

Japanese Economy and its Trade Today

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Introduction

The status of Japan in the world economy has evidently fallen in recent years. China has already taken over not only the status of the largest foreign exchange reserves holder in the world⁽¹⁾ but also surpassed in terms of its foreign trade and the capital export amount. In addition, it can be said that the GDP of China is rapidly approaching that of Japan which Japan has been boasting of, as it currently ranks second in the world⁽²⁾. The current state of Japanese economy shows a very strong contraction, compared with that of 1980s, which was praised as “Japan as No. 1”.

I would like to examine the process for the period from the 1970s, when the Japanese economy started to show a remarkable rise in the international perspective, to the today's state of slump⁽³⁾ mainly with the limitation to the its external trade. Firstly, I will have a look at the major streams of the Japanese economy.

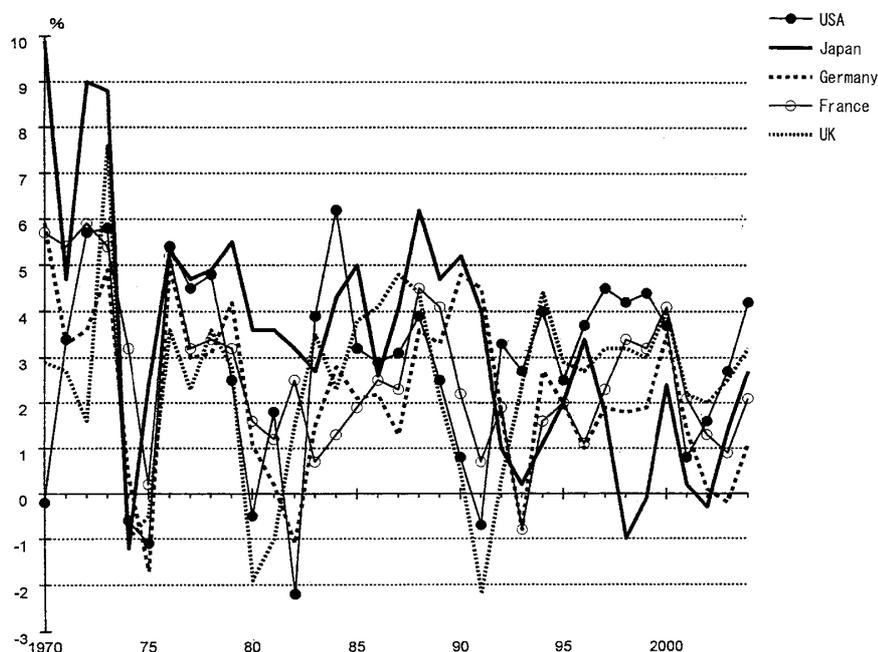
1. Trend of the Japanese Economy

— Fall from the Peak —

Figure 1 shows the trends of the real GDP growth rates of the main advanced countries since the 1970s. From the observation of the comparison between Japan and other countries, we can conclude the following matters. Although Japan had shown a high growth rate which remarkably exceeded those of other advanced countries in the early part of the 1970s, which still belonged to the last part of the rapid growth period of Japan since 1955, the growth rate of Japan fell to be the level with those of other advanced countries, triggered by the negative growth which occurred in the year following 1973, which

is the year of the first oil shock. Nevertheless, Japan was still superior to others in the 1980s. However, immediately after entering the 1990s, which became “the lost decade” for Japan, Japan’s performance has further fallen to the lowest level among the advanced countries. This can be confirmed with Table 1 showing the average real growth rate of each decade. Japan’s rate had remained higher than that of other advanced countries until the 1980s. However, in contrast, it is very

Figure 1 Trend of Growth Rates of GDP (real) of Main Advanced Countries



[Source] OECD, *Economic Outlook*, various issue. IMF, *International Financial Statistics*, for pre 1976.

[Note] Germany until 1990 was former West Germany.

Table 1 Average Growth Rate of GDP (real) (%)

	1970's	1980's	1990's
U S A	3.0	2.5	2.9
J a p a n	5.4	4.0	1.8
G e r m a n y	3.2	1.7	2.2
F r a n c e	4.1	2.3	1.8
U K	2.6	2.4	2.0

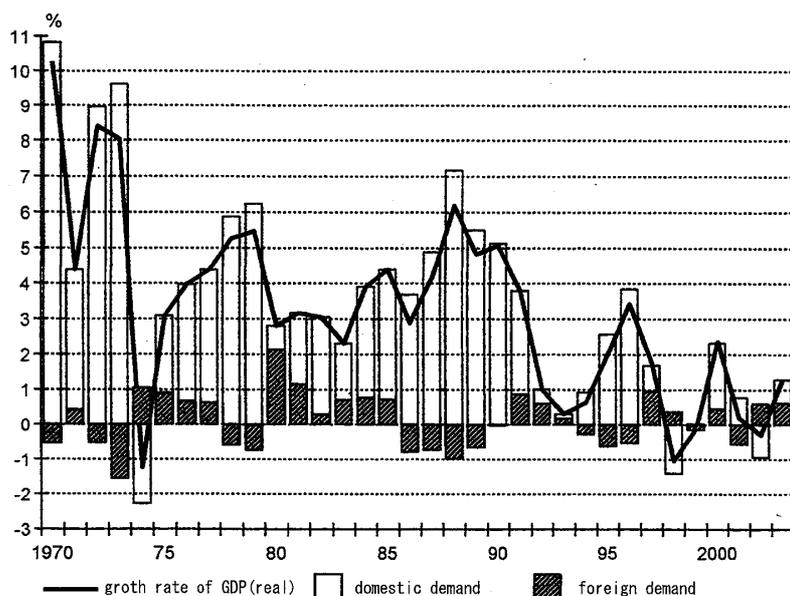
[Source] and [Note] are the same as those in Figure 1.

clear that the Japanese economy started to show a striking slump after entering the last decade of the 20th century.

Since Japan overcame two oil shocks which occurred during the period from the mid-1970s to the early 1980s, Japan started to be called “an economic superpower” and had even secured the status as the greatest creditor nation in the world. The 1980s were certainly the zenith of the Japanese economy. However, that period was short, and the fall came quickly. In other words, as is known, the following years longer than 10 years saw a sharp fall from pre-eminence to the current gloomy period.

Let us consider the above circumstances with the use of the analysis data of real growth rates of domestic and overseas demand. As shown in Figure 2, the rapid growth in the early part of the 1970s had been supported by growth thanks to the strong domestic demand, as other period of rapid growth. It was, however, the overseas demand that led the growth in the first half of the 1980s following the second oil shock. As a result, we must admit that there was a sufficient reason

Figure 2 Trends of Real GDP Growth Rate, Contribution of Domestic and Foreign Demand of Japan



[Source] Prepared using CD-ROM ancillary to the Ministry of Public Management, Home Affairs, Posts and Telecommunications, *Historical Statistics of Japan*, new edition, 2006.

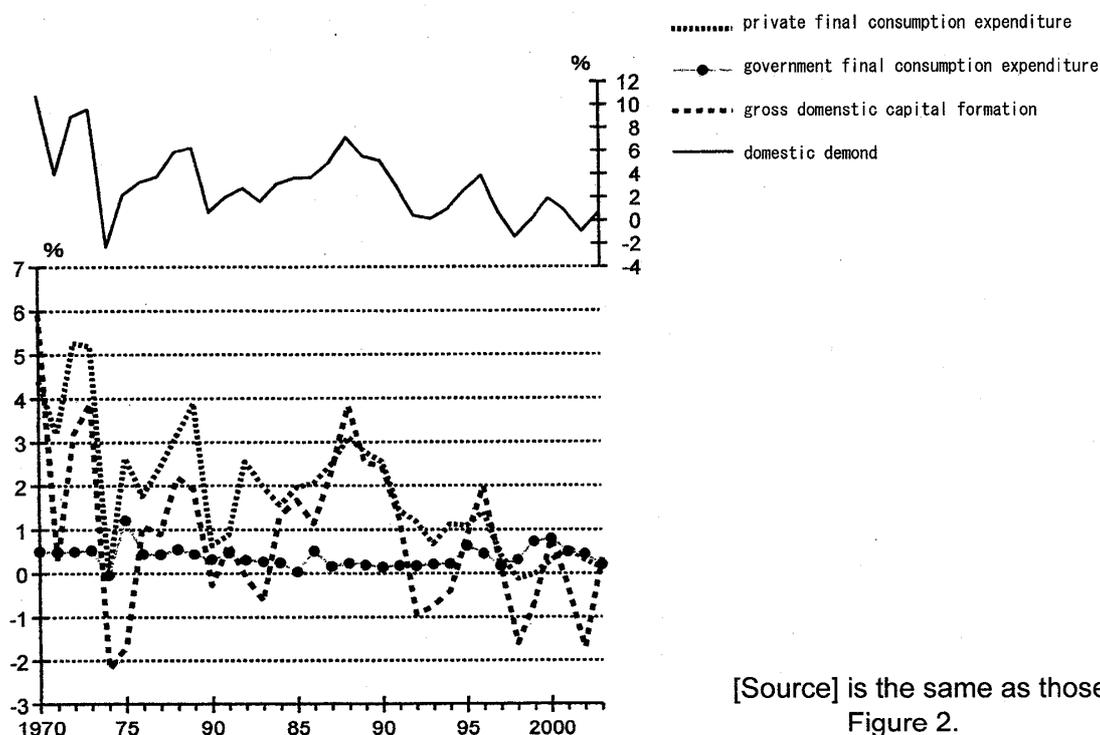
why the Japanese economy at that time was said to be changed to a “foreign demand oriented” economy⁽⁴⁾”.

Thereafter, when the foreign demand became negative, relatively strong domestic demand had continued to push up the Japanese economy. Despite the growth rate being incomparable, it was as if a high growth period had restarted. But, in hindsight, there is no denying that it was only a temporary bubble economy and a bitter experience to a lot of people. It burst when the economy entered the 1990s, and a long-term slump started. After 1995, the economy temporarily appeared to be recovering due to domestic demand recovery. We saw, however, a complete slowdown and the slump continued.

In this way, the Japanese economy after the 1970s experienced a rapid growth period, a relatively rapid growth and a sluggish period, and what is notable is that such development started with the decline in the growth rate of domestic demand. As mentioned earlier, the overseas demand could lead the economic growth rate, but it is only temporary after all, and it can be said that the process in the long term had been like that. Next, let us look at the extent of the contribution of main constituent items of domestic demand and the trend of domestic demand.

As shown in Figure 3, the main item of domestic demand that is marked in its decline is private final consumption, and it is clear that the centre of domestic demand has gradually shifted to the gross domestic capital formation. In this way, in line with the decline in the degree of contribution of private final consumption, the trend of domestic demand came to tend to be dependent on the gross domestic capital formation. The fact that in the so-called “bubble economy” in the latter half of the 1980s, domestic demand was strong, centering on gross domestic capital formation, which reminded people of the rapid growth period, is sufficient to recognize the structural change in the Japanese economy. Another notable factor is that the significance of final consumption of government increased the growth rate declined. This is clearly seen around 1995 and in and after 1999. Nevertheless, this should be seen as the very symbol of the state of

Figure 3 Trends of Contribution of Domestic Demand and Each Item (Real Terms) of Japan



[Source] is the same as those of Figure 2.

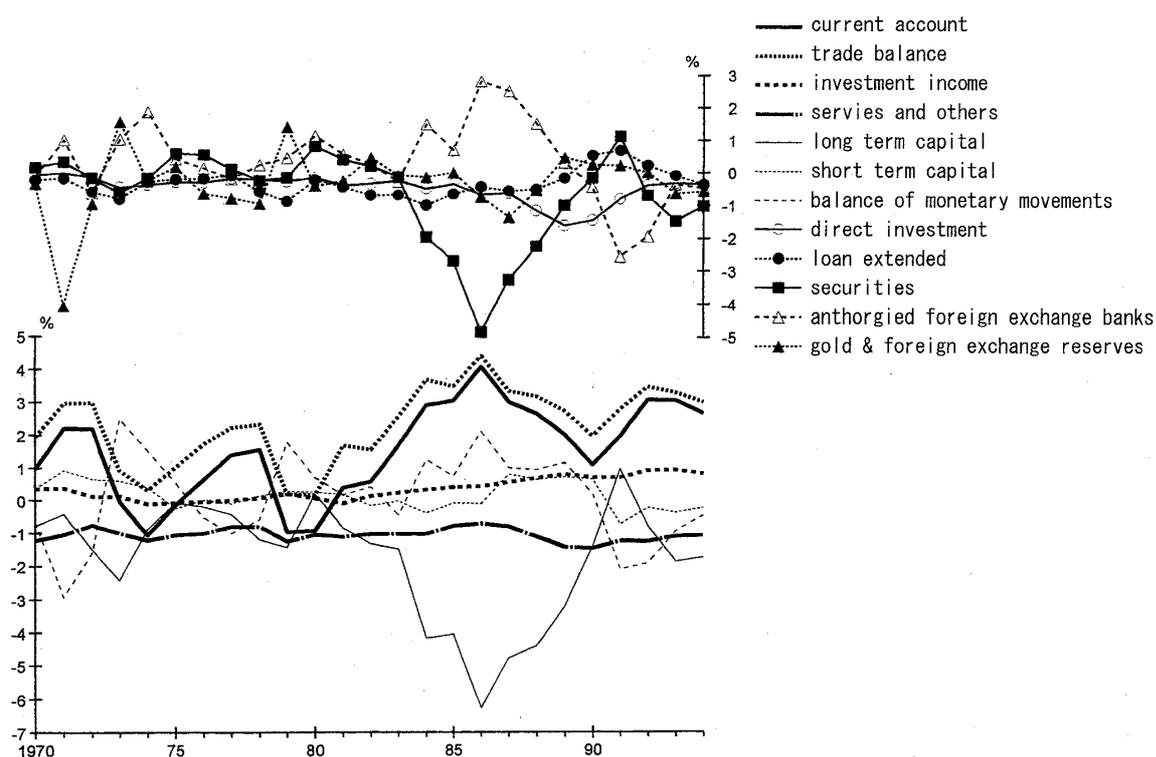
the slowdown of the Japanese economy rather than the effect of the economic countermeasures of Japanese government, in the sense that there was no other measure to support the economy. In addition, there is no denying that this fact brought a huge debt to the future generation⁽⁵⁾.

Let us look at the external aspects of the Japanese economy. Firstly, this can generally be represented by its balance of payments. Nevertheless, there is one point that some attention must be called. It is that the IMF published the fifth edition of *Balance of Payments Manual* ⁽⁶⁾ in 1993 and each member country started to publicize their statistics of balance of payments on the basis of this edition (Japan started publish on the basis of the new manual in 1996). There is considerable differences between this fifth edition of the Manual and the fourth, which was prepared on the basis of the previous standards of the international balance of payments statistics. The differences

between the old statistics and the new ones is so great that one hesitates to connect the two in one graph⁽⁷⁾. In this paper, I would like to examine the figures in and before 1994 and those in and after 1996 separately (The reason why I excluded 1995 is stated in Note 1 to Figure 5).

The balance of payments for up to 1994 is shown in Figure 4. Figure 4 covers a considerably long period. The figures are therefore made real by dividing the amount by the nominal GDP. According to this Figure it is estimated that the trend of the current account was decided by that of the balance of goods, which can be seen from the points that the deficit of the balance of service trade and others and

Figure 4 Trends of Japanese Balance of Payments No.1 (% to Nominal GDP)



[Source] Prepared using ancillary CD-ROMs to *Historical Statistics of Japan*, new edition, 2006. and Bank of Japan, *Monthly Bulletin of Balance of Payments Statistics*.

[Notes] + indicates a fall and – indicates an increase in net assets concerning changes in long-term and short-term capital and financial accounts, authorized foreign exchange banks and foreign exchange reserves.

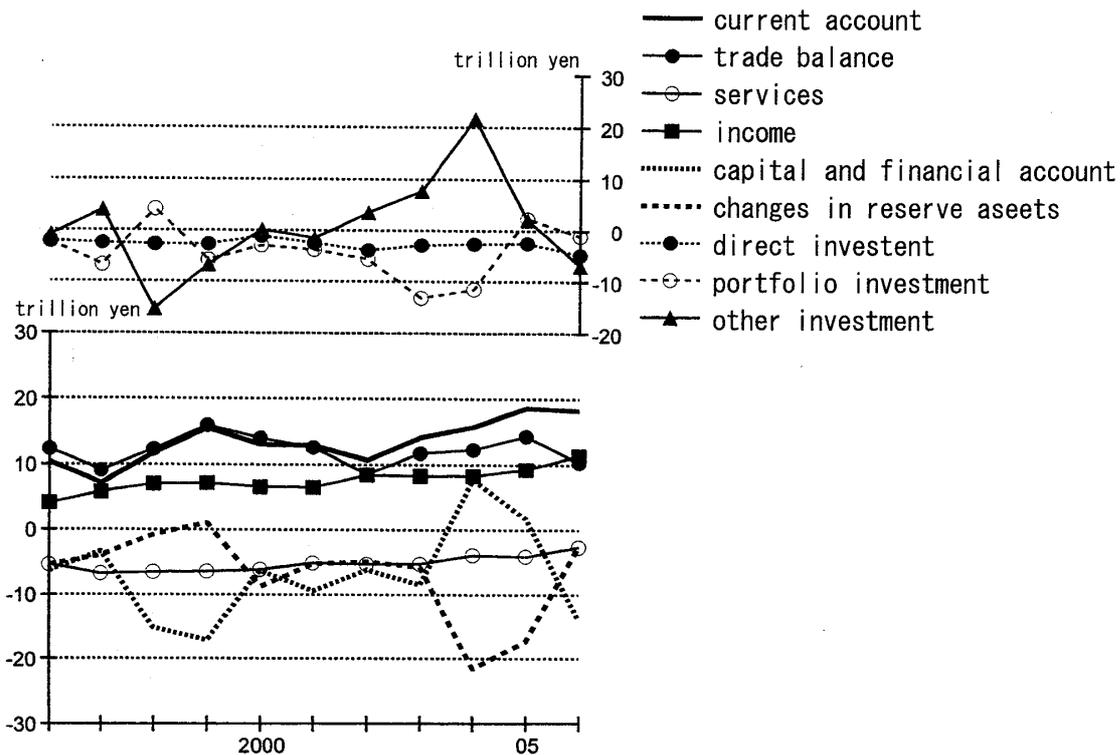
the surplus of the investment income balance continued as if they were horizontal, and that the form of the balance of goods and that of the current account have nearly consistently agreed. In addition, a major increase in the surplus of the current account occurred 4 times during this period, that is, in the early and latter part of the 1970s, the mid-1980s and early 1990.

On the other hand, if you look at the state of the capital account, it is notable that there is a major difference between the 1970s and the 1980s. The top and the bottom of the surplus of the current account experienced twice in the 1970s are dealt with the opposite, movements of the balance of monetary movements. Then, the main part of this balance monetary movements comprised the composition of the change in the gold and foreign exchange reserves and the authorized foreign exchange banks (in addition to this, there is "the public sector others"). In other words, it can be said that mainly the currency authority and the foreign exchange banks responded to the current account which broadly showed the same change as the movements of the balance of goods. However, from the 1980s the long-term capital balance started to show a symmetrical movement to the change in the current account, instead of this balance of monetary movements. Then, the upper part of the Figure clarifies that the main part which decided the trend of this long-term capital balance was securities investment⁽⁸⁾. In addition, what is notable is that the foreign exchange banks showed a mirror image of the form of this securities investment.

There is no denying that behind an important change in such capital flows, in Japan there was a background of the rapid financial liberalization and the abolition of the capital flow regulations which started from "Joint Japan-US Ad Hoc Group on Yen/Dollar Exchange Rate, Financial and Capital Market Issues", etc. Their detailed contents cannot be examined in this paper, but it appears that the background triggered the creation of the trends of private capital flows which corresponded to the trend of the current account of Japan, an inverse relation⁽⁹⁾.

Figure 5 shows the state in or after 1996 (the figures in this Figure are not divided by the nominal GDP). At the end of the 1990s, the capital and financial account started to show a deficit, compared to the surplus of the current account. The trend indicates that change in other investment rather than the trend of portfolio investment will become the main factor. In addition, in 2003 and 2004, the capital and financial account tended to show a surplus, while the surplus of the current account expanded, and the deficits of changes in reserve assets rapidly increased as if they would offset these surpluses. This reflects the results of the very intervention of huge amounts of dollar purchases and yen sale by the currency authority to prevent a yen

Figure 5 Trends of Japanese Balance of Payments 2 (in and after 1995)



[Source] Prepared using *Monthly Bulletin of Balance of Payments Statistics*.

[Notes] (1) Figures for 1995 were rearranged using old statistics, and are not precisely sequent with the figures for 1996 onwards, and are therefore not shown in this Figure.

(2) Portfolio investment does not include financial derivatives products.

(3) + indicates a fall and – indicates an increase concerning the figures under the capital and financial accounts inclusive.

appreciation⁽¹⁰⁾.

As above, the point that that of the balance on goods decides that of the current account has not changed too much since the 1970s to today. However, the trends of the capital and financial account started to show a major change during and after the 1980s. This change was repeated a few times before reaching today's state. The impact of the liberalization of the finance and capital flow is fully reflected in these movements. In such circumstances, what was the basic stream of the trade of Japan like? Next, let us handle this issue.

2. Structural Change of Japanese Trade

Firstly, let us look at the composition of trade by main commodities. Table 2 shows change in the shares of main export commodities. Textiles and textile products, which used to be one of the main export commodities, have fallen to an extremely low level. However, chemicals, which had once fallen, have been growing beyond the previous share. Metals centering on iron and steel appear to have

Table 2 Changes in Main Export Product Shares (%)

	1970	80	90	2000	05
textiles and textile products	12.5	4.8	2.5	1.8	1.4
chemicals	6.4	5.3	5.5	7.4	8.9
metals	19.7	16.5	6.8	5.5	7.3
iron and steel	14.7	11.9	4.4	3.1	4.6
machinery and equipment	46.3	62.7	74.9	74.3	69.6
nan-electric	10.4	13.9	22.1	21.5	20.3
electric	14.8	14.4	23.0	26.5	22.2
transport	17.8	26.5	25.0	21.0	23.1
automoviles	6.9	17.9	17.8	13.4	13.4
ships	7.3	3.6	1.9	2.1	2.0
precision instruments	2.9	5.5	4.8	5.4	3.9
others	15.1	10.7	10.3	11.0	12.8

[Source] Prepared using each part from *Trade White Paper* for the period ending 1990 and ancillary CD-ROMs to *Trade White Paper* for 2000 and 2005.

Table 3 Change in Main import Product Share (%)

	1970	80	90	2000	05
foodstuff	13.6	10.4	13.5	12.1	9.8
raw materials	16.0	9.3	7.2	6.5	6.2
mineral fuels	20.7	49.8	23.9	20.3	25.6
chemitals	5.3	4.4	6.9	7.0	7.6
textiles and textile products	2.0	2.3	5.5	6.5	5.5
metals	6.8	4.1	6.9	4.8	5.2
machinery and equipments	12.2	7.0	17.4	31.6	29.6
others	23.4	12.7	18.7	11.2	10.5

[Source] The same as in Table 2.

started to rise from the bottom level. This means that the growing trend of the machinery and equipment share which showed a rapid increase to three quarters of the total amount of commodity exports of Japan not only failed to increase, but rather turned to fall. In addition, that is a common phenomenon for non-electric, electric and transport.

In short, no major change that could be called dramatic has been seen in the commodity export structure of Japan in terms of the shares in value during and after the 1990s. This fact is a difference that cannot be overlooked, compared to the state before that.

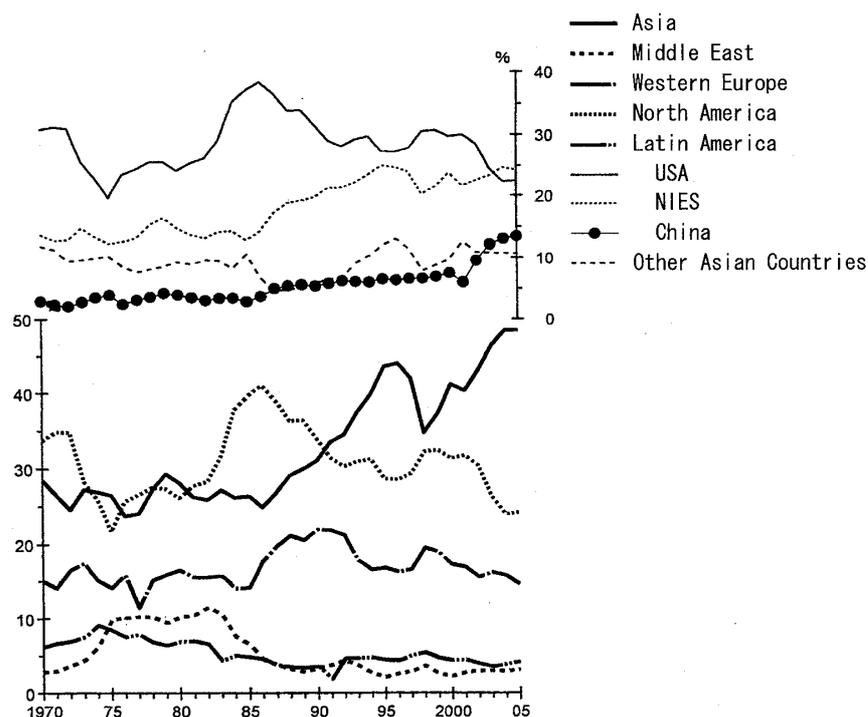
Change in the main import commodity shares is shown in Figure 3. After the second oil shock, where nearly a half of the total amount of imports in value comprised mineral fuels (1980), the feature was that the shares of food stuff, raw materials products, and mineral fuels retreated (although the share of mineral fuels increased in its own way, reflecting the global crude oil price rise) and that the share of industrial products centering on machinery and equipment expanded. Nevertheless, it appears that there was no marked change, apart from a further decline in the status of food stuff and a rise in mineral fuels in and after 2000.

It is observed that the composition of the main commodities both in imports and exports have tended to be fixed in general.

Next, let us look at the main trade partners and regions. Firstly, Figure 6 shows the wave of the exports. In the latter part of the same Figure, what is primarily remarkable is a consistent rise in the status of Asia. The share decline in the latter half of the 1990s took place steeply. Needless to say, this is reflected by the currency and financial crisis which swept over East Asia at that time. Apart from this, the significance of Asia for the export trade of Japan has shown a continuous and rapid increase since the latter half of the 1980s.

The trend of North America shows a contrast to this. In other words, such a fall had been experienced also in the latter of the

Figure 6 Trends of Export Shares by Region and Main Country



[Source] Prepared using each part from *Trade White Paper* for the period ending 1998 and ancillary CD-ROMs to *Trade White Paper* for 1999 onwards.

[Notes] (1) The figures for in and before 1976 are in denominated in dollars.

(2) For trade statistical purposes, the figures do not include those for Okinawa before 1973, as Okinawa used to be treated as a foreign region until 1972.

(3) NIES comprise four country regions, that is, Hong Kong, Korea, Singapore and Taiwan (The same shall apply hereinafter).

1970s, and is not a new phenomenon experienced for the first time in the latter half in the 1980s. However, the former case was caused by aggressive expansion of exports from Japan to oil producing countries through the two oil shocks, which are also shown in the temporary rise in the Middle East region. It is clear that its lowering status in the latter half of the 1980s onwards is in a close and inseparable relation with the advent of Asia seen above (Further, the lower share of Western Europe beyond the 1990s can be seen as an extension of this).

Therefore, 40% of the Japanese exports were once destined for North America, but the percentage has now fallen to below 25%. Instead, the situation has changed so that more than 45% of Japanese exports are for Asia.

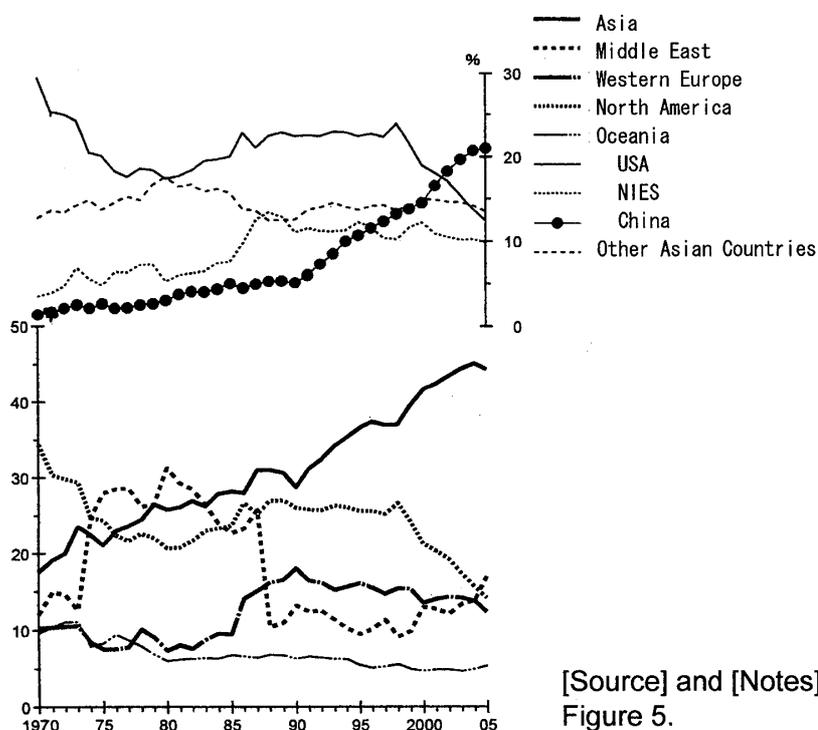
As the upper part of Figure 6 shows, the above trend of North America is nearly exactly the same as that of the USA. It is therefore unnecessary to repeat the movement of the USA. What are remarkable are the movements of the countries comprising Asia shown in the lower part. The rise of the status of China⁽¹¹⁾ was certainly consistent. However, its rapid rise started to be recognized only after entering the 21st century. Accordingly, NIES (meaning Hong Kong, Korea, Singapore and Taiwan. This shall apply hereinafter) and "Other Asian Countries" decided the state of Asia before that. NIES increased their shares remarkably in the mid-1980s, followed by "Other Asian Countries" in the 1990s. However, both suffered a setback in the subsequent currency and financial crisis (it is an interesting phenomenon that the status of China was barely affected in this crisis). They have recovered their status as at today after that, but NIES have reached only the previous peak and "Other Asian Countries" has not recovered to the same extent. However, it is worth noting that the status of NIES has become conspicuously in line with the rapid fall of the significance of the USA after entering the 21st century. In this way, China and NIES have come to form a major market which absorbs more than one third of all the commodity exports from Japan.

Next, imports had movements as shown in Figure 7. As the lower

part of the same Figure shows, imports in Asia have already exceeded those in North America in the mid-1970s. The importance of the same region continued to rise after a sharp fall in the share of the Middle East in the latter half of the 1970s (However, the proportion of the Middle East has recently risen with the crude price rise, and has exceeded that of North America again). In this way, the present situation is that the proportion of Asia as an import region is nearly the same as that of Asia as an export region at around 45%.

The upper part of the same Figure shows that the rise of Asia was mainly due to the rise of the status of NIES until the mid-1980s, and after that it depended mainly on the expansion of the proportion of China. However, in recent years, the status of NIES has tended to fall and the status of "Other Asian Countries" has been stagnant. It appears that the recent rapid increase in the significance of Asia has been regulated entirely by the movements of the significance of China. In addition, the proportion of the USA, which had shown nearly

Figure 7 Trends of Import Shares of Japan by Region and Main Country



[Source] and [Notes] are the same as those of Figure 5.

the same trend as that of North America, also started to show rapid decline since the end of the 1990s.

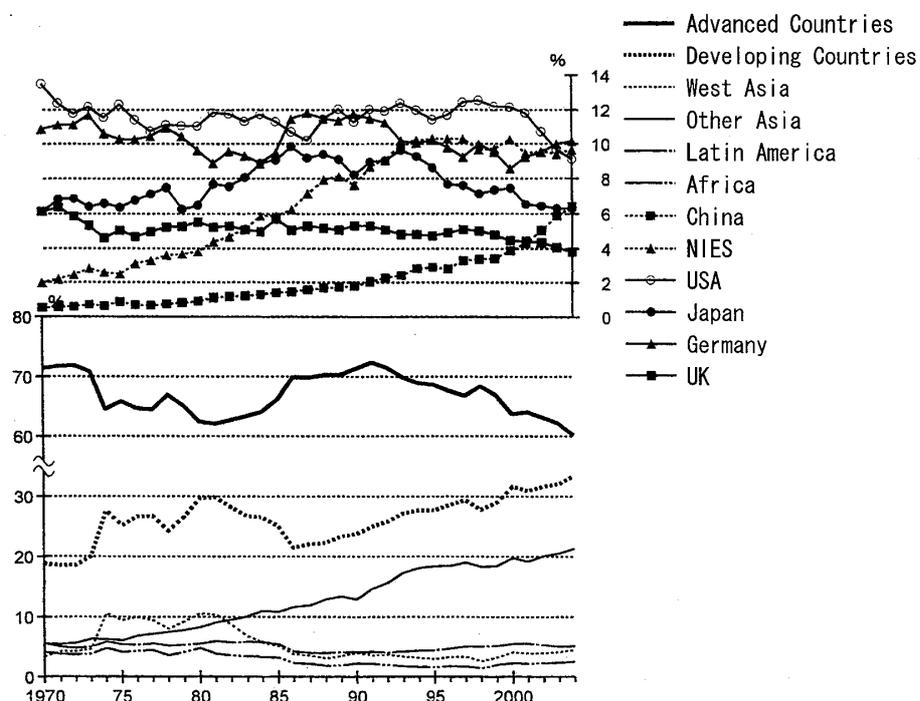
In this way, if you look at the state of the Japanese trade during and after the 1970s, it can be summarized that during and after the mid-1980s when the effect of two oil shocks is considered to have nearly ceased, the status of Asia rose and that of the USA retreated as a whole, and if you look at exports and imports separately, notable matters are a rapid rise in the proportion of China and a fall in that of the USA on the export front in and after the Asian currencies and financial crises and an increase in the significance of China and a rapid fall in that of the USA on the import, which was seen for the first time since the end of the 1990s. The major expansion in the location of Asia centering on China in the Japanese trade, which we have so far seen, has shown the same movement as the rise in the same region in the world's economy. This is broadly reflected in Japanese trade. Then, how is Japanese trade seen from the other side? Now, let us examine the state of Asia and that of Japan in the world economy and the status of Japan in Asian trade for the purpose of understanding the present state of Japanese trade from these aspects.

3. Rise of Asian Trade and Japan

Firstly, let us confirm the rise of Asian trade and status of Japanese in recent years by examining the trends of the compositions by region, and main countries engaged in the world trade in and after the 1970s.

Figure 8 shows the trends of the proportions of the main regions and the main countries in the world's commodity exports. As shown in the lower part of Figure 8, the shares of advanced countries in the world trade had gradually fallen and developing countries increased until the early part of the 1970s had gradually fallen respectively. People tended to think that the two oil shocks reversed this trend. However, in hindsight, it was clearly only a temporary phenomenon. The reason is that when entering the 1980s the basic trend recovered

Figure 8 Trends of Shares of World's Exports by Region and Main Country



[Source] Prepared using UNCTAD, *Handbook of Statistics*, and *Handbook of International Trade and Development Statistics*, various issues, and *Annual Report of Foreign Countries Economic Statistics* published by the Bank of Japan for China for the period from 1970 to 1974 and for Taiwan for the period from 1970 to 1972.

[Note] "Other Asian Countries" means Asia excluding West Asia. Japan is not included in Asia.

with the lowering crude oil price. Nevertheless, what should be noted as a movement after that is that the falling status of advanced countries = the rising status of developing countries has continued as a tendency for the period from the latter half of the 1980s to today. In addition, the share expansion of developing countries is in parallel with "Other Asia" excluding West Asia. In this way, it is a fact that cannot be denied that the very increase in the export share of "Other Asia" has been the leading part of this trend phenomenon for that period.

The following matters can be pointed out from the locus of the shares of main countries shown in the upper part of Figure 8.

The share of the USA, which had maintained top status for a long time, had been in a falling trend up until the mid-1980s, and was exceeded by the share of Germany (then West Germany) in the mid-1980s, and was very close to the share of Japan which followed Germany. However, the status of the USA turned to rise slightly, and managed to secure again top status. However, it fell sharply at the end of the 20th century and Germany again surpassed the USA, which has remained up to today. In this way, it can be said that the recent fall of the USA in the world's commodity exports is truly remarkable.

On the other hand, Germany lowered its significance for the period from the latter half of the 1970s to the first half of the 1980s. However, it raised its status in the latter half of the 1980s, and continued to compete with the USA for top status for a considerable period. Nevertheless, Germany's share started to fall around the time when integration (in 1990) with East Germany was achieved and remained at a low level. After that, Germany became the largest commodity export country in the world not because it had recovered its former significance but because the status of the USA had declined.

It was NIES that made remarkable progress until the mid-1990s. However, after that the force then ceased, and the total of the four countries has been maintained at about the same proportion as that of Germany. The proportion of China has consistently been in a rising trend. However, the rising trend started to show a rapid acceleration at the end of the 1990s onwards. In other words, China started to show a rapid progress, triggered by the Asian currency and financial crisis in 1997.

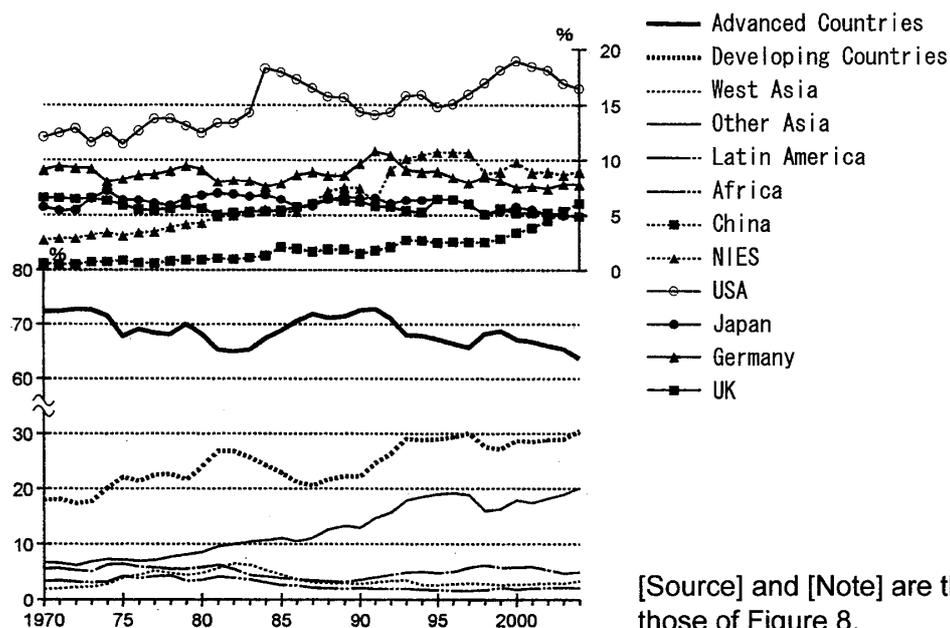
Next, if you look at Japan, its share remained in a rising trend up until the mid-1980s. In particular, in the first half of the 1980s, Japan continued to show a rapid progress immediately before it exceeded the USA. However, Japan's progress ended there. The movement started to show a reverse trend immediately after that. Although there was a temporary rise between the end of the 1980s and the early part of the 1990s, Japan began to show a rapid fall after that and was not only taken over by NIES but became ranked after China in the present

situation.

Next, let us look at the trend of the world's import shares. As Figure 9 shows, the trends broadly resemble that of the export shares but are not so dramatic. Firstly, regarding the shares of advanced countries and developing countries, as shown in the lower part of Figure 9, the expansion of the latter and the setback of the former are recognized for the period of the two oil shocks. But, the rise in the share of West Asia was not particularly strong in imports, which was a different point from exports. After the period of the reversal which took place in the mid-1980s (the rise in the status of advanced countries = the fall of developing countries), the trend until today is the long-term decline in the significance of the advanced countries and the long-term rise of the significance of the developing countries, and it is also clear that the rise of "Other Asia" is the greatest factor of this phenomenon.

According to the trends of the shares by main countries and regions shown in the upper part of Figure 9, firstly the USA can be

Figure 9 Trends of Shares of World's Imports by Region and Main Country



[Source] and [Note] are the same as those of Figure 8.

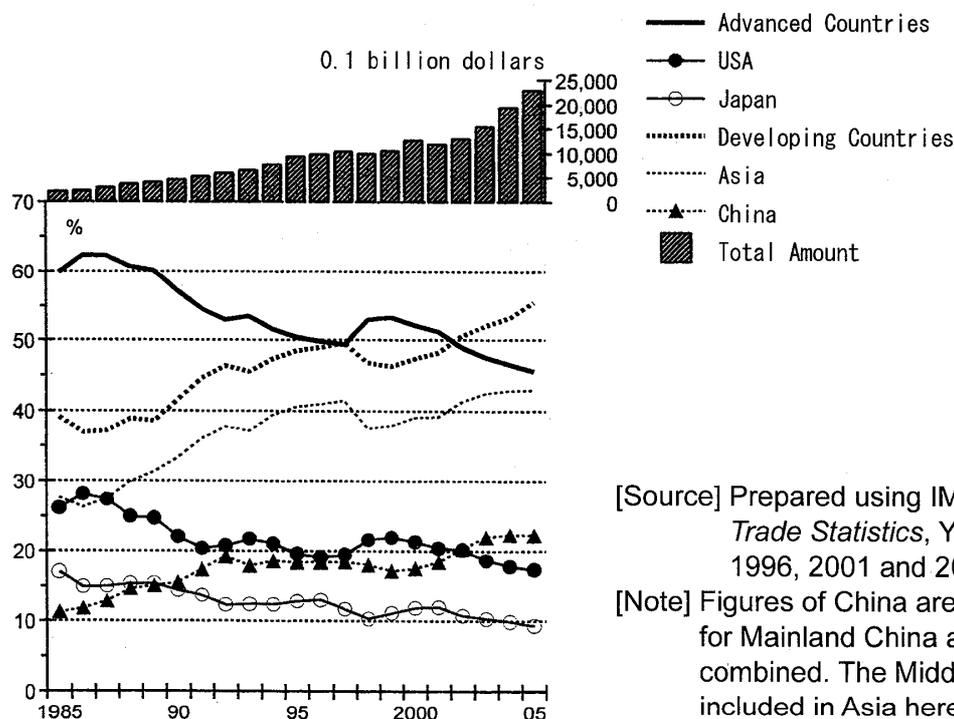
divided into 4 phases, that is, 1) the share expansion period until the first half of the 1980s, 2) the period of setback after that, 3) the rising period in the early part of the 1990s and 4) the period of setback at the end of the 1990s onwards. However, no decline has been seen until today, compared to a fall having been seen in commodity exports. It can be said that the USA has secured its status as the largest goods importer market in the world as a nation.

If you look at the main part of the components of “Other Asia”, it is the rise of the status of NIES until the mid-1990s and a further rise in the status of China after that. Here, the Asian currency and financial crisis is recognized as a turning point. Then, regarding Japan, it can be seen that the trends of import shares do not show ups and downs as that of the export shares, but an expansion trend had been seen until the first half of the 1980s, and there was a subsequent trend of a long time decline. The recent state is that Japan has been taken over by China here.

As seen in the former section, the rise of the status of Asia in Japanese trade has been remarkable in recent years and especially the status of China. It is easy to imagine that this has made the trend of expansion of Asia and China in the world trade moves on the same lines. Compared to this, the shares of Japanese exports and imports continued to fall during and after the latter half of the 1980s, and Japan has given over its status to China. This fact is sufficient to estimate that the significance of Japan has fallen in Asian trade. Lastly, let us look at the partners of imports and exports of Asian developing regions, bearing this point in mind.

As we have already seen, the rise of Asian trade today is part of the nearly consistent tide during and after the latter half of the 1980s, Figure 10 below shows the state in and after 1985. As shown in the upper part of Figure 10, the total amount of exports of Asian developing regions which had tended to increase until the mid-1990s temporarily declined after that, but a period of rapid increase has started in recent years. The lower part of Figure 10 shows the continually lowering share of advanced countries and the increasing share of developing

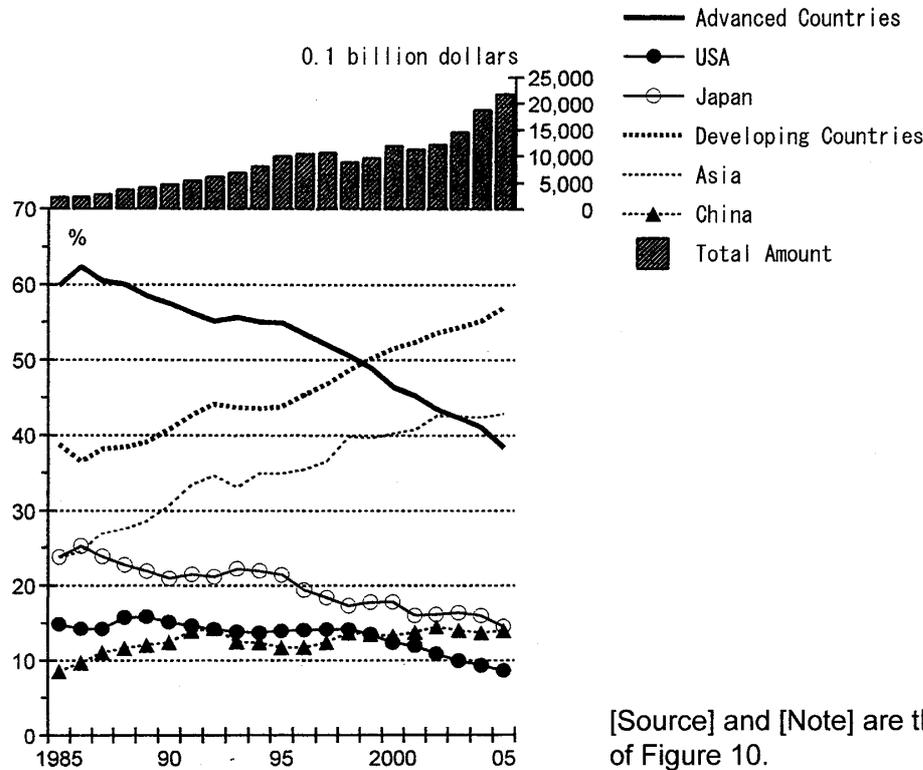
Figure 10 Total Amount of Exports of Asian Developing Countries and Trend of Shares of their Main Destinations



countries. In addition, it is clear that the trend of the expansion of the proportion of the latter is nearly the same as the trends of the expansion of the proportion of the Asian developing regions (The share of advance countries temporarily recovered at the end of the 1990s, and its movement was nearly the same as that of the USA). In this way, more than 40% of exports of Asian developing regions are destined for the same region at present. In such a state, the proportion of the USA fell below 20%, and that of Japan declined below 10%, and China has exceeded both countries.

The trend of the shares of import origin of the Asian developing regions is shown in Figure 11. Regarding the particulars of the total amount shown in the upper part of Figure 11, broadly the same points can be observed as stated in exports. This clearly indicates a setback of the status of advanced countries and the progress of developing regions centering on China. However, the import shares of developing

Figure 11 Total Amount of Imports of Asian Developing Countries and Trends of Shares of their Main Origins



[Source] and [Note] are the same as those of Figure 10.

countries have expanded not only with the USA but also with other countries contracted. It can be said that the significance of the USA has always been low as a country of origin. However, its lowering trend cannot be denied together with that of Japan, the share of which used to be relatively high. It can also be seen that the status of China has risen as an import origin, although it is not so high as an export destination

As is clarified by the above examination, the proportion of Asian trade has gradually been rising in Asian developing regions which continue to expand in the long term, and the present proportions of both imports and exports have largely exceeded 40% or reached that level at present. Amid such a trend, the status of Japanese trade has fallen.

Conclusion

Japanese trade was extinguished by a tragic defeat in World War II⁽¹²⁾. Although it was a factor outside the economy as a defeat of war, such a situation has never occurred in the modern economic history of Japan. However, around when the restoration period from the war was over, recovery of Japanese trade became unshakable, and the result was that Japan progressed in leaps and bounds not only in the high growth period but also in the periods of two oil shocks. In our consideration, we have seen such movement reaching its zenith in the 1980s. Then, after that, Japan's international setback has continued. Such a long-term decline in its status was the first such experience in the modern history of Japan. In addition, this phenomenon is occurring in the normal economic process.

It is possible to point out a lot of factors such as the rise of Asia in the world trade and the contrasting state of Japan, no dynamic structural change like its trade in the rising period having been seen in the composition of import and export commodities, a higher dependence on Asian countries centering on China in the compositions by region, where Japanese status of the other parties has been declining. The starting point of these phenomena was in the 1980s.

Yoshimasa Nishimura who had taken the posts such as Director of the former Banking Bureau of the Ministry of Finance says about financial system reform of Japan, as follows:

“The 1980s were a golden period of the Japanese economy in a sense. It was essentially the last chance where a financial reform should have been carried out to enable a sustainable development beyond the 1990s in which an additional difficult condition such as decline in the population is expected to take place, by utilizing the substantial economic power at that time. From another viewpoint, Japan was not able to fill in its superfluous economic power for an “economic structural adjustment” but has invited a bubble economy, caused by intensified trade friction, forced landing by strong yen and excessive savings. For this period, Japanese became overconfident

of their real ability ... stagnant of progress was seen and, especially, its status in the international competitiveness in the financial industry has been left behind ⁽¹³⁾.”

Nevertheless, the same thing had also occurred in its external trade.

[Notes]

- (1) For immediate reference, I can suggest my works; 'Increase in foreign currency reserves' *Shogaku Ronshu* (Kansai University), Vol.51 No.1,2,3 Aug. 2006 and 'The Change of the structure of the capital and financial account of Japan and foreign government assets of the USA' *ibid.* Vol.51 No.4, Oct. 2006.
- (2) According to the World Bank's data, the GDP of Japan in 2005 was \$4,505.9 bn, the real growth rate was 1.3% (an average of 2000-2005), and those of China were \$2,228.9 bn and 9.6% (that of same period) respectively (*World Development Report 2007* (Japanese ed.), p.390). If this real growth rate continues in the future, Japan will be taken over by China in these figures in 2014. In any case, it is nearly certain that China will rank with Japan in the first half of the 2010s.
- (3) I have once examined Japanese trade for the 1970s in some detail, which was published in *Shogaku Ronshu*, Vol.37 No.6, Feb. 1993, Vol.38 No.1, April 1993 and Vol.38 No.3,4, Oct. 1993. At that time, I showed my outlook on Japanese trade for the 1980s to some extent, but I was hesitated somewhat to have a full-scale review on Japanese trade during and after the 1980s. The reason is that it was difficult for me to have a full image of that. However, I now could manage to have my own recognition. This paper was originally intended to be an introduction of my study on Japanese trade for the 1980s, but was recompiled as an independent thesis.
- (4) Ministry of International Trade and Industry, *White Paper on Japanese Trade 1988*, p.147.
- (5) For example, the debts of the government stood at 224.6 trillion yen which corresponded to 46.4% of GDP at the end of fiscal year 1992, but expanded to 668.8 trillion yen which corresponded to 134.5% of GDP at the end of fiscal year 2002. Calculated by the CD-ROM ancillary to *Historical Statistics of Japan*, new edition, 2006.
- (6) IMF, *Balance of Payments Manual*, fifth ed., 1993
- (7) Please refer for the difference between the fourth edition and the fifth edition of *Balance of Payments Manual* to the following literature. *How to*

read and think of the International Balance of Payments, Chuo Keizaisha, 1998, from p.195 onwards.

- (8) Direct investment, which is another mainstay of the long-term capital and financial account, was a continuous deficit (net outflow), and it can be said that although temporary deficits have become conspicuous for the period from the end of the 1980s to the early part of the 1990s, it was not so large to decide the trends of the long-term capital and financial account.
- (9) Please refer for the financial liberalization and the abolition of capital flow deregulation of Japan for this period to the following literature. Yoshimasa Nishimura, *Reformation of Financial System of Japan*, 2003, *History of Public Finance in the Years of Showa covering 1974 to 1988*, Vol.7, 2004, Part 1, Chapter 2 and 3. It is said that the USA aimed to appreciate the yen rate by requesting Japan to carry out financial liberalization and capital flow liberalization such as in the so-called 'Japan-US Yen Dollar Committee' in vain. However, Haruhiko Kuroda said, 'It is ironical that this rapid financial liberalization bore a part in the formation of the asset bubble in the Japanese economy in the latter half of the 1980s.' (*Success and Failure of Public Finance and Financial Policy*, 2005, p.75 and *Rise and Fall of Currencies*, 2005, p.161 onwards.)
- (10) Please refer this point to my works in Note 1 for immediate reference.
- (11) Hong Kong was returned to China in 1997, but the economic relationship between it and Mainland China was becoming close before then ('China-British Joint Declaration", where the return of Hong Kong was decided, was signed in 1984, and enforced in the following year), and it is considered that an element that Hong Kong has become a region for entrêpot trade for Mainland China has increased. I therefore decided to examine using statistical data unifying Hong Kong and Mainland China here. This is also certainly partly for the purpose of securing consistency in the time sequence.
- (12) What symbolizes this is the closure of the Japanese customs in 1943. Incidentally, the customs was reopened after the war in 1946.
- (13) The above publication by Nishimura, p.19