

White Paper on International Economy & Trade, 2015

COVER STORY 1

White Paper on International Economy & Trade — Summary 4

By Policy Planning & Research Office, Trade Policy Bureau, Ministry of Economy, Trade & Industry (METI)

METI introduces a summary of its White Paper 2015. This year it highlighted the “earning capacity” of Japanese business in the global market.

COVER STORY 2

Surviving the Unstable Global Economy 10

Challenges for the Japanese Economy as Seen Through the 2015 White Paper on International Economy & Trade

By Koji Ito

Sharing the views on the critical path of the global economy in the post-financial crisis expressed in the METI White Paper, Prof. Koji Ito provides suggestions on how the Japanese economy can survive the instability of the global economy.

COVER STORY 3

The 2015 White Paper on International Economy & Trade 14

Exports & Investments

By Hiroshi Ohashi

Prof. Hiroshi Ohashi offers an overview of the Japanese economy through “Abenomics” and discusses its future direction. He highlights ways to strengthen global management strategies for Japanese businesses as a key to enhancing their “earning capacity”.

COVER STORY 4

Trends & Characteristics of Inward & Outward Foreign Direct Investment in Japan 18

By Kozo Kiyota


Prof. Kozo Kiyota has been studying the issue of FDI, and introduces one of the core issues of the METI White Paper 2015, which is the low level of inward FDI in Japan. The key to achieving a structural reform of the Japanese economy is to enhance this inward FDI.

COVER STORY 5

Why Hasn't the Yen's Depreciation Improved Japan's Trade Deficit? 22

By Junko Shimizu

Prof. Junko Shimizu responds to a question that many of our readers may be asking about the yen's current depreciation. Why hasn't the yen's depreciation improved Japan's trade deficit? Her answers suggest there needs to be a structural change in Japanese trade against the backdrop of globalization.



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Cover lead

METI's White Paper featured by *Japan SPOTLIGHT* every year is an important indicator to readers outside Japan of where the Japanese economy is heading against the backdrop of the global economy. This year it focuses in particular on the "earning capacity" of Japanese businesses. The elaborate and detailed economic analyses shown in the White Paper indicate some serious concerns about the competitiveness of Japanese business in an era of globalization.

First of all, the structural change in the Japanese current account shows that the Japanese economy is becoming more mature. While the trade balance is falling into deficit, earnings not counted in the trade balance – such as Japanese overseas subsidiaries' earnings in their host countries, and earnings from patents or tourists visiting Japan – are helping maintain a surplus in the current balance. This is a feature of a country advancing into a more developed stage of its economy, compared with the less developed stage where a country is earning only from exports of goods.

This developmental change is inevitable in our age of globalization where FDI plays a more important role in creating earnings than trade. METI's analyses indicate that the earning capacity of Japanese subsidiaries overseas is not necessarily strong enough today and thus to maintain Japan's current surplus, which is essential to maintain a stable and well-balanced macroeconomy, many reforms must be implemented to turn the Japanese economy into a full-fledged participant in globalization.

Whether the Japanese economy and businesses are well adjusted to globalization or not can also be assessed by another important economic indicator: internal FDI. The White Paper also

reveals numerous things that need to be done to enhance this indicator in Japan.

Finally, since today's globalization is not purely an "Americanization" – as was perhaps the case in the 1980s or 1990s – business activities are not necessarily protected or guaranteed by a strong US security policy, and so global risk management is another element of business that needs to be enhanced. In particular, the emergence of the BRIC nations and other economies seems to have complicated the global picture, in which each business is looking for an appropriate strategy.

In short, Japanese businesses today are in need of improving their capacity to adjust to the reality of new globalization in order to acquire sufficient earnings.

Responding to this well-constructed White Paper based upon factual and quantitative analyses by a group of highly competent trade policy experts in METI, four distinguished economists offer their comments on it. Prof. Koji Ito of Kyoto University and Prof. Hiroshi Ohashi of the University of Tokyo comment on the White Paper overall, while Prof. Kozo Kiyota of Keio University highlights the issues related to FDI and Prof. Junko Shimizu of Gakushuin University highlights those of the yen's depreciation and the trade deficit.

All four of these economists share with METI a sense of crisis regarding the earning capacity of Japanese businesses. I believe, however, that this sense of crisis can be a stimulus to advancing reforms to improve their earning capacity.

Naoyuki Haraoka is executive managing director and editor-in-chief of Japan SPOTLIGHT.