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JFTC News

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2020 New Year's Remarks by Chairman Kuniharu Nakamura

(January 8, 2020)

Happy New Year.

Looking back over the past year, a new emperor has acceded to the imperial throne, marking the end of the Heisei era and the beginning of the Reiwa era. The solemn enthronement ceremony, to which many foreign dignitaries from around the world were invited, impressively showcased our traditions underpinned by our long history , while heralding the dawn of a new era.

In the landmark year of 2019, Japan hosted a series of major international events including the G20 Summit and the seventh Tokyo International Conference on African Development (TICAD7). It was a year when the Japanese government displayed outstanding leadership and made Japan a key presence, not only in chairing the above mentioned meetings, but also in trade talks. Ensuing the successful agreement on TPP 11 (CPTPP) and the Japan-EU Economic Partnership Agreement, the government settled negotiations on a Japan-US Trade Agreement and a Japan-US Digital Trade Agreement, and managed to swiftly bring these deals into effect. In the sports arena, too, memories are still fresh of Japan's first hosting of the Rugby World Cup, a splendid event where the stunning performance of our national team captured many hearts.

In business sector around the world, advances in technologies utilizing artificial intelligence and the internet of things triggered various changes in existing industries, and business models sometimes collectively referred to as the Fourth Industrial Revolution . While these promising areas of new growth appeared, tensions seemed to heighten further in the international situation. Uncertainties increased in international trade due to factors including US-China trade friction, Brexit, and issues between Japan and South Korea, and anxiety over economic prospects continued to weigh heavily on corporate activity. The US and China finally reached agreement on a Phase one trade deal at the end of the year, and the result of the UK election dispelled immediate uncertainties over Brexit, but both situations remain unpredictable.

Looking ahead to the coming year, regardless of the outcome of the US presidential election due to take place in the fall, it is widely agreed that competition is likely to continue between the world's two economic superpowers, the US and China, a spreading the area of contest from trade to the security domain. US-China confrontation is already taking on a different dimension from trade friction, and is starting to impact on worldwide supply chains, casting a shadow over the global economy. I hope that fears of global economic volatility will be allayed by minimizing the negative effects of politics on the economy. The US presidential election will also have a major impact on Japan-US relations as well as geopolitical risks in the Middle East and East Asia, G7 unity, and global politics and economics. However, regardless of the outcome of US-China relations and the US presidential election, Japan must continue its steady efforts to promote rule-based free and fair trade and investment as well as broader data flows. In the short term, I eagerly wish to see the Regional Comprehensive Economic Partnership (RCEP), which was on the verge of agreement last year, settled in a form that includes India, creating the world's largest free trade zone in Asia.

In parallel with expansion of free trade agreements, securing international agreements as well as rules and regulations to support free and fair trade and investment activities by Japanese companies is also crucial. I am delighted that the Japan-China Social Security Agreement, which the JFTC has long called for, is now in effect. We will continue to put together industry views on matters such as appropriate domestic and international tax systems, promotion of the conclusion of social security agreements and investment agreements, efficient logistics , and security trade controls, and to convey such views to the government and other relevant organizations.

Amid the recent trend for international organizations, governments, and enterprises to work together in addressing UN Sustainable Development Goals (SDGs), private sectors have again been called upon to make a commitment to problem-solving. The 17 goals advocated by the SDGs have a high degree of affinity with the broad business domain of Shosha (trading companies), and the JFTC has launched a special research project on the theme of "Shosha initiatives to achieve SDGs". We are examining measures to further accelerate efforts in our member companies and compiling case studies of successful initiatives. Moreover, we regard global environmental issues as a priority long-term challenge that will affect future generations, and through the business activities of our member companies we are addressing a range of themes including the building of a low-carbon society, sustainable utilization of energy, water and other resources, and preservation of biodiversity in the aim of achieving sustainable growth that balances socio-economic development with preservation of the global environment. Through these activities, the JFTC will make every effort to be capable of contributing to the achievement of a prosperous world.

On recent visits to regional cities in Japan, I have frequently heard SME managers talking about difficulties caused by labor shortages. In that context, this year I would like to continue our focus on expanding our Action for a Better International Community (ABIC) activities. ABIC is a non-profit organization established and supported by the JFTC, and this year it will celebrate its 20th anniversary. ABIC has nearly 3,000 registered members, chiefly Shosha retirees, who use global business skills amassed over many years to respond to an array of needs in society. It is a veritable treasure trove of highly-skilled personnel with an extensive track record that includes providing management advice to regional SMEs struggling with business succession and labor shortages, dispatching human resource needed for international business expansion, and conducting Japanese-language education for foreign residents of Japan. In a new initiative, it has teamed up with

From left to right:
Chairman Nakamura, Vice Chairman,Yasunaga, Kakiuchi, Fujimoto, Suzuki, Kashitani, Kakinoki

the Japan Chamber of Commerce and Industry to gain opportunities to explain ABIC activities at major meetings and build platforms for matching ABIC members with the needs of regional chambers of commerce and industry and their member companies. In keeping with the government's guiding principle of securing employment opportunities for people up to the age of 70 and to contribute to regional revitalization, we intend to publicize ABIC activities to as many people as possible and further broaden ABIC's sphere of engagement.

The JFTC's catch phrase is "Shaping the future toward a prosperous world." This sentiment embodies the Shosha industry's ideas on bringing society various new technologies and business models, and developing them in ways that will help create a sustainable and prosperous future that nobody has seen or experienced before. I hope that our activities in 2020 will go some way toward bringing these ideas to fruition.

The year of the Tokyo Olympic and Paralympic Games has arrived. I hope that this event will bring us many shared moments of excitement that will live on in our memories. I would like to conclude with the sincere wish that 2020 will be a productive year for you all.

Proposal: New Tax Rules Along with the Digitalization of the Economy

First Policy Proposal Group

JFTC Accounting & Tax Committee Submits Comments on OECD Public Consultation Document for Establishing New Tax Rules Along with the Digitalization of the Economy

December, 2019

1. Developments in discussions on expanded digitalization of the economy and new tax systems

Corporate tax levied on companies is based on the principle of taxation at physical sites that generate income such as business sites and factories. On the other hand, IT companies that operate globally in cyberspace can carry out business transactions and bring in income without necessarily needing a physical business site. For that reason, as the economy becomes more digitalized, it is difficult to tax business transactions occurring digitally in the current tax system that taxes based on location of physical presence. Sufficient measures also cannot be taken against tax avoidance behavior in the market jurisdiction/the jurisdiction where the user is located. As a result, there is a growing concern that companies that earn money globally through the digitalization of the economy may not be shouldering enough tax burden.

To cope with such concern, the Organisation for Economic Co-operation and Development (OECD) is currently engaged in discussions on the structure for a new international tax system. In order to seek opinions from stakeholders such as those in industries to which international tax matters are relevant, OECD publicized the public consultation document titled *Addressing the Tax Challenges of the Digitalisation of the Economy* in February 2019, and another such document titled *Secretariat Proposal Unified Approach under Pillar One* in October 2019, then subsequently *Global Anti-Base Erosion Proposal ("GloBE") – Pillar Two* in November 2019.

2. OECD Secretariat proposals for *Pillar One* and *Pillar Two*

OECD Secretariat has broadly organized the frameworks that accompany the digitalization of the economy into *Pillar One* and *Pillar Two*. *Pillar One* adds new tax principles to existing international tax principles and revises rules for the allocation of taxing rights to the market jurisdiction/the jurisdiction where the user is located. *Pillar Two* presents measures to counter tax avoidance behavior of shifting profits to low-tax countries.

In *Pillar One*, the OECD Secretariat proposes new rules mainly from the perspectives of (1) how to determine the scope of business to be taxed, (2) how to determine principles for a new tax base in the market jurisdiction, and (3) how to determine taxing rights in the market jurisdiction.

(1) For revising profit allocation according to the new taxation rules, "consumer-facing business" has been proposed as scope of business, but industries that should be carved out and how to deal with businesses on a larger scale than the predetermined

one have been left open for discussion. (2) Sales in the market jurisdiction regardless of whether there is a physical location (also taking the size of the economy of the market jurisdiction into consideration) is being considered as the main index for the new tax base principle. Also, (3) the establishment of the three categories “Amount A”, “Amount B”, and “Amount C” and tax rights in the market jurisdiction/the jurisdiction where the user is located have been proposed as new rules for the allocation of profit.

“Amount A” assigns tax rights associated with some “deemed non-routine profit” of a multinational corporate group (or for each line of business) to the market jurisdiction as “consumer-facing businesses.” On the other hand, “Amount B and C” allocate tax rights to the market jurisdiction/the jurisdiction where the user is located with the intention of eliminating tax competition in normal sales activities. “Amount B” allocates a certain amount as tax rights for basic sales activities in the market jurisdiction/the jurisdiction where the user is located. “Amount C” ensures that if there are economic activities beyond the basic sales activities of “Amount B” in the market jurisdiction/the jurisdiction where the user is located, that market jurisdiction will be able to exercise tax rights. Therefore, “Amount A” is seen as tax rights under a different concept compared to “Amounts B, and C”.

Meanwhile, *Pillar Two* presents measures to counter tax avoidance behavior of shifting profits to low-tax countries, introduces a minimum tax rate, and proposes a rule that income in the market jurisdiction with a lower effective tax rate than this minimum should be added to totals in the jurisdiction where the parent company is located.

For *Pillar Two*, opinions are being sought about a method to calculate a unified worldwide tax base, *blending approaches* (worldwide blending, jurisdictional blending, entity blending) which recognize a combined total of high-tax income and low-tax income, how rules for exemptions should be, and about concerns over increasing compliance costs.

3 .Comments from the JFTC Accounting & Tax Committee about the OECD Secretariat’s proposal

JFTC Accounting & Tax Committee argues about *Pillar One* “Amount A” is considered as being a new proposal that was not part of the existing international taxation system and that it should be established as *exception handling* for the frameworks of traditional international taxation principles. The committee also asserts that the companies such *exception handling* applied should be limited only to those which the existing tax system cannot pin down.

Besides, the committee argues that the consumer-facing businesses “Amount A” applied and the businesses carve-out rules applied should be clearly defined.

For calculating group profit in “Amount A”, there are concerns that it would not necessarily be easy to identify group profit on a practical level and the administrative workload could increase, though using consolidated financial statements was proposed. We also pointed out it is desirable to establish coordination mechanisms between tax authorities in the jurisdiction where the taxpayer is and the jurisdiction to where taxation is allocated, in order to eliminate double taxation. Besides, it was noted that sufficient consideration must be taken to ensure that compliance costs related to taxation work do not rise excessively.

For “Amounts B and C”, the JFTC provided a comment that the economic activities to which the taxation applies must be clarified and answered to the questions presented by the OECD Secretariat about calculation methods for allocated profit and about eliminating and resolving disputes.

4 .Towards further discussions

Discussions and negotiations between governments would accelerate leading up to the compilation of the final OECD report by the end of 2020. While the JFTC Accounting & Tax Committee understands the need for a new tax system tailored for the digitalization of the economy and the importance of discussing such a system, the committee also recognizes that letting this concept go too far and setting up a new system prematurely should be avoided. In *Pillar One*, “Amount A” is particularly different in nature from “Amounts B and C”, so they should be discussed separately, and that further time should be taken to thoroughly discuss “Amounts B and C”. For *Pillar Two*, viable policies in actual practice should be discussed for blending approaches, for example.

There would be even more opportunities to provide opinions with viewpoints of Japanese industries, based on the request from the OECD leading up to the year 2020. JFTC Accounting & Tax Committee will keep working to get involved in discussions on factors that could impede the global competitiveness not only of Shosha but of other Japanese industries, as well as concerns over the risk of double taxation and of changes that cause excessive increases in compliance costs, based on the fairness and rationality of current tax practices and systems.

Developments in Discussions and Submission of JFTC Accounting & Tax Committee Comments on the OECD Public Consultation Document (Pillar 2) for Establishing New Tax Rules Along with the Digitalization of the Economy

January, 2020

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1. Introduction

The Organisation for Economic Co-operation and Development (OECD) has worked in discussions through the year 2019 on how to construct new rules to accompany the digitalization of the economy. This efforts constitutes a sweeping change to the international taxation system said to only occur once every 100 years. OECD publicized the public consultation document titled *Addressing the Tax Challenges of the Digitalisation of the Economy* in February 2019, and another such document titled *Secretariat Proposal Unified Approach under Pillar One* in October 2019, then *Global Anti-Base Erosion Proposal (“GloBE”) – Pillar Two* was subsequently shared in public in November 2019.

This new development to consider what can be done with the international tax system will also provide impact on how the tax system is applied within Japan. The 2020 Tax Reform Outline published on December 12, 2019 by the Liberal Democratic Party’s Research Commission on the Tax System also spelled out a basic approach to dealing with the globalization and digitalization of the economy, and incorporated viewpoints geared toward upcoming international discussions.

This article introduces comments submitted by the JFTC on December 2 pertaining to *Pillar Two* , and the proceedings at the OECD public consultation meeting on December 9, 2019.

2. OECD Secretariat proposal for *Pillar Two*, and submission of opinions at the OECD public consultation meeting

OECD Secretariat has broadly organized the frameworks that accompany the digitalization of the economy into *Pillar One* and *Pillar Two*. *Pillar One* added new tax principles to existing international tax principles and revised rules for the allocation of taxing rights to the market jurisdiction/the jurisdiction where the user is located. *Pillar Two* presents measures to counter tax avoidance behavior of shifting profits to low-tax countries.

In Pillar One, OECD Secretariat proposes new rules mainly from the perspectives of (1) how to determine the scope of business to be taxed, (2) how to determine principles for a new tax base in the market jurisdiction, and (3) how to determine taxing rights in the market jurisdiction.

Meanwhile, *Pillar Two* presents measures to counter tax avoidance behavior of shifting profits to low-tax countries, introduces a minimum tax rate, and proposes a rule that income in the market jurisdiction with a lower effective tax rate than this minimum should be added to totals in the jurisdiction where the parent company is located.

For *Pillar Two*, opinions are being sought about a method to calculate a unified worldwide tax base, *blending approaches* (worldwide blending, jurisdictional blending, entity blending) which recognize a combined total of high-tax income and low-tax income, how rules for carve-outs should be, and about concerns over increasing compliance costs.

3. Comments from the JFTC Accounting & Tax Committee about the OECD Secretariat’s *Pillar Two* proposal

Just as they were for *Pillar One*, the comments from the JFTC were based on discussion and consultation in the Accounting & Tax Committee’s Tax Affairs Committee. While JFTC is aware that it is difficult to resolve the tax challenges that accompany the digitalization of the economy with the frameworks of existing tax principles, and that measures to address these challenges are needed, it also argues that care should be taken in implementing additional rules for aggregating income which impose excessive compliance costs on companies, and that these rules should not be implemented prematurely. JFTC also asserted that if new income aggregation rules were to be implemented, worldwide consensus should be reached on what type of profit earned by companies should be taxed.

JFTC believes that between tax base calculation methods, blending, and carve-outs, approaches to blending in particular should be the main focus of ongoing discussions. JFTC would like this to be sufficiently discussed and for the key points to be sorted out.

Stakeholders from industry and elsewhere submitted their opinions in the public consultation for *Pillar Two*, and a public consultation meeting was also held at the OECD on December 9, 2019. Mr. Tsuyoshi Nakai, Deputy General Manager, Tax Planning and Control Department, General Accounting Control Division, ITOCHU Corporation (Chair of the 2019 International Tax Working Group)represented Japanese industries and Keidanren (Japan Business Federation) at the meeting, where he gave a presentation on methods for determining tax base. Related parties from other countries also provided comments on the importance of making the system simple and ensuring that there is no double taxation.

4. Towards further discussions

Reiterating what was stated at the beginning, these tax system considerations pertaining to the digitalization of the economy could also have a major impact on Japan's future tax systems. The 2020 Tax Reform Outline also clarifies (1) the background and awareness of the problem, and (2) the following five points as a basic approach to dealing with the digitalization of the economy.

a) Building stable and predictable environments for investment
b) Creating level playing fields between companies
c) Clarifying and otherwise defining new rules for carve-outs
d) Preventing excessive workloads and double taxation
e) Counterbalancing competition to lower corporate taxes

These five points above coincide with the comments on *Pillar One* and *Pillar Two* JFTC Accounting & Tax Committee submitted to the OECD Secretariat. JFTC looks forward to establishing discussions that take these five points into consideration for directing the formation of new rules through inter-governmental negotiations at future OECD inclusive meetings, in a way that does not obstruct Japanese industry from being internationally competitive.

Since there are also quite a few different points to consider in discussing tax systems related to the digitalization of the economy, and considerations must also seek to reduce administrative workload, JFTC believes there will be further opportunities to gather opinions through OECD from the year 2020 onward.

JFTC Accounting & Tax Committee is prepared to continue submitting opinions as needed about concerns over the risk of double taxation and of changes that cause excessive increases in compliance costs, based on the fairness and rationality of current tax practices and systems.

Chairman's Comments

Chairman's Comments on the Cabinet Reshuffle

September 11, 2019

Today, the prime minister announced the second reshuffle of the Cabinet since the inauguration of the Fourth Abe Cabinet. We look forward to great things from the new government.

Globally, we face growing uncertainty and lack of clarity across various areas of politics and the economy, most notably with the prolonged trade frictions between the US and China and the confusion surrounding the UK's exit from the EU.

In this context, the continuation in Japan of a long-term stable government is of vital importance, not only for Japan's future, but from the perspective of Japan's ability to exercise leadership in the international community.

First, regarding the Japan-US trade discussions that will take place in September, we hope that the new cabinet will achieve a comprehensive agreement on the various issues where there is no room for further negotiations, as well as working to implement the WTO reforms agreed at the G20 Osaka Summit and embarking on initiatives to ensure the success of the RCEP and other deals to promote economic partnership.

At the same time, we hope the new cabinet will take bold steps to address the challenges we face in Japan, by accelerating progress on a growth strategy adapted to the progress of digitalization worldwide, responding to the problems associated with the dwindling birthrate and aging society, improving the sustainability of the social security system, and by restoring fiscal health.

Chairman's Comments on the Japan-US Trade Agreement

September 26, 2019

We are pleased that trade negotiations between Japan and the US have reached an agreement, and that the contents of a deal have been confirmed in the joint statement. I would like to express my appreciation to the officials who took part in the negotiations, for their dedicated hard work.

It has been confirmed that no additional tariffs will be imposed on automobiles according to the terms of Section 232 of the US Trade Expansion Act, and no quota imposed on imports of Japanese vehicles while both nations faithfully implementing these agreements. The Japanese auto industry has a wide base of supporting industries. If restrictions had been imposed, they would have increased uncertainty for business management, with possible repercussions for the entire Japanese economy, so this is good news indeed.

No agreement was reached on a timeframe for reducing tariffs on imports of Japanese automobiles and parts into the US. Discussions will continue, and we hope the issue will be resolved soon.

On the Japanese side, it was agreed to reduce tariffs on imports of US agricultural products to the same levels as for TPP members. We welcome this agreement.

We hope that the trade agreement will come into effect as soon as possible.

Chairman's Comments on the Diet approval of the Japan-US Trade Agreement's Effectuation Date

December 4, 2019

We welcome the Diet approval of the Japan-US Trade Agreement and the agreement ready to take effect on January 1, 2020.

The expansion of rule-based free trade is of great significance amid the global proliferation of trade policies featured by protectionism including punitive tariffs.

It is also hoped that the concerned officials will persist in making utmost efforts to achieve the reduction and abolition of US tariffs on imports of Japanese autos and auto parts at an early date, an issue the two countries decided to defer for future negotiation.

Chairman's Comments on Passing of Brexit Bill by UK House of Commons

January 10, 2020

On January 9, the UK House of Commons approved the Brexit Bill to implement the withdrawal agreement between the UK and the EU, and the UK is expected to leave the EU on January 31.

We welcome this progress, which averts the worst-case scenario of a no-deal Brexit. I hope that during the transition period until December 31, 2020, the UK and the EU will reach further agreements, including a free trade agreement (FTA), that enable smooth implementation of a complete withdrawal.

We also urge the governments of Japan and the UK to promptly start negotiations for a Japan-UK FTA, to ensure that Brexit has no impact on trade between our two nations.

Chairman's Comments on the Signing of a Phase One US-China Trade Deal

January 16, 2020

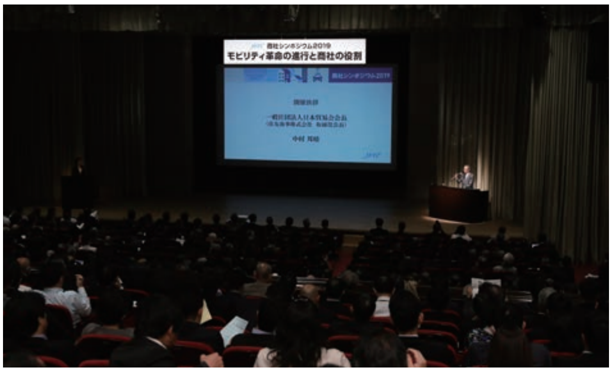
We are pleased that an agreement has been signed between the governments of the US and China on a phase one trade deal.

We have been concerned that the extended trade friction was casting a shadow not only over the trade and investment, but over the global economy. Taking the first step toward easing the conflict through mutual discussion has significantly helped to alleviate concerns about the uncertain future.

We hope that rule-based, free and fair trade and investment systems can be enhanced by steadily implementing the signed agreement while also moving forward with a subsequent phase two deal.

Shosha Symposium 2019
Progress in the Mobility Revolution and the Role of Shosha

The seventh edition of the Shosha Symposium was held by the JFTC at Yurakucho Asahi Hall on December 11, 2019. This annual symposium facilitates broader understanding outside the Shosha industry about its functions and activities, and the theme this year was "Progress in the Mobility Revolution and the Role of Shosha". This year’s symposium highlighted specific business fields which Shosha are competing to develop for the first time.



People nowadays are constantly talking about digital technologies such as IoT and AI, but these have not yet penetrated everyday life to the point of being familiar. CASE is a new trend that is greatly changing the future of cars, which are at the center of the mobility revolution. C stands for Connected as in cars being connected to the internet, A is for Autonomous as in autonomous driving, S is for Shared referring to a shared use, and E is for Electric vehicles. All of these are made possible by the latest digital technologies, and their implementation promises to change our lives dramatically. The automotive industry is set to dramatically evolve into a new type of industry that incorporates peripheral industries to offer new types of services such as MaaS (Mobility as a Service). How are Shosha approaching this upcoming surge? The symposium touched on the role that Shosha are expected to play and highlighted some of the latest initiatives.

Chairman Nakamura

Representing the organizers, JFTC Chairman Kuniharu Nakamura kicked off the symposium with an opening address. Based on his experience in the automotive business, he spoke about how the impact of the mobility revolution over the last few years is “far greater than anything we have experienced before in terms of both quality and quantity.” He also emphasized that mobility services will be a useful means of transport for the elderly in regional communities with weak public transportation systems, and that these services will thus help solve problems in aging societies. He pointed out that the concurrent spread of electric vehicles can also help counter global warming.

Nakamura also said that it is essential for the growth of Japan’s economy that the automotive industry which employs 5.46 million people domestically remains competitive as Japan’s key industry even after the mobility revolution. The JFTC’s catch phrase is “Shaping the future toward a prosperous world,” and Nakamura concluded his address by declaring that the Shosha industry also hope to make the world truly feel more prosperous by committing efforts to promoting the mobility revolution.

The symposium then featured presentations by four speakers from different industries, who also shared their expectations for Shosha. Satoshi Nagashima of the Global Management Team at consultancy Roland Berger gave a keynote speech titled “The Revolution in Creative Productivity Starts with Mobility.” Nagashima talked about efforts at an internal startup company to develop a compact short-range electric car (EV) through a combination of existing technologies. He expressed his expectations for Shosha to successfully leverage their diversity, broad perspectives, and pioneering spirit.

Next was Kentaro Yamaguchi of Kanagawa Prefectural Government Special Assistant to the Governor(for SDGs), whose speech was about “Society’s Quest for the SDGs and the Mobility Revolution.” Yamaguchi informed about how Kanagawa Prefecture is utilizing the SDGs as a tool in its active efforts to solve social problems and is leveraging mobility technologies in doing so. He called for alliances with Shosha, which have the capability to bring products and services to the world, to “bolster Japan’s presence and grow business through contributions to the SDGs.”

Shinichi Nakamura, Sompo Japan Nipponkoa Insurance Executive Officer, introduced a new mobility business venture that his company is pushing forward with using assets they already own. He called on Shosha to “come forward with proposals to enter foreign markets together using this business model.”

The final speaker was by Takeshi Nakagawa of Technology Innovation Headquarters at East Japan Railway Company (JR East), whose presentation was about the Door-to-Door mobility service that JR East is working on together with partners in other industries. He expressed his high expectations for Shosha to share the business packaging capabilities, localization skills, and global perspective that make them strong.

Having heard these four speakers’ expectations for what Shosha can do, a panel discussion on the topic of the role of Shosha in the Mobility Revolution was then held by Shosha employees from the front lines.

Yuki Nobekawa of Kanematsu’s Electronics Business Creation Office spared his experience in the demonstration test to provide information through smartphone for users of EV on the US west coast. In addition to the information they already provide about electric charging stations, he is also conceptualizing ways to provide info about stores in areas surrounding the stations to give users even more stress-free experience while waiting for their cars to finish charging. Determined to make this happen, he affirmed his desire to “foster trust between companies to be able to share more business data with each other.”

Ryota Kondo of Sumitomo Corporation’s Mobility Service Business Dept.2 who is on assignment at a car manufacturer is involved in planning and commercialization for MaaS. In the discussion, he noted that transportation services are becoming even more important in aging societies such as Japan, and shared his desire to make these services “like Anywhere Door of Doraemon. You can go wherever you want whenever you want to go there.” To make this happen he wants to create new business through inter-company alliances, which Shosha are so good at facilitating.

Taichi Nagakubo of Toyota Tsusho is working on the public-road demonstration test of autonomous driving system using driverless trucks in caravan on expressway. This technology allows driverless trucks to communicate with each other so that they follow the truck in front as they drive. This is expected to improve fuel efficiency by reducing wind resistance, while also mitigating labor shortages in terms of drivers. He emphasized that it is something that he wants to turn into a real, legitimate business through the test, and not simply an exercise in technology.

Yasuhiro Kataoka of Marubeni’s Aerospace & Ship Division is working on the self-driving proof of concept at airport restricted area. Marubeni expects self-driving to be useful in alleviating labor shortages in the ground handling operations the company provides. Kataoka spoke about his desire to “lead transformation together with rival Shosha who are driven by a passionate desire to help the world.”

Symposium facilitator Akiko Sasaki, news anchor at TV Tokyo, concluded the event by bringing up the “importance of Shosha harnessing social skills that unite people to achieve a mobility revolution that breaks down borders between industries.”

FY2020 Outlook for Japan's Trade Balance and Current Account

(December 2, 2019)

- Exports will gradually recover, the trade balance will improve, and the current account will recover to a surplus of 20 trillion yen -

On December 2, 2019, JFTC announced its “FY2020 Outlook for Japan’s Trade Balance and Current Account” to the press. The outlook is characterized by its unique method of accumulating forecast for each commodity allotted to the eight companies of the Trade Outlook Working Group, under the Trade Trend Research Committee. Having started in 1974, this year marks the 46th year of this outlook.

Overview

1. Outlook for Trade by Commodity (Customs-cleared Basis)

• FY2019: Trade deficit will grow to around 3 trillion yen mainly due to a decrease in machinery exports

Total exports are forecast to decrease by 5.0% to 76.7 trillion yen from the previous fiscal year. This consists of a 3.1% decline in export volume, and a 2.0% decline in export value. The global economic slowdown mainly in manufacturing sector, and restrained capital investment owing to greater future uncertainty chiefly due to US-China trade friction had a suppressing effect mainly on exports of machinery (Machinery, Electrical Machinery, Transport Equipment).

Total imports are forecast to decrease 3.2% to 79.7 trillion yen from the previous fiscal year. This consists of a 0.5% increase in import volume, and a 3.8% decline in import value. Materials and products were the main factor for the slow down of import volume. Falling crude oil prices will also suppress imports of Mineral Fuels which comprise more than 20% of total imports.

As a result, trade balance will rise to a deficit of 3.0 trillion yen from last year's deficit of 1.6 trillion yen.

• FY2020: Trade deficit will be cut roughly in half due to the end of IT cycle adjustments and increased exports of high value-added products

Total exports are forecast to increase by 3.1% over the previous fiscal year to 79.0 trillion yen. Export volume will increase 0.9%, and export value will rise 2.1% over the previous fiscal year. The adjustment of the IT cycle (wave of demand for IT-related goods such as electronic components) will slow and demand for high value-added products made in Japan will increase, bolstering both export values and volumes for machinery and related products.

Total imports are forecast to increase by 0.9% over the previous fiscal year to 80.4 trillion yen. Import volume will increase 0.3% and import value will rise 0.6% over the previous fiscal year. The Tokyo Olympics and launch of 5G services will spark demand for products such as audio and video devices and communication equipment, driving up imports. Stability in the commodity markets for products will also serve to limit decrease in imports. However, growth in import volume will slow even more as domestic demand remains stagnant overall.

As a result, the trade balance will be in deficit for the third consecutive year, though the size of the deficit will shrink to 1.4 trillion yen.

2. Outlook for the Current Account

• FY2019: Current account surplus will decrease for the second consecutive year, but the services balance and income balance will improve

The current account is forecast to be in surplus of 18.6 trillion yen. The surplus will decrease for the second consecutive year due to worsening trade balance.

However, as the total number of foreign visitors to Japan continues to increase, the services balance deficit (535 billion yen) will decrease. The primary income balance will also reach an all-time high surplus (21.5 trillion yen) mainly due to buildup of foreign assets.

• FY2020: The current account surplus will surpass 20 trillion yen for first time in three years mainly due to an improved trade balance

The current account is forecast to be in surplus of 20.6 trillion yen. The trade balance will improve (surplus based on international balance data) as primary income balance will set another new all-time high surplus (21.7 trillion yen). Due to inbound effects accompanied by the Tokyo Olympics, the deficit in the services balance will also be at its lowest ever (241 billion yen) which will contribute to the current account surplus.

Summary Data

● Customs-cleared Trade

			FY2018 Results		FY 2019 Forecast		FY2020 Forecast	
			(Billions of Yen)	Year-on-year change (rate)	(Billions of Yen)	Year-on-year change (rate)	(Billions of Yen)	Year-on-year change (rate)
Trade Balance			▲1,595	-4,005	▲3,036	-1,442	▲1,401	+1,636
	Exports		80,710	(1.9%)	76,672	(-5.0%)	79,022	(3.1%)
		Quantum Index		-0.6%		-3.1%		0.9%
		Unit Value		2.4%		-2.0%		2.1%
	Imports		82,304	(7.2%)	79,709	(-3.2%)	80,423	(0.9%)
		Quantum Index		1.4%		0.5%		0.3%
		Unit Value		5.7%		-3.8%		0.6%

● Current Account Balance

			FY2018 Results		FY 2019 Forecast		FY2020 Forecast	
			(Billions of Yen)	Year-on-year change (rate)	(Billions of Yen)	Year-on-year change (rate)	(Billions of Yen)	Year-on-year change (rate)
Goods & Services			▲16	-4,099	▲1,346	-1,330	596	+1,942
	Goods		696	-3,843	▲811	-1,507	837	+1,648
		Exports	80,326	(2.6%)	76,308	(-5.0%)	78,647	(3.1%)
		Imports	79,630	(8.0%)	77,118	(-3.2%)	77,809	(0.9%)
	Services		▲712	-256	▲535	+177	▲241	+294
Primary Income			21,013	+746	21,512	+500	21,705	+192
Secondary Income			▲1,753	+422	▲1,563	+191	▲1,693	-130
Current Account			19,243	-2,931	18,603	-640	20,608	+2,005

Note: Due to rounding some amounts may not add up precisely to the totals provided.

● Preconditions

	2018	2019	2020
Global Trade (CY)	3.7 %	1.1%	3.0%
Global Economy (Real growth rate /CY)	3.6 %	3.0%	3.3%
USA	2.9 %	2.3%	2.1%
Euro zone	1.9 %	1.2%	1.3%
Emerging and Developing Asia	6.4 %	5.9%	6.0%
Japanese Economy (Real growth rate / FY)	0.7 %	0.7%	0.6%

Note1: Emerging and Developing Asia is defined by the IMF.

Note2: In addition to the above preconditions, based on the foreign currency exchange market and crude oil market trends in mid-November, calculations were performed using a yen/dollar exchange rate of 108 yen/dollar for FY2019, 108 yen/dollar for FY2020, and a CIF crude oil price of 65 dollars/barrel for FY2019 and 65 dollars/barrel for FY2020.

Foreign Trade 2020

We are pleased to announce that in March 2020, JFTC will publish “Foreign Trade 2020”, with full coverage of Japan’s foreign trade statistics on a customs-cleared basis for the previous year.

“Foreign Trade 2020” marks the 45th edition of this publication since it was first released in 1976. Improvements have been added over the years, such as addition of English printed to the side, addition of graph and charts, as well as expansion of new information to the data chapter.

We hope you will find this volume useful, as educational material for new employees, as a handy reference for overseas business trip, or as a reference material for employees in overseas offices.

“Foreing trade 2020” (¥500 excluding tax) will be available for purchase at large book stores and government book centers. Any inquiries concerning this book should be addressed to **chosa@jftc.or.jp** (Research Group).

What is JFTC?

About Japan Foreign Trade Council, Inc. (JFTC)

JFTC is an industry association for Shosha to pursue the sound development of trade in Japan, and in the international trade industry as a whole, to contribute to Japan’s economic prosperity and the enhancement of international society. It develops consensus within the business community on a broad range of key problems the community faces, both at home and overseas, and lobbies for solutions to such problems.

While globalization has significantly contributed to economic growth, it is also causing numerous global-scale issues. Various efforts are currently underway to overcome these issues and realize a sustainable society. We feel that Shosha, having a global footprint, with their business activity bases in a wide range of industrial sectors, have a major role to play, and their social mission is growing in importance.

JFTC will strive to evolve the Shosha business model under its banner of “Shaping the future toward a prosperous world” by promoting free trade and open investment, meeting the needs of our changing society, and leveraging innovative technologies. By doing so, we will create a sustainable future of unprecedented comfort.

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