Leading in an Uncertain Era: How the US and Japan Can Invigorate Business

June 2019

Nobuhiko SASAKI
Chairman and CEO
Four points

1. What has been happening in APAC?

2. Challenges to tackle for global trade

3. Why bolster the business environment?

4. How should we work together?
1. What has been happening in APAC?
# Case 1: Grab vs Gojek

<table>
<thead>
<tr>
<th></th>
<th>Grab</th>
<th></th>
<th>Gojek</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Founded</strong></td>
<td>2012 (Malaysia)</td>
<td>Founded</td>
<td>2010 (Indonesia)</td>
</tr>
<tr>
<td><strong>Founder</strong></td>
<td>Founder: Anthony Tan</td>
<td>Founder: Nadiem Makarim</td>
<td></td>
</tr>
<tr>
<td><strong>Locations (Country)</strong></td>
<td>🇲🇾 🇸🇬 🇸🇦 🇹🇭 🇻🇳</td>
<td>🇸🇬 🇹🇭 🇺🇸 🇹🇭 🇻🇳</td>
<td></td>
</tr>
<tr>
<td><strong>Service (Example)</strong></td>
<td><strong>Transport</strong></td>
<td>🚕</td>
<td>🚕</td>
</tr>
<tr>
<td></td>
<td><strong>Food</strong></td>
<td>🍽️</td>
<td>🍽️</td>
</tr>
<tr>
<td></td>
<td><strong>Delivery</strong></td>
<td>🚚</td>
<td>🚚</td>
</tr>
<tr>
<td></td>
<td><strong>Subscription</strong></td>
<td>🔒</td>
<td>🔒</td>
</tr>
<tr>
<td></td>
<td><strong>Tickets</strong></td>
<td>🎟️</td>
<td>🎟️</td>
</tr>
<tr>
<td></td>
<td><strong>Hotel</strong></td>
<td>🛋️</td>
<td>🛋️</td>
</tr>
<tr>
<td></td>
<td><strong>Video</strong></td>
<td>📽️</td>
<td>📽️</td>
</tr>
<tr>
<td></td>
<td><strong>Trip Planner</strong></td>
<td>🗺️</td>
<td>🗺️</td>
</tr>
</tbody>
</table>
Case 2: Amazon Fresh vs. Hema Fresh

Started in 2007
① Works with Wholefoods
② Online store
③ Delivery within 2 hours
④ Offers pickup service

Fusion of 4 services
① Sales at physical stores
② Online store
③ Preparing food
④ Delivery within half an hour (within 3 km around)

Products of Wholefoods sold together
Order via a mobile device
Displaying and selling seafood
Quick collection of order through bags and conveyor belt
Pickup service
Rapid market expansion in e-commerce

Retail e-commerce sales
(2018, Billions $USD)

CHINA
- Alibaba: $31B
- Total Retail: $634B
- 2023 Projected: $1.1T

US
- Amazon: $233B
- Total Retail: $505B
- 2023 Projected: $735B

70% up
45% up

Source: Congressional Research Service
Active startups in Asia

Investment related to Internet technology in Southeast Asia

2013 2014 2015 2016 2017 2018

Source: Cento Ventures

Copyright (C) 2019 JETRO. All rights reserved.
2. Challenges to tackle for global trade
Trade war globally impacting business

Effects of trade protectionism

Multiple answers (excluding China and Korea)

<table>
<thead>
<tr>
<th>Region</th>
<th>Negative</th>
<th>No Impact</th>
<th>Positive</th>
<th>Unknown</th>
</tr>
</thead>
<tbody>
<tr>
<td>US (n=520)</td>
<td></td>
<td>5.2%</td>
<td>14.6%</td>
<td>13.5%</td>
</tr>
<tr>
<td>China and Korea (n=557)</td>
<td></td>
<td>1.3%</td>
<td></td>
<td>24.1%</td>
</tr>
<tr>
<td>ASIA excl. China and Korea</td>
<td></td>
<td>7.9%</td>
<td>18.8%</td>
<td>33.7%</td>
</tr>
<tr>
<td>EUROPE (n=728)</td>
<td></td>
<td>2.1%</td>
<td>25.2%</td>
<td>40.0%</td>
</tr>
</tbody>
</table>

Source: FY2018 JETRO Survey on Business Conditions of Japanese affiliates
The trade war can negatively impact job creation

What will be the impact of the US-China trade war!? 

Number of employees of Japanese companies in US

Note: Majority-owned companies by ultimate beneficial owner (UBO)  
Source: US Department of Commerce, Bureau of Economic Analysis
Supply chains developed in APAC

- China, as a production site, is important for the supply chains of each country.
- The volume of digital transactions has increased over 10 years.

Digital products: 2007 vs. 2017

Taiwan: $12 bil. → $36 bil.
Korea: $20 bil. → $51 bil.
ASEAN: $25 bil. → $55 bil.
Japan: $23 bil. → $23 bil.
US: $10 bil. → $10 bil.
EU: $9 bil. → $16 bil.

Total: $99 bil. → $191 bil.

China: Assembly and manufacturing

US: $66 bil. → $118 bil.
End products: $240 bil. → $418 bil.
Other countries: $174 bil. → $300 bil.

Notes: Definitions of digital-related parts and final goods are based on JETRO Global Trade and Investment Report 2018. Figures for exports of ASEAN and EU are JETRO’s estimates. Source: "FY2018 Analysis of Global Trade" (JETRO)
Impact on supply chains of American companies in China

Impact by additional tariffs

- Restructuring China operations to be "In China for China"
- Delaying or canceling investment decisions
- Seeking to sourcing and/or assembly outside the US
- Seeking to sourcing and/or assembly outside China
- Considering relocation of manufacturing out of China
- No impact
- Others
- Considering relocation of manufacturing out of the US
- Increasing investments
- Considering exiting the China market

Number of respondents

Source: AmChamChina
Restructuring supply chains

Among US companies, there is movement to avoid additional tariffs by China.

- **Ford**: Starting production of new model car (Lincoln) in **China** to avoid risk of tariffs.
- **BMW**: Transferring production of SUVs aimed at China from the US to Shenyang, China.
- **Honda**: Transferring production of SUVs aimed at China from the US to Guangzhou, China.
- **Harley-Davidson Motor Company**: Transferring production of motorcycles aimed at China from the US to **Thailand** to avoid additional tariffs.
Negative impacts on innovation

Due to US-China trade friction, companies and financial institutions will be inclined toward risk aversion. As a result, growth funds in the market may be impaired.

Recent data from IIF shows that the initial trade friction between China and the US then triggered **an outflow of around $1.1 billion**.

According to weekly portfolio flows tracked by Lipper, a division of data provider Refinitiv, investors in US-based funds **pulled a net $690 million** out of equity mutual funds in China, marking **the biggest net outflow in three years**.
3. Why bolster the business environment?
Maximizing social welfare through innovation and minimizing negative impacts on society

Roles of governments

Free data flow

Regulating platformers

Externality

Information security and personal information protection
What does digital trade include?

Free flow of data, data localization, privacy, 5G, data governance, AI, big data, platformer regulation, e-commerce...???

**OECD**

digitally-enabled transactions of trade in goods and services

**US International Trade Committee (USITC)**

The delivery of products and services over the Internet

No common definition!!
Data Free Flow with Trust

By continuing to address challenges related to privacy, data protection, intellectual property rights, and security, we can further facilitate data free flow and strengthen consumer and business trust.

In order to build trust and facilitate the free flow of data, it is necessary that legal frameworks both domestic and international should be respected. **Such data free flow with trust will harness the opportunities of the digital economy.** We will cooperate to encourage the interoperability of different frameworks, and we affirm the role of data for development.
Voluntary countries within the WTO agreed to begin working on an international framework for digital trade.

The following are current themes for deliberation:

1. Facilitation of e-commerce, such as e-signatures and electronic verification
2. Distribution of electronic data beyond borders
3. Protection of consumers
4. Support of developing countries
Roadmap for rulemaking in digital trade

Which is the best framework for rulemaking in digital trade?

- **Bilateral FTA**
  - High
  - Short

- **Plurilateral FTA e.g. TPP, RCEP**
  - Low
  - Short

- **WTO**
  - Low
  - Long

- **G7/G20**
  - High
  - Long

Source: JETRO
## Concerns on digital trade

### Proposals from major countries for WTO’s Joint Statement on Electronic Commerce

<table>
<thead>
<tr>
<th>Country/region</th>
<th>Custom duties</th>
<th>Cross-border transfer of information by electronic means</th>
<th>Location of computing facilities</th>
<th>Source code</th>
<th>Cybersecurity</th>
<th>Personal information protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>🇺🇸 USA</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>🇪🇺 EU</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>-</td>
<td>○</td>
</tr>
<tr>
<td>🇨🇳 China</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>○</td>
</tr>
<tr>
<td>🇰🇷 South Korea</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
</tbody>
</table>

**Note:** ○ indicates that issue appears as a article on proposed text (as of June).

**Source:** Materials of WTO Secretariat and various news reports

Copyright (C) 2019 JETRO. All rights reserved.
4. How should we work together?
Joint statement of Trilateral Trade Ministers Meeting Between Japan, the US and EU

Reiteration of concerns:
• Non-market-oriented policies and practices of third countries
• Industrial subsidies and state-owned enterprises
• Forced technology transfer policies and practices of third countries
• **Discussions on WTO reform** ✓
• **Digital trade and e-commerce** ✓
## Positions of major countries/regions

<table>
<thead>
<tr>
<th>Country</th>
<th>Positions</th>
</tr>
</thead>
</table>
| **United States** | - Largely reflects the digital trade chapter of the US-Mexico-Canada Agreement.  
- Prevent governments from restricting the cross-border transfer of data or force companies to locate their computing facilities in another country’s territory as a condition of doing business.  
- Prevent governments from requiring people or companies to transfer source code.  
- Urges governments to ensure that any privacy-related restrictions on cross-border flows of personal information are “necessary and proportionate to the risks presented.” |
| **European Union** | - Defines personal data privacy as a “fundamental right” and allows governments to take any action to protect personal data and privacy.  
- Advocates new prohibitions on two key problems for the technology industry: restrictions on the transfer of data across borders, and requirements that would force companies to disclose their source code in order to operate abroad. |
| **China** | - restricts the transfer of data and requests data localization and disclosure of source code.  
- Strikes a balance between technological advances, business development and such legitimate public policy objectives as Internet sovereignty, data security and privacy protection.  
- Conducts the rule-making process in an open, transparent, inclusive and flexible manner, and welcomes participation of all Members. |
| **Japan** | - Reflects the digital trade chapter of the CPTPP, Japan-EU EPA etc.  
- At the Davos meeting, Prime Minister Abe advocated the concept of a “free flow of data with trust.” The idea is to promote free data flows while appropriately protecting personal information and important industrial data and securing trust in privacy and security. |

(Source) Materials of WTO Secretariat and various news reports.
Questions

• How should we set up a framework to facilitate digital trade and what issues should take priority?

• How can the US and Japan cooperate to develop digital infrastructure in Asia Pacific?
Thank you!

Talk to JETRO First!