Japan's Export Decline & Prospect of Recovery

By Noboru HATAKEYAMA

Japan's exports nosedived recently. For the three months beginning from last December, Japan's exports declined by 35.0%, 45.7% and 49.4% respectively from a year before . There were only two cases matching export declines of this size.

The first sharp decline was recorded in June 1942 when Japan had been involved in World War II since December of the previous year. That month, Japan's exports plummeted as much as 59.4% year on year.

The second steep decline came in August 1930 in the midst of the Great Depression. Japan's exports plunged 41.4% then. Therefore the export falls of last January and February exceeded the slump during the Great Depression, ranking as the second and third sharpest monthly falls on record respectively in the past 80 years of trade history, although, strictly speaking, trade statistics used for the period under review are not always the same. However, I think it is allowed to compare roughly the depth of what happened in our economy recently with the past records.

Exports of the United States, the origin of this crisis, did not decline this much. The US exports of goods fell by 22.9%, 21.4% and 21.6% from a year before in the same three months. It is often said that mainly due to the contraction of the US economy, Asian exports to the world shrank severely. They shrank for sure but not as much as Japan's. For example, South Korean exports declined 16.3%, 21.3% and 8.0% in the same period while Chinese exports sagged 2.8%, 17.5% and 25.7%.

What would be the reasons for Japan to stand out with this magnitude of export decline?

Firstly, the yen rate as compared to the US dollar went up during these three months by 23.1%, 19.1% and 15.9% respectively year on year. On the other hand, the South Korean won rate against the Japanese yen depreciated by 40.2%, 42.4% and 42.5%. Although the Chinese yuan appreciated against the US dollar, the extent of appreciation in those three months was only within the range of 5% to 7%.

Secondly, Japan's economy has become highly dependent on exports recently. Although many people believe Japan has been dependent on exports for its growth from the beginning, this is not the case. Japan exported the equivalent of only 8.4% of its GDP in 1995. This export ratio was much lower than that of Germany or France, which was around 20% then. However, Japan's export dependency ratio has gone up recently, reaching 19.5% of GDP in the third quarter of 2008. Accordingly, Japan's ratio of GDP dependency on the US economy has increased despite the decreasing dependency of exports on the US market from 30% 10 years ago to less than 20% today. Therefore, Japan catches a cold when the United States sneezes.

Thirdly, many Japanese companies have become very cautious not to have excessive inventories. Therefore, when a final assembler encounters 20% less new orders than before, it orders 30% less from its first-tier parts suppliers trying to avoid accumulating unnecessary inventories. Then these first-tier parts suppliers order 40% less from their second-tier suppliers. Thus Japan's supply chain structure has a function of amplifying order cuts.

How about the future trends of these three points?

Firstly, the yen rate will be determined by any of the following elements that will be dominant in the future.

The first element is the prospect of Japan's economy becoming less competitive due to its declining population and a rise of emerging economies, including those of China and India. The second element is the deterioration of the balance of current account on the part of the United States.

Because of the economic crisis this time, the US current account balance seems to be improving, reflecting reduced personal consumption. If this tendency continues in the future, one of major reasons for the value of the US dollar falling will disappear although the fiscal deficit has increased sharply, especially due to the stimulus packages introduced by the US government. On the other hand, there will no major change in the situation surrounding the yen. Therefore the yen rate will not be too strong in the future.

Secondly, Japan's current excessive export dependency ratio has been and will continue to be forced to go down by the international market forces of supply and demand, and economic stimulus packages implemented by the Japanese government.

Thirdly, regarding the excessive inventories of manufactures, it is reported that most of them have already been cleaned up, thereby making inventory levels normal or slightly lower than desirable levels. Therefore, additional new orders have been made since last March.

Thus, the first and third factors seem to be changing in the direction of recovery in exports. Whether or not this recovery will be strong enough to lead to full-fledged recovery of Japan's entire economy remains to be seen. JS

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