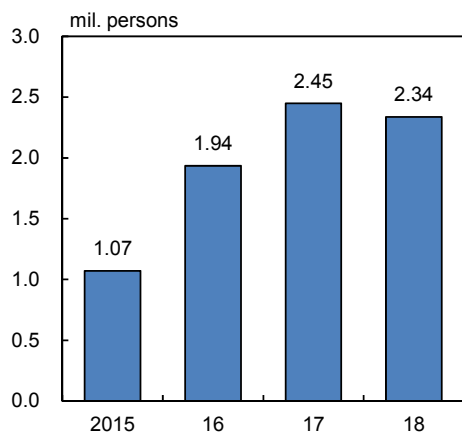


Appendix 1. Start of Recording of Foreign Cruise Travelers' Expenditure in Travel

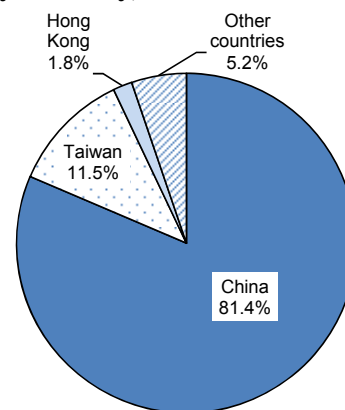
In recent years, amid the increasing range of foreign visitors to Japan, in addition to the number of visitors arriving by plane (hereafter "general visitors"), there has been an increasing trend in the number of foreign visitors coming to Japan on cruise ships (hereafter "cruise passengers"), particularly from China.

Appendix Figure 1.1:
Number of Cruise Passengers



Source: Ministry of Justice, *Statistics on Legal Migrants*.

Appendix Figure 1.2:
Share of Cruise Passengers by Country, 2018



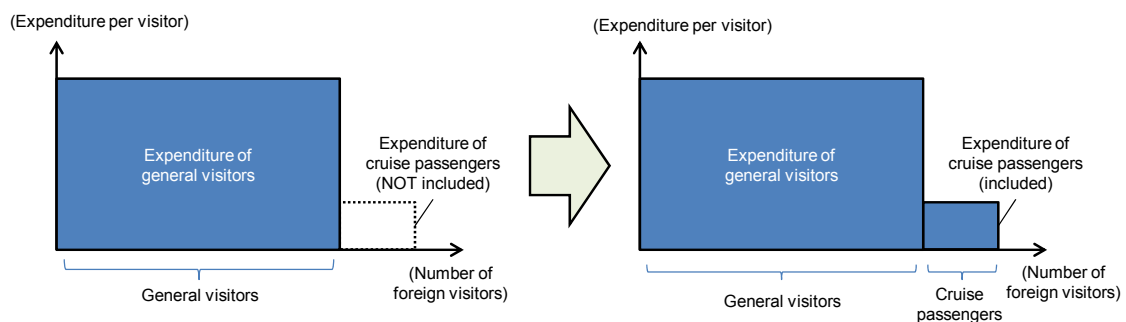
Source: Ministry of Justice, *Statistics on Legal Migrants*.

Against this background, the Japan Tourism Agency expanded the coverage of the *International Visitor Survey* (hereafter "the Survey") and started to publish figures on the travel expenditure of cruise passengers last year. Given this, the Ministry of Finance and the Bank started to record the travel expenditure of cruise passengers under receipts in travel in Japan's BOP statistics, commencing with figures for January 2018.¹

Appendix Figure 1.3: Composition of Travel (Receipts)

<Previously>

<After the Start of the Recording of Cruise Passengers' Expenditure>

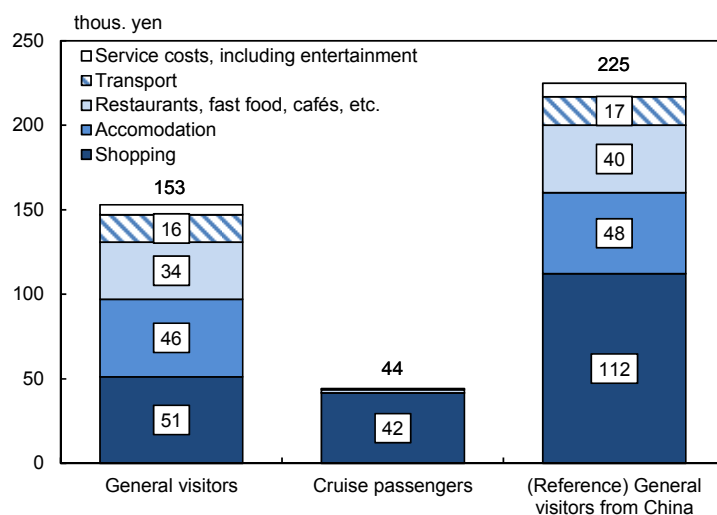


¹ Specifically, expenditure of cruise passengers started to be recorded in the preliminary figures for August 2018, in the second preliminary figures for April 2018, and in the annually revised figures for January 2018.

According to the Survey, travel expenditure per foreign visitor in the case of cruise passengers, at around 40 thousand yen, is small compared to that of general visitors, which is around 150 thousand yen on average. Taking into account the share of cruise passengers in total foreign visitors to Japan -- which stood at 8.3 percent in 2018, according to the *Statistics on Legal Migrants* -- inclusion of the expenditure of cruise passengers is likely to have only a limited impact on the travel balance overall, although this will contribute to an increase in travel receipts.

While the expenditure per visitor of general visitors from China is relatively high, the expenditure per visitor of cruise passengers -- most of whom are from China -- is relatively low. Reasons that have been pointed out include the following: (1) usually, expenses for accommodation, food and beverages, and other such services provided on cruise ships are already included in cruise fares (which fall outside travel);² and (2) the length of cruise passengers' stay in each port of call is short.

Appendix Figure 1.4: Travel Expenditure per Foreign Visitor to Japan, 2018



Source: Japan Tourism Agency, *International Visitor Survey*.

² While cruise fares to Japan are recorded under transport if the cruise operator is Japanese, they are not recorded in Japan's BOP statistics if the cruise operator is from abroad, since in this case they represent transactions between nonresidents.

Appendix 2. Developments in Other Services

Despite the shift in travel to a surplus in recent years, services continue to register an overall deficit. The main reason for this is the deficit on "other services" (see Figure 10 in the main text). This appendix provides an overview of "other services," which is generally regarded as difficult to understand, and examines factors underlying the continued deficit.

"Other services" comprises all services other than travel and transport and can be broadly broken down into 10 components.³

Appendix Figure 2.1: Components of Other Services

bil. yen		Components	Transactions
1.		Manufacturing services on physical inputs owned by others (-474.5)	Services that are associated with the processing, assembly, etc. of goods commissioned by the resident owner of goods to nonresidents and by the nonresident owner of goods to residents.
2.		Maintenance and repair services n.i.e. (-496.8)	Services that are associated with the maintenance and repair of goods commissioned by the resident owner of goods to nonresidents and by the nonresident owner of goods to residents.
3.		Construction (+119.1)	Services that are associated with construction work abroad undertaken by residents and such work undertaken by nonresidents in Japan.
4.		Insurance and pension services (-518.0)	Insurance and pension services as well as auxiliary services to those services.
5.		Financial services (+367.0)	Financial intermediary and auxiliary services.
6.		Charges for the use of intellectual property n.i.e. (+2,622.0)	(1) Charges for the use of industrial property n.i.e. (+3,510.1)
			(2) Charges for the use of copyrights n.i.e. (-888.1)
7.		Telecommunications, computer, and information services (-1,238.0)	Services related to information technology.
8.		Other business services (-2,859.0)	(1) Research and development (R&D) services (-1,441.4)
			(2) Professional and management consulting services (-547.8)
			(3) Technical, trade-related, and other business services (-869.8)
9.		Personal, cultural, and recreational services (-3.3)	Services for individuals as well as services related to cultural and recreational activities.
10.		Government goods and services n.i.e. (+300.7)	The expenditures of embassies, consulates, and military bases as well as service transactions of governments or international organizations that are not included in other categories.

Note: Figures in parentheses indicate net balances in 2018 (+: surplus, -: deficit).

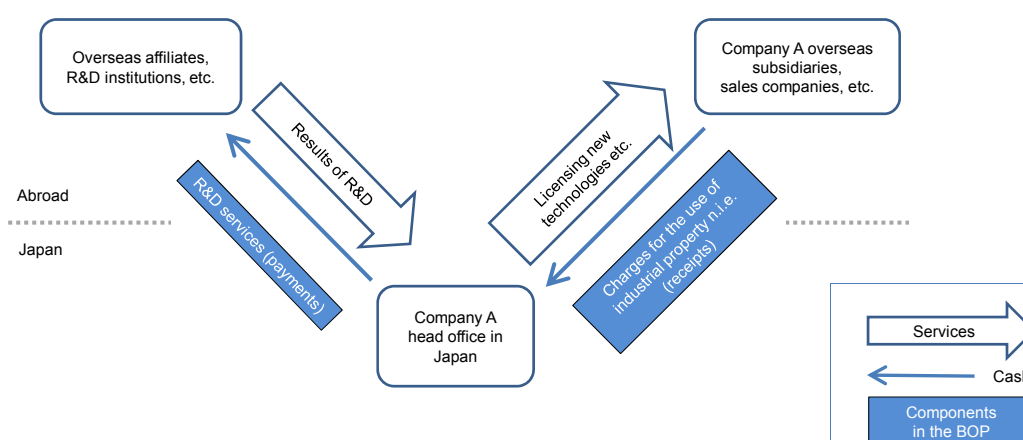
³ For "charges for the use of intellectual property n.i.e." and "other business services," which make up a large share of "other services," developments in each of the subcomponents are examined.

(1) Link to the Globalization of Japan's Manufacturing Sector

Among the components of other services, in addition to "charges for the use of industrial property n.i.e.," components such as "R&D services," "manufacturing services on physical inputs owned by others," and "maintenance and repair services n.i.e." are closely linked to the globalization of Japan's manufacturing sector.

In recent years, Japan's manufacturing sector has outsourced not only production activities overseas but also R&D activities. Moreover, in industries such as pharmaceuticals, there are cases in which Japanese firms make payments for R&D expenses to overseas firms that have become affiliates through M&As. At the same time, the results of R&D activities in Japan are extended to overseas affiliates in the form of new products and production processes, for which Japanese firms receive funds by charging royalties ("charges for the use of industrial property n.i.e.") as compensation.

Appendix Figure 2.2: Link between R&D Services (Payments) and Charges for the Use of Industrial Property n.i.e. (Receipts)



Moreover, components such as "manufacturing services on physical inputs owned by others" and "maintenance and repair services n.i.e." include the outsourcing by Japanese manufacturing firms of processing and assembly work, as well as of after-sales services such as repairs to overseas subsidiaries and the like; therefore, globalization tends to result in an increase in payments overseas under these components.

(2) Growing Use of IT-Related Services

Meanwhile, "telecommunications, computer, and information services" and "charges for the use of copyrights n.i.e." -- components that apart from the ones mentioned in Section (1) make up a large share of "other services" -- are closely linked to firms' growing use of information technology (IT).

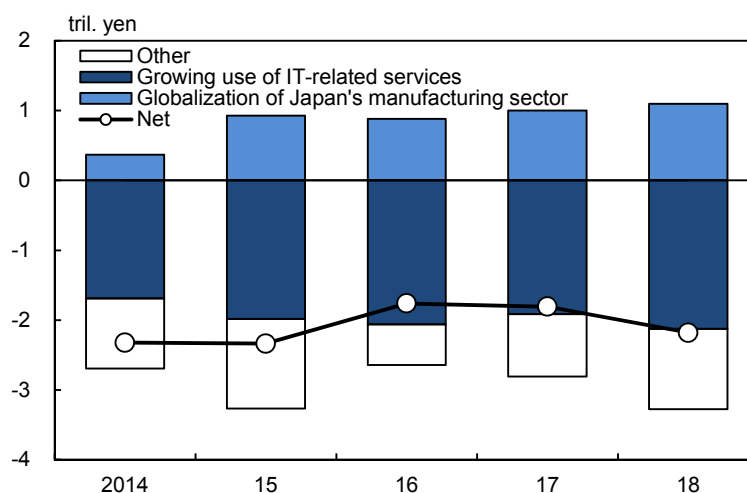
Payments for "telecommunications, computer, and information services" largely consist of payments by IT firms for the outsourcing of development to their overseas operations. "Charges for the use of copyrights n.i.e." primarily consists of royalty payments for software.

Therefore, payments under these components are likely to increase as Japanese firms increase their use of overseas IT-related services.

(3) Overall Pattern regarding Developments in Other Services

Based on the above characteristics, the overall pattern regarding the recent trend in figures for other services is as follows: (1) amid the advancing globalization of Japan's manufacturing sector, receipts of royalties and other charges from abroad operate in the direction of an overall surplus in other services; (2) however, these are outweighed by payments for IT-related services to overseas firms, so that the balance is in deficit.

Appendix Figure 2.3: Developments (by Factor) in Other Services (Net)



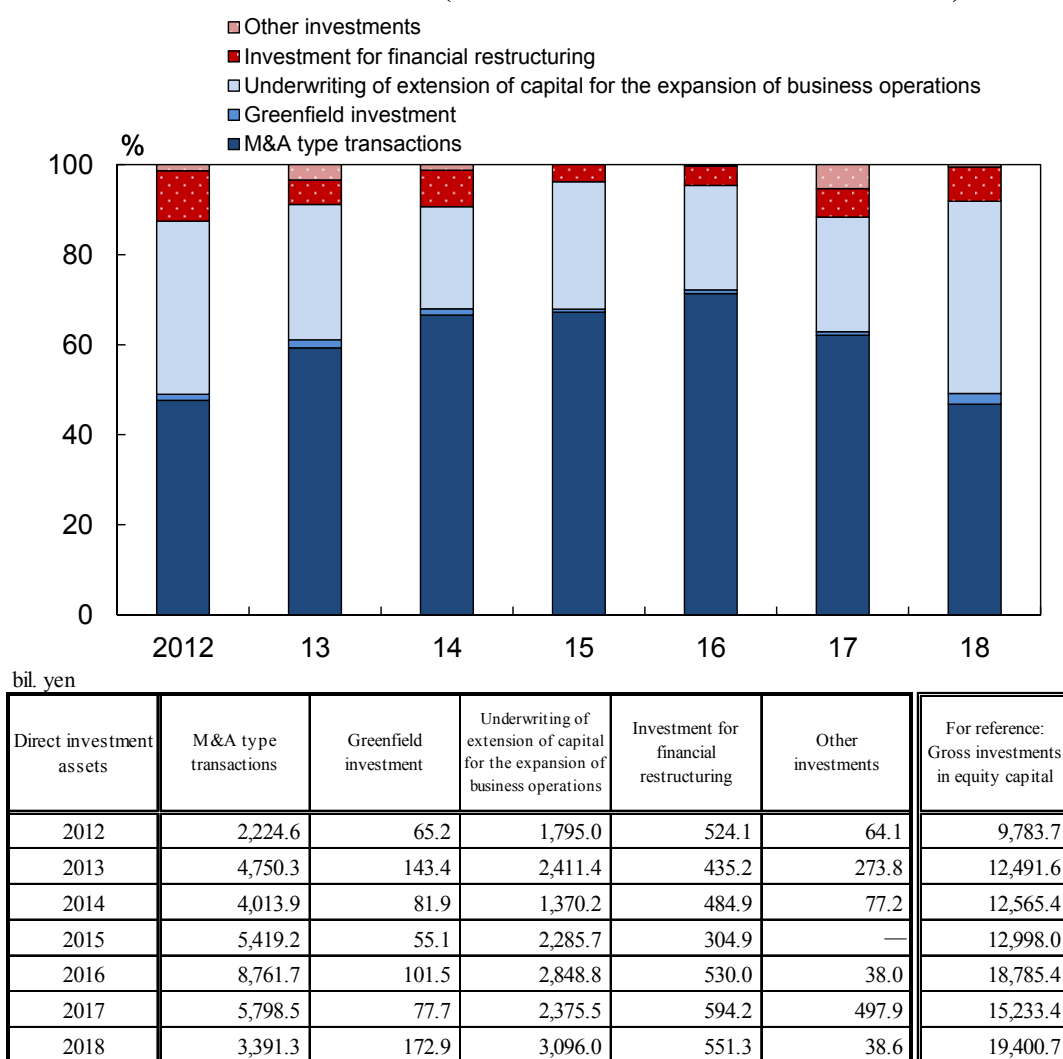
Note: For the analysis in this appendix, components of other services are categorized as follows.

Factors	Components
Globalization of Japan's manufacturing sector	(1) Manufacturing services on physical inputs owned by others; (2) maintenance and repair services n.i.e.; (3) charges for the use of industrial property n.i.e.; and (4) R&D services.
Growing use of IT-related services	(1) Charges for the use of copyrights n.i.e. and (2) telecommunications, computer, and information services.
Other	(1) Construction; (2) insurance and pension services; (3) financial services; (4) professional and management consulting services; (5) technical, trade-related, and other business services; (6) personal, cultural, and recreational services; and (7) government goods and services n.i.e.

Appendix 3. Developments in Direct Investment by Type of Investment^{4,5,6}

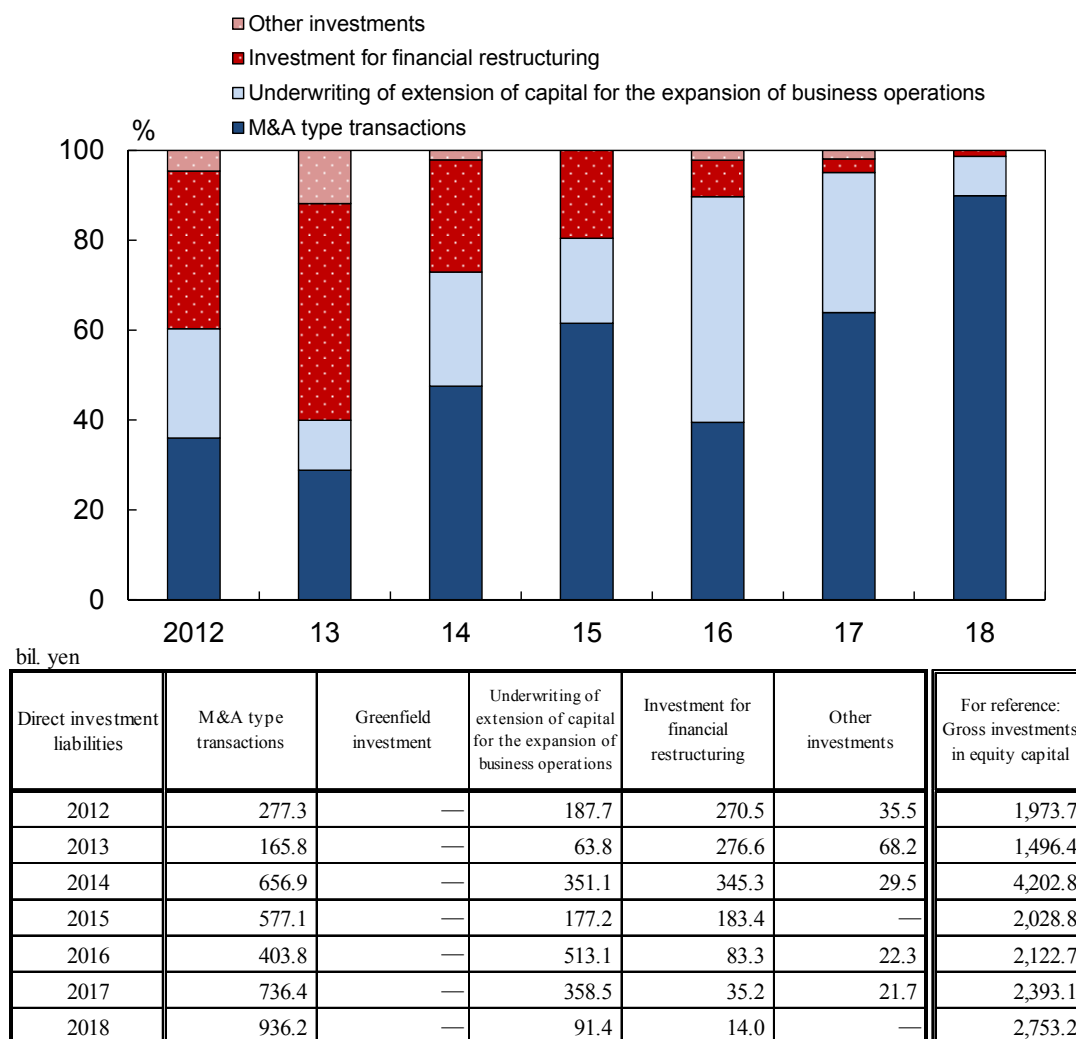
Developments in direct investment classified by type of investment show the following. Starting with direct investment assets, M&A type transactions consisting of the acquisition of foreign firms by Japanese firms as well as underwriting of extension of capital for the expansion of overseas business operations accounted for a relatively large share. On the other hand, greenfield investment -- in which new enterprises are established by investors -- continued to be low.

Appendix Figure 3.1: Direct Investment Assets by Type of Investment on a Gross Value Basis (Investments of 10 Billion Yen or More)



Transactions in direct investment liabilities continued to be low compared to those in direct investment assets. A breakdown by type of investment shows that M&A type transactions accounted for a large share.

Appendix Figure 3.2: Direct Investment Liabilities by Type of Investment on a Gross Value Basis (Investments of 10 Billion Yen or More)



⁴ In accordance with the *BPM6* and the *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, direct investment transactions (gross investments in equity capital) are classified into the following five types of investment: (1) M&A type transactions: investment for the acquisition of existing shares of ultimate investee enterprises; (2) greenfield investment: investment for the new establishment of ultimate investee enterprises; (3) underwriting of extension of capital for the expansion of business operations: investment for the extension of capital for the expansion of business operations of ultimate investee enterprises; (4) investment for financial restructuring: investment for debt repayment or loss reduction; and (5) other investments: other investments including investment in corporate type investment trusts.

⁵ Reference figures. The classification is applied only to direct investment transactions (gross investments in equity capital) of 10 billion yen or more.

⁶ Figures before 2014 based on the fifth edition of the *Balance of Payments Manual (BPM5)* have been retroactively revised as far back as possible and have been reclassified to the extent possible for comparability following current international standards.