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Revitalizing global economic growth: Views from G20 countries

Exports and Japanese Economy in the post-Great Recession world

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1. RECENT MOVEMENTS OF JAPAN'S TRADE BALANCE AND CURRENT ACCOUNT

Trade account deficits and income surplus

- Japan’s trade balance and current account had been in surplus through 1980s-2000s.
- But, trade balance was in deficit from 2011 to 2015.
- Turning point was the global financial crisis started in Sep 2008 and the subsequent global recession.
  - A sharp appreciation of yen and the great trade collapse caused a dramatic contraction of the demand for Japanese exports.
  - Government had responded with a large fiscal stimulus. As a result, domestic saving-investment balance deteriorated.
- On the other hand, Japan’s income surplus has been increasing steadily since early 2000s.
  - Income surplus has mostly offset trade deficits and kept current account surplus for most of time.

Increased dependence to external demand

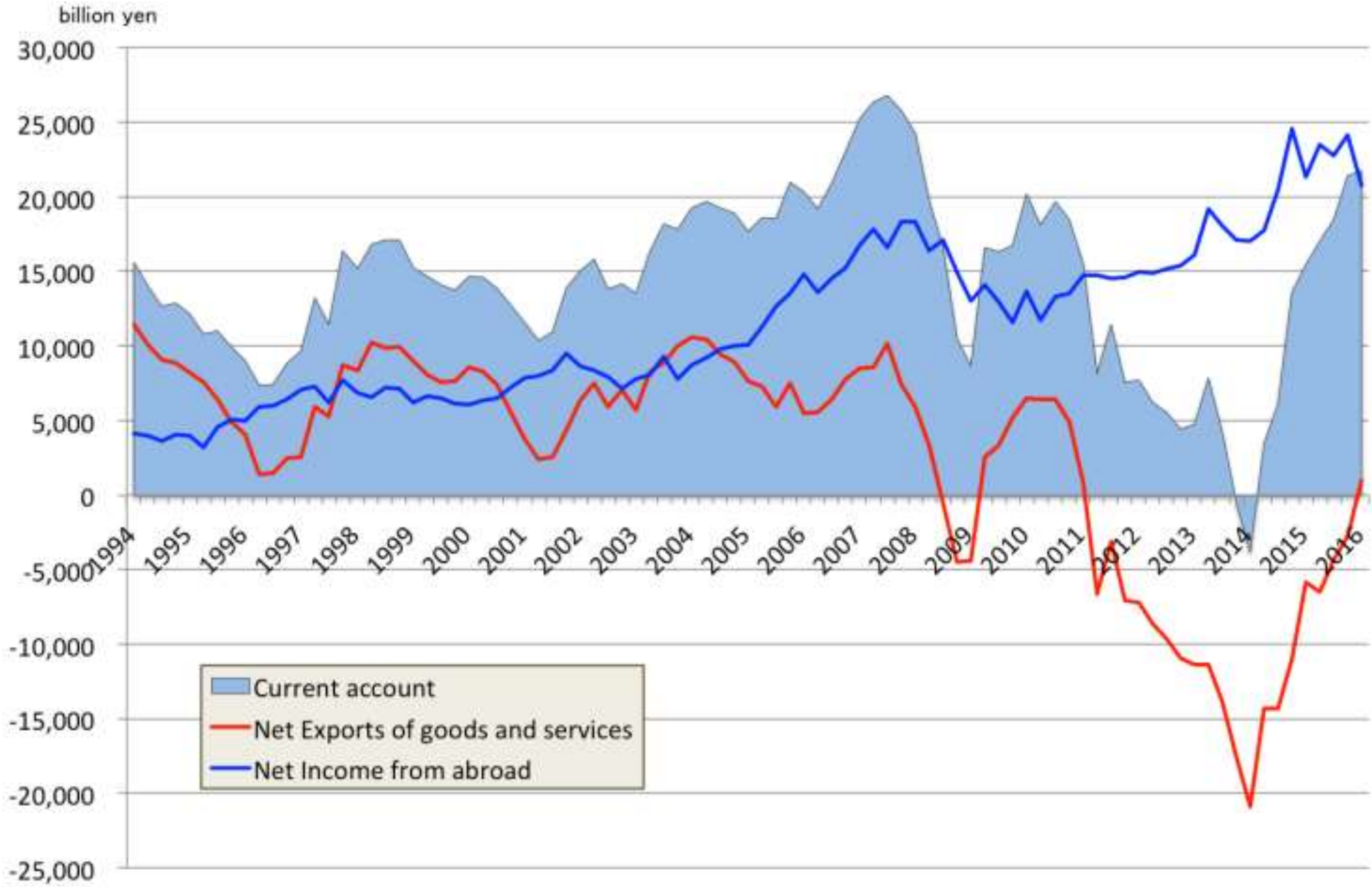
- Japan's dependence to international trade significantly increased through 2000s, until 2007.
- Because of the trade collapse, both exports and imports declined sharply in late 2008 and in 2009.
- Then, recovered in V-shape in 2010.
- Why had Japan been hit by the trade collapse much harder than other countries?
  - Globalization? (but a common common around the world.)
  - Weak domestic demand and increased dependence to external demand.
  - Major Japanese industries had been integrated into the East Asian supply chain.

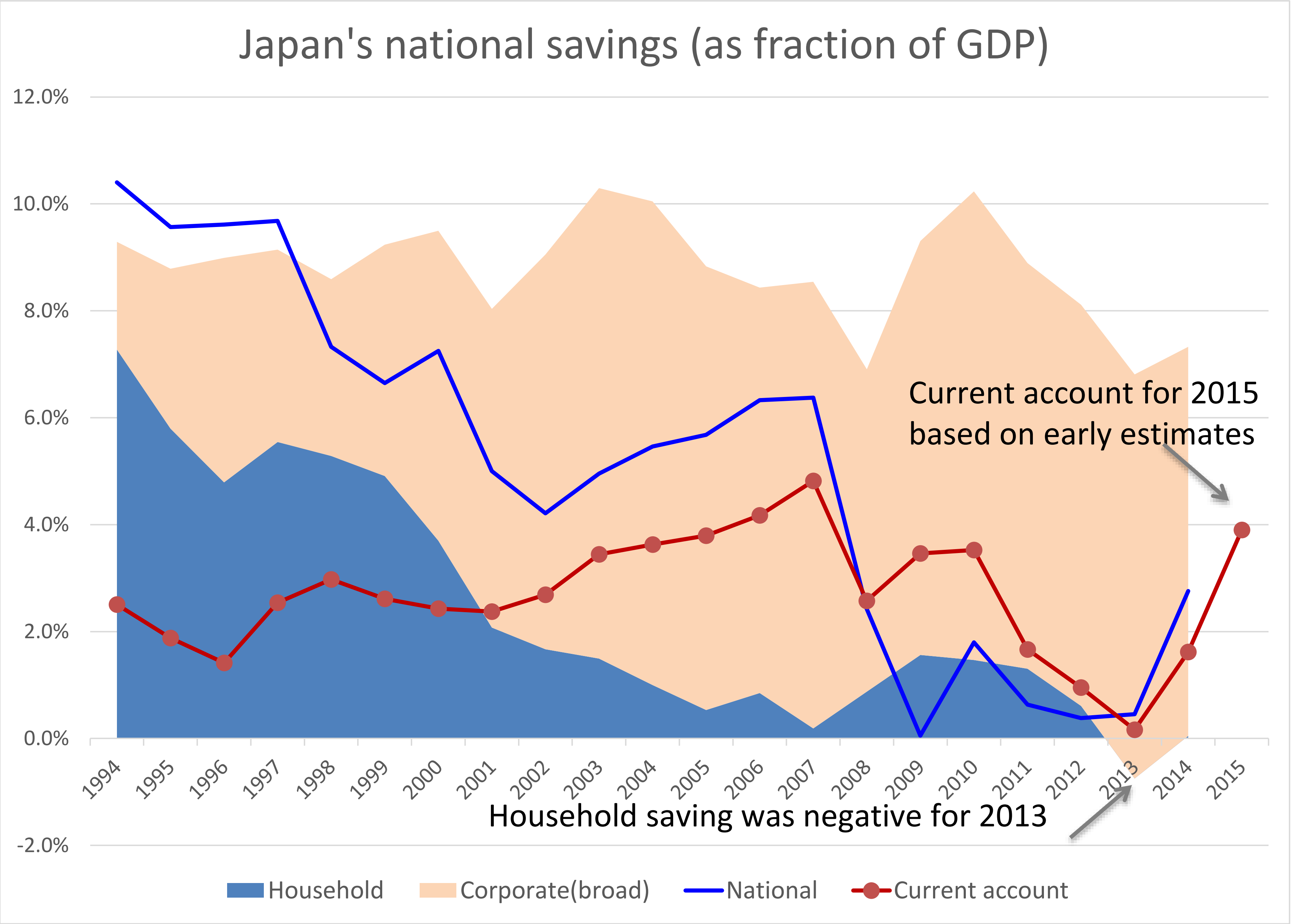
Japan’s current account in the long-run

- Current account
  = private sector surplus＋government surplus
- Private sector surplus
  = private savings minus investments
  - Household savings dropped sharply in early 2000s and has been close to zero.
  - Corporate savings has been extremely high through 2000s and 2010s.
  - Private sector surplus as fraction of GDP has mostly unchanged, just two percentage point decline in 20 years.
- Budget deficit (a negative of government surplus) has been increasing, particularly since mid 2000s, partly because of fiscal stimulus, but mainly because population aging.
- Current account deficit will eventually turn to deficits on permanent basis at some point in the future, though it is very difficult to predict exactly when.

Japan's trade balance and current account

Quarterly (seasonally adjusted), 1994:Q1-2016:Q1




Japan's national savings (as fraction of GDP)
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Current account for 2015 based on early estimates
Household saving was negative for 2013
Household
Corporate(broad)
National
Current account

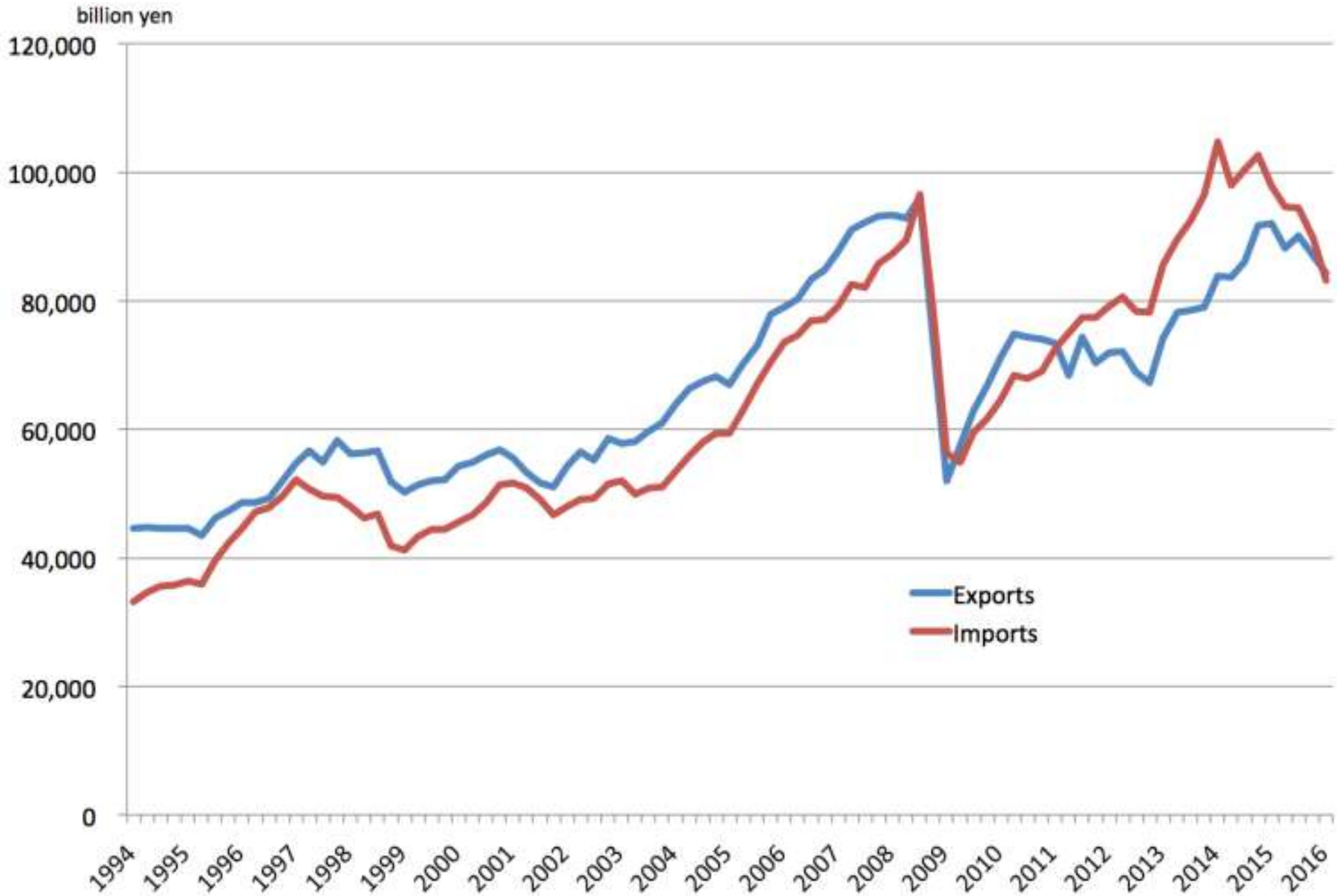
Great trade collapse

Rates of contraction from peak to trough, 2008-2009

	Trough month	Goods export (cumulative change)	Industrial Production (cumulative change)
World	May 09	△25%	△ 13%
Industrialized	May 09	△ 24%	△ 17%
US	May 09	△ 23%	△ 14%
Japan	May 09	△ 22%	△ 36%
Emerging	Jan 09	△ 28%	△ 9%

from Baldwin and Taglioni "The great trade collapse and trade imbalances," in Richard Baldwin ed., *The Great Trade Collapse: Causes, Consequences and Prospects,* A VoxEU.org Publication, 2010.

Exports and Imports

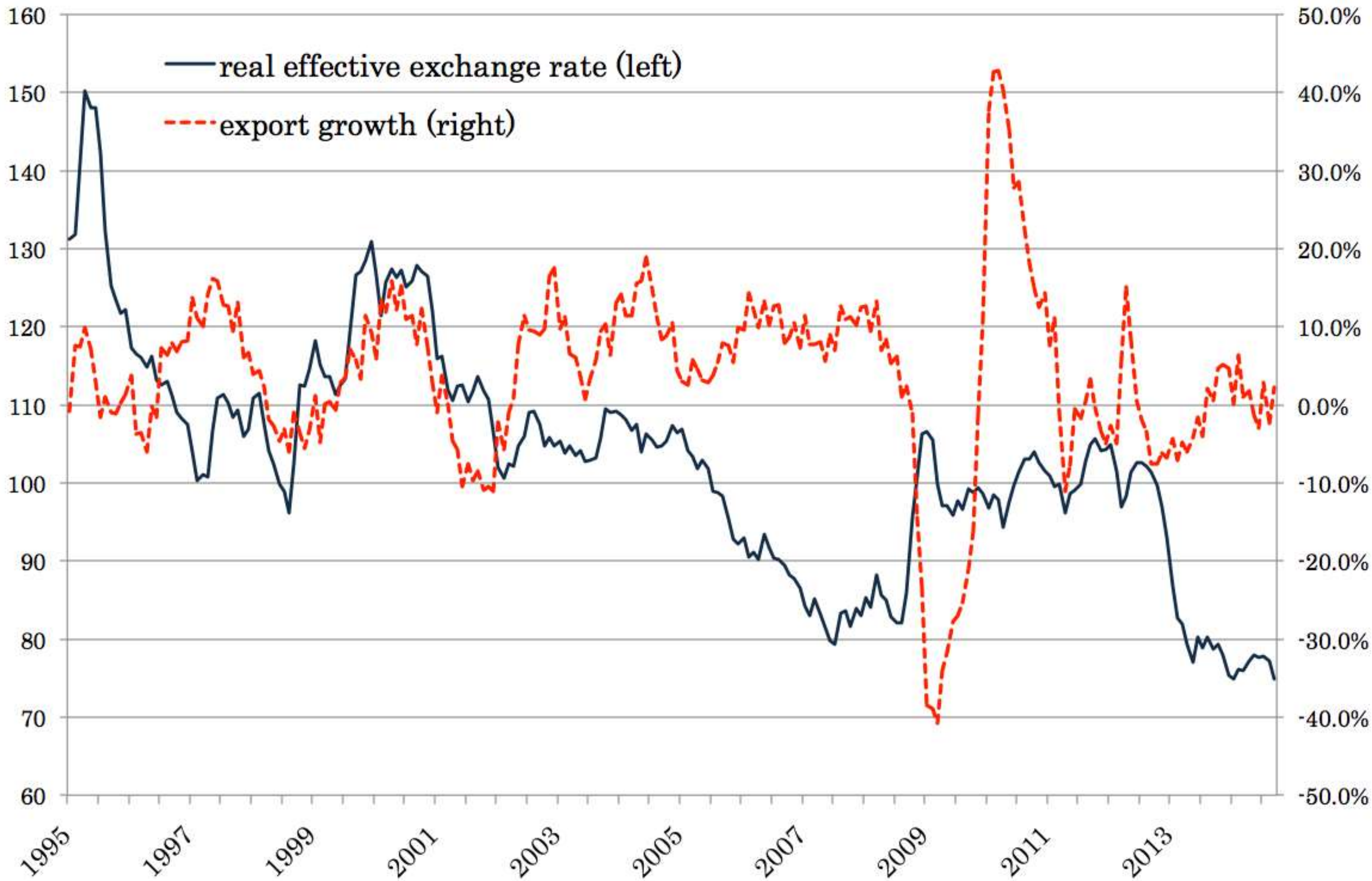


2. INTERPRETING RECENT JAPANESE EXPORTS BEHAVIORS

Closer look of recent Japanese export movements

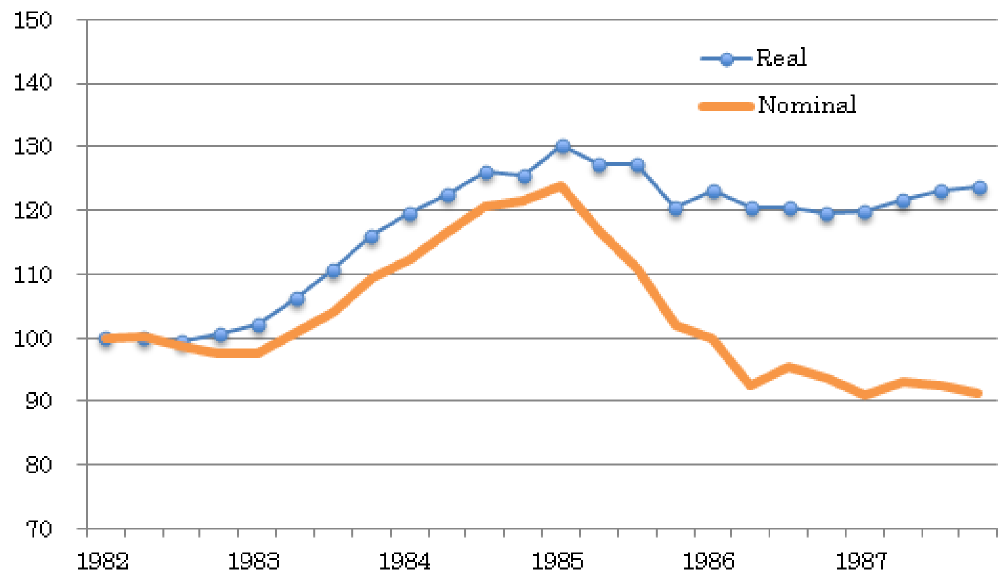
- Large quantitative adjustments for a exchange rate shock of the same size.
- Weaker correlation between exchange rate and exports.
  - These characteristics are very apparent when the export changes around Plaza accord in 1985 and around the collapse of the Lehman brothers in 2008 are compared.

Exchange rate and exports: 1995-2014

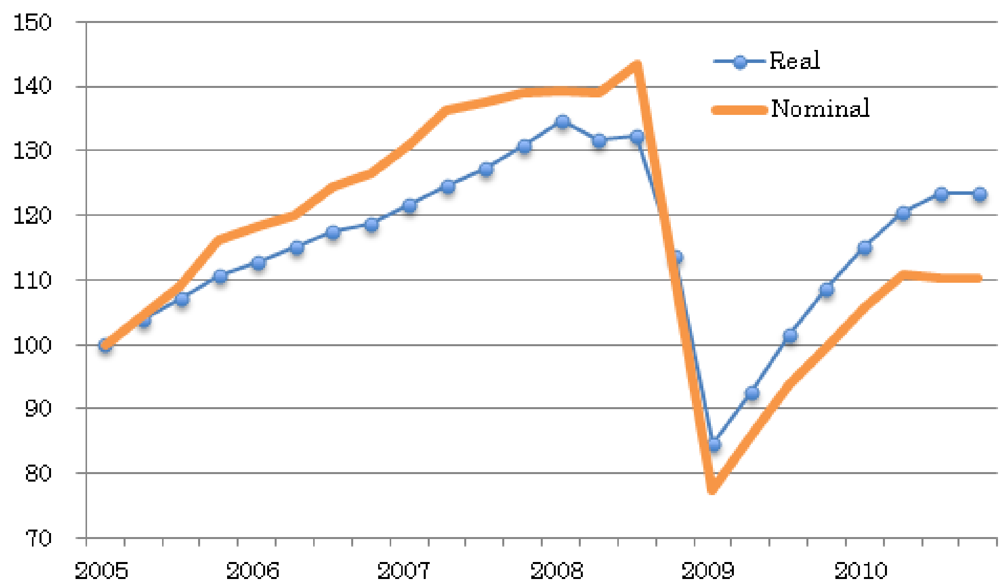


Nominal vs real exports

Around ***Plaza accord*** (September 1985)



Around the ***Lehman collapse*** (September 2008)



Seasonally adjusted GDP data

Analyses by the VAR model

- Three-variable VAR including the global demand, exchange rate, and export growth.
  - Following analyses based on Iwaisako & Nakata (2015). http://www.rieti.go.jp/en/publications/summary/15030006.html

- Foreign demand shocks have a much larger share in explaining the variations of Japanese export growth in the 2000s than they did in the 1980s and 90s.
- The share of exchange rate shock is smaller in the 2000s.
- The down-up swing in 2009-2010 is difficult to explain.

Our VAR model

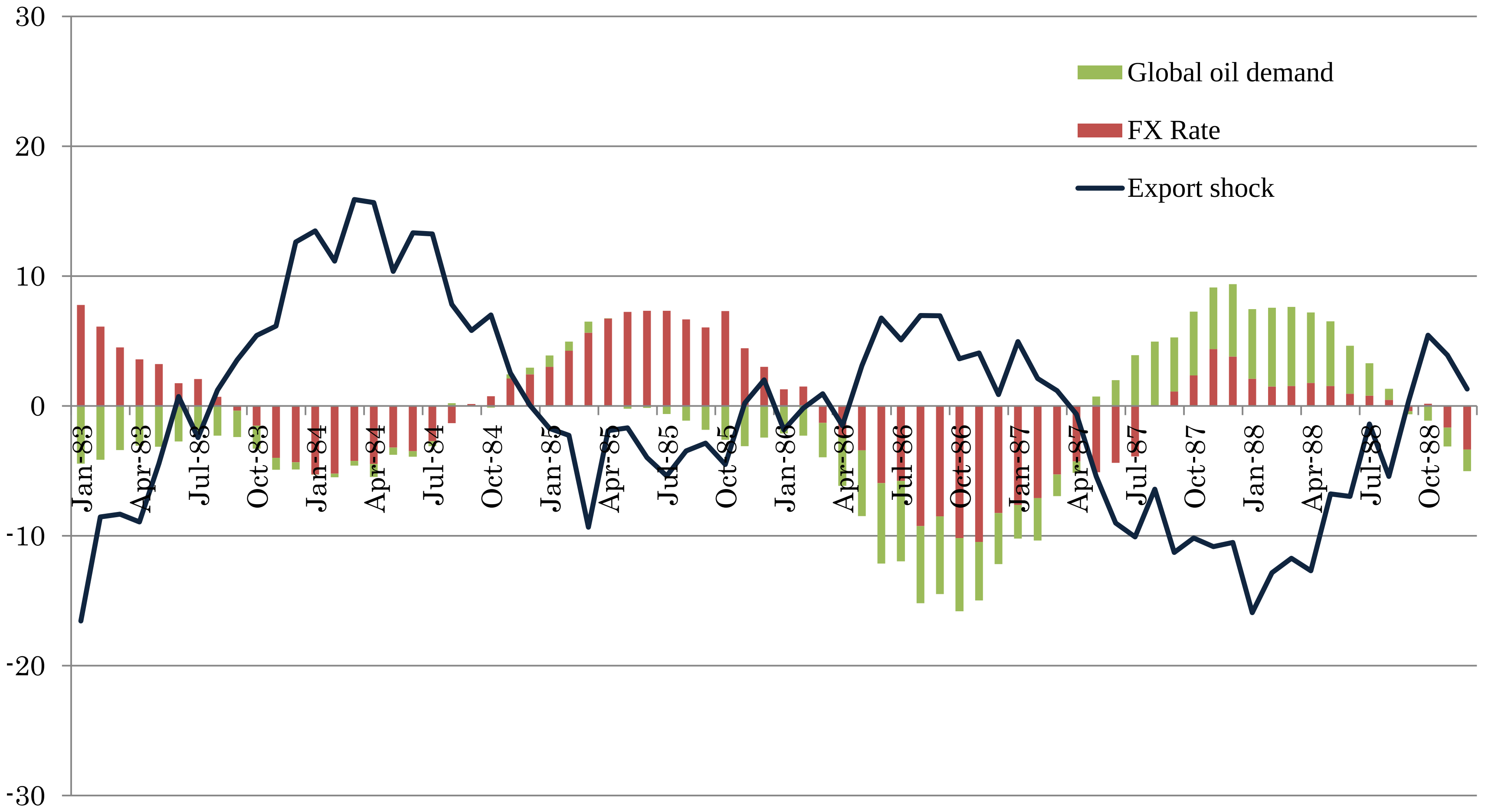
- Three variable VAR
  - FX rate (real effective exchange rate)
  - Real economic activity in the world economy
    - Index based on dry cargo single voyage ocean freight rates; a proxy fro the global demand for crude oil.
  - Real export growth

Results of Variance Decomposition:

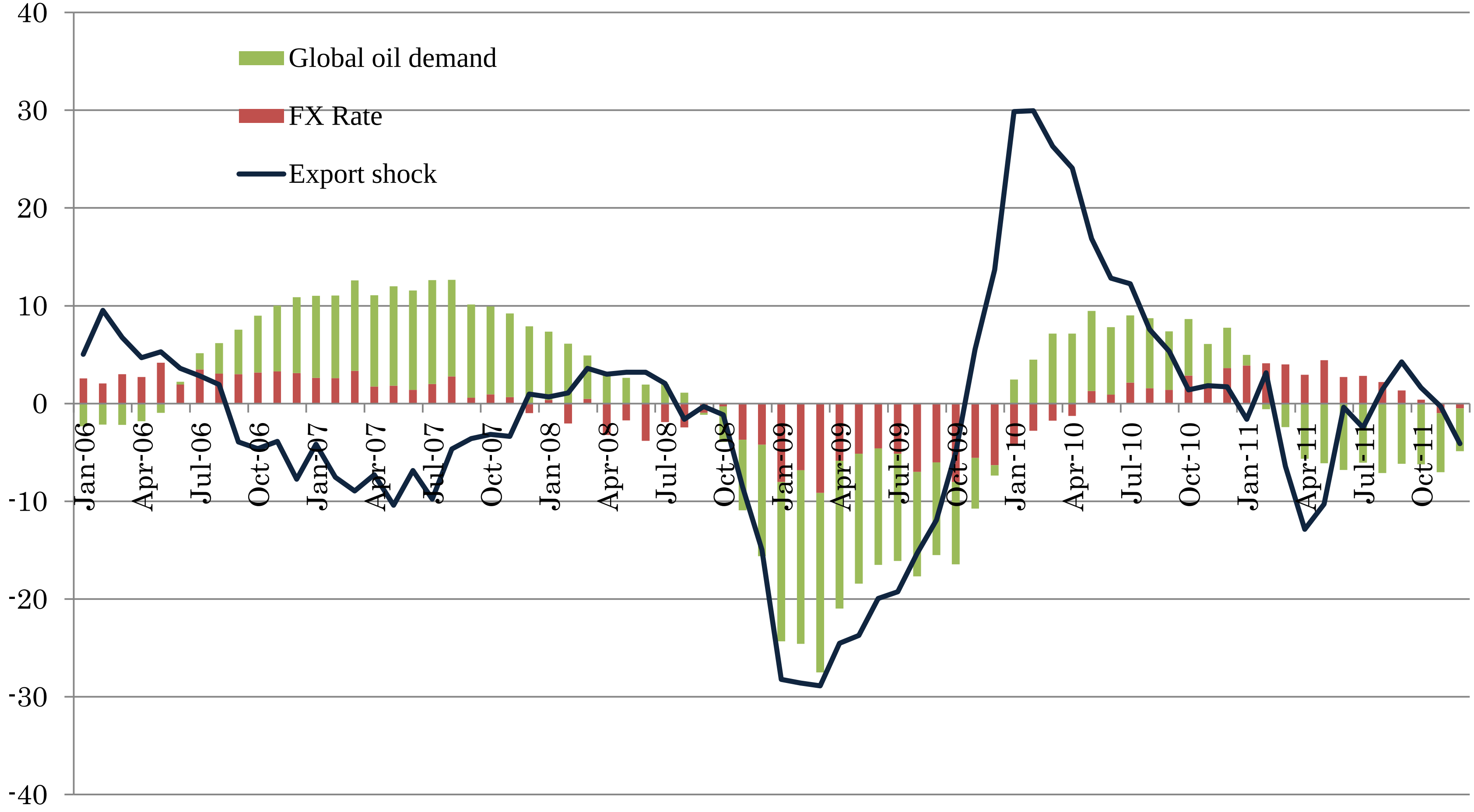
The shares of demand shocks and exchange rate shocks in explaining Japan's export growth

	Demand shocks	Exchange rate shocks	Other shocks
1977-99	15.5	22.7	61.7
2000-14	52.1	18.4	29.5

Historical decomposition of Japanese Exports: 1983-1988



Historical decomposition of Japanese Exports: 2006-2011



3. POLITICAL ECONOMY

Revival of the interventionism and the protectionism in the U.S.

- Regardless who becomes the next US president, s/he will be more interventionist and more trade-protectionist than President Obama.
- Trump’s international economic policy is extremely difficult to predict at this point.
  - He might be very practical once he becomes the president.
- In terms of economic policy, Hilary Clinton will not get along with Japanese businesses as well as Obama.
  - As the president, she will be more interventionism- and protectionism-prone than both Obama and Bill Clinton.

Currency wars?

- How can a country devaluate its own currency to promote its export under flexible exchange rate?
  - By exchange rate market intervention.
  - Aggressive monetary easing.
- Some US economists and politicians claim that TPP must include the provision against “currency manipulation”.
  - US Treasury’s *Currency Watchlist*.
  - Japan has never been very enthusiastic about FX market intervention in the 2000s and 2010s, except 2003-mid 2004.
  - If “aggressive monetary policy” is identified as the measure of currency manipulation, then central banks’ independence around the world will be at the stake.
- If “currency wars” mean competitive devaluation by monetary expansions, will it be a threat to the world economy?

Asian Infrastructure Investment Bank (AIIB)

- It is good to have a major competitor to the Asian Development Bank.
- However, too much competition might induce excessively generous (sloppy) landings.
  - Governance of the organization and risk management are keys for the success of AIIB.
  - At this point, Japan will be a only major supplier of funds except China if it really participates to AIIB. Why should Japanese government expose its tax payers’ money to potential risks in this circumstance?
- It seems to me that one’s attitude toward AIIB reflects the degree of his/her (un)satisfaction with so-called the *Washington consensus*.

Next phase of *Abenomics*

- Growth-oriented approach for the fiscal sustainability rather than the austerity.
- Political economy behind the revised growth policy package, new *“third arrow”.*
  - Retract the “female workforce participation” which was popular among public, but not particularly welcomed by any lobbying groups.
  - LDP insists that they will fix the “children on the waiting list for nursery schools” problem, which could have been a major point of attack by the opposition parties in the elections.
  - Pushing the labor market reform which will make easier for companies to layoff their regular workers.
    - Most economist support such a reform.
    - But, it will also undermine the basis of labor unions, major supporting bodies of the opposition parties.