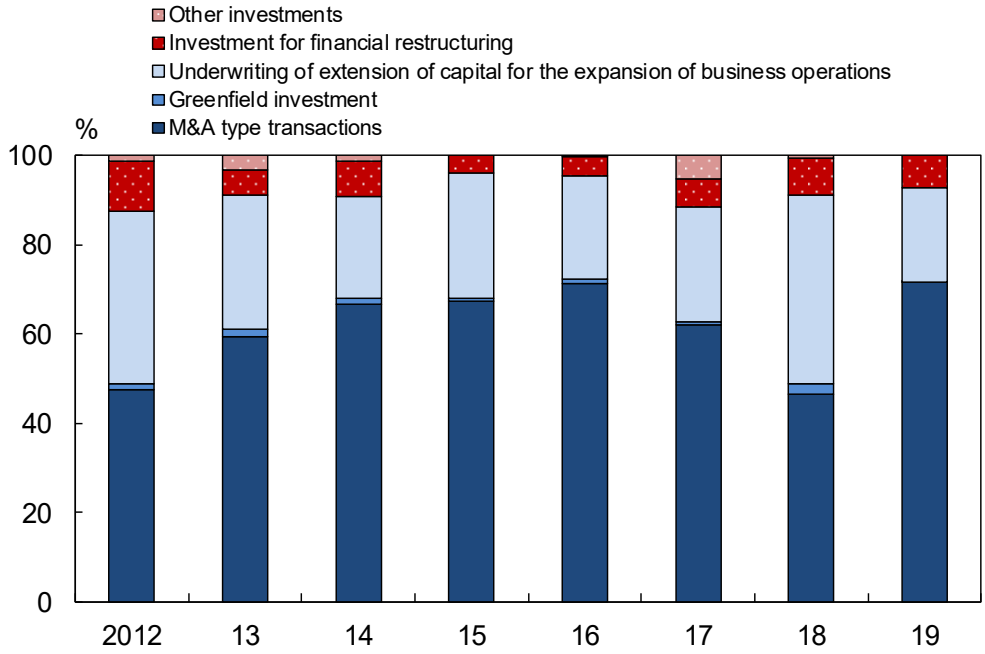
Appendix 1. Developments in Direct Investment by Type of Investment[1,2,3]

Developments in direct investment classified by type of investment show the following. Starting with direct investment assets, in 2019, the share of M&A type transactions consisting of the acquisition of foreign firms by Japanese firms increased, reflecting the impact of large-scale acquisitions. The second-largest share was accounted for by the underwriting of extension of capital for the expansion of overseas business operations. Greenfield investment -- in which new enterprises are established by investors -- continued to be low.

On the other hand, investments under direct investment liabilities continued to be low compared to those under direct investment assets. A breakdown by type of investment shows that while M&A type transactions continued to account for a significant share, the share of the underwriting of extension of capital for the expansion of business operations increased substantially in 2019.

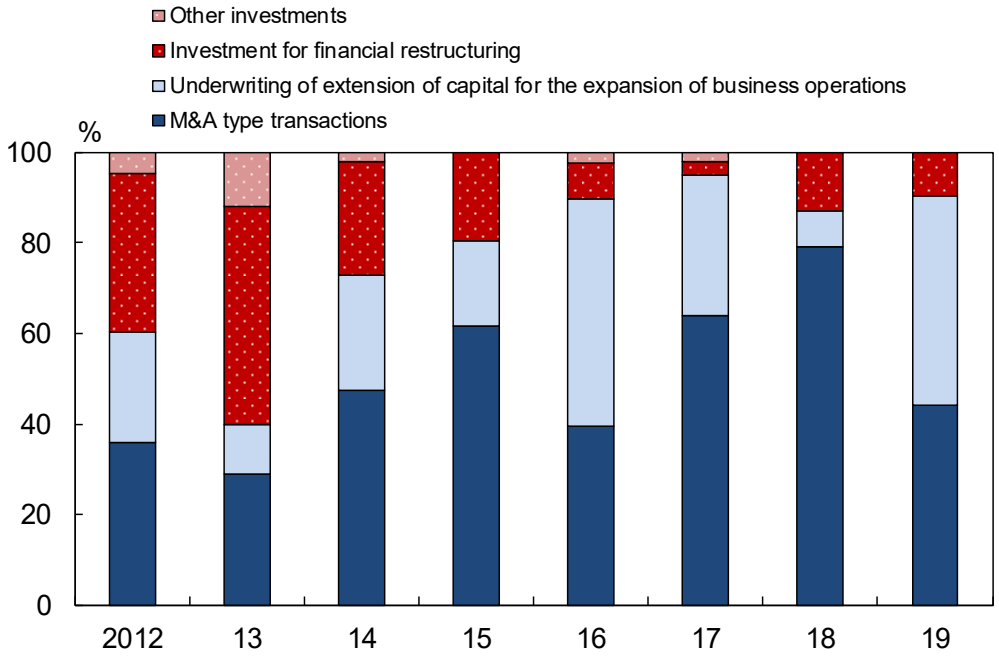
Appendix Figure 1.1: Direct Investment Assets by Type of Investment on a Gross Value Basis (Investments of 10 Billion Yen or More)



bil. yen

Direct investment assets	M&A type transactions	Greenfield investment	Underwriting of extension of capital for the expansion of business operations	Investment for financial restructuring	Other investments	(Reference) Gross investments in equity capital
2012	2,224.6	65.2	1,795.0	524.1	64.1	9,783.7
2013	4,750.3	143.4	2,411.4	435.2	273.8	12,491.6
2014	4,013.9	81.9	1,370.2	484.9	77.2	12,565.4
2015	5,419.2	55.1	2,285.7	304.9	—	12,998.0
2016	8,761.7	101.5	2,848.8	530.0	38.0	18,785.4
2017	5,798.5	77.7	2,375.5	594.2	497.9	15,233.4
2018	3,391.3	172.9	3,096.0	600.7	38.6	19,572.6
2019	12,844.4	52.0	3,778.4	1,288.1	—	33,909.8

Appendix Figure 1.2: Direct Investment Liabilities by Type of Investment on a Gross Value Basis (Investments of 10 Billion Yen or More)



bil. yen

Direct investment liabilities	M&A type transactions	Greenfield investment	Underwriting of extension of capital for the expansion of business operations	Investment for financial restructuring	Other investments	(Reference) Gross investments in equity capital
2012	277.3	—	187.7	270.5	35.5	1,973.7
2013	165.8	—	63.8	276.6	68.2	1,496.4
2014	656.9	—	351.1	345.3	29.5	4,202.8
2015	577.1	—	177.2	183.4	—	2,028.8
2016	403.8	—	513.1	83.3	22.3	2,122.7
2017	736.4	—	358.5	35.2	21.7	2,393.1
2018	936.2	—	91.4	154.4	—	2,892.8
2019	821.3	—	864.9	178.4	—	3,479.9

[1] 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 of ultimate investee enterprises; and (5) other investments: other investments including investment in corporate type investment trusts.

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

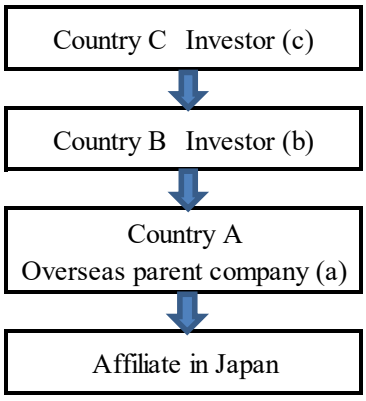
[3] Figures before 2014 based on the fifth edition of the *Balance of Payments Manual (BPM5)* have been retroactively revised as far back as possible and have been reclassified to the extent possible for comparability following current international standards.

Appendix 2. Enhancement of the Statistics on the Inward Direct Investment Position on an Ultimate Investor Basis

Overview

In July 2018, the Bank started to release the "Regional Direct Investment Position (Inward investment) (Ultimate investor)" by country (33 countries) and region as reference figures for the IIP of Japan (Calendar Year Data) in the BOJ Time-Series Data Search.[4]

In the statistics, data by country and region for the investment position of overseas parent companies in affiliated companies in Japan (inward direct investment position) are compiled by regarding the country in which the ultimate investor holding ultimate control resides (i.e., the ultimate investing country) as the partner country.[5] International standards recommend the compilation of the inward direct investment position on an ultimate investor basis as such statistics are useful for obtaining a better grasp of cross-border direct investment.



The ultimate investing country is decided as follows.

(1) When the overseas parent company (a) of an affiliate in Japan does not have an investor that owns more than 50 percent of the voting power, the country in which (a) resides is the ultimate investing country (country A).

(2) When there is an investor (b) that owns more than 50 percent of the voting power of (a) but that itself is not majority-owned by another investor, the country in which (b) resides is the ultimate investing country (country B).

(3) When there is an investor (c) that owns more than 50 percent of the voting power of (b), the country in which (c) resides is the ultimate investing country (country C).

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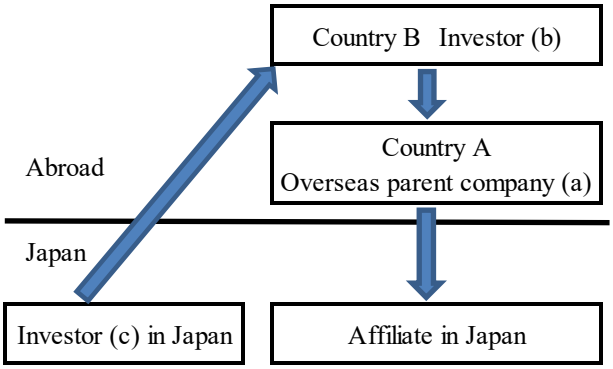
[4] Statistics on direct investment are compiled on the basis of two recording principles: (1) the asset and liability principle and (2) the directional principle. The IIP of Japan (Calendar Year Data) is compiled on the basis of the asset and liability principle, while the Direct Investment Position by Region and Industry and the "Regional Direct Investment Position (Inward investment) (Ultimate investor)" are compiled on the basis of the directional principle. For details, refer to the "Recording Principles of Direct Investment" as well as *Japan's Balance of Payments Statistics and International Investment Position for 2016* released in July 2017, both available on the Bank's website.

[5] For details on the compilation method, see the references cited in footnote 4.

Enhancement of the statistics

In June 2020, the Bank added Japan to the country breakdown of the "Regional Direct Investment Position (Inward investment) (Ultimate investor)." The data for Japan represent so-called round-tripping, that is, flows of funds where the investee and its ultimate investor reside in the same country. They involve the channeling abroad of funds by investors residing in Japan (ultimate investors) and the subsequent return of these funds to affiliates in Japan (investees) from their overseas parent companies in the form of direct investment.



To give an example of round-tripping, consider the case of a country that provides preferential treatment for equity investment from foreign countries. Under these circumstances, a firm from that country, in order to take advantage of such preferential treatment, may channel investment through an overseas affiliate to invest in its own country and hence "round-trip" those funds.[6]

Position at year-end 2019

Regarding the inward direct investment position at year-end 2019, on an ultimate investor basis, direct investment from the United Kingdom, the Netherlands, and the Cayman Islands was smaller than on an immediate investor basis, while investment from the United States and France was larger.

Looking at the round-tripping investment position of ultimate investors residing in Japan, although some transactions can be observed, their share in the overall inward direct investment position is small.

[6] A comprehensive overview of incentives for round-tripping can be found in Annex 3 of the *BD4*.

Appendix Figure 2.1: Inward Direct Investment Position by Country of Immediate Investor and Ultimate Investor[7]

bil. yen

	Year-end 2018			Year-end 2019		
	By country of immediate investor (A)	By country of ultimate investor (B)	Difference (B) – (A)	By country of immediate investor (A)	By country of ultimate investor (B)	Difference (B) – (A)
Total	22,667.4	22,667.4	0.0	24,092.0	24,092.0	0.0
Asia	4,442.8	5,304.0	+861.3 ↑	5,518.2	5,687.1	+168.9 ↑
Japan	—	41.0	+41.0	—	40.8	+40.8
P.R. China	186.4	259.2	+72.9	221.9	289.7	+67.8
Hong Kong	908.8	845.4	–63.4	1,038.8	1,027.1	–11.7
Taiwan	661.7	976.8	+315.1	758.0	1,052.7	+294.8
R. Korea	718.5	750.4	+32.0	791.0	963.6	+172.6
Singapore	1,834.6	2,330.9	+496.3	2,556.5	2,207.0	–349.5
Thailand	28.1	13.5	–14.6	30.1	19.2	–10.9
Indonesia	15.2	2.9	–12.3	15.5	4.6	–10.8
Malaysia	62.0	34.0	–28.0	73.6	24.6	–48.9
Philippines	11.0	10.7	–0.3	15.0	12.9	–2.2
Viet Nam	0.3	0.4	+0.2	0.4	0.4	+0.0
India	9.4	21.0	+11.6	9.7	21.8	+12.1
North America	5,373.1	6,708.7	+1,335.5 ↑	6,499.2	8,479.3	+1,980.1 ↑
U.S.A.	5,231.6	6,555.0	+1,323.4	6,353.0	8,309.1	+1,956.1
Canada	141.5	153.7	+12.1	146.3	170.3	+24.0
Central and South America	1,880.7	813.1	–1,067.7 ↓	2,157.8	721.8	–1,435.9 ↓
Mexico	0.3	28.8	+28.5	0.3	28.0	+27.7
Brazil	4.5	–348.9	–353.3	4.5	–305.5	–309.9
Cayman Islands	1,643.1	998.8	–644.3	1,903.9	846.5	–1,057.4
Oceania	325.4	161.1	–164.3 ↓	340.9	158.5	–182.3 ↓
Australia	282.0	101.9	–180.1	297.2	101.1	–196.1
New Zealand	32.7	37.9	+5.2	30.8	34.2	+3.4
Europe	10,445.5	9,724.6	–720.8 ↓	9,301.7	9,085.9	–215.8 ↓
Germany	404.9	1,151.0	+746.1	285.5	1,142.5	+857.0
U.K.	1,600.4	322.9	–1,277.5	1,584.0	–369.4	–1,953.4
France	3,635.2	4,956.2	+1,321.0	3,797.9	4,954.1	+1,156.1
Netherlands	2,713.2	728.6	–1,984.6	2,069.6	707.5	–1,362.1
Italy	132.0	63.8	–68.2	141.2	82.4	–58.8
Belgium	83.2	97.7	+14.5	83.8	336.8	+253.1
Luxembourg	740.2	530.9	–209.3	720.7	533.9	–186.8
Switzerland	626.7	1,150.4	+523.7	226.7	1,096.4	+869.7
Sweden	279.6	54.9	–224.7	305.9	68.2	–237.8
Spain	73.0	–97.7	–170.7	74.2	–23.2	–97.4
Russia	6.3	5.8	–0.5	6.7	6.0	–0.7
Middle East	178.5	–57.9	–236.3 ↓	190.3	–55.3	–245.6 ↓
Saudi Arabia	2.8	–350.1	–352.9	2.9	–438.5	–441.4
U.A.E.	12.0	62.4	+50.5	26.3	58.2	+31.9
Iran	—	—	—	—	—	—
Africa	17.6	10.3	–7.4 ↓	80.2	11.3	–69.0 ↓
R.South Africa	0.1	0.5	+0.4	0.1	0.6	+0.5

[7] Arrows in the figure indicate whether (B) is larger (↑) or smaller (↓) than (A).

Appendix 3. Recent Discussions on the Treatment of Digital Trade in the BOP Statistics

In response to the increase in digital trade in recent years, there have been active discussions at conferences held by such institutions as the IMF and the OECD on how to record such trade in the BOP statistics. This appendix presents some of the ongoing international discussions surrounding digital trade.

In 2020, the OECD, the World Trade Organization (WTO), and the IMF compiled and published the *Handbook on Measuring Digital Trade, Version 1* (hereafter the Handbook) for national authorities in charge of compiling BOP statistics, to help capture digital trade transactions. In the Handbook, digital trade is defined as "all trade that is digitally ordered and/or digitally delivered."[8,9] Among such trade, transactions via digital intermediation platforms (hereafter "platforms") in particular have been increasing in recent years and have become a major topic at, for example, international conferences.

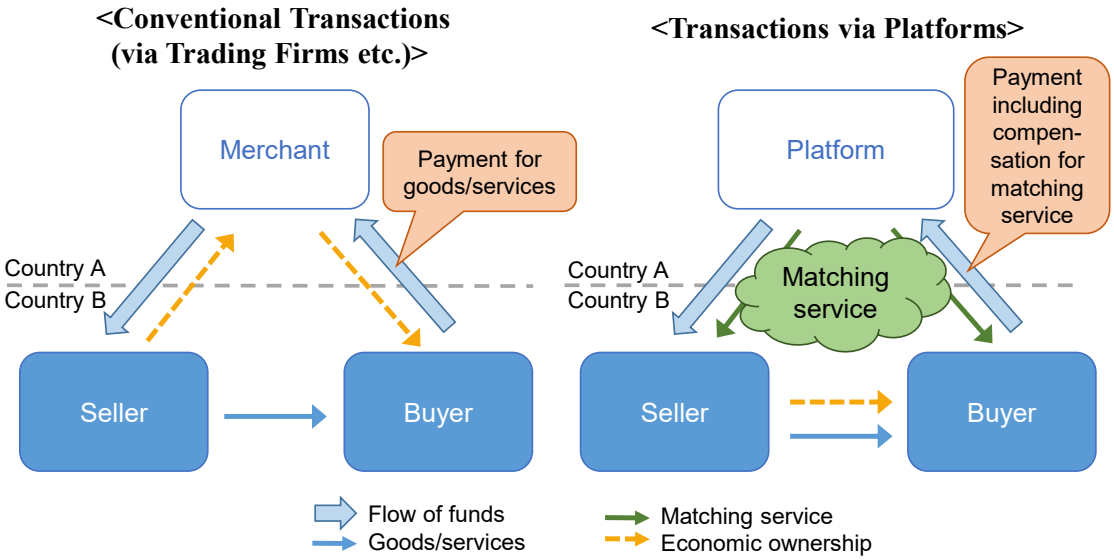
Appendix Figure 3.1 compares transactions via conventional channels with transactions via platforms. The left part of the figure shows conventional intermediary trade in which a merchant in country A acts as an intermediary between a seller and a buyer that both reside in country B. In the case of conventional intermediary trade, while goods are often passed directly from the seller to the buyer, the merchant enters into individual sales contracts with the seller and the buyer. As a result, ownership of the goods is first transferred from the seller to the merchant, and then from the merchant to the buyer.

On the other hand, while transactions via platforms -- shown in the right part of Appendix Figure 3.1 -- are identical to transactions via conventional channels in that the goods themselves move directly from the seller to the buyer, they differ in that ownership of the goods is not transferred via the platform but passes directly from the seller to the buyer. Thus, the platform provides a matching service for which it receives compensation.

[8] Examples of trade that is digitally ordered include online purchases of daily necessities or international flight tickets.

[9] Examples of trade that is digitally delivered include downloading of music and streaming of video content.

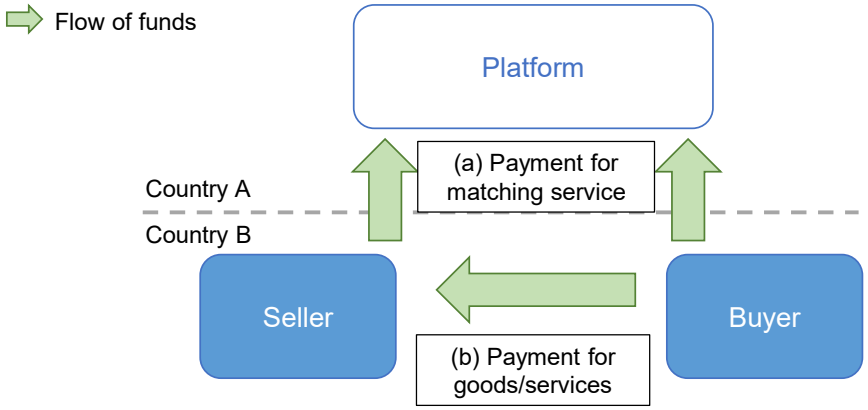
Appendix Figure 3.1: Comparison between Conventional Intermediary Trade and Digital Trade



In compiling statistics, capturing such transactions via platforms is not easy. Reasons include the following: (1) digitalization has spread so widely that transactions via platforms are used even for personal e-commerce transactions. In Japan, for example, under the Foreign Exchange Act, only transactions worth more than 30 million yen need to be reported, so that many small transactions, especially those conducted by individuals, are excluded from reporting requirements. In addition, (2) the compensation for the matching service -- shown as (a) in Appendix Figure 3.2 -- which should be recorded in the BOP, is difficult to estimate precisely without the cooperation of the platform, as there are no market transactions that can be used for reference to estimate the compensation; and (3) due to the fact that these are electronic transactions, it is difficult to identify the location (residence) of each entity involved in the transaction, which is essential for compiling the BOP statistics.

Countries are beginning to make efforts to capture the digital economy overall. The Handbook provides such examples as the estimation of the market size using big data and the implementation of questionnaire surveys for households.

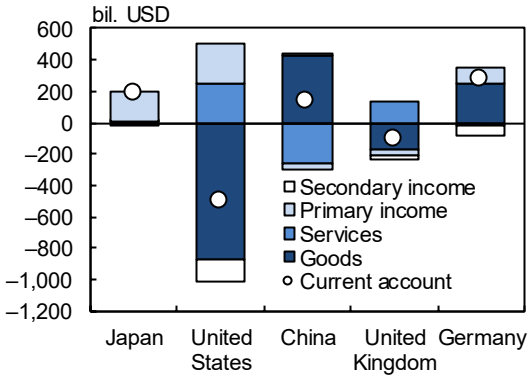
Appendix Figure 3.2: How Digital Trade Would Ideally Be Recorded



Appendix 4. International Comparison of Current Accounts

Comparing the current accounts of five major countries (Japan, the United States, China, the United Kingdom, and Germany) reveals key features of each economy. As of 2019, the main reason for Japan's current account surplus was the surplus on primary income, while for the four other countries the current account surplus or deficit was led by goods (Appendix Figure 4.1). However, the components responsible for fluctuations in the current account balance differ across these four countries. The following sections present key features of the current accounts of the four countries other than Japan.

Appendix Figure 4.1: Current Account of Five Major Countries, 2019



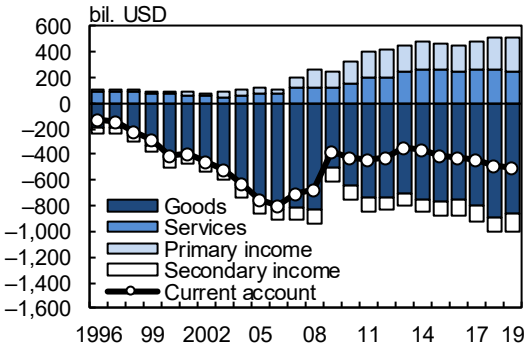
Source: IMF.

(1) United States

The United States continues to register a current account deficit, mainly due to the deficit on goods (Appendix Figure 4.2[a]). By country, China, Mexico, and Canada are the top three in terms of U.S. imports (Appendix Figure 4.2[b]).

Appendix Figure 4.2: United States

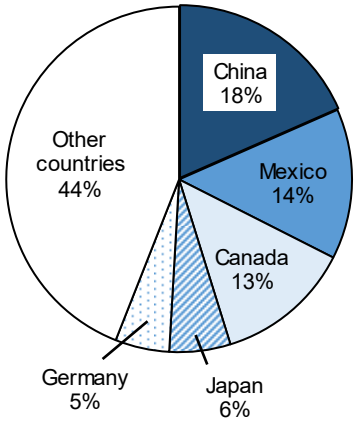
(a) Current Account



Source: IMF.

Note: Figures before 1999 are compiled based on the *BPM5*.

(b) Imports by Country, 2019

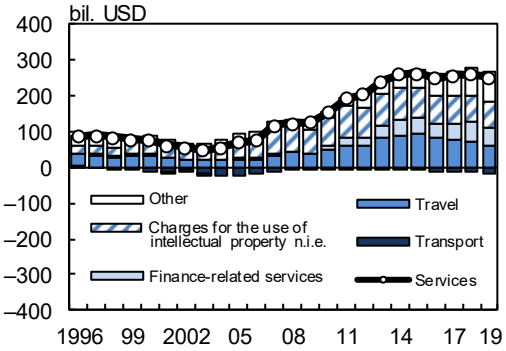


Source: United Nations.

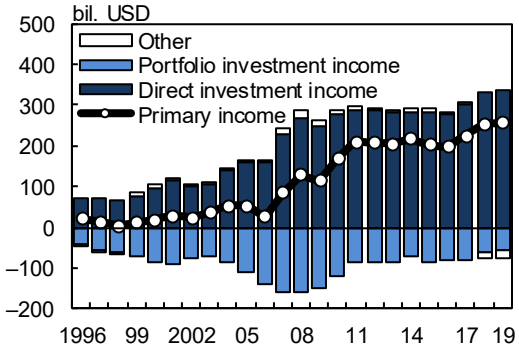
On the other hand, the United States continues to register a surplus on services and primary income. A breakdown of services shows that a key feature is the large contribution of charges for the use of intellectual property n.i.e. (Appendix Figure 4.2[c]). Looking at Japan's payments of charges for the use of intellectual property n.i.e., payments to the United States account for about 40 percent of overall payments, mainly reflecting royalty payments for

software. As for primary income, direct investment income accounts for almost all of the surplus (Appendix Figure 4.2[d]).

(c) Services



(d) Primary Income



Source: IMF.

Notes: 1. Figures before 1999 are compiled based on the *BPM5*.

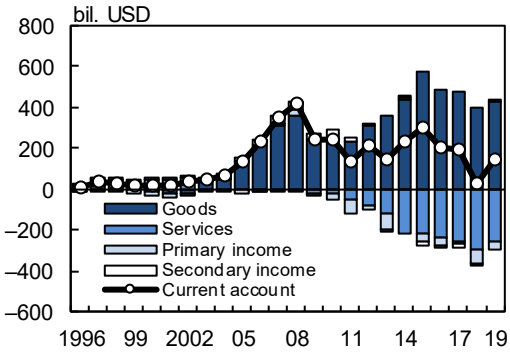
2. "Finance-related services" is the sum of figures for financial services and "insurance and pension services." The same applies to the figures below.

(2) China

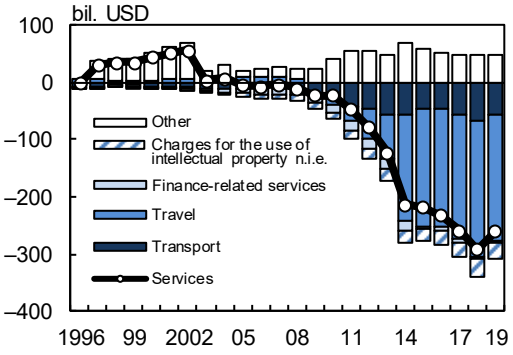
Although China continues to register a current account surplus mainly due to the surplus on goods, the deficit on services has increased considerably in recent years, narrowing the current account surplus (Appendix Figure 4.3[a]). A breakdown of services shows that the deficit on travel has expanded considerably (Appendix Figure 4.3[b]). This is due to the substantial increase in payments for travel as a result of the increase in overseas travel mainly reflecting the rise in incomes and the relaxation of visa requirements for Chinese travelers. This increase in China's payments for travel has contributed to the increase in Japan's travel receipts (see Figure 15 in the main text).

Appendix Figure 4.3: China

(a) Current Account



(b) Services



Source: IMF.

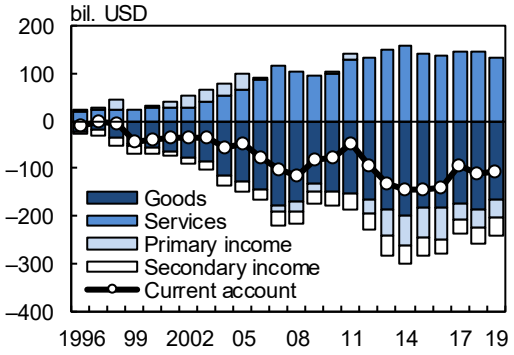
Note: Figures before 2005 are compiled based on the *BPM5*.

(3) United Kingdom

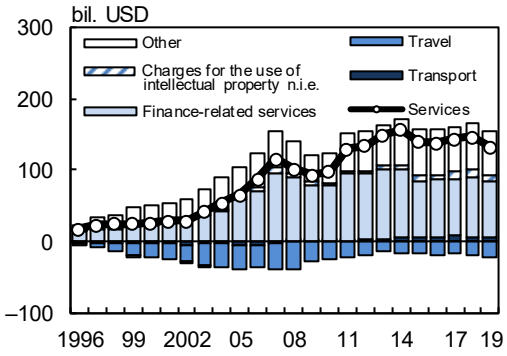
A key feature of the United Kingdom is that while it continues to register a current account deficit mainly due to the deficit on goods, it runs a relatively large surplus on services (Appendix Figure 4.4[a]). Looking at a breakdown of services, the country has a large surplus on finance-related services through its role as a global financial center (Appendix Figure 4.4[b]). Among Japan's payments for finance-related services, the United Kingdom accounts for about 20 percent.

Appendix Figure 4.4: United Kingdom

(a) Current Account



(b) Services



Source: IMF.

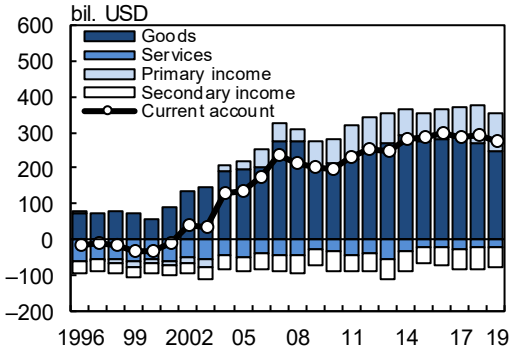
Note: Figures before 1999 are compiled based on the *BPM5*.

(4) Germany

Germany continues to register a current account surplus, mainly due to the surplus on goods (Appendix Figure 4.5[a]). Looking at exports by country and region, a key feature is that exports within the European Union (EU) account for more than 50 percent. As for exports outside the EU, the United States and China account for large shares (Appendix Figure 4.5[b]).

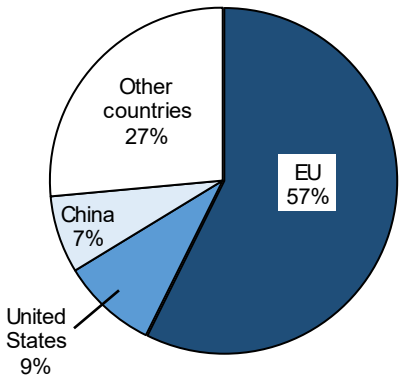
Appendix Figure 4.5: Germany

(a) Current Account



Source: IMF.

(b) Exports by Country/Region, 2019



Source: United Nations.