduction and reduced social security contribution (China) ■ Increased employment subsidy. Support for finding employment (Japan) 	<ul style="list-style-type: none"> ■ Support for manufacturing R&D. Tax incentives for clean energy (US) ■ Facilitating transition to renewable energy use. Public investment in digital infrastructure (EU) ■ Facilitating green infrastructure and practical use of digital technology (China) ■ Establishment of green innovation fund. Facilitating digitization (Japan)

Source: IMF, and media reports.

Global trend 2: Strengthening economic security

- US government will support establishing resilient, diverse, and secure supply chains especially for semi-conductors.
- EU released a renewed strategy to reduce dependency on specific countries and promote intra-production of critical goods including batteries and semi-conductors through bottom-up analysis.

Executive Order on America's Supply Chains (Feb 2021)



- Submission of risk reviews and policy recommendations as to the supply chains of **semi-conductors, high-capacity batteries, critical minerals, pharmaceuticals and active pharmaceutical ingredients, etc.** **Evaluate possible avenues for international engagement with allies and partners** and the necessity of amending related laws.

Japan-US summit (Apr 2021)



- **Deepen cooperation in research and technology** development in life sciences and biotechnology, AI, quantum information sciences, and civil space.
- **Advance secure and open 5G networks.**
- Partner on **sensitive supply chains, including semi-conductors, promoting and protecting critical technologies.**

EU Updating the 2020 Industrial Strategy



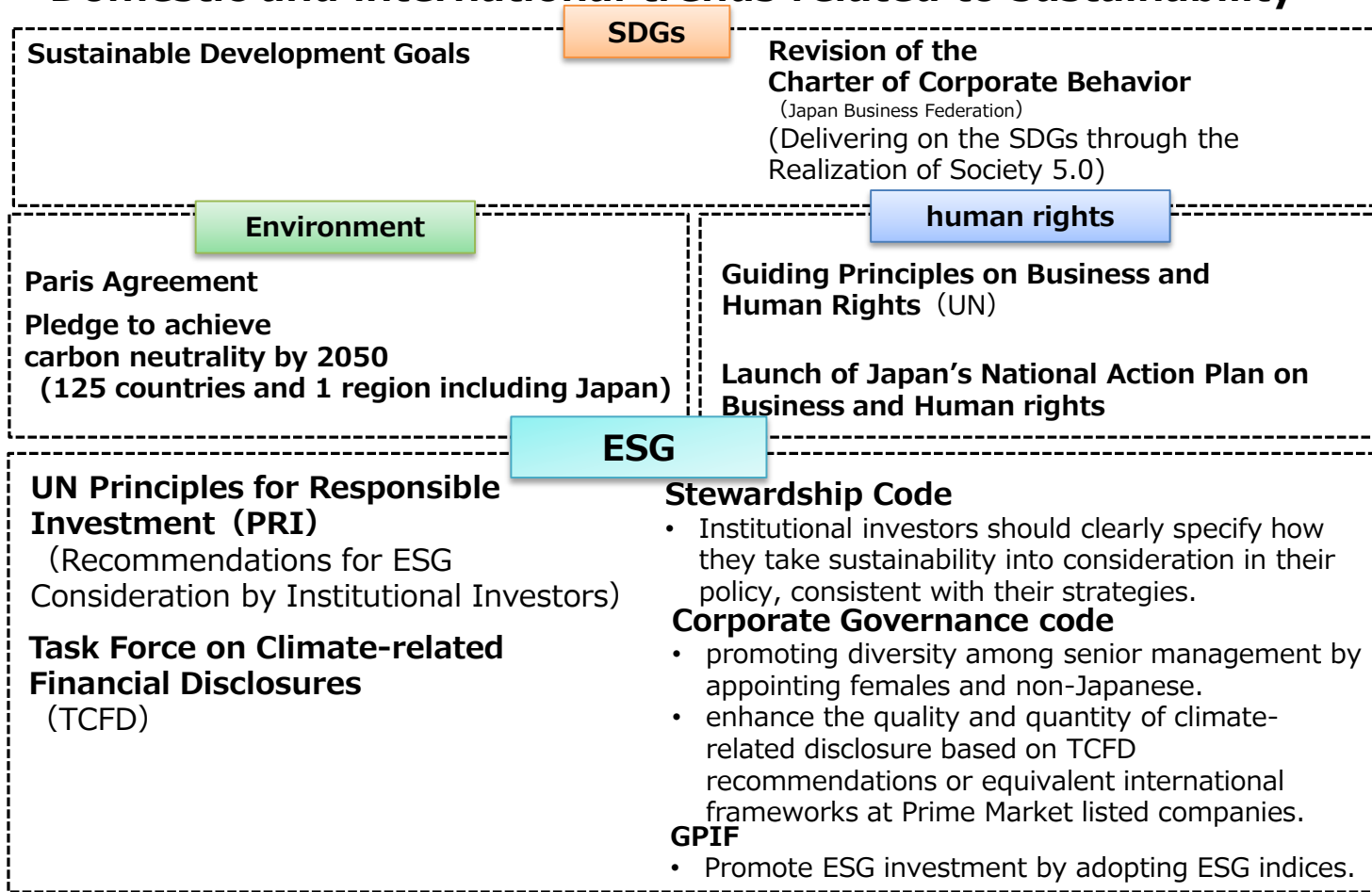
Dealing with the EU's strategic dependencies:

- **In-depth analysis** on raw materials, batteries, active pharmaceutical ingredients, hydrogen, semiconductors and cloud & edge technologies.
- **Support industrial alliances** on processors & semiconductors, industrial data·edge & cloud, space launchers, and zero emission aviation in addition to other existing alliances on raw materials, batteries, and hydrogen.
- **Flexible application of exemptions to the subsidy rules for important projects** (next generation cloud, hydrogen, low carbon emission industries, pharmaceuticals, semiconductors).
- **Bottom-up analysis of 137 items (6% of EU's goods imports) found the EU is highly dependent.** 34 products are **more vulnerable** given low potential for diversification and substitution for intra production.

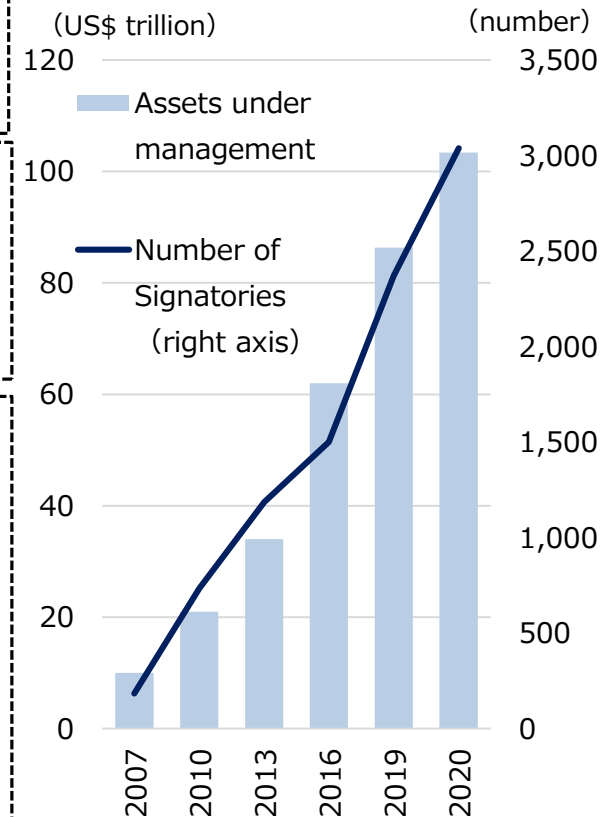
Global Trend 3 : Sustainability considerations in economic activities

- Throughout the 2000s, there have been growing international movements in policy-making and capital markets that are encouraging companies to consider **human rights, the environment, and other sustainability issues**.
- From risk management and business opportunities perspectives, integrating sustainability considerations into corporate management is needed.

Domestic and international trends related to sustainability



Growth of the PRI Initiative



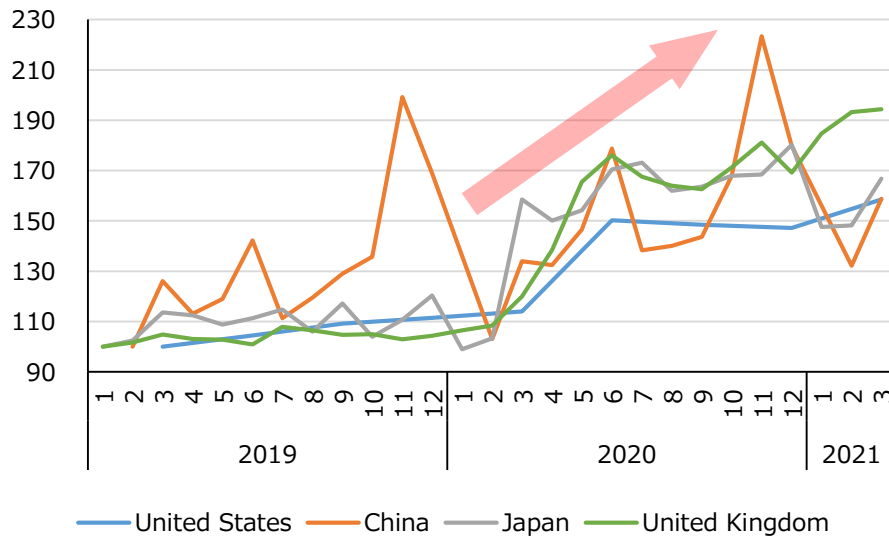
Note :PRI

Global trend 4 : Digitalization of Business Activity

- Under the COVID-19 pandemic, the need to balance preventing the spread of infection with maintaining economic activity has led to extensive use of digital business tools.
- To maximize the benefit of international trade, it is necessary to create social infrastructure and adopt a new business model that suits a digital society.

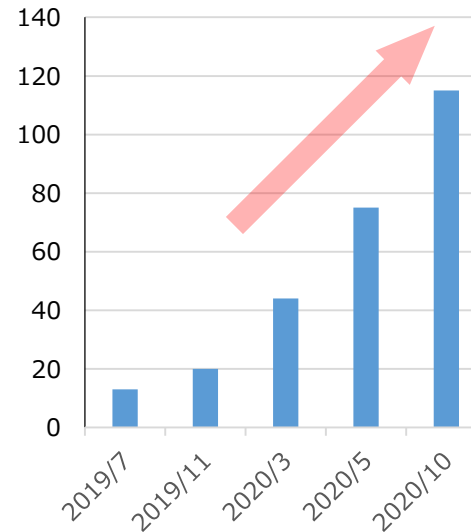
Sales in e-commerce in some countries (index)

(Jan.2019=100)



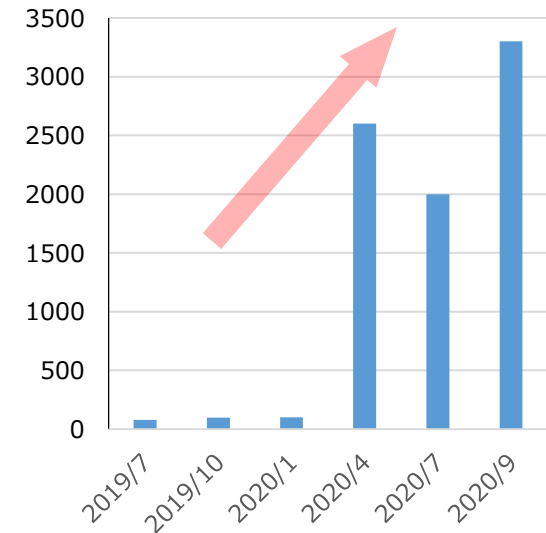
Daily active users of Microsoft Teams

(million)



No. of Zoom meetings

(billion, annualized)



Source : Microsoft, zoom video communications HP.

Note : US and UK values are seasonally adjusted. Japan and China values are not seasonally adjusted. Only US data is quarterly data.
Source : METI Japan, United states of Census Bureau, National Bureau of Statistics of China, Statistics Korea, UK Office for National Statistics, CEIC.

Part I. Global economy recovering from COVID-19

Part II. Challenges Regarding Trade and How to Overcome Them

Chapter 1. Toward Building Resilient Supply Chains

Section 1. Asia-wide changes in supply chains

Section 2. Supply chain risks and recovery from the crisis

Section 3. Additional considerations in supply chain management

Section 4. Increasing supply chain resilience through digital technology

Section 5. Facilitating and digitalizing international trade procedures

Chapter 2. New Model for Growth That Incorporates Common Values

Chapter 3. Taking Measures toward Building a Global Value Chain with Trust

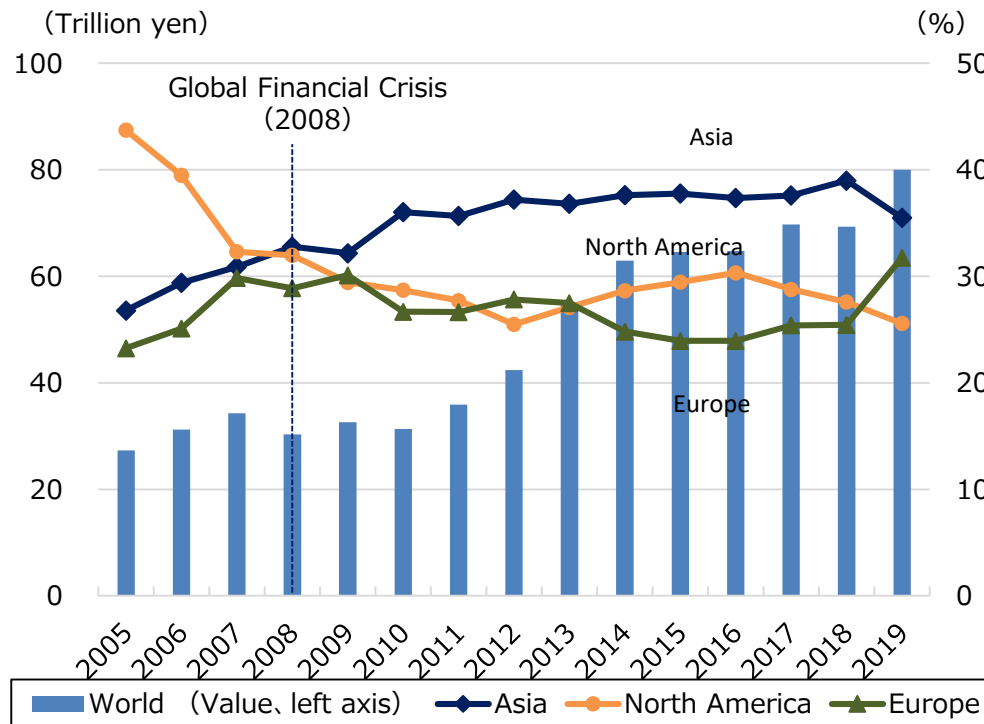
Part III. Policies

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Production sites slowly diversified in Asia (outstanding direct investment)

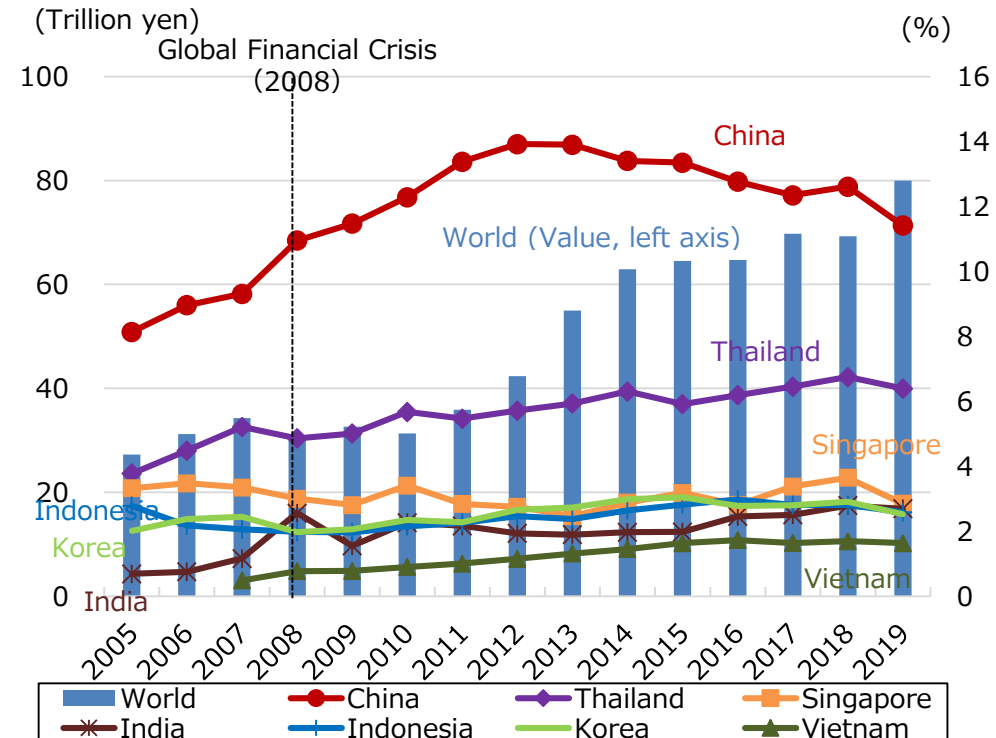
- Japanese companies have accelerated their overseas deployment throughout the 2000's. Many overseas affiliates were established in Asia, especially in China.
- However, China's share has started to decline since its peak around 2012. The production sites have been slowly diversified across other areas in Asia.

Japan's outstanding direct investment (regional share / manufacturing sector)



Source : Ministry of Finance, "Balance of Payments"

Japan's outstanding direct investment (country share / manufacturing sector)

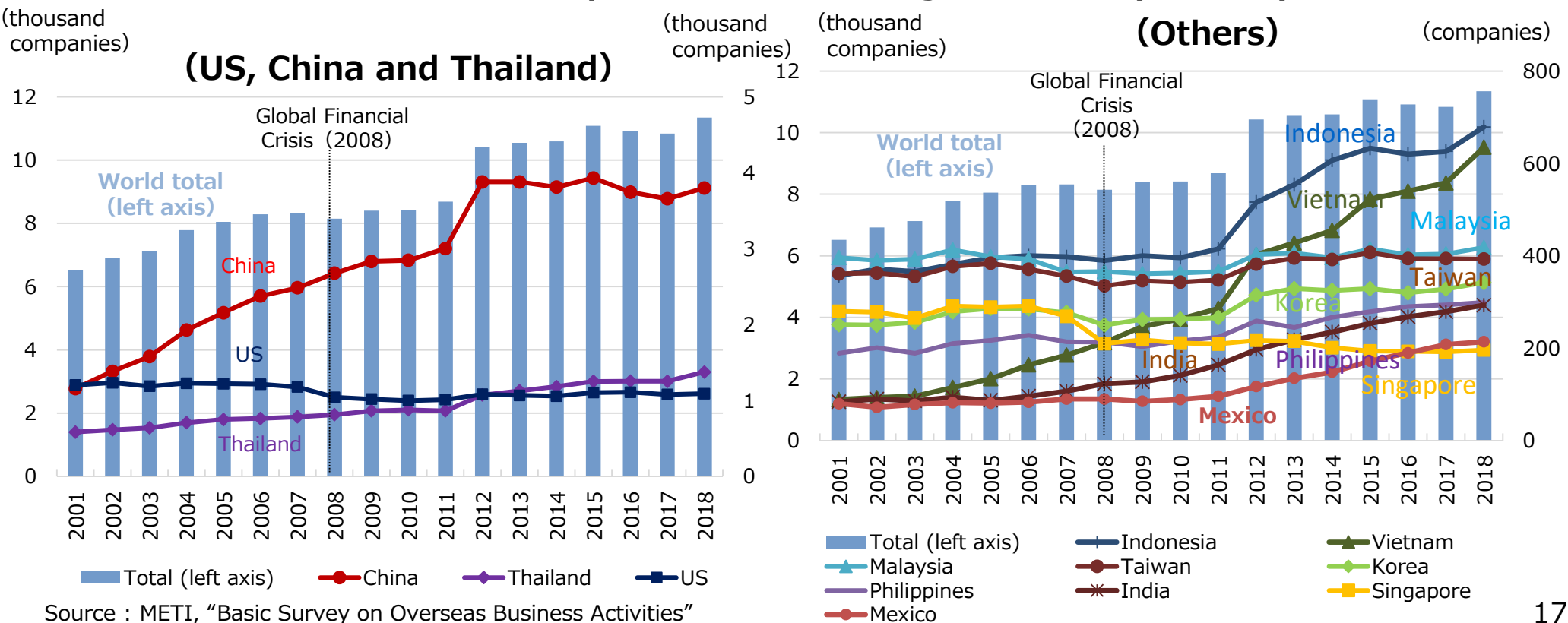


Source : Ministry of Finance, "Balance of Payments"

Production sites slowly diversified in Asia (number of overseas affiliates)

- In recent years, the number of new establishments in China hit a ceiling due to various increasing costs (e.g. wages), whilst economic development has increased its attractiveness as a market.
- Instead, the diversification of risk, called “China+1” is evident, with the increasing number of Japan’s affiliates located in other areas of Asia, including Thailand, Indonesia and Vietnam.

The number of Japan’s manufacturing affiliates by country

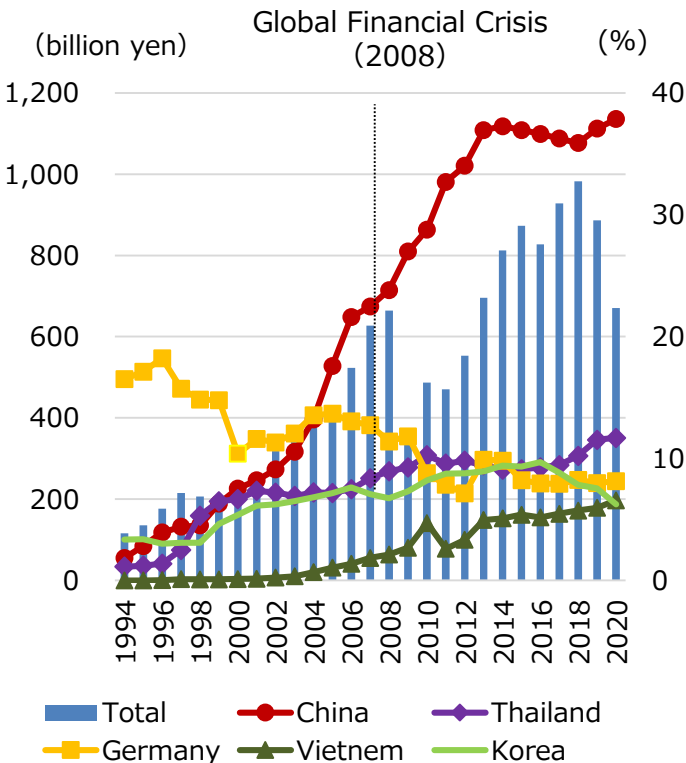


Import share from China hit a ceiling for some machinery-parts

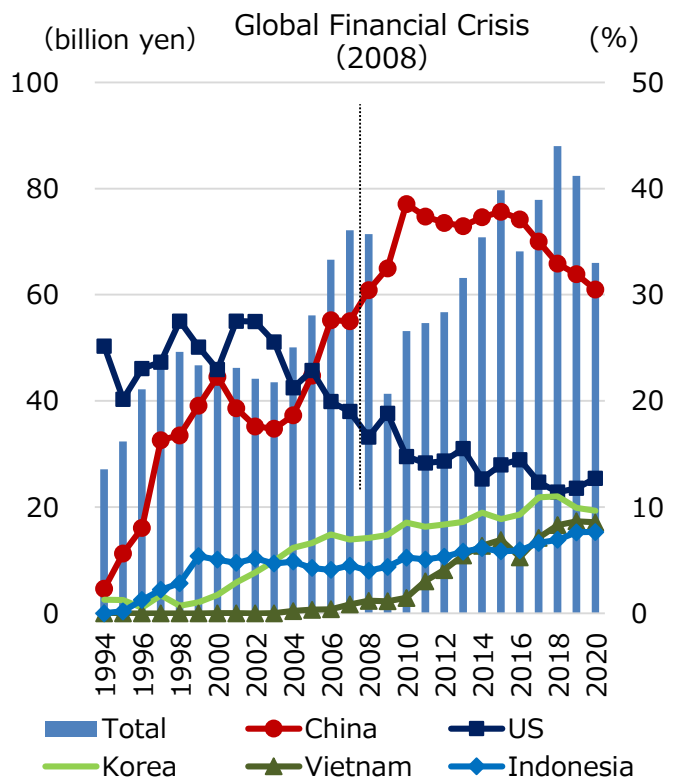
- China's share of Japanese imports hit a ceiling for some major machinery-parts, with shares of Thailand, Indonesia and Vietnam increasing instead of China, although China still comprises a large share for some items.
- There seem to be some signs of diversifying procurement sources together with location of production sites.

Major import partners for Japan

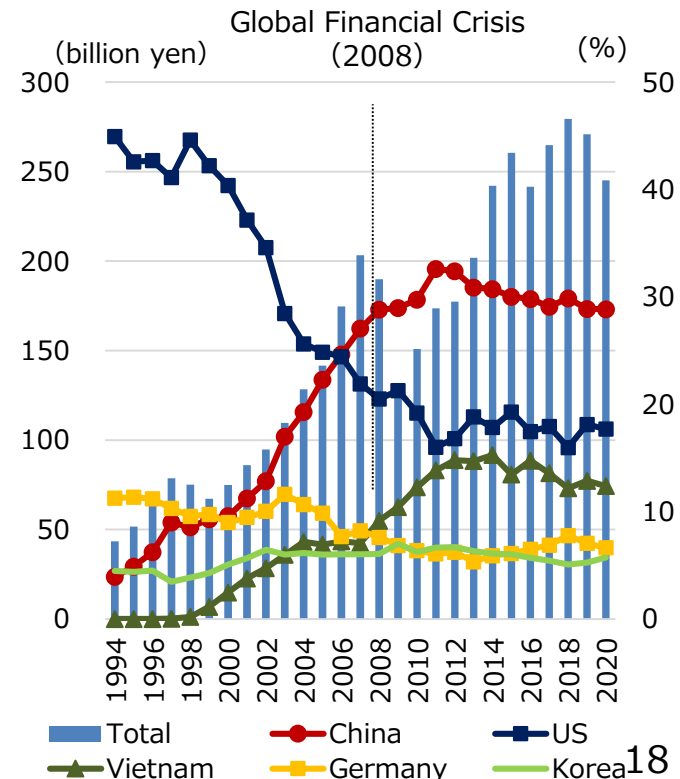
Auto parts



Bearings



Cock and valves



Supply chain risks and recovery from past disasters

- **Early recovery was possible because many past shocks were transient and intensive recovery efforts were made**, even when the damage caused by a natural disaster was significant. In such cases, **inter-company cooperation worked effectively**.
- With increasing size and diversity of supply chain risks, **risk management methods need to change**.

Recovery from the Great East Japan Earthquake

Time to recovery

- ✓ **Within one month, more than 60% of production bases were restored.**
- ✓ **Only three months for the IIP (Index of Industrial Production) in Tohoku to recover from 60% of the decline, a relatively short recovery.**

Supply chain impacts

【Negative effects】

- ✓ The impact will spread to companies outside the disaster areas through supply chain networks.

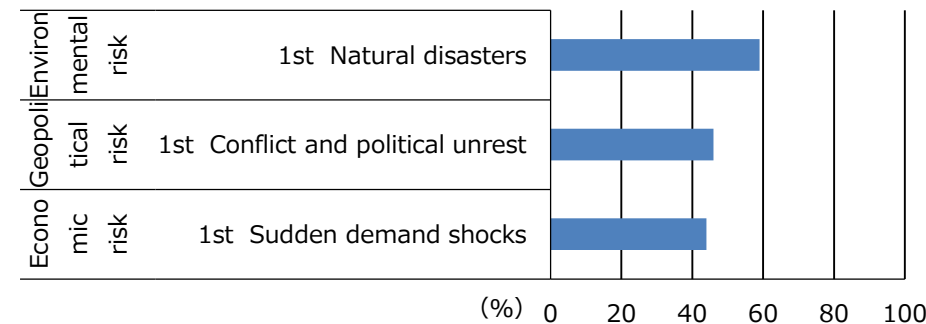
【Positive effects】

- ✓ Early business resumption can be achieved with the business partners' support.
- ✓ Easy to do business with alternative suppliers.

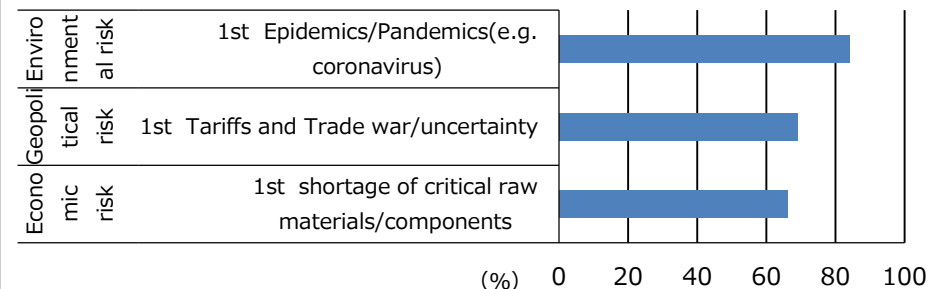
Triggers of supply chain disruptions

2011 results

Sources of concern for companies



2020 results



Note : Survey period: (upper right) April - December 2011. (Lower right) February to March 2020. Percentage of "serious risk" and "moderate risk" combined

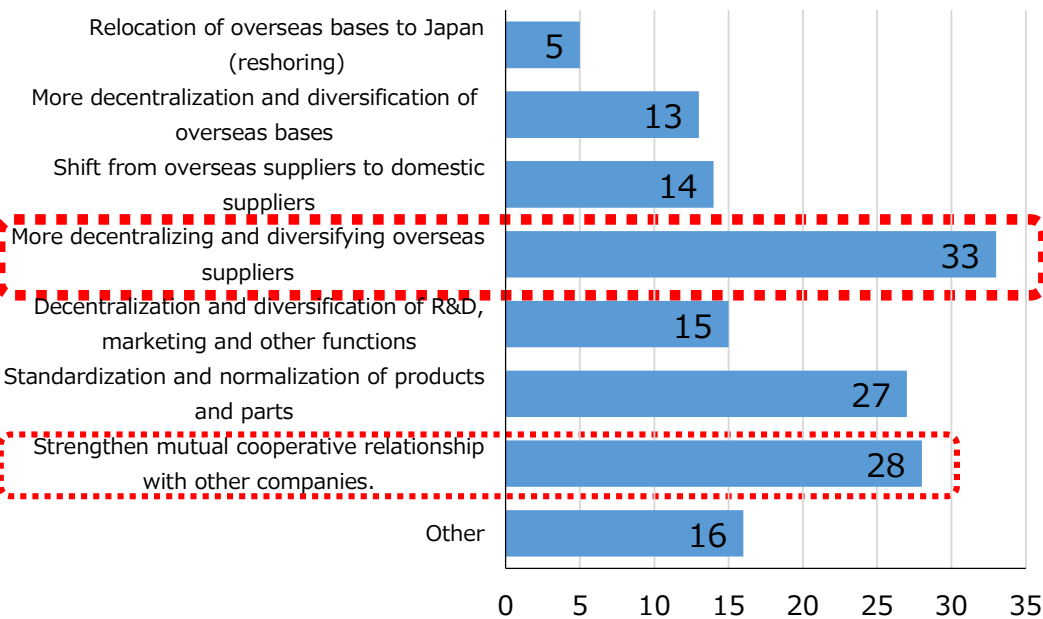
Source : (upper right) World Economic Forum (2012) "New Models for Addressing Supply Chain and Transport Risk"

(Lower right) Gartner (2020) "How Supply Chains are Responding to the Impact of Coronavirus"

Reviewing Supply Chains after the COVID-19 Shock

- In reviewing supply chains after beginning of the COVID-19 shock, the highest ranked improvement measure was **diversification of overseas suppliers**. Inter-company cooperation follows the second.
- Almost 30% of the respondents answered that current Business Continuity Plans (BCPs) didn't work because they did not anticipate the risks would have such a long-term impact. **The need to formulate BCPs and supply chain management to cope with various risks is becoming increasingly recognized.**

**Supply Chain Improvement measures
(including those under consideration)**

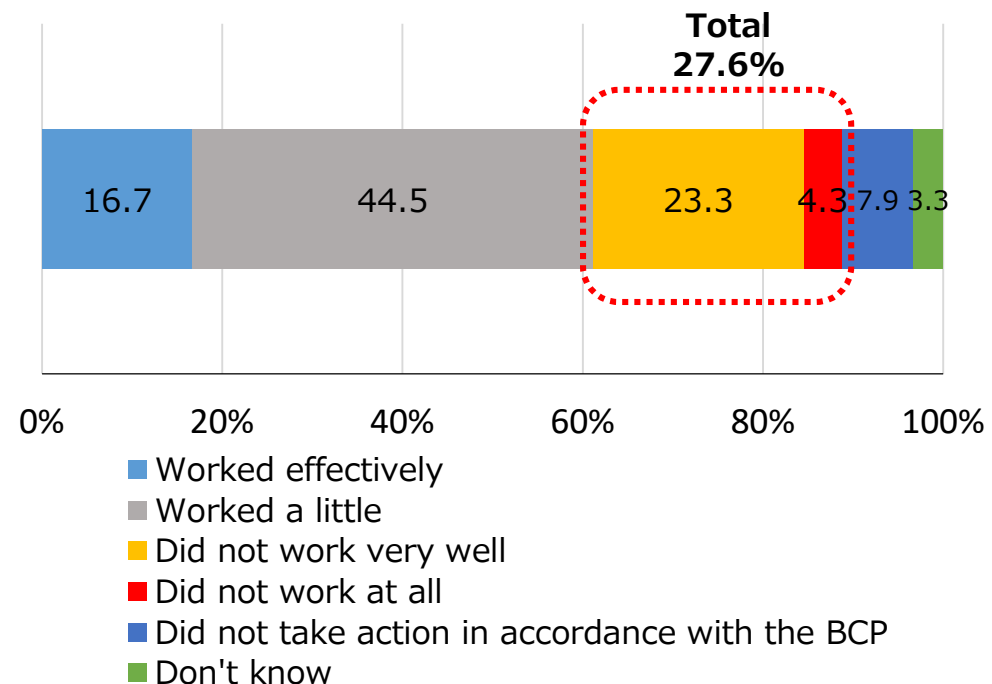


Source :

(Left) Development Bank of Japan, Inc. (2020)

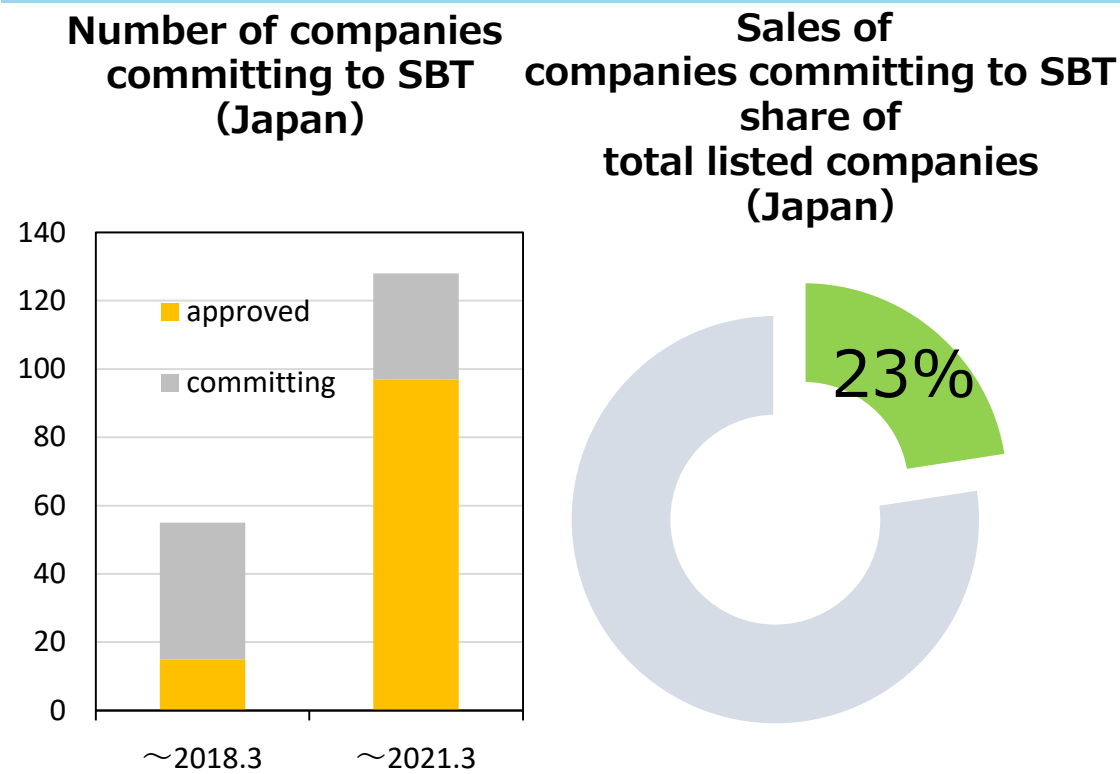
(Right) Mizuho Information & Research Institute, Inc. (Current : Mizuho Research & Technologies, Ltd.) (2020)

**Effects of BCPs
on COVID-19 Shock**



Additional considerations for managing supply chains

- The factors that need to be considered in supply chain management are becoming increasingly complicated and sophisticated.
- More Japanese companies are committed to CO₂ emission reduction targets. There are increasing chances for companies to become legally obligated to comply with some kind of human rights laws. In addition, there are export and procurement regulations for economic security reasons, as well as human rights.



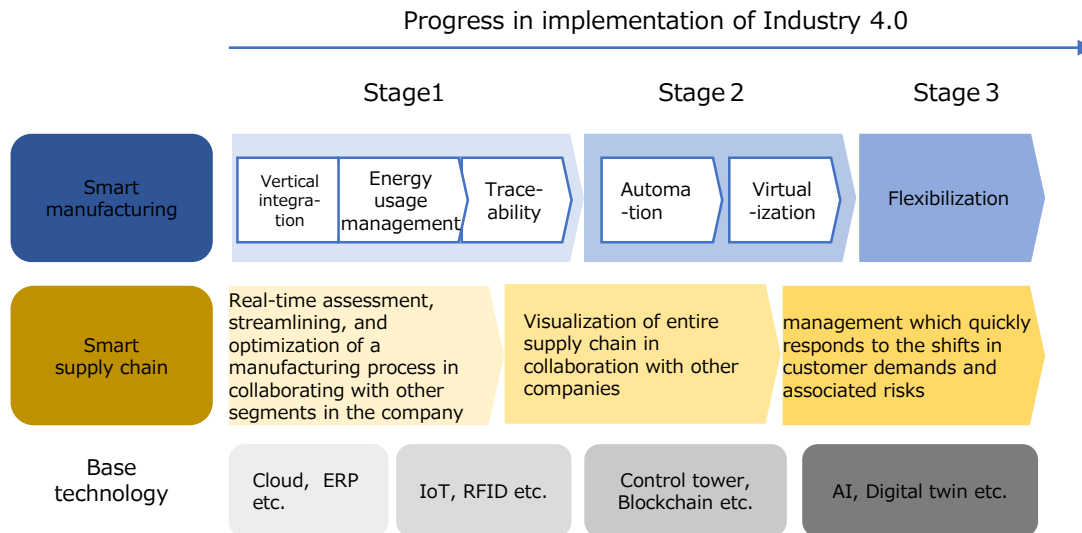
Legislative jurisdictions requiring human rights considerations	
Enacting Country/ Government	Legislation
State of California	California Transparency in Supply Chains Act
US	The Dodd-Frank Wall Street Reform and Consumer Protection Act
UK	Modern Slavery Act 2015
France	Duty of Care Law
Netherland	Child Labour Due Diligence Law
Australia	Modern Slavery Act 2018
Germany	Supply Chain Law

Note : SBT (Science Based Targets) is greenhouse gas reduction targets that are consistent with the levels required by the Paris Agreement.
Source : SBT, sales data based on Refinitiv (as of May 2021)

Using Digital technology to foster supply chain resilience

- Digital technology enables the visualization of complex supply chain structures and will make it easy to address environment and human rights issues.
- In business relationships, digital technology lowers costs of communication between companies and facilitates the formation of new alliances and sharing resources.

Technologies related to digitalization of supply chains and several stages of digitalization



Influence of digitalization on cooperation between companies

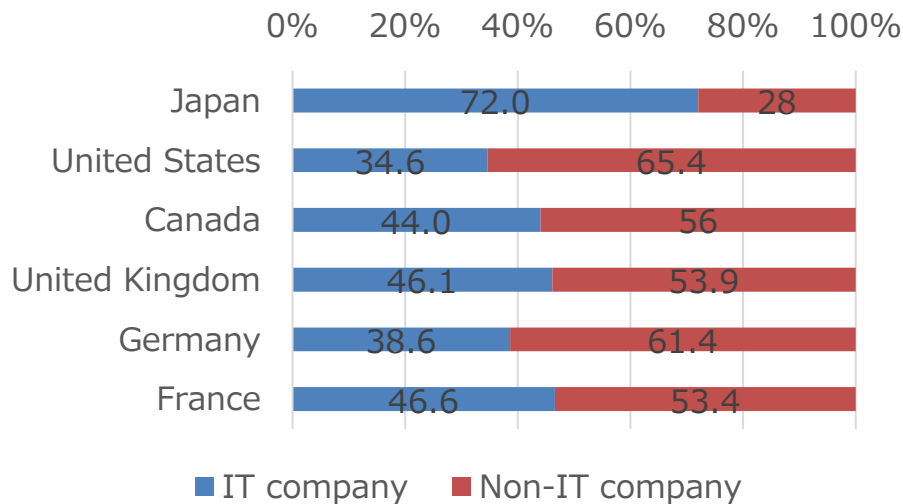
Influence of digitalization	Explanation
Unbundling of tasks	<ul style="list-style-type: none"> Digital tools facilitate management of decentralized supply chains. Segmentation of tasks (e.g. planning and production) becomes possible.
Expands offshoring	<ul style="list-style-type: none"> Rapid, efficient and safe remote communication and control increases work which does not need geographical proximity.
Promoting outsourcing/alliances	<ul style="list-style-type: none"> Some in-house operations can be separated and outsourced.

Source : "Research on the corporate diversification of suppliers, location choices and visualization of supply chains (The report for the international economic research project to build the strategy of economic growth unified domestic and overseas)", METI-commissioned study (FY 2020)

Issues for realizing supply chain digitalization

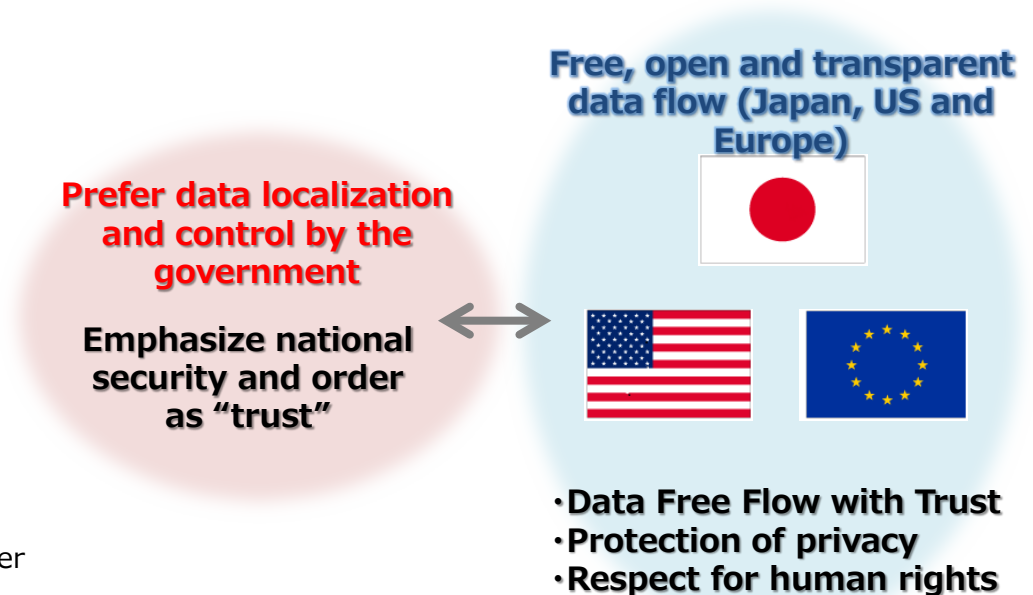
- Companies should have clear ideas about what information to share with other companies and take cyber security measures. Deploying IT-skilled persons in the right places has become more and more essential.
- To ensure smooth and safe information sharing between companies, commitment to rules to ensure free flow of data and due process of government access are also important. Under the common value of “trust” in the digital age, the framework to materialize the global data governance system is needed.

Distribution of IT-skilled persons between IT companies and non-IT companies



Source : Information-technology Promotion Agency Japan, White paper on IT human resources 2017, 2020.

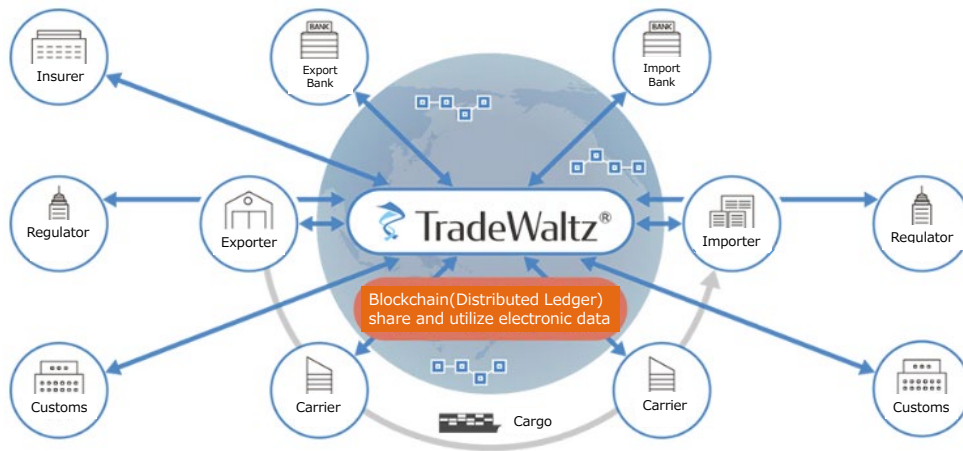
Values underlying the data policy



Facilitation and digitalization of trade procedures

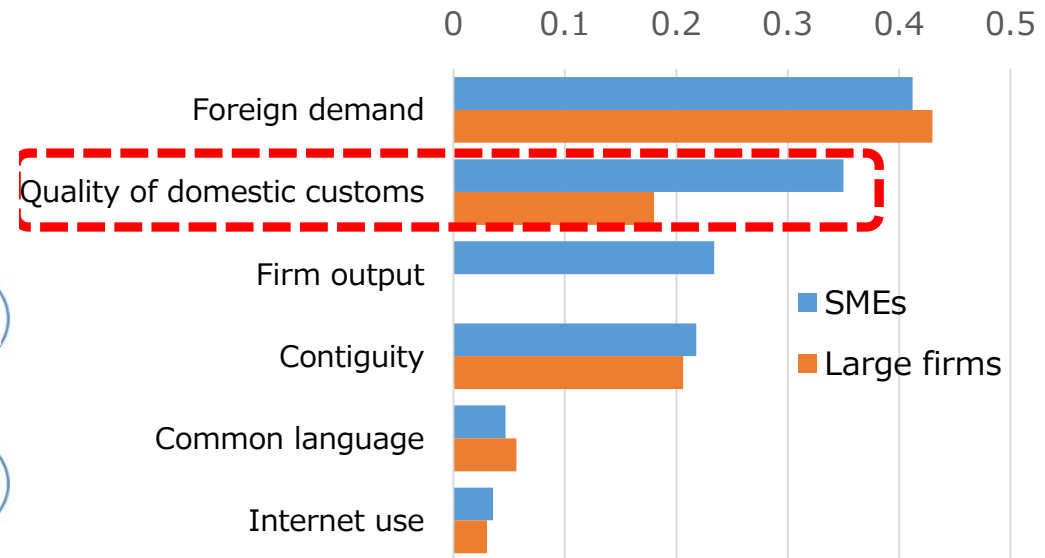
- **Global efforts to facilitate and digitalize trade procedures complement companies' supply chain management** using digital technology.
- Under the WTO and Economic Partnership Agreements, efforts have been made to improve the transparency of customs clearance procedures. Recently, **Trade Facilitation Platforms have emerged worldwide**. These contribute to building a resilient supply chain which also contributes to sustainability and inclusiveness.

Trade Waltz: How it works



Source : NTT DATA Corporation

Determinants of GVC participation in ASEAN countries through imports



Note : The figure shows significant standardized coefficients from a gravity regression. The higher the figure, the higher the incentive for the factor to increase imports. Since only significant figures are listed, figure for firm output (large firms) is not listed.

Source : OECD Trade Policy Papers No.231

Part I. Global economy recovering from COVID-19

Part II. Challenges Regarding Trade and How to Overcome Them

Chapter 1. Toward Building Resilient Supply Chains

Chapter 2. New Model for Growth That Incorporates Common Values

Section 1. Growing expectations regarding corporate behavior toward a sustainable and inclusive future society

Section 2. Meeting sustainable and inclusive growth needs

Section 3. Toward corporate behavior that creates sustainable value

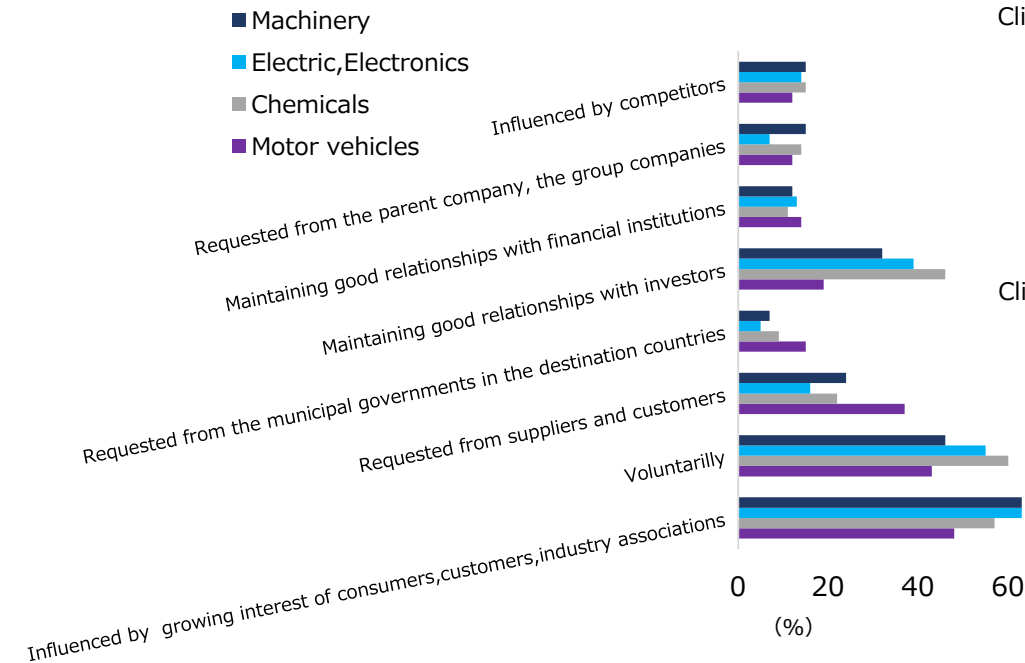
Chapter 3. Taking Measures toward Building a Global Value Chain with Trust

Part III. Policies

Rising demand for corporate behaviors that shape future society with sustainability and inclusiveness

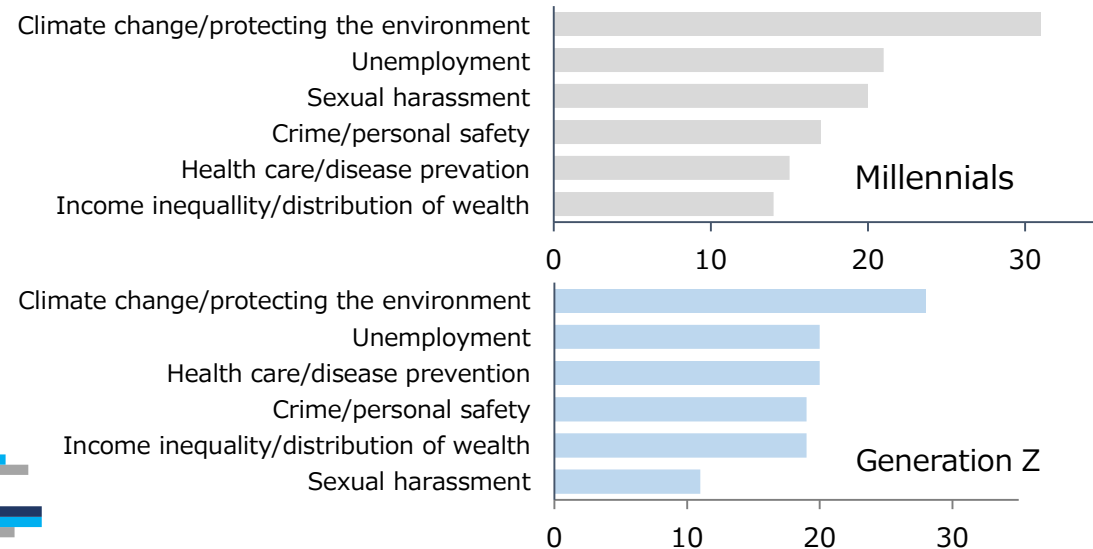
- As the influence of the future oriented value “Sustainability” has been increasing, it has become more important for corporations to contribute to values above and beyond their short-term economic returns. Expressing their contributions to such values is now considered as a measure which establishes a competitive advantage.
- Addressing issues related to the SDGs has positive effects on the corporations’ activities such as enhancement of capturing consumer demand and recruitment.

Incentives for addressing SDGs issues (By sector : Manufacturing)



Note : 4 Major sectors that have large numbers of respondents to the survey.
Source : JBIC Survey “Report on Overseas Business Operations by Japanese Manufacturing Companies”

Societal concerns of Millennials and Generation Z



Note 1 : Millennials included in the study were born between January 1983 and December 1994. The survey was conducted in 43 countries including Japan, the U.S., European countries.

Note 2 : Generation Z respondents were born between January 1995 and December 2003. The survey was conducted in 20 countries including Japan, the U.S., European countries.

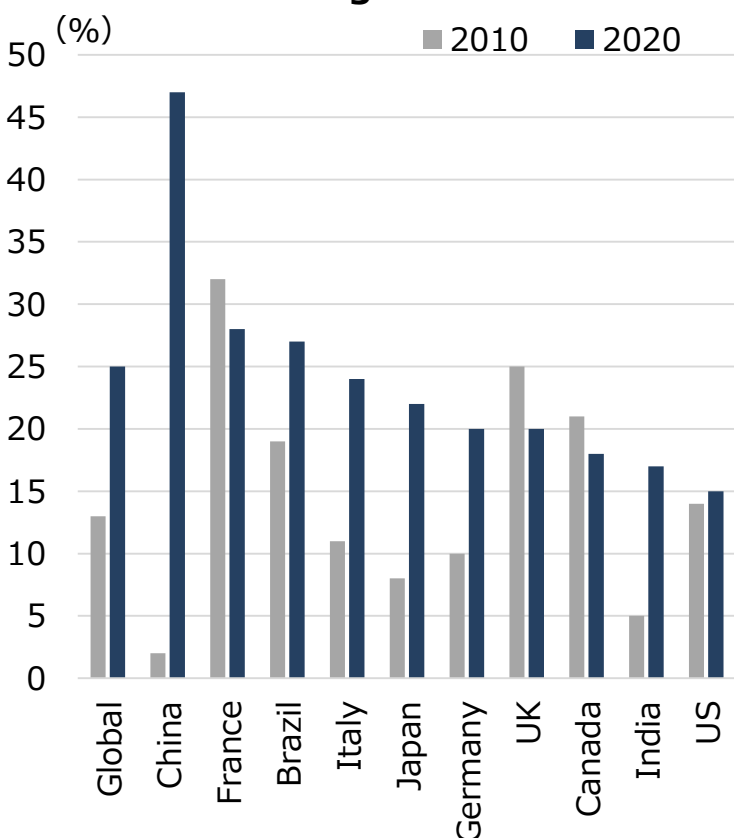
Note 3 : The survey was conducted for both generations between November 21, 2019 and January 8, 2020.

Source : Deloitte “Global Millennial Survey 2020”

Promote efforts to contribute to sustainability in capital markets

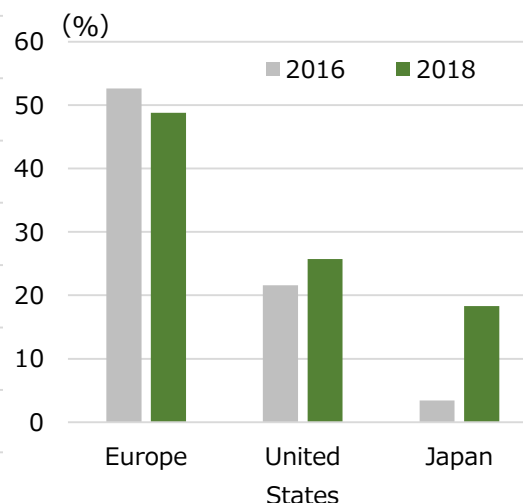
- In the last decade, CEOs are seeing climate change as a business opportunity.
- In Japan, the share of sustainable investments in asset management companies is increasing. In addition to environmental considerations, **efforts to address various social issues are also being increasingly valued by capital markets.**

Climate change opportunities are increasingly embraced among CEOs



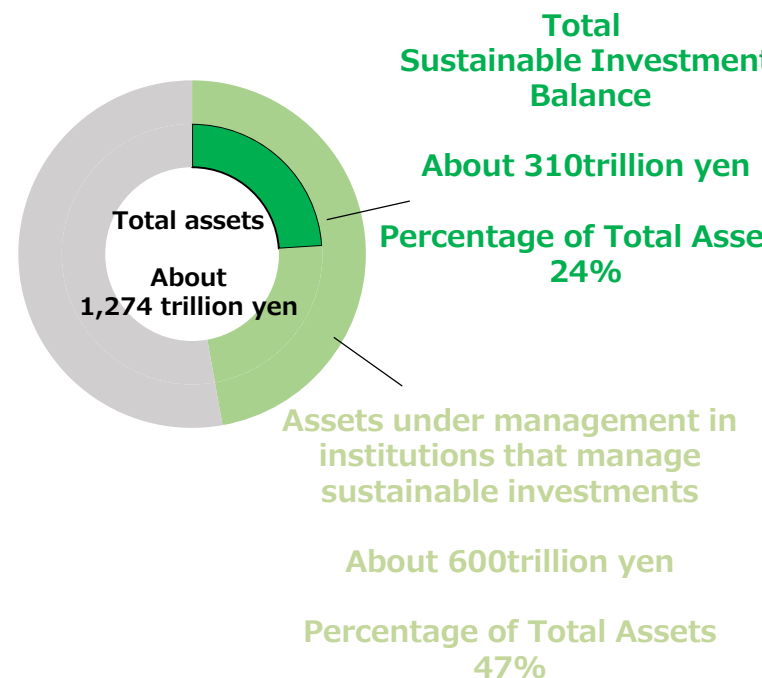
Source: PwC's 23rd Annual Global CEO Survey

Proportion of sustainable investing relative to total managed assets (2016→2018)



Source : 2018 Global Sustainable investment Review

Sustainable investment in Japan (2020)



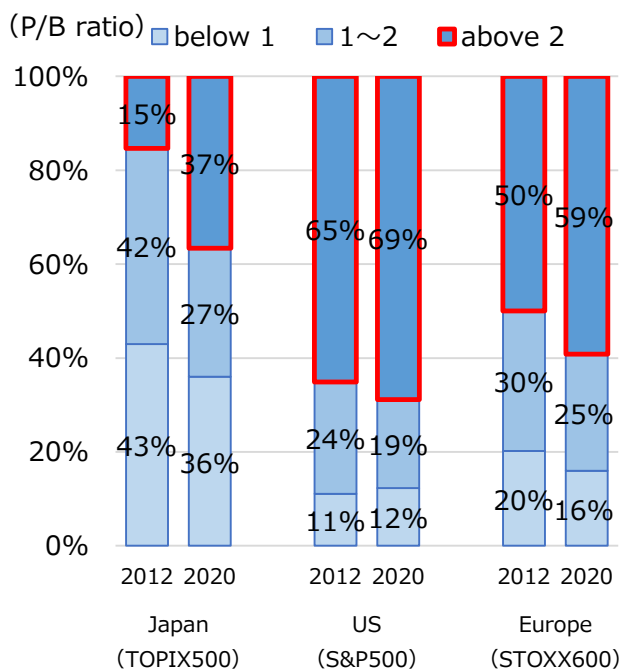
Note : The total amount under management is the sum of the amounts managed by all the investment institutions in Japan.

Source : The total amount under management is based on the Bank of Japan's Flow of Funds Statistics. The amount of sustainable investment and the total amount managed by 47 institutions are from the Sustainable Investment Survey 2020.

Investing in intangible assets that contribute to sustainability

- With digitalization, the source of **value creation of corporations has shifted** from tangible **to intangible assets**. Evaluation of **intangible assets has a significant impact on stock prices**. In terms of PBR, the valuation of Japanese companies is not as high as that of European and American peers. This could be an indication of a lack of investment in intangible assets by Japanese companies.
- For Japanese companies, it is becoming increasingly **important to invest in wide range of intangible assets**, such as R&D, human resources, and relational capital such as trust and networks with domestic and overseas business partners.

Stock market considers intangible assets in investment decisions

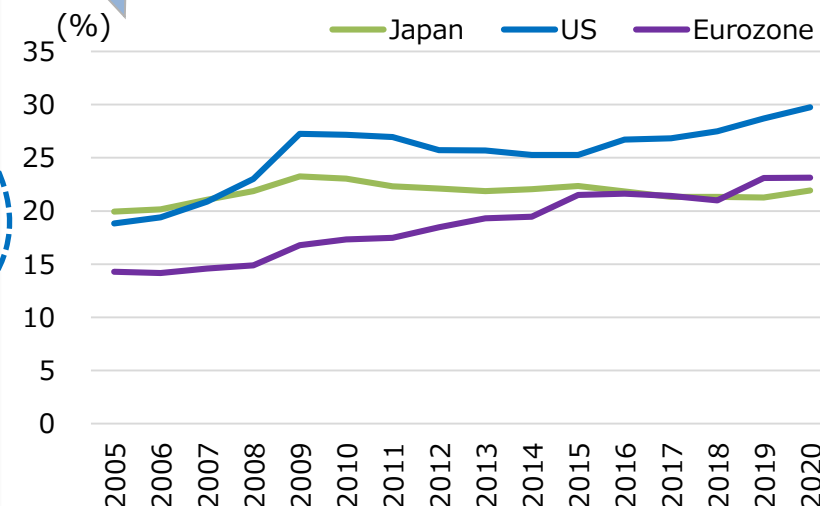


Note : Share price divided by net assets per share.
Source : Refinitiv

Intangible Assets

- Software, Database (Acquired from IT investment)
- Intellectual Property (Copyrights, Licenses, etc.)
- Knowledge leading to new production (R&D)
- Human capital (Knowledge, Skills and competencies ,etc.)
- Relational capital (Cooperation and networks, Brand value, etc.)
- Structure capital (Organization culture, etc.)

Investment in intellectual property and other assets % of real gross fixed formation



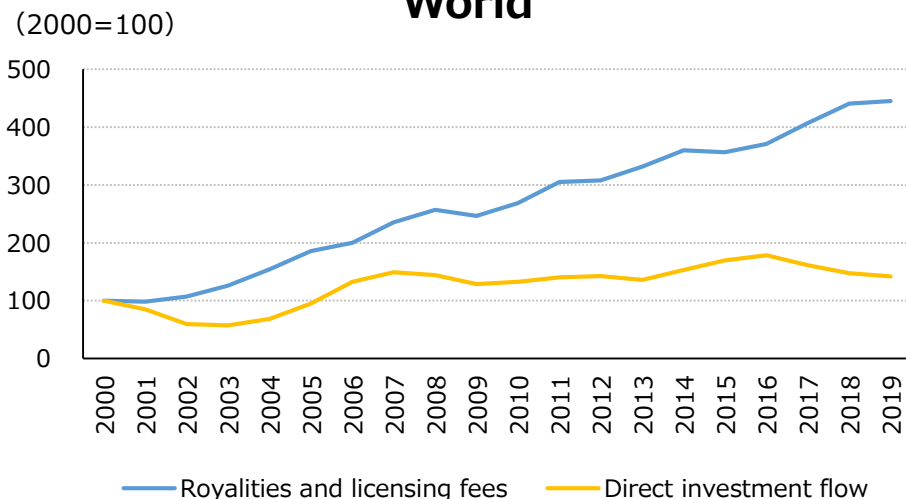
Note : Gross fixed capital formation is investment to create tangible and intangible assets combined, including capital investment, public investment, and housing investment.
source : BEA, Cabinet office Government of Japan, Eurostat, ECB

Difference in Business Models

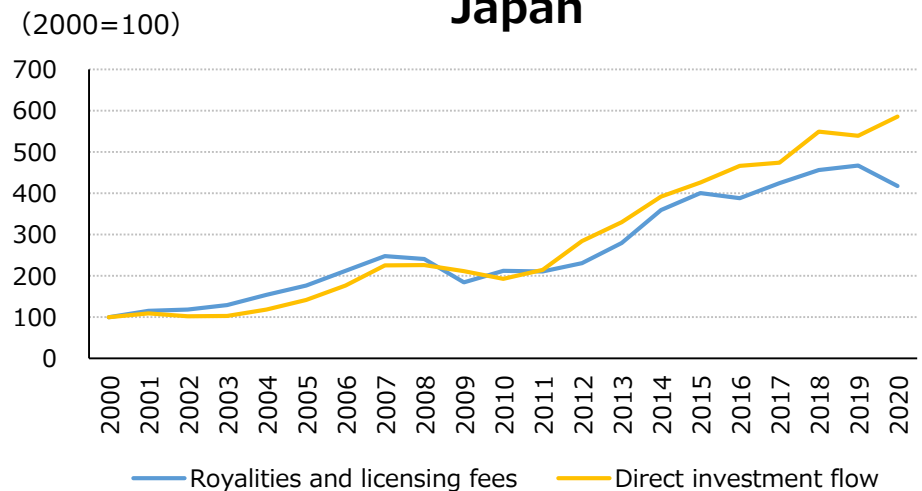
- Global capital flows show that overseas payments for intangible assets, such as royalties, has been growing rapidly while direct investment flows have grown gradually. It suggests that overseas activities are conducted in non-equity modes and payments for intangible assets are made between arms length companies.
- In contrast, Japanese direct investment flows and the receipt of payments for intangible assets has been growing in tandem. It suggests Japanese earnings relating to intangibles is based on capital ties. Pursuing new business methods, such as alliances with local companies, may expand opportunities.

Differences in business models suggested by trends in direct investment / royalties etc.

World



Japan



Social agenda associated with economic development in Asia

- Many ASEAN member countries have achieved consistent economic development, while struggling with a widening urban-rural divide. Social infrastructure construction projects have not caught up with rapid urbanization in the ASEAN countries. Lack of material and human capital is the challenge.

Disparities in urban and rural economies (Thailand, Indonesia)

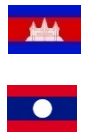


Economic gaps between the Bangkok capital region with industry accumulation and the rural agricultural areas have deepened. Economic downturn due to the Covid-19 pandemic may accelerate the trends (GDP per capita of the capital area is six times as large as in rural areas)



250 million people (80% of the total population) live on about 2,900 yen a month (lower band of the poverty line). The gap between the top-10% wealthy population and others is expanding at the fastest pace in East Asia. (World Bank)

Disparities among the ASEAN members (Cambodia, Laos, Myanmar)



Less developed ASEAN countries “CLM” are still dependent on the primary sector. Main actors are small farmers. To lift them out of poverty, efforts are needed to improve productivity and open up new markets.

Disparities in access to water infrastructure (Cambodia, Indonesia, India)



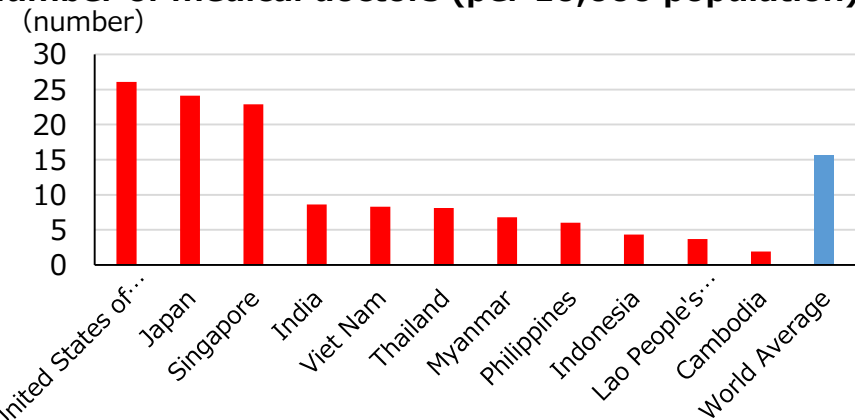
Proportion of populations that have access to at least **basic hand-washing** facility is: Cambodia (U:88%,R:60%), Indonesia (U:72%,R:55%), India (U:80%,R:49%). Huge gaps remain between urban and rural areas. *U: Urban, R:Rural.

Disparities in medical access

The number of doctors per population is low. Health disparities are expanding between areas. The spread of COVID-19 infection has not been halted in some countries.

With the lifestyles changes that accompany economic developments, **people with chronic diseases are increasing** in Malaysia etc., while Thailand and similar countries will face the challenge of an **aging society** in the future.

Number of medical doctors (per 10,000 population)



Source : WHO

Exploring new market opportunities for Japanese companies

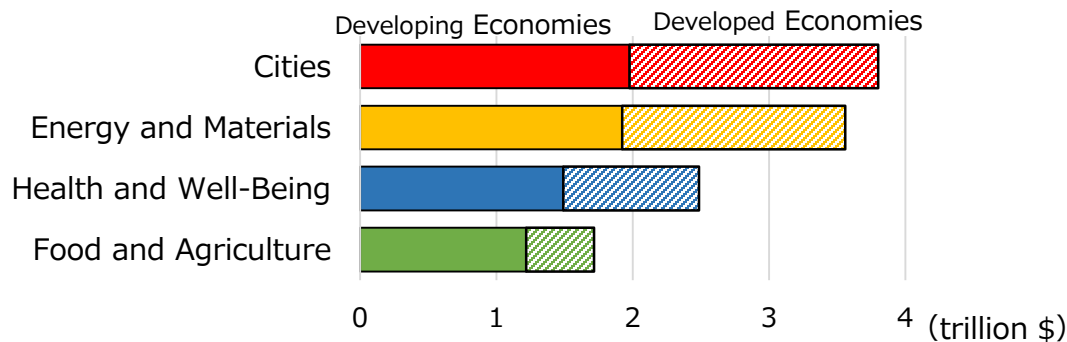
- The SDGs bring new market opportunities by boosting demands driven by new values. Both advanced and emerging economies have great potential. SDGs bonds are becoming as attractive as other bonds for investors. This provides companies with a wider range of funding options.
- Achieving the SDGs could open up US\$ 12 trillion of market opportunities by 2030*. Japanese companies are expected to make significant contributions to the SDGs achievements where cross border cooperation with local firms and municipal governments is imperative.

**Business and Sustainable Development Commission "BETTER BUSINESS BETTER WORLD "*

Market opportunities in 2030

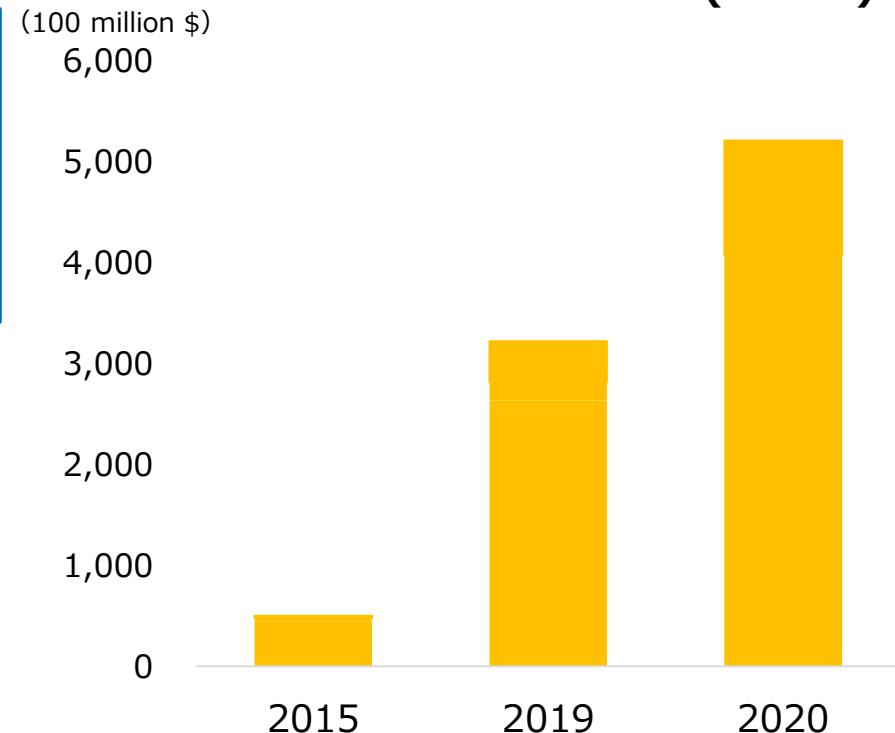
- **Health and Well-being** : healthcare services and products, remote medical care
- **Energy and Materials** : expansion of regenerated energy, bio-based materials applied to circular economy
- **Cities** : electrified vehicles, co2 capture, affordable home ownership
- **Food and Agriculture** : reduction of food loss, services for healthy diet

Market size of Four economic systems in 2030



Source : Better Business Better World 2017
(Report for the World Economic Forum 2017)

SDGs Bond Issuance (World)

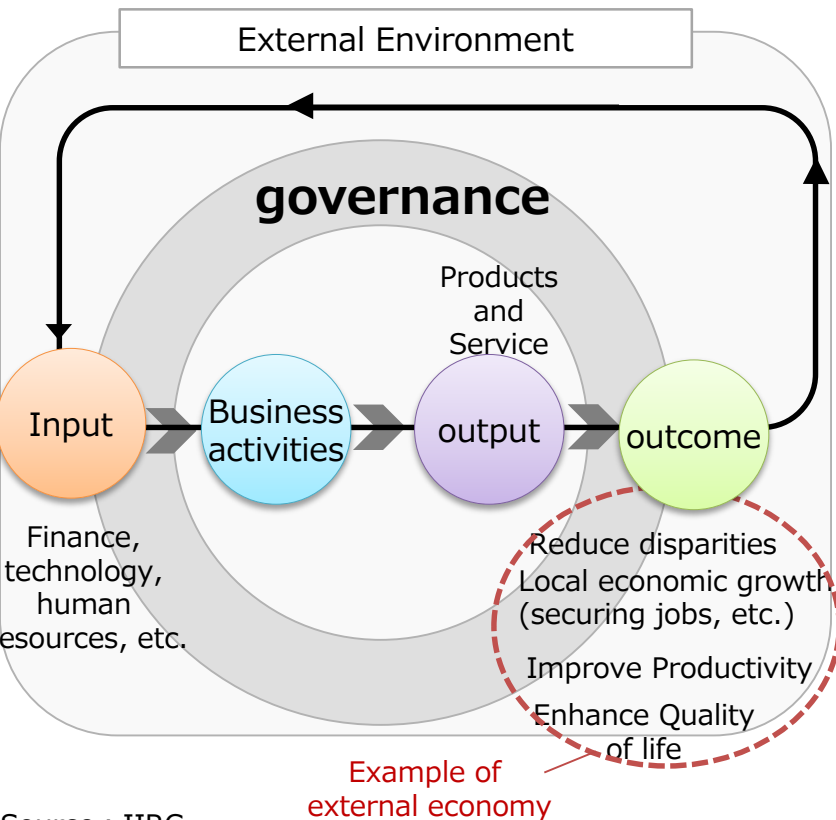


Source : Financial Services Agency of Japan, Japan Securities Dealers, Environmental Finance.

Cooperation to contribute to sustainability

- With the growing awareness of sustainability issues, a cyclical structure is becoming more apparent in which **business activities that are conscious of the external environment**, such as those which improve the quality of life and protect the environment, also **benefit corporate performance**.
- There is an increasing **need for public-private partnerships to solve social issues** by creating shared awareness of social issues, developing human resources and formulating rules.

Circular structure in business activities



Strategic promotion of SDGs by Japanese

	<div>Direct contribution</div> <div>Indirect contribution</div>			Approaches that promote contributions to sustainability (individual / public and private)
SuRaL a Net	Education service	Creating jobs	Reduce disparities	<ul style="list-style-type: none"> Local price F/S and demonstration with JICA and METI support
Nishihara	Waste reduction	Creating jobs	Environment awareness	<ul style="list-style-type: none"> Inter-municipal relations the development of local human resources and creating a mechanism for gathering information demonstration by JICA
DAIKIN	Energy Saving, Recycle	Energy efficiency, Renewable energy	Disease Prevention	<ul style="list-style-type: none"> support for introduction of energy saving standards Reduction of initial burden
	Low-warming Refrigerant, etc.		improve productivity	

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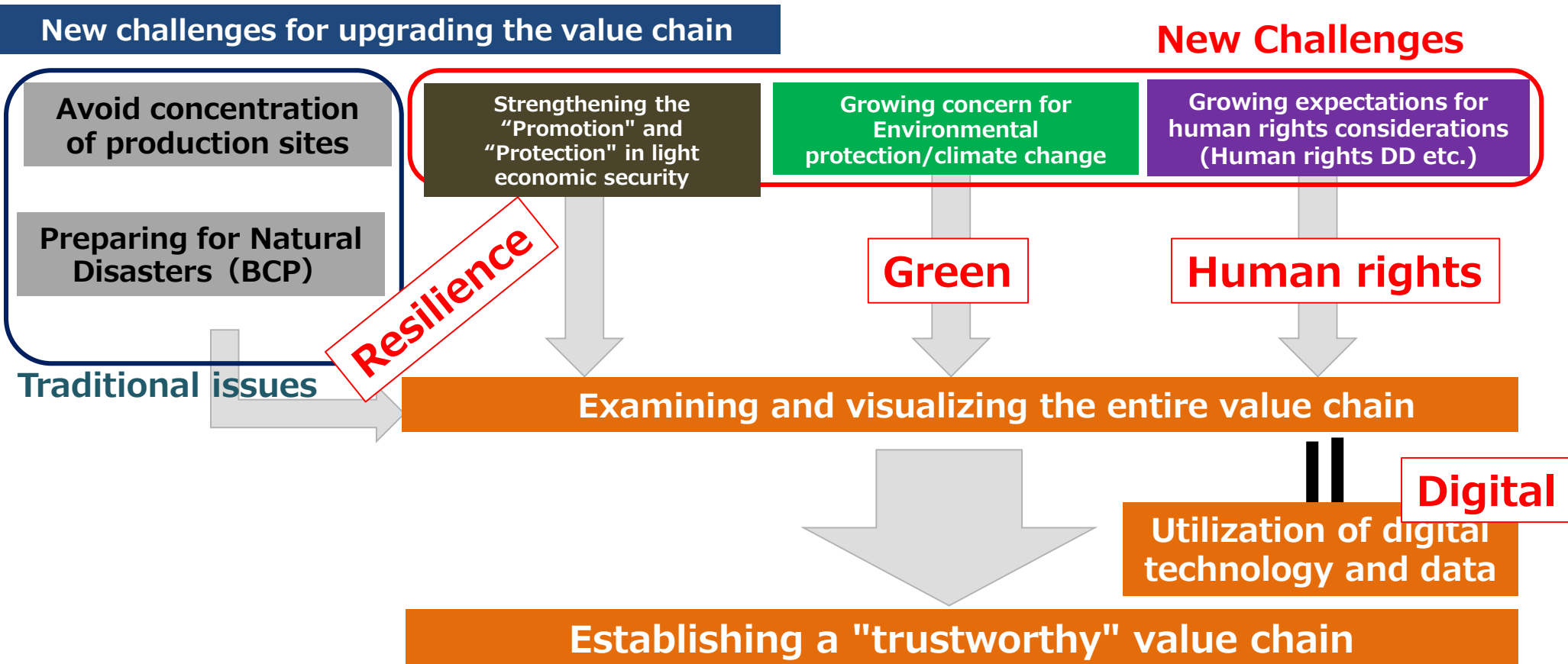
Part III. Policies

Chapter 1. Rule-based International Trade System

Chapter 2. Country Economic Strategies

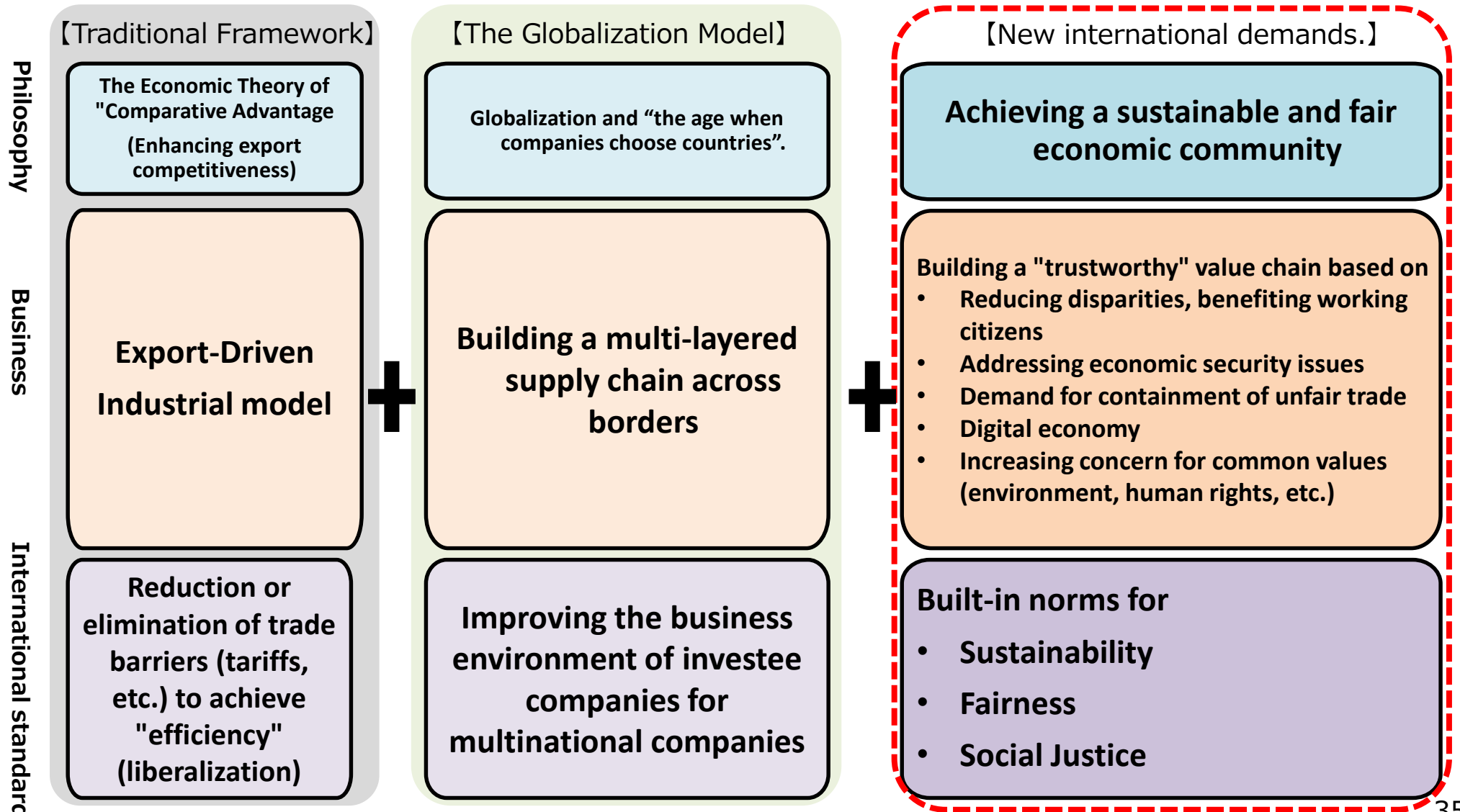
Necessity of building a global value chain with "trust"

- In the midst of geo-economic shifts, global value chains management is becoming more complex due to increasing influential factors, such as "promotion" and "protection" measures from the perspective of economic security and necessary responses to the growing challenges for common values (environment, human rights, etc.). A major strategic issue for corporate management and policy making is to establish a "trustworthy" value chain by examining the entire value chain using digital technology and data.



Call for upgrading the "free trade" system

- In the midst of geo-economic shifts, it is necessary to upgrade the nature of "free trade" in order to maintain and develop a liberal and open economic and social system.



Creating an economic order that supports the "upgrading" of the free trade system and creating a value chain that leverages Japan's strengths

- In order to realize further sophistication of the global value chain by taking advantage of the "strengths" of Japanese companies, it is necessary to form an economic order that responds to various current issues and strategic cooperation between the public and private sectors.

<Issues to be resolved>

Risk of "my country first" and protectionist trade restrictions becoming widespread

- Restrictions on exports of vaccines, etc.
- Increase in tariffs to protect domestic industry
- Remaining tariff/non-tariff measures that hinder the broad use of environmental goods

Damage to the level playing field

by market-distorting measures taken by foreign governments and companies

- Industrial subsidies and state-owned enterprises that lead to overproduction
- Forced technology transfer, dumping by foreign companies
- Failure to take effective climate change measures

Underdeveloped international rules

to cope with the digitalization of economic activities

- Strengthen disciplines against nations that seek to enclose data
- Reduce inequalities between digital companies and traditional companies

<Actions>

Creating Economic Order

(1) Rule making and utilization in WTO

(2) Bilateral/regional rule making and utilization in EPA

(3) Creating norms in fora such as OECD and APEC

Strategic collaboration
in the public and private sectors

(4) Creating a value chain that leverages Japan's strengths in the public and private sectors