

Trade and Growth in Japan

- ▶ Trade dependency
- ▶ Export-led growth
- ▶ Japan's trade structure - too few imports, unfair trade?
- ▶ Sources of balance of payments surplus?
- ▶ Does the exchange rate affect the surplus?
- ▶ Trade and technology

Trade dependency

- ▶ Japan is not highly “trade dependent”
 - ▶ Reverse side: not a very “open” economy
- ▶ Trade dependence is the outcome of:
 - ▶ underlying comparative advantages and disadvantages and their change over time
 - ▶ geography and distance
 - ▶ the effects of trade and commercial policies

Share of Exports in GDP

	AV 1953-72	1975	1985	1998	2001*
JAPAN	11.3	11.2	13.0	10.2	10.8
UK	21.3	19.0	21.8	19.4	24.6
GERMANY	20.8	21.4	29.3	25.0	32.8
FRANCE	15.2	15.6	19.4	20.9	25.8
USA	-	7.0	5.5	8.0	10.0

Note: 2001 figures are 2001 trade figures over 2002 GDP figures

**SOURCE: BANK OF JAPAN, INTERNATIONAL COMPARATIVE STATISTICS;
BOLTHO, 1975; KEIZAI KOHO CENTRE, JAPAN 2000: AN INTERNATIONAL
COMPARISON**

Share in world X growing

▲ visibility

▲ but not at expense of US export shares

Share of Major Countries in World Exports and Imports (%)

	1975	1980	1985	1996	2001* (OECD)
EXPORTS					
JAPAN	7.1	6.8	9.7	7.8	7.9
USA	13.7	11.8	12.0	11.8	19.0
UK	5.5	5.8	5.6	5.4 (1991)	7.1
GERMANY	11.4	10.1	10.1	11.7(1991)	11.9
FRANCE	6.7	6.1	5.6	6.3 (1991)	6.8
ITALY	4.4	4.1	4.2	4.9 (1991)	5.7

But Share of Imports not

	1975	1980	1985	1996	2001* (OECD)
IMPORTS					
JAPAN	7.2	7.2	6.9	6.5	7.2
USA	13.0	13.1	18.7	15.3	24.6
UK	6.7	5.9	5.8	5.9 (1991)	7.4
GERMANY	9.4	9.6	5.4	10.9 (1991)	11
FRANCE	6.8	6.9	5.7	6.5 (1991)	6.2
ITALY	4.8	5.1	4.7	5.1 (1991)	5.2

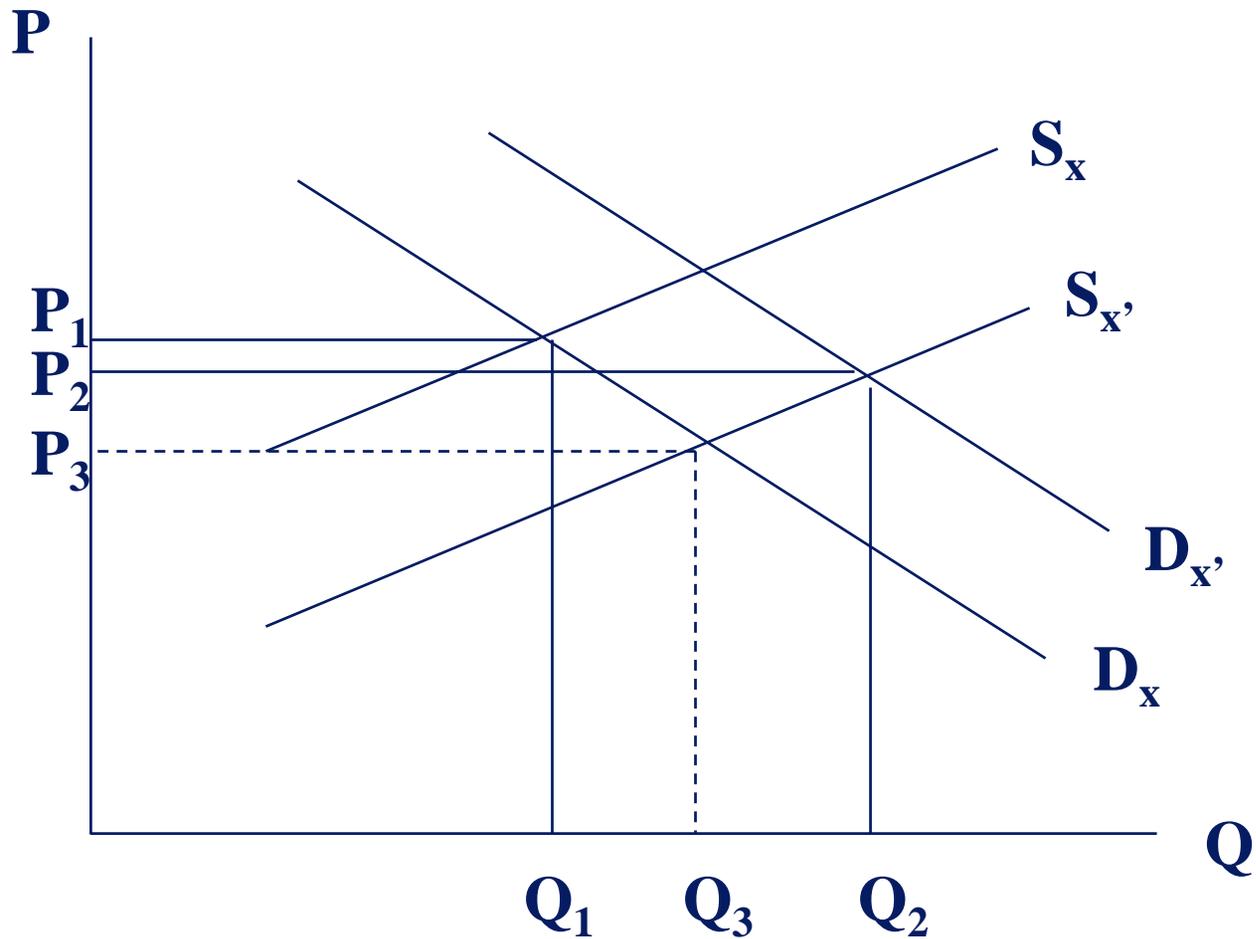
Export-led growth?

- ▶ What is the hypothesis?
- ▶ Was export growth due to demand pull (“export-led”) or supply push (competitiveness)
- ▶ Simple tests
 - ▶ prices, timing, causality

Supply-driven export growth?

- ★ Caves test of export-led growth : where export volumes and export prices rise together

Figure: Supply-Driven Export Growth



- ★ Caves condition met only during Korean and Vietnam War booms in 1950s and late 1960s/early 1970s
- ★ Other tests: Boltho – timing and Granger causality. Most commodities don't follow the demand pull pattern

Export-dependant recoveries?

- ▶ Were exports the most important source of demand growth?
 - ▶ relative to investment
 - ▶ relative to domestic demand
- ▶ Greater dependence on net export demand in slow growth period since 1973 and recoveries from recession can be “export-led” (c.f. 2003)

Trade structure: evidence of closed market?

- ▶ Concentration of export structure is very marked.
- ▶ What can we learn from international comparison of shares of manufactured imports?
 - ▶ Saxonhouse/Lawrence debate: is this evidence of deliberately closed market?
- ▶ Japan did have a trade policy but did it have an effect?

Intra Industry Trade Index

	1981	1991
Japan	31.9	48.7
USA	57.6	70
Germany	67.5	66.9
France	87.2	91.1
UK	82.5	88
EC 12 (external only)	59.4	73.2

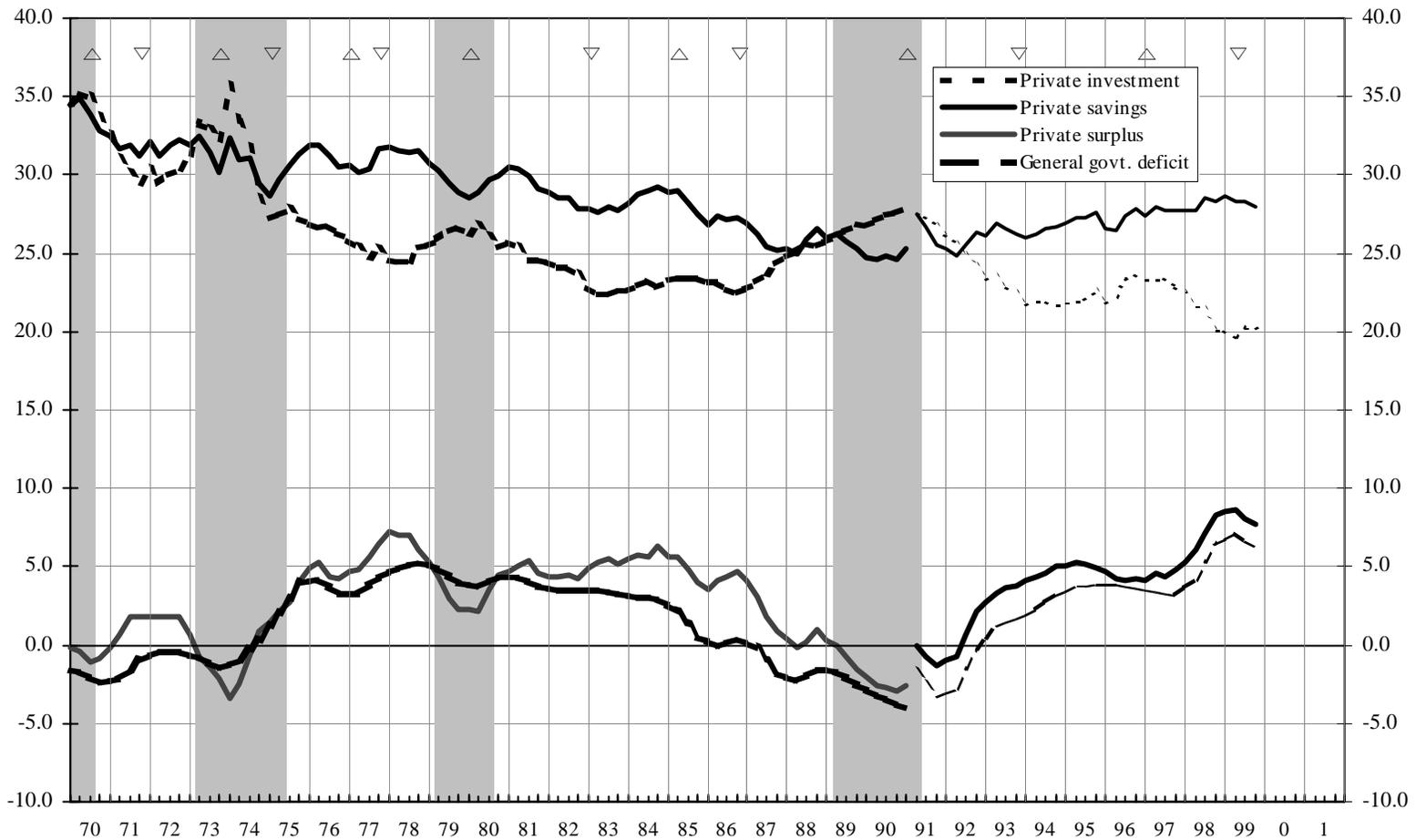
From Saxonhouse (1993) cited in Flath, p 165. Value calculated so that 100% would be complete intra-industry trade, 0% would be none

Current account surpluses

- ▶ In 2002 just under 3% but during 1980s as high as 4%.
- ▶ What drives it?
 - ▶ Macro: Clear link with domestic S-I balances
 - ▶ Variability comes from changes in domestic I and government surplus
 - ▶ Surplus grows in recessions

Macro Origins

- ▶ Surplus matched by growth of net foreign assets.
- ▶ But is it “caused” by domestic macro imbalance?
 - ▶ alternative view (Aliber): causality runs from capital flows to currency value to trade flows, domestic balance follows from trade.
- ▶ Policy implications: macro or micro?
 - ▶ Should Japan consume more (save less) or be “more open”?



Sectoral Balances in Japan (% of GDP)

	1960– 73	1974– 90	1991– 99	1960– 99	1999– 2001
Gross domestic savings	36.1	32.1	30.5	33.1	27.8
Gross domestic investment	35.4	30.8	27.8	30.9	26.3
General government net lending	1.0	-1.9	-2.7	-1.1	-7.2
Private sector balance	-0.3	3.2	5.4	2.3	9.5
Foreign balance	0.7	1.3	1.7	1.2	2.3

- ▲ Source: OECD National Accounts of OECD Countries, Historical Statistics and Economic Outlook (various issues)

Sectoral Balances
(in per cent of current price GDP)

	1960–73	1974–90	1991–9		1960–99
Gross domestic savings	36.1	32.1	30.5		33.1
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Sources: OECD, National Accounts of OECD Countries, Historical Statistics, and Economic Outlook (various issues).

Can the exchange rate adjust the surplus?

- ▶ old argument yen was undervalued during high growth
- ▶ evidence of reluctance to revalue at end Bretton Woods

Exchange Rate Adjustment

- ▶ attempts to “manage” the floating exchange rate in 1980s
 - ▶ not alone, how much was US pressure, how much domestic objectives?
 - ▶ has Japan tried to manipulate the exchange rate for export growth?
- ▶ Does competitiveness matter? How sensitive is the surplus to yen changes? (Dornbusch, Carlin & Glyn)

Trade, technology and growth

- ▶ early postwar period of technology import
- ▶ aided by industrial/trade policy
- ▶ government role in coordination of domestic technology development
- ▶ still net importer of technology (US, UK, Netherlands net exporters, Germany more patents abroad)
- ▶ but link between trade, domestic competition and introduction of new technologies may have been important