

6. 公開セミナーでの使用テキスト

1. "ABOUT JAPAN" SERIES 2

History of the Modern Japanese Economy

FOREIGN PRESS CENTER JAPAN

2. Japan 1996 An International Comparison

KEIZAI KOHO CENTER

3. Major Structural Changes in the past 25 years

プリント(添付)

4. ECONOMIC SURVEY OF JAPAN (1994-1995)

TOWARD THE REVIVAL OF A DYNAMIC ECONOMY IN JAPAN (SUMMARY)

ECONOMIC PLANNING AGENCY

5. Social and Economic Plan for Structural Reforms

Towards a Vital Economy and Secure Life

Economic Council

Economic Planning Agency

6. チャートリスト

プリント(添付)

## **TITLES: Major Structural Changes in the past 25 years**

1. Various changes occurred during the 1970s
2. The effects of yen revaluation
3. Japan's Trilemma after the first oil crisis
4. Deterioration of terms of trade
5. Adjustment to relative prices change and change of comparative advantage
6. Energy efficiency improvement
7. Learning-effect in the case of "the second oil crisis"
8. Four factors behind external friction with the other developed countries since 1970s
9. Macroeconomic background for current balance surplus
10. Increasing globalism
11. Reaganomics and Japan's expanding trade surplus
12. The Plaza Agreement and yen's steep appreciation
13. J-curve effect and trade balance surplus
14. Recession led by yen's appreciation
15. Adjustments to a high-yen environment
16. Policy reactions for recession
17. Two "Mackawa Reports"
18. Recovery led by domestic demand from 1987
19. The Bubbles appear
20. Factors behind the bubbles' formation
21. Investment boom
22. The bubbles burst
23. The effects of asset deflation
24. The hardest hit upon the financial institutions
25. When hit the bottom ?
26. Employment adjustment and low unemployment rate
27. "True" unemployment rate including hidden unemployment
28. Structural unemployment expanding
29. Budget deficits
30. Effectiveness of fiscal policy measures
31. Monetary policy in the disinflation
32. Accelerating asset deflation
33. FDI and trade structure
34. Passenger car export to the U.S. has declined sharply
35. PPP and prices gap between Japan and abroad
36. Yen appreciation and export prices
37. Industrial production recovery led by PC and IC
38. Fall in current-account surplus
39. Industrial structure changes are going on
40. Disinflation

## Japan's economy: Major structural changes in the past 25 years

### 1. Various changes occurred during the 1970s

In the years from the late 1960s to the early 1970s, three significant changes occurred in the conditions supporting the high economic growth of the previous periods. First, on the demand side, along with a rise in the diffusion of durable consumer goods and overall upward trend in consumption levels, conventional quantitative expansion in consumer expenditure gradually gave way to a demand for high quantitative goods, and the Japanese people focused more strongly on improving living environment and welfare standard. Second, various obstructions to growth emerged. As of the 1960s the problem of industrial pollution assumed greater importance. Since expanded industrial activity was impossible without finding solutions to this problem, businesses' cost burden for environmental measures increased.

This reduced capital efficiency, which is shown in the increase in the ratio of capital stock to GDP. In early 1970s and 1980s, which implies Japan needs more capital stock to create the fixed amount of GDP than in 1960s. Also, capacity of industry growth rate had been declined in 70s. Third, beginning with fluctuations in international currency conditions, major changes began to occur in the international economic environment.

### 2. The effects of yen revaluation

Under the fixed exchange rate system, 360yen to the dollar, Japan strengthened its competitiveness in export markets. Brisk plant and equipment investment and improved labor productivity in the domestic economy brought about a significant increase in exports by Japan's heavy industries. (The proportion of these products in the total value of exports shot up from 43% in 1960 to 73% in 1970) Compared with the average balance of payments pattern of the major industrial nations, Japan's economy produced a large surplus that was unaccompanied by a counterbalance net outflow of transfer payments and long-term capital.

The revaluation of yen and the switch over to floating system, it may be said, basically resolved Japan's balance of payments disequilibrium. As for exports, some people worried that yen's revaluation would weaken the competitive strength of Japan's export goods. However, not only yen but also other currencies as well were revalued against the U.S. dollar. Therefore, the effective rate of yen's revaluation turned out to be relatively low.

### 3. Japan's trilemma after the first oil crisis

When the first oil crisis in the 1970s broke out, Japan's economy was in a period of transition, gradually slowing down from high growth to more moderate growth. The sudden rise in oil prices speeded up this process and prevented a smooth transition to slower growth. Subsequently, Japan was confronted with a "trilemma" of galloping inflation, a large balance of payments deficit, and

the deepest recession since World War II. This is called "supply-shock" in the economic textbook, coexistence of inflation and deflation caused by shifting aggregate supply curve to the left. In addition to stagflation, oil price rise reduced Japan's trade surplus, which tended to depreciate yen rate.

#### **4. Deteriorations of terms of trade**

Terms of trade is defined as rate of export price to import price. Rapid increases of import prices such as oil price jumping-up or exchange rate changes deteriorate terms of trade. This means the real loss in domestic expenditure, in other words, real income is transferred to oil-exporting countries through high oil prices. In the case of the first oil crisis, oil-importing countries must export three times of the previous amount, in order to buy the same amount of oil. This means that Japan's value-added output is sold by one-third price, which is exactly loss of real income. This had a deflationary impact to the Japanese economy. Furthermore the stagnant state of private capital investment because of the decline of expected economic growth rate. And government restrictive demand control policies necessitated to control inflation had deflationary pressure.

#### **5. Adjustment to relative prices change and change of comparative advantage**

The structure of comparative advantage shifted because of the changes in price-cost relations, particular caused by energy price increases, as well as foreign exchange rate depreciation caused by current balance deterioration. Consequently, while the competitiveness of such industries as automobiles, machine tools, and electric machinery, in particular electronics, was improved, that of industries as petrochemicals and aluminum refining was weakened. As a result, imports of such commodities as aluminum, pulp, and fibers were expected to increase.

#### **6. Energy efficiency improvement**

Oil consumption or energy consumption drooped sharply after the oil crisis. The ratio of oil consumption to GDP had been dramatically dropped. In 1973 the ratio was high, which sharply dropped to in 1977. This has been due to three reasons, (1) industrial structure changes like decline of heavy industry, shifting to energy-saving industries, (2) in energy-consuming industries, products changes to higher-value-added outputs and introduction of technological progress for saving energy, (3) efforts to save energy by the general public people.

However, basically price effect had reduced oil consumption.

## **7. Learning-effect in the case of 'the second oil crisis'**

The new trilemma induced the second oil crisis in 1979. However in this occasion, Japan's economy was on a path of self-sustained growth after having come out of the long downwards adjustment period the followed the first oil crisis. In addition to the differences in economic conditions, a lower rate of wage increases, more appropriate accommodative monetary policy management, and efforts to raise productivity in the private sectors prevented rising import prices from causing a rise in domestic prices. Also, moderate wage increase prevented "profit-squeeze", which did not hamper private investment.

## **8. Four factors behind external friction with the other developed countries since 1970s**

First, increased exports of certain Japanese products resulted in economic friction because they caused Japan's trading partners to have higher unemployment rates. Second, Japan's trade surplus vis-a-vis the Western countries to react by placing protectionism trade measures on specific products. Third, the structure of the Japanese economy itself drew criticism because of such common perception as that the Japanese market is closed, not open to foreigners. Fourth, competition was growing increasingly fierce, especially in high technology.

## **9. Macroeconomic background for current balance surplus**

According to macroeconomic theory, current balance is equivalent with the summation of net saving in the private sector (I-S) and net government balance (T-G). Japan's net saving in the private sector has been dominant factor for current balance surplus. On the other hand the United States current balance deficits has been caused by low rate of saving together with huge budget deficits. Current balance surplus, from global point of view becomes financial resources for deficits countries as such forms as capital movements or economic aid.

## **10. Increasing globalism in the 1980s**

The world experienced profound political, economic, and social changes in the 1980s, and these changes affected the Japanese economy both cyclically and structurally. The biggest factors behind the global transformation were (1) the easing of East-West tensions, (2) the globalization of financial activity, and (3) the information globalization.

To cope with these global changes, the Japanese government was compelled to shift many of its policies in the light of these global changes, among the most prominent being its decision to liberalize capital flows.

#### **11. Reaganomics and Japan's expanding trade surplus**

President Reagan's economic agenda, known as Reaganomics, sought a revival of strong America marked by lower inflation, brisk capital investment and stronger US dollar. This package was theoretically based on monetarist and supply-side economics. What Reaganomics actually produced were massive trade and budget deficits, so-called 'dual deficits'. Although a tighter money supply did reduce inflation, it also produced higher interest rates. As a result, world-wide demand for dollar assets increased, pushing up the currency's value and weakening the competitiveness of American exports. Dollar's appreciation, domestic demand increase, and budget expenditure expansion made Japan's export increase in both consumer and capital goods.

#### **12. The Plaza Agreement and yen's steep appreciation**

At the September 1985 meeting of the finance ministers of the Group of Five industrial nations at the Plaza Hotel in New York, agreement was reached on closer coordination of macroeconomic policies among the G-5 countries to (1) intervene in currency markets to achieve realignment, devaluing the US dollar and bolstering the yen and Deutsche mark; (2) reduce the US budget deficit; and (3) boost domestic demand in Japan and West Germany. The effect of this agreement was drastic. The value of the dollar, which stood at 243 yen shortly before the meeting, soon broke through the 200 yen mark, dropping to around 180 yen by April 1986 and to 129 yen by the end of 1987. This rapid and steep yen's appreciation fueled fears of recession, with domestic manufacturers losing large shares of both domestic and overseas markets to lower-priced products of foreign rivals.

#### **13. J-curve effect and trade balance surplus reduction**

Currency appreciation should reduce trade balance surplus by export reduction together with import increase. However it is well known that it takes one or two quarters before this effect is realized. This time-lag effect so-called J-curve effect is reflected by (1) trade price in particular export price is determined by changes of exporters' prospects on the exchange rate. So yen's appreciation does not bring immediate rise in export prices in yen term. (2) time-lag of the price changes effect to the real economy. In Japan this J-curve effect prolonged trade surplus even after the Plaza agreement, but in 1988 trade surplus turned to decline eventually.

#### **14. Recession led by yen's appreciation**

In the process of yen's appreciation, newspaper reported like everyday the bankruptcies of less-competitive companies, which included coal mining, shipbuilding, aluminum and others. Some people were so worried about deindustrialization, as companies shifted to overseas, especially in Southeast Asia, and workers in less competitive sectors lost their jobs, pushing up unemployment rate to 2.8% in 1987 which was the highest rate after the W.W II.

However, GDP did not record negative growth, only growth rate slowed down.

#### **15. Adjustments to a high-yen environment**

Although the surging yen provoked gloomy forecasts of economic down, it had positive ramifications as well. The strong yen improved Japan's terms of trade by lowering the price of imports, and this led to an increase in real domestic income. Because the price of oil was also falling at the time, the rise in domestic income from lower import costs reached 8.7 trillion yen, which was equivalent to around 3% of GNP. This boost in income spurred domestic demand, with individuals spending more and companies raising their investment in plant and equipment. Export responded by shifting export goods to capital goods, parts, and other high-value-added goods whose demands were accompanied by foreign direct investment.

#### **16. Policy reactions for recession**

Government policy also played a key role in countering the adverse effects of the strong yen. Monetary policy was further relaxed, with the official discount rate coming to a record 2.5% 1987. Together with monetary policy, in fiscal terms, the then largest-ever size of supplementary economic stimulus packages were put together in 1986 and 87. The economic slowdown induced by strong yen bottomed out by the end of 1986, and a recovery began in early 1987. This upswing eventually lasted for over four years.

#### **17. Two "Maekawa Reports"**

In the context of far-reaching changes in the world economy, calls intensified for a structural transformation of the Japanese economy as well. Among the most prominent of these calls were two "Maekawa Reports" issued in 1986 and 87, by a blue-ribbon panel headed by the late Bank of Japan Governor Harou Maekawa. The reports contended that the economy had be restructured to reduce Japan's ballooning external surpluses and improve the people's quality of life so that it more accurately reflected the country's leading place in the world economy. These should be accomplished, the reports contended, largely through market forces and making economic growth more reliance on domestic demand, rather than exports.

#### **18. Recovery led by domestic demand from 1987**

The increase in real income from the strong yen and the wealth effect stemming from rising stock and land prices significantly boosted private consumption. Real GDP expanded by such high rates as 6.2% in 1988, 4.8% in 88 and 5.1% in 89. The big rise in imports, especially of manufactured products, meanwhile, sharply reduced Japan's current balance surplus--down to 1.2%

in 1990 from 4.2% in 86. The Japanese economy thus appeared to be taking the exact course prescribed by the Mackawa reports, achieving both domestic-demand-led growth and a reduction of the current balance surplus. Neither, however, was the result of policies that were advocated in the reports.

#### **19. The bubbles appear**

Speculative bubbles form when the prices of assets such as land and stocks become inflated far above their fundamental value and profits they are expected to generate. Where bubbles exist, the aggregate capital gains and losses on land and stock transactions become unusually large. In 1987 land and stock deals resulted in massive capital gains of nearly 500 trillion yen, equivalent to 40% higher than Japan's nominal GDP at that time. After 1990, however, these same assets gains and losses generated huge capital losses: around 200 trillion yen in 1991 and 400 trillion yen in 1992. The magnitude of these capital gains and losses far exceeded anything recorded earlier, including the 1973-74 period of asset inflation caused by Prime Minister Tanaka's bold plan to "remodel the Japanese archipelago" with massive public works spending.

#### **20. Factors behind the bubbles' formation**

One key factor behind the bubbles' formation was an overly lax monetary policy. Interest rates remained at record lows for an extended period, and the money supply grew at a double-digit pace for four straight years. This reflects the government's preoccupation with achieving a balanced budget; It was reluctant to use fiscal measures, such as additional spending, to jolt the economy out of the high-yen slump. And the authorities moved too slowly to tighten the monetary reins. In gauging inflation, their attention was focused on the prices of goods, and they failed to take note of the rising prices of stocks and real estate.

#### **21. Investment boom**

During the bubble years, the principle source of funds for corporate investments in plant and equipment shifted from bank loans to the capital market, where companies issued convertible bonds at home and warrant bonds overseas. The biggest advantages of equity financing were that it was hassle-free and cheap. Companies could bypass scrupulous loan inspectors, and so long as stock prices kept rising, prospects of capital gains from these bonds attracted many buyers even at low yields. Many firms used these funds to make additional investments and pad their financial portfolios.



## **22. The bubbles burst**

The Bank of Japan finally moved to curb excessive speculation in 1989 and 1990, raising the official discount rate five times to as high as 6%. The government also placed a ceiling on the amount of financing available for real estate purchases, and other policy measures succeeded in checking the runaway inflation of asset prices. After hitting a record high of 38,915 at the end of 1989, the 225-share Nikkei average on the Tokyo Exchange began to fall. And its decline accelerated when improprieties in the securities industry--including insider trading, covering of losses for large corporate clients, and opaque administrative guidance--were revealed, dampening investor confidence. In August 1992 share prices dipped below 15,000 a 63% plunge from peak levels, and the value of first-section shares contracted by 330 trillion yen over the same period. The value of land assets in Japan, meanwhile, declined by 200 trillion yen during 1991 after hitting a peak in autumn in 1990.

## **23. The effects of asset deflation**

The deterioration of corporate balance sheets had three major negative effects on the economy. First, short-time and long-term borrowing increased. In the real estate, for instance, outstanding interest-bearing liabilities reached three times annual sales. Second, assets efficiency declined. The return on both tangible and financial assets decreased as a result of low-yield investments made during the bubble years. And third, non performing assets increased as companies invested in excess of their needs and beyond the scale of their operations; the growth of such assets drove an increasing number of companies to bankruptcy. Households balance sheets, too, took a bearing. Anticipating a risk in asset prices, many individuals used borrowed funds to invest in stocks and real estate. The scale of these investments, however, were often far too large in the light of their income levels and asset holdings.

## **24. The hardest hit upon the financial institutions**

The hardest hit were the financial institutions, which were caught in the biggest crisis since World War II due to dwindling internal reserves and expanding bad loans on their books. While the Ministry of Finance claims the value of non performing debt incurred by financial institutions to be about 13 trillion yen (in the end of F.Y.1993), the actual figure is believed to be higher. The covering of these loans has been made difficult by the slump business activity, continuous decline of the land price. Bank loans for the construction and real estate had increased up to the year of 1994. The outstanding loans had reached to the amount of 31 trillion yen and 56 trillion yen, respectively. Compared with the figures of 1985, these figures show that the outstanding loans in these two sectors had got around three times growth during this period, where total loans expanded only double.

## 25. When hit the bottom ?

The 1993 economic white paper stated that the economy began showing signs of a recovery in the first quarter of the year. It based on this claim on the following 5 points;

- (1) an increase in demand, evidenced by steady increases in the public works, decline in the stock of durable goods, and an increase in exports;
- (2) an expansion in production as a result of increase in demand,
- (3) a rise in stock prices, long-term interest rates, and other financial indicators,
- (4) the end of inventory reductions; and
- (5) the implementation of fiscal stimulus measures and easing of credit.

In reality, however, the economy remained mired in a slump. The GDP in real basis, after 3.1% increase in F.Y.1991, nearly zero growth has continued in the three years continuously from 1992 to 94. These figures raise a big question when was a real bottom of this business cycle.

## 26. Employment adjustment and low unemployment rate

For many years Japan's unemployment rate has been the envy of the industrialized world. Even the current prolonged recession, Japan's unemployment rate has remained relatively low. Although it reached a new high of 3% in March 1995, it was still only half of the United States. For the most part, Japanese firms have been able to avoid layoffs by decreasing overtime hours, reducing part-time workers, and curtailing new graduate recruiting. In addition, government measures such as Employment Adjustment Subsidies have permitted companies to maintain excessive workers despite deteriorating economic conditions. Finally, a well-developed internal labor market has enabled firms, in particular large firms, to adjust to structural changes by shifting production to higher value-added products and re-training the work force accordingly. Thus, on-the-job-training (OJT) has been a central feature of Japan's employment structure, characterized by the supposed inviolability of the seniority wage system and lifetime employment

## 27. "True" unemployment rate including hidden unemployment

However, continuing weak demand is reflected in the current trend of rising unemployment, especially among women. For example, 430,000 people withdrew from the work force in March. Among these people, many of them want to get works. But they withdrew from labor market because that they do not expect to find a good job for a while. According the Special Survey of The Labor Statistics Bureau, the number of people who answered "have no jobs, but ready to work" was 1.11 million in 1994. These people can be classified as "discouraged workers". If their numbers are added to the official figures (1.92 million), the true unemployment rate should be 4.6% (3.03 million). According to one of the international estimation, U-7(unemployment including discouraged workers) in Japan in 1994 has reached to 8.9%, which is exceeding the U.S. U-7.

Another hidden unemployment stay inside the companies, who has actually no jobs, just remains seat in the companies. It is difficult to get actual numbers of these people. However it is estimated that including these hidden unemployment "true" unemployment rate in Japan might be 6 to 7%.

## 28. Structural unemployment expanding

Historically, Japan's structural unemployment has risen as expectations about future economic growth declined. This relationship is known as Okun's Law. Until the early 1970s, the potential growth rate was around 8%. After that, however, it fell to about 4% and structural unemployment jumped from 1% to 2%.

After the year 2000, Japan's potential growth rate is forecast to be around 2% due to a shrinking labor force. Thus, according to Okun's Law, structural unemployment will approach 4% in the near future. Furthermore, the drastic changes in Japanese industry brought about by the high yen will create a substantial mismatch in the labor market, causing an additional increase in structural unemployment. Under these conditions, structural unemployment will combine with the cyclical factor to raise Japan's overall unemployment rate to as high as 6%. In particular the youth unemployment rate is in high levels, similar to the other developed countries. When this occurs, Japan will no longer remain the exception among industrialized countries and the good old days of Japanese unemployment will become a thing of the past.

## 29. Budget deficits

In this prolonged recession period, fiscal stimulate measures have been taken. Budget deficits have been enlarged. These deficits should be classified into two, cyclical deficits and structural deficits. The former deficits, in other words built-in-stabilizer, are coming from tax decline, increase in expenditure such as unemployment insurance. The latter deficits are caused by discretionary fiscal expansion to stimulate public works or tax cut. In Japan, government investment increased in F.Y. 1992 and 93, by 16.6% and 12.6% respectively. Tax cut in F.Y. 1994 was 4.4 trillion yen, equivalent to 2.2% of GDP. These measures expanded structural deficits. According to OECD estimation, general government balance has deteriorated in 1995 compared with 1991 by 7% of GDP, of which 4.5% comes from structural balance, and the others from cyclical balance.

## 30. Effectiveness of fiscal policy measures

The Japanese actual experiences in the past three years has shown that accumulated huge amount of government investment could not create expected effects to GDP. There are several reasons behind it, one argument is a decline of the fiscal multiplier (the ratio of GDP increase to additional government investment). The Economic Planning Agency's econometric forecast model estimates that the multiplier in the first year which was 1.47 during the year of 1966 to 82, dropped to 1.32 during 1983 to 92. This decline may be regarded not so big. One of the reasons for less effectiveness of the fiscal policies is in the private sectors' activities. In the process of stock adjustment fiscal

spending could not stimulate enough effects to the private sectors, in other words, Keynesian policy has a limit. Outstanding debt of the general government has reached to more than 80% of GDP in 1995, which is the highest figure among OECD member countries.

### **31. Monetary policy in the disinflation**

The difficulties in dealing with the debt problem is grasping the true size of the bad debt under deflationary conditions. With asset deflation and flow deflation continuing to the burden, it will be impractical to argue about a solution. Rather, we should focus our attention on easing the speed and severity of deflation before tackling the debt problem itself. To complicate matters further, estimates of the actual amount of bad loans held by Japanese banks vary widely. However, the growth of the Marshallian K is a good macro-economic indicator of the size of Japan's bad debt problem. The ratio of money supply (M2+CD) to GDP has risen from 80% in 110% in the first quarter of 1995. This increase, confirmed by a similar increase in the ratio of bank loans to GDP, indicates that Japanese banks have lent money to the private sector vastly in excess of what could be justified by economic growth rates at the time. The excess money flooded into asset market and created the late 1980s bubble economy. When the bubble burst, the banks were left with the problem of how to reduce this excess, which is equivalent to 30% of GDP. During the coming adjustment in Japan's banking sector the ratio of money supply to GDP should be reduced to around the level which prevailed before the bubble period., that is 80% at most.

### **32. Accelerating asset deflation**

The fall in Japanese asset prices, centering land prices, is now moving into its second phase of adjustment. The decline in land prices which first hit Tokyo area, then Kansai area, is now spreading to local towns, in both commercial properties and residential land. According to the Annual Report on National Accounts, the process began in Tokyo where land values soared: 25% YOY in 1985, 85% YOY in 86, and 46% YOY in 87. Between 1985 and 90, Tokyo land values ballooned from 213 trillion yen to a peak of 580 trillion yen. After a two-year time lag, land values in the other prefectures also began to rise: 20% YOY in 1987, 12% YOY in 88, and 20% YOY in 89. This resulted in a two-fold increase in local land values from 455 trillion yen to a peak of 879 trillion yen (180% of GDP) in 1990. However, whereas land prices in Tokyo by the end of 1994 had fallen 40% from their 1990 peak, land prices in local areas had dropped only 9.1%, leaving plenty of room for further decline.

### **33. FDI and trade structure**

Foreign direct investments in the 1980s had following dramatic changes; (1) total amount of FDI expanded after the Plaza-agreement in 1985, (2) from 1990 slight declined mainly led by decline of the nonmanufacture (NON-MFG) FDI, while manufacture (MFG) FDI recovered in 1993, (3) the ratio of MFG FDI values to NON-MFG FDI has reached 48.6% in 1994 (in 1985 the ratio was 24.7%) of NON-MFG FDI, (4) among MFG electrical machinery FDI has shown big increase, (5)

MFG FDI to Asian countries has tremendously increased, in particular in Thailand and Malaysia. These FDI had effects on the Japanese trade structure. In the initial period of FDI, capital goods and parts exports from Japan expanded, which increased trade surplus, however after production bases overseas started to export to Japan's market, Japan's import is increasing, which may reduce trade surplus.

#### **34. Passenger cars export to the U.S. has declined sharply**

Passenger cars sector is one of the most typical industry that have achieved structural changes in the past decade. Passenger cars export recorded its peak in 1996 (4.57 million units), of which towards the United States was 2.35 million units. After that year, due to strong yen together with shift of production site to out of Japan, export have dropped dramatically. In 1995, passenger car export was 2.9 million units, only 63% of the level of 1996. In particular export to the United States have sharply declined to 1.15 million in 1995, which is only 48% of the amount in 1986. Export to Europe also has a similar trend. Although Asian market is expanding, its volume is still small, one-third of export to the U.S. In the U.S. Japanese car makers have already established production capability equivalent to 1.94 million units per year in 1994, which is similar to the total demand for the Japanese cars as a whole. This implies Japan does not need to export cars to the U.S. from Japan. As well as export decline, import increase is so rapid. In 1995, import share is exceeding 10% points, in 1996 this share is expected to increase to 13 to 15%. These trade structural changes are reducing Japanese car trade surplus.

#### **35. PPP and price gap between Japan and abroad**

There are differentials between actual exchange rate and purchasing power parity (PPP). PPP can be measured by following two kinds; one is consumer price basis PPP and the other is producer prices or wholesale prices basis PPP. PPP level differ depending on the base period and prices index. In the first quarter of 1973, just after shifting to the floating system, actual exchange rate is considered to reflect PPP. PPP based on consumer price index in 1995 is estimated 195.4 yen per US Dollar, which implies that non-tradable goods prices reflecting service industries in Japan are higher than in the U.S. On the other hand, PPP based on PPI or WPI is relatively near to actual exchange level. However PPP based on PPI is 142.9 yen per U.S. Dollar. Actual exchange rate, except the period of the first half of 1980s, has been overvalued than PPP, which means the existence of prices differentials between domestic and foreign market.

This implies that slight devaluation may not reduce manufactures imports.

#### **36. Yen appreciation and export prices**

In the period of yen appreciation, actual export prices movements have much impacts on trade balance. In general it is said that yen appreciation should reduce price competitiveness in Dollar term. Since 1985, however, actual export prices in yen term had a down trend generally, which

could prevent Japanese export from declining sharply. In some industries such as computer, IC and so on, domestic producer prices have been in higher level than export prices. These prices setting may be criticized as one kind of "dumping" from abroad, however this strategy could not be continued for a long time because of deterioration of the companies profits. In passenger cars, from the end of 1989, export prices were raised, which reduced Japanese export to the U.S. together with production shift.

### **37. Industrial production recovery led by PC and IC**

The industrial production index showed a steady recovery from October 1993 to March 1995 but then fell back into decline. Industrial production has recently picked up again, posting the third consecutive monthly increase since October 1995. However, neither recovery reached the peak in industrial activity, demonstrating that the long-term trend is still moving downward. A close look at production activity by market group reveals that the October 1993-March 1995 recovery was led by production increase in traditional producers goods (chemicals and iron & steel) and high-tech capital goods (personal computers, industrial machinery and semiconductors). In contrast, the production of consumer goods and construction goods have been declining continuously since their 1991 peak. A surge in direct overseas investment and strong global demand fueled Japanese exports of semiconductors and strong personal computers. Strong demand for mobile telephones also led to production increases in electrical machinery.

### **38. Fall in current -account surplus**

Japan's current-account surplus fell to \$111 billion in 1995 from almost \$130 billion in 94. Economists forecast that it will drop to \$55 billion by 1997, or only 1.1% of GDP, compared with more than 3% at its peak. This fall has been driven by two factors:(1) the strong yen has made exports less competitive, and (2) Japan firms which have invested in production plants elsewhere in Asia are exporting goods back to Japan. As the economic recovery and domestic distribution reforms will expand imports, this too will help to shrink the surplus. A smaller Japanese current-account surplus should be good news for the world economy. An increase in Japanese imports will give a useful stimulus to other industrial economies just as their growth seems to be flagging.

This, however, is only one side of the coin. By definition, a country's overall balance of payments must balance; thus a current-account surplus must be matched by an equivalent capital-account deficit. Smaller current-account surplus implies a smaller outflow of capital from Japan to the rest of the world.

IS balance theory tells that Japan's expanding government deficits will reduce current-account surplus.

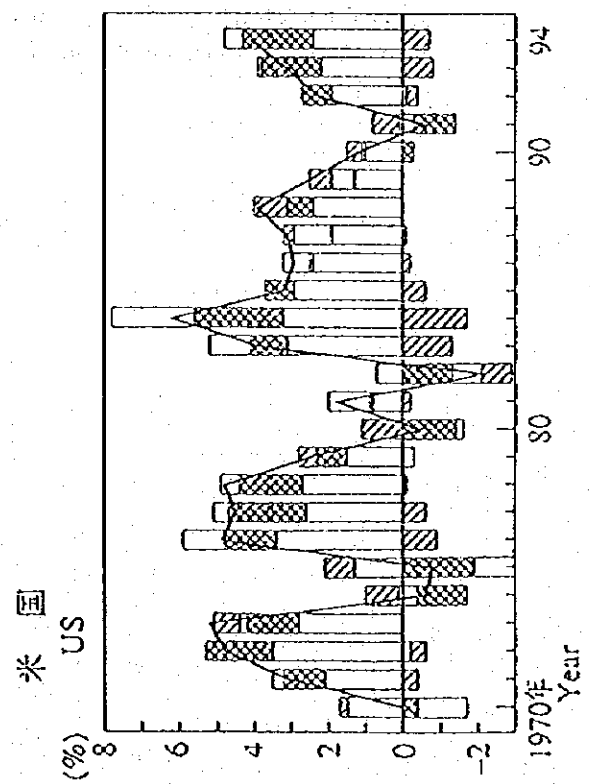
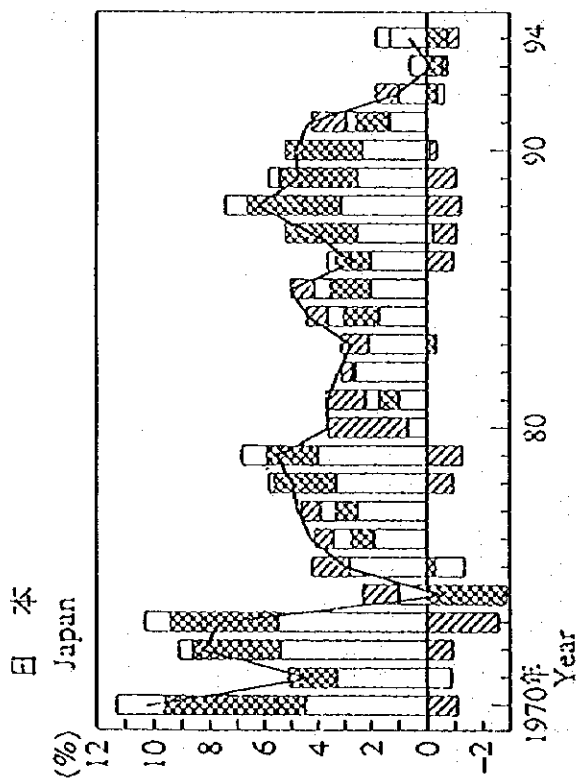
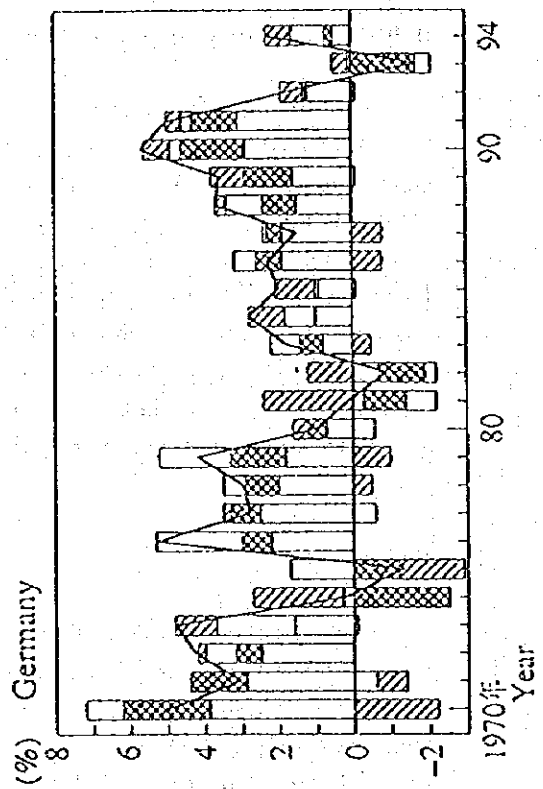
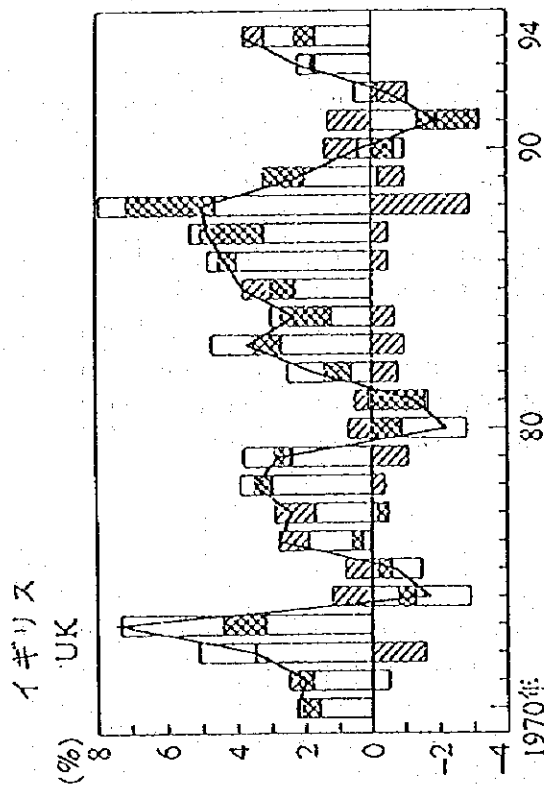
### 39. Industrial structure changes are going on

The structural adjustment in Japan's economy initiated by the yen's appreciation has not yet been completed. Import growth and export decline have become irreversible trends, particularly as manufacturers move offshore. Despite the two modest recoveries in production in the first half of 1994 and in the 4th quarter of 1995, manufacturing employment continues to fall while service sector employment continues to rise. In other words, the shift to a service-oriented economy in Japan is continuing despite the deepening recession. In service sector, new jobs have been created not in traditional sectors such as retail, wholesale, and so on, but in corporate-related service sectors. Service prices movements show as CSPI (corporate service price index) tells that non-regulated service prices have been in lower level than regulated prices such as transportation, banking charges, and so on. Lower prices create new demand, which also may create new jobs.

### 40. Disinflation

GDP statistics showed negative growth in nominal GDP continuous three quarters from the first quarter of C.Y.1995, while real growth rates recorded slightly positive. This means that GDP deflator, reflected by domestic home-made inflation has been negative increase. Behind disinflation, there are reasons in both demand and supply side. Excessive supply situation due to weak demand, prices-down within the global competition, and efforts for cost-reduction through efficient management. Negative sides of disinflation are; (1) stagnant private companies equipment investment as well as reverse wealth effect by assets prices reduction, (2) high real interest rate crush investment, (3) balance sheet effects to both household and enterprises, and so on. On the other hand, positive effects may be real income may be increased in the case of fixed nominal income. Moreover low nominal interest rates are making difficult of the financial portfolio in social security fund. This is another anxiety in Japan in the preparation for the aged society.

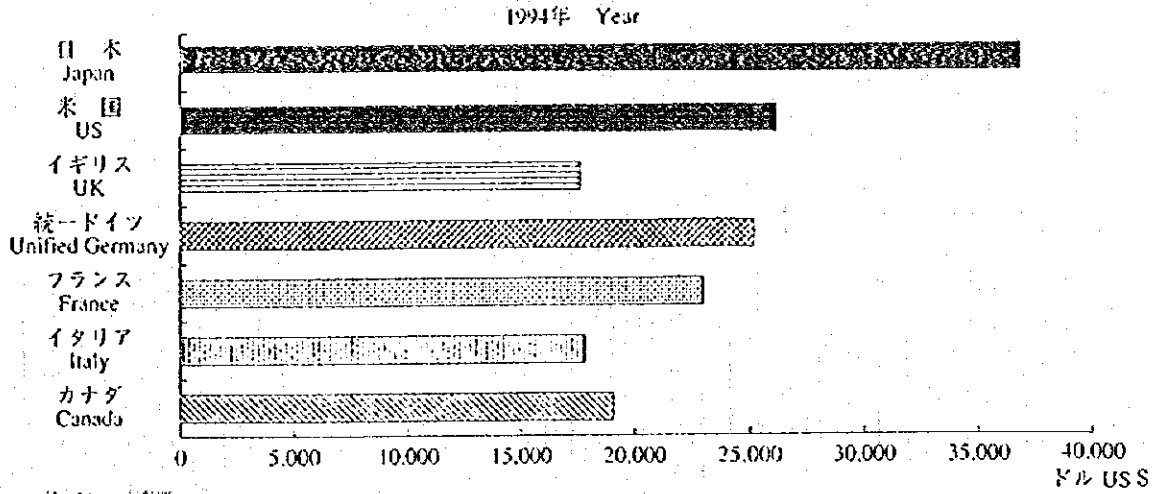
# Economic Growth Rate at Constant Prices





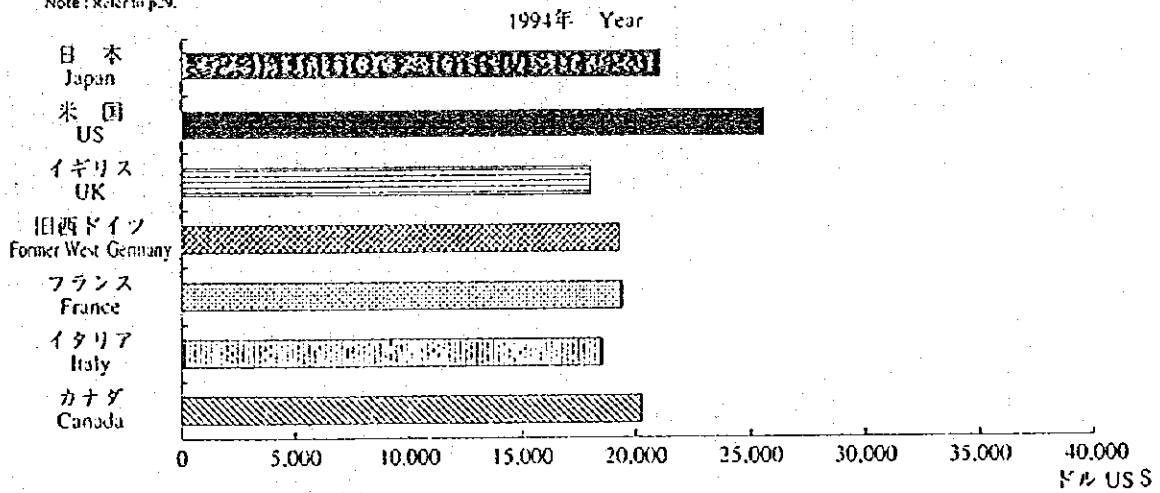
# GDP per capita

Foreign Exchange Rate (Annual Average) Basis  
年平均為替相場ベース

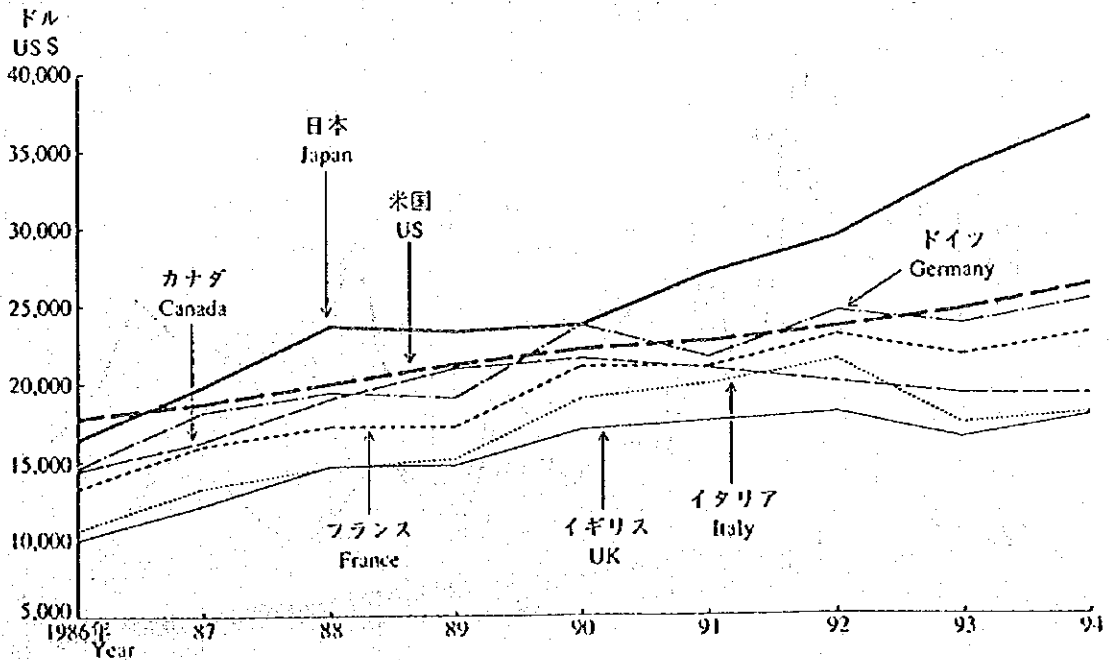


注：29ページ参照  
Note: Refer to p.29.

Purchasing Power Parities Basis  
購買力平価ベース

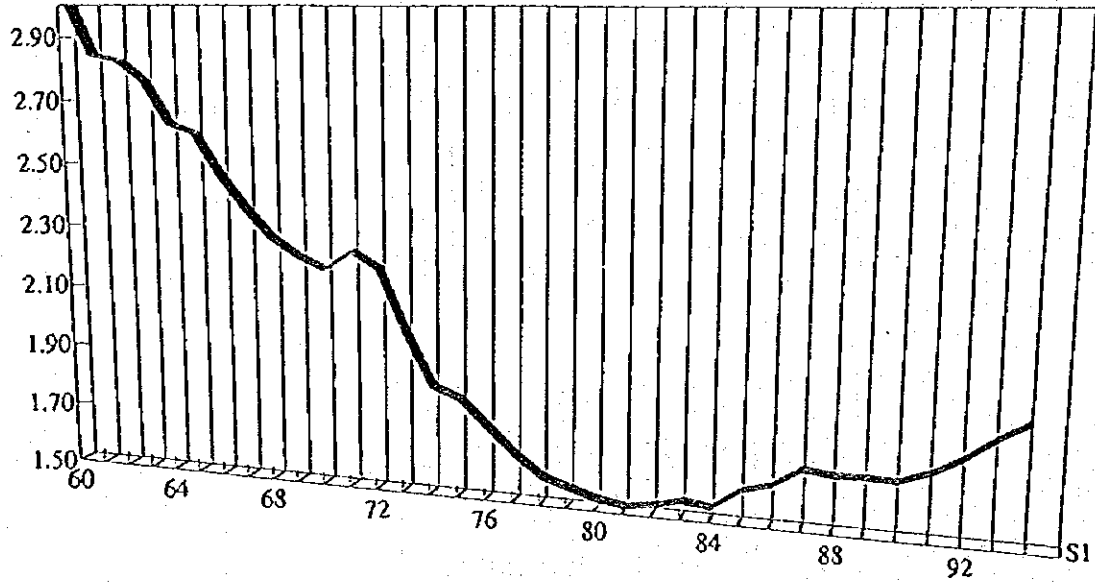


注：(1)OECD Main Economic Indicatorsによる  
(2)購買力平価とは、2国間の経済成長率の比率を基に決定される通貨の交換レートのことであり、為替市場の基指によって決定される現実の為替レートとは異なる。本誌では、ドル建てGDPを計証する際に、為替レートの代わりに購買力平価を使用  
(See footnotes on p.114)

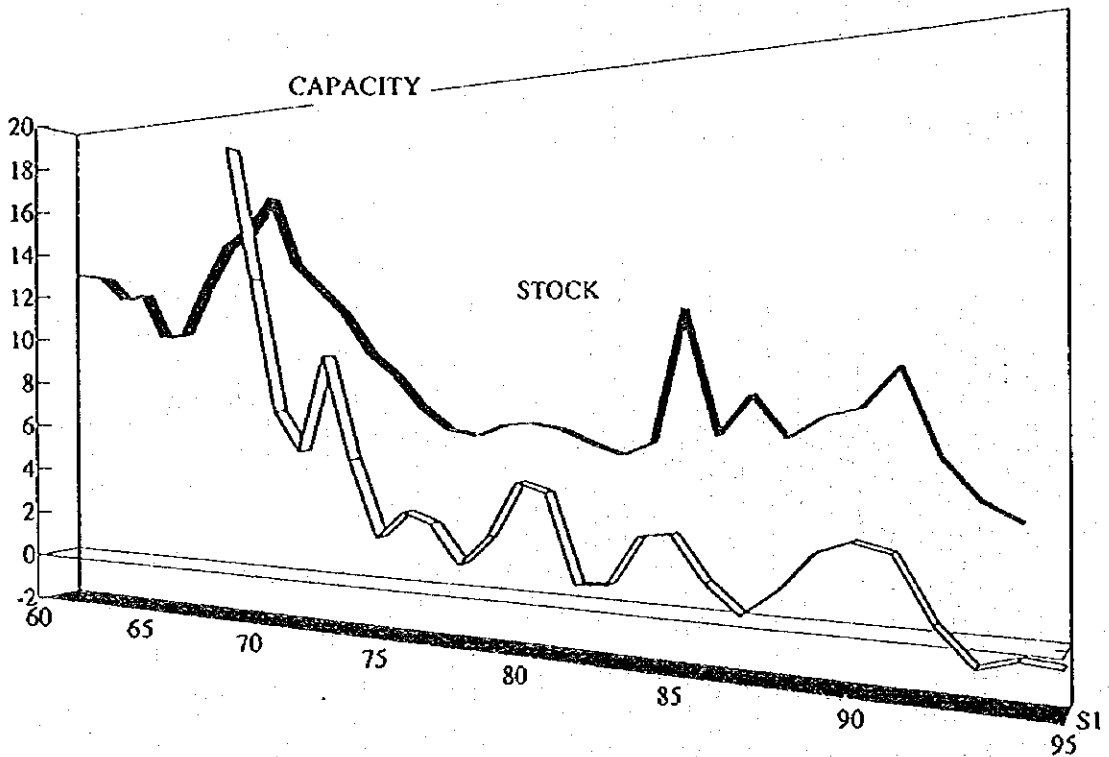


注：29ページ参照。ドイツは1991年以後統一ドイツによる  
Note: Refer to p.29. Data for Germany are based on Unified Germany since 1991.

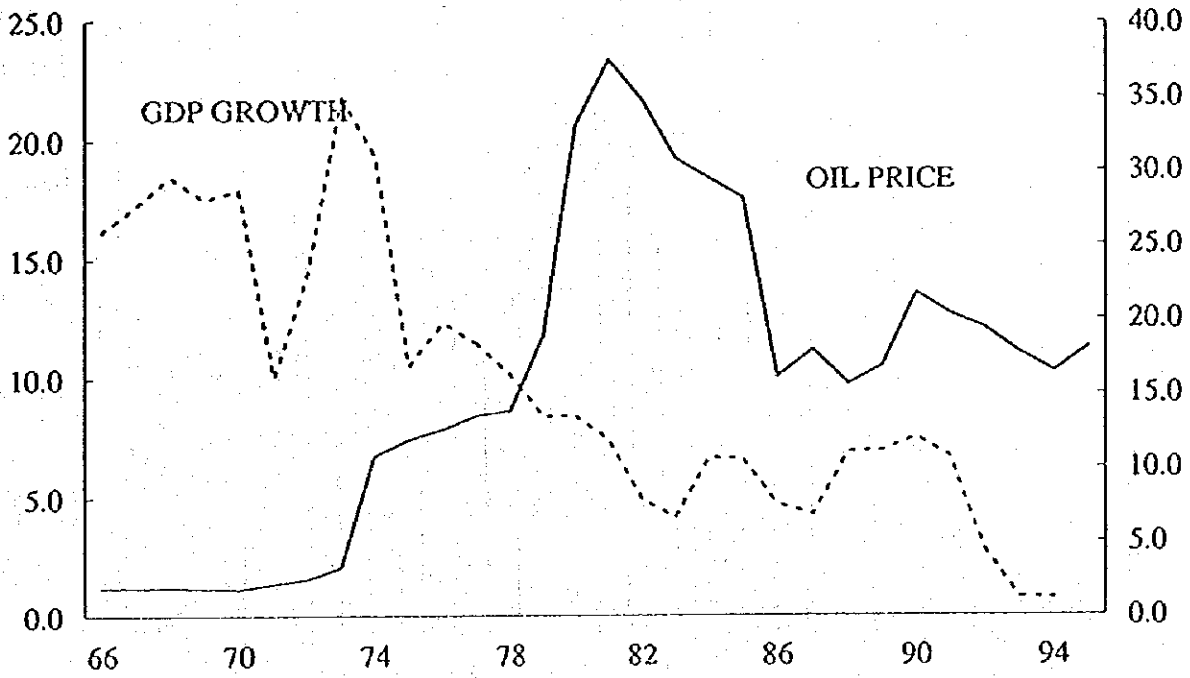
CAPITAL STOCK / GDP



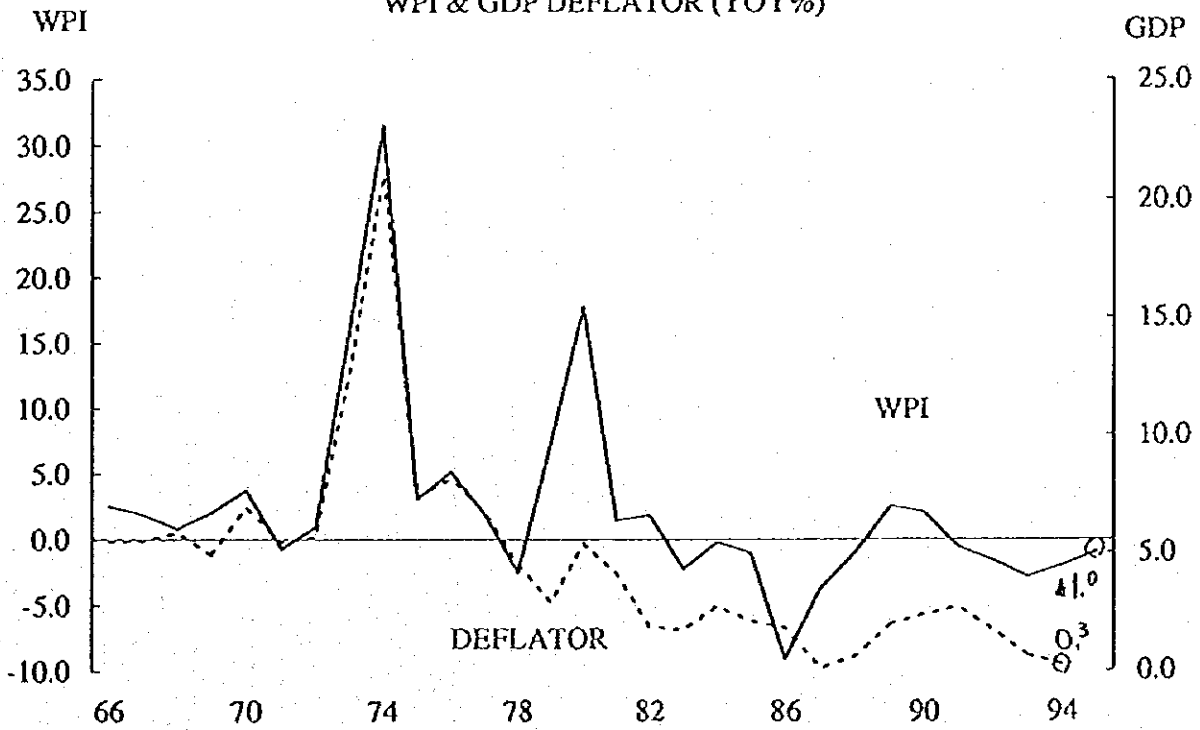
CAPITAL STOCK & PRODUCTION CAPACITY (YOY%)



GDP GROWTH & OIL PRICE (\$/ BBL)

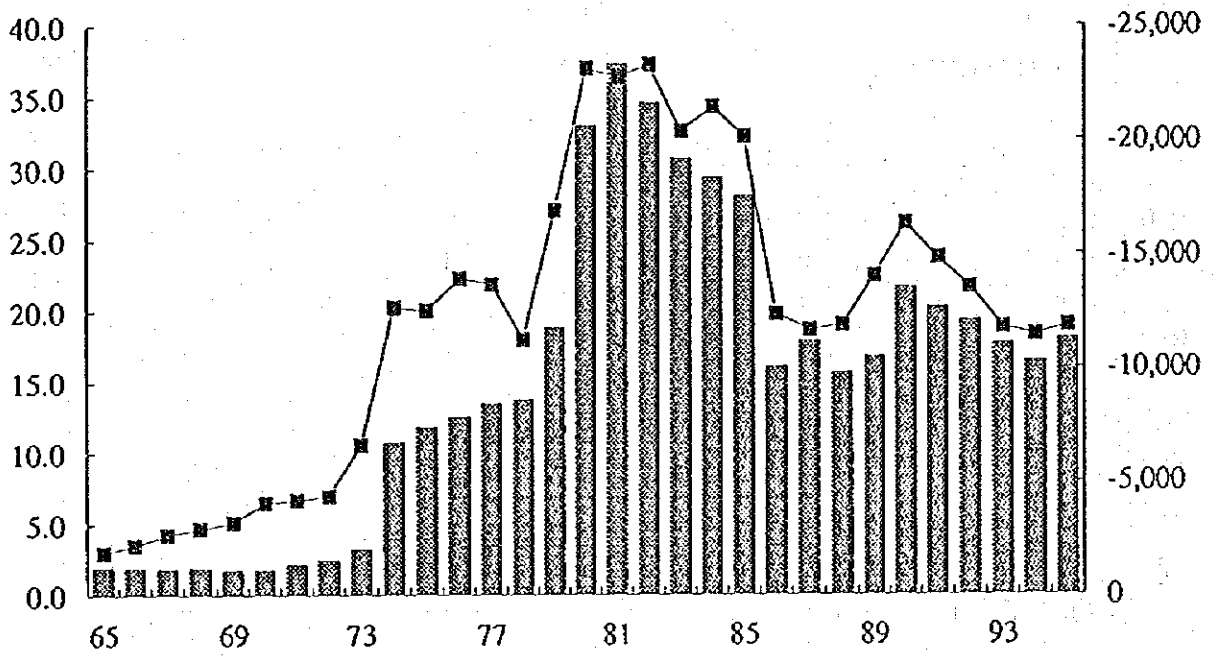


WPI & GDP DEFLATOR (YOY%)

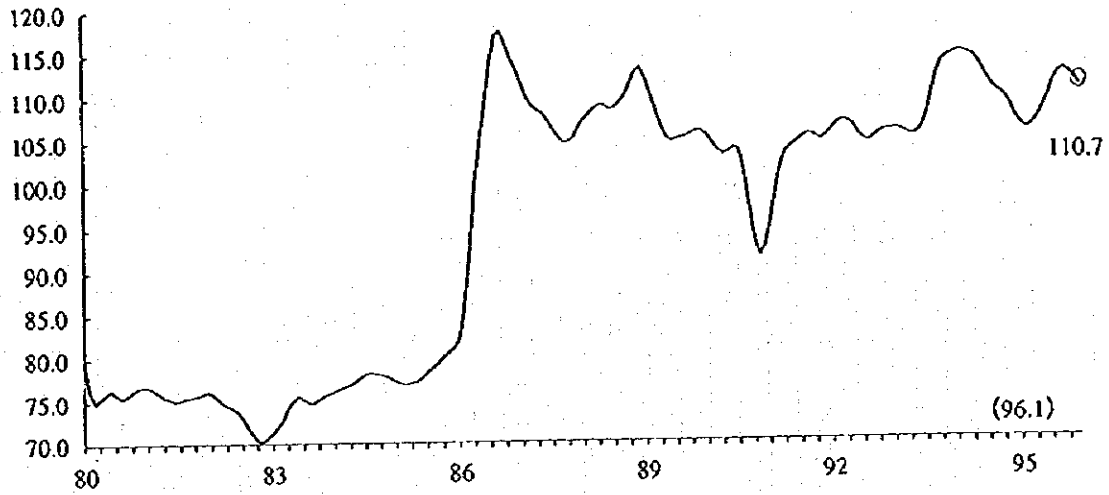


OIL PRICE (\$/BBL) & JPN NON-MFG DEFICITS(BIL YEN)

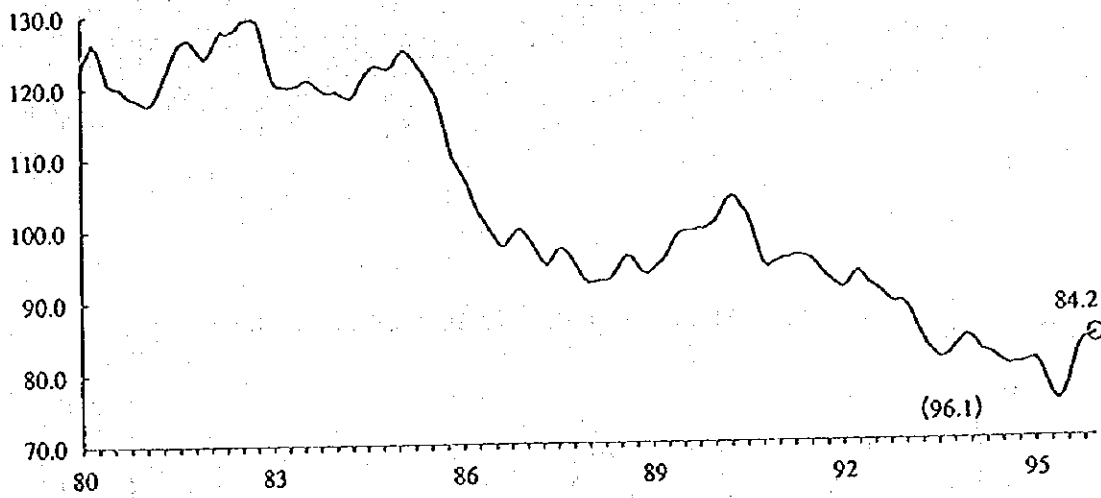
REVERSED SCALE



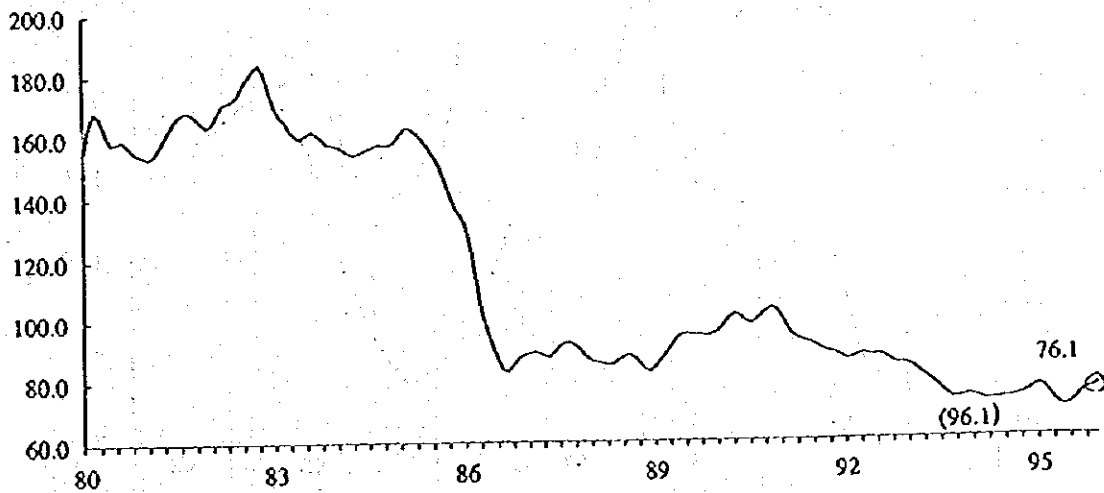
JPN TERMS OF TRADE (BOJ BASE)



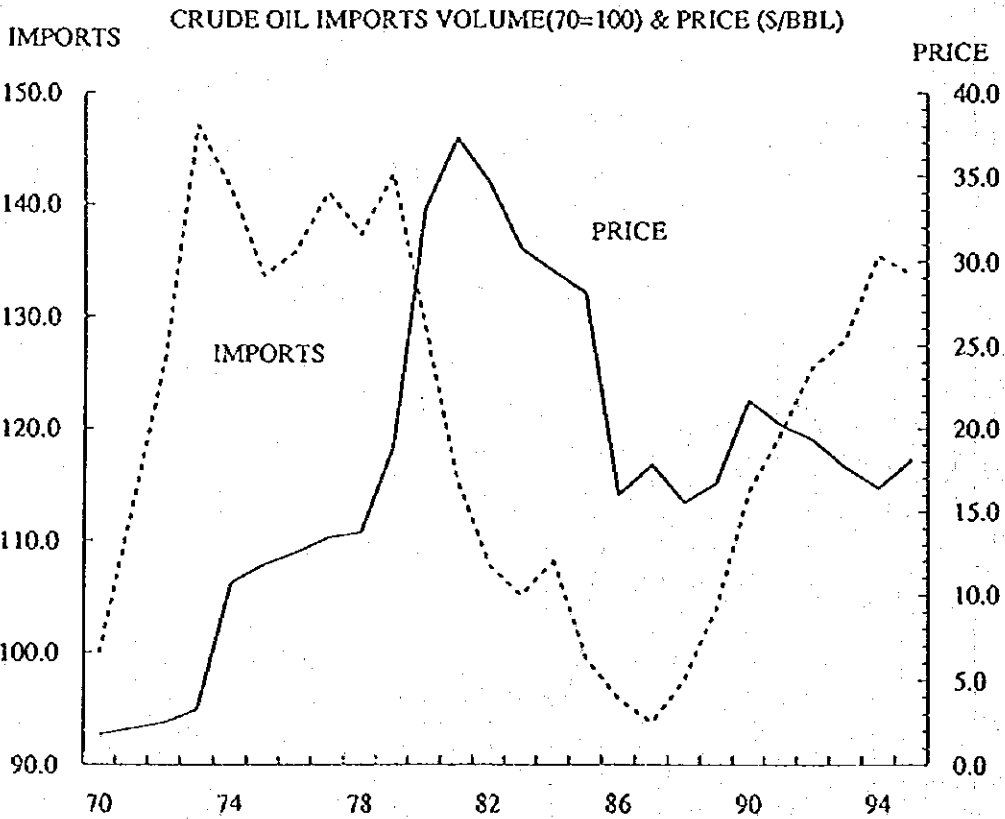
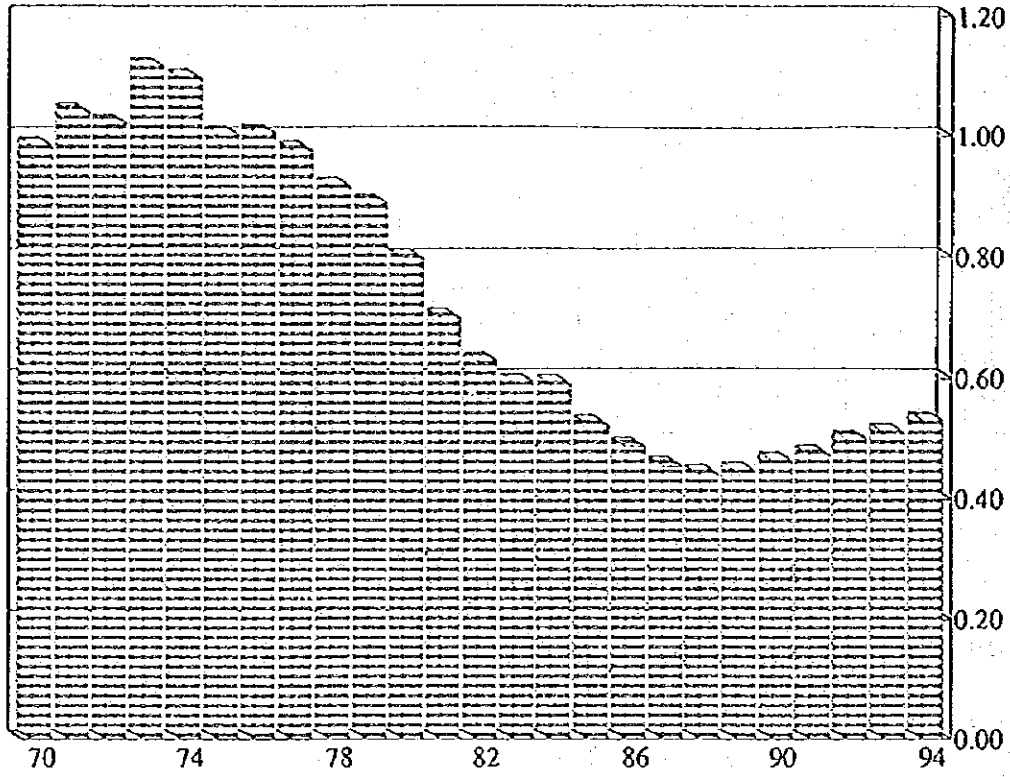
JPN EXPORTS PRICE (BOJ BASE)



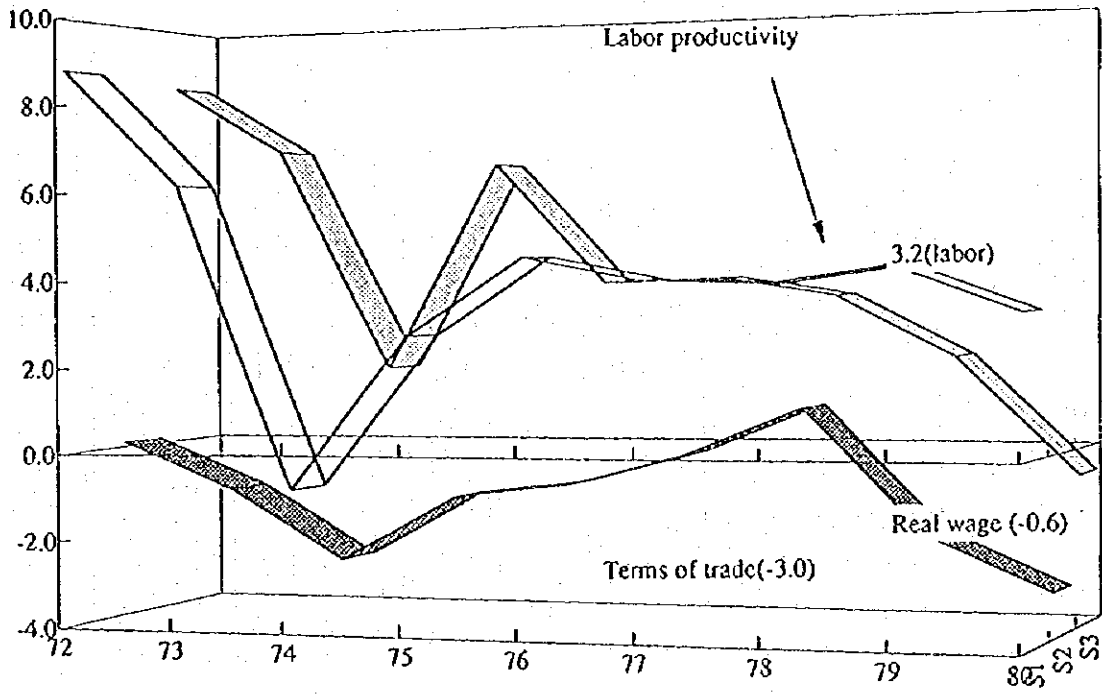
JPN IMPORTS PRICE (BOJ BASE)



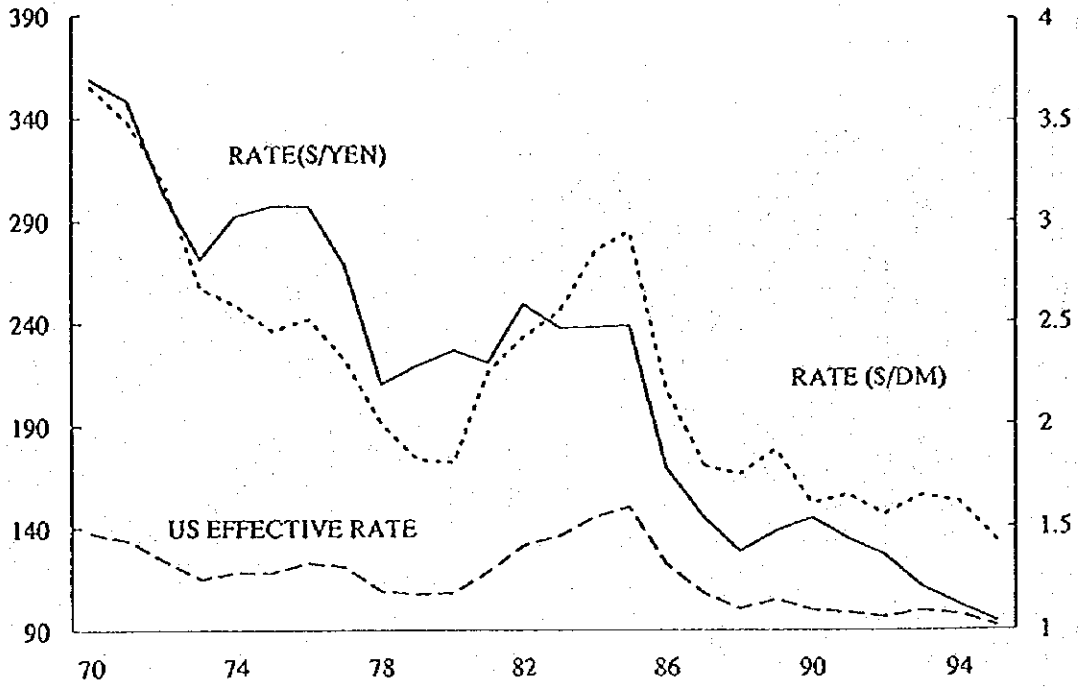
CRUDE OIL CONSUMPTION (1000KL) AS A % OF REAL GDP



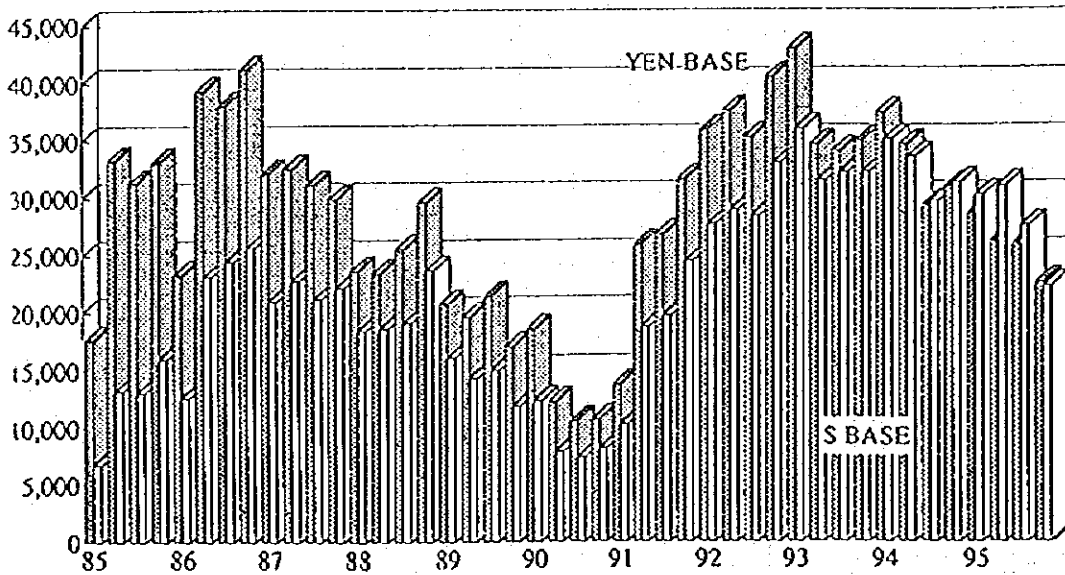
LEARNING - EFFECT (YOY%)



### EXCHANGE RATE

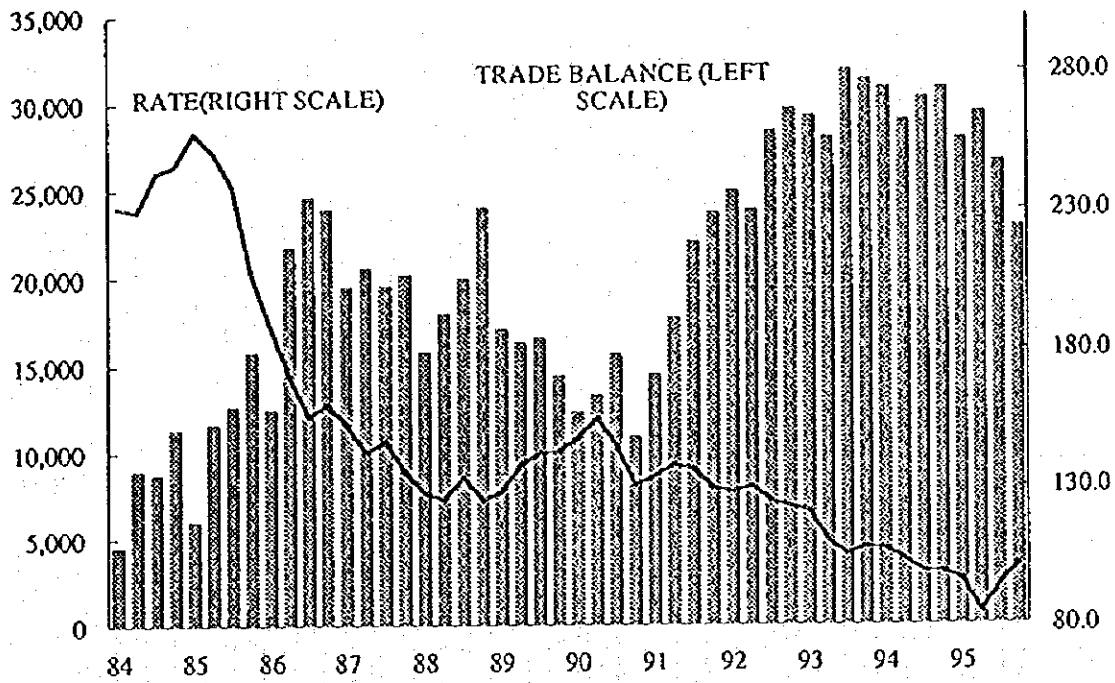


### JPN CURRENT BALANCE ( MIL S & 100 MIL Y)



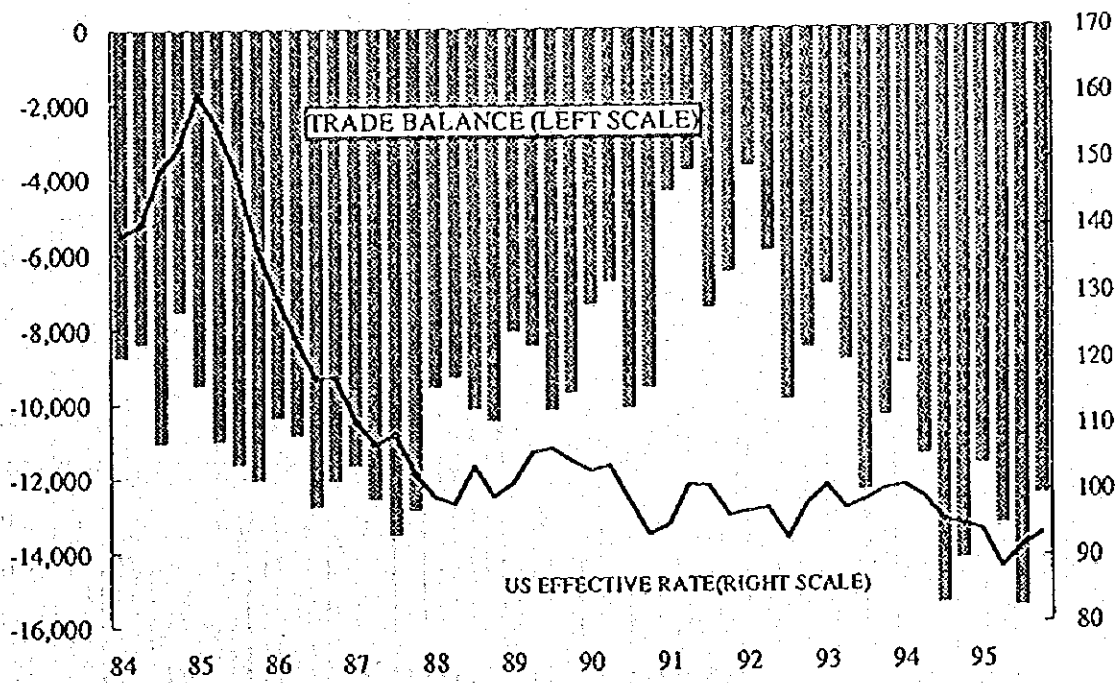


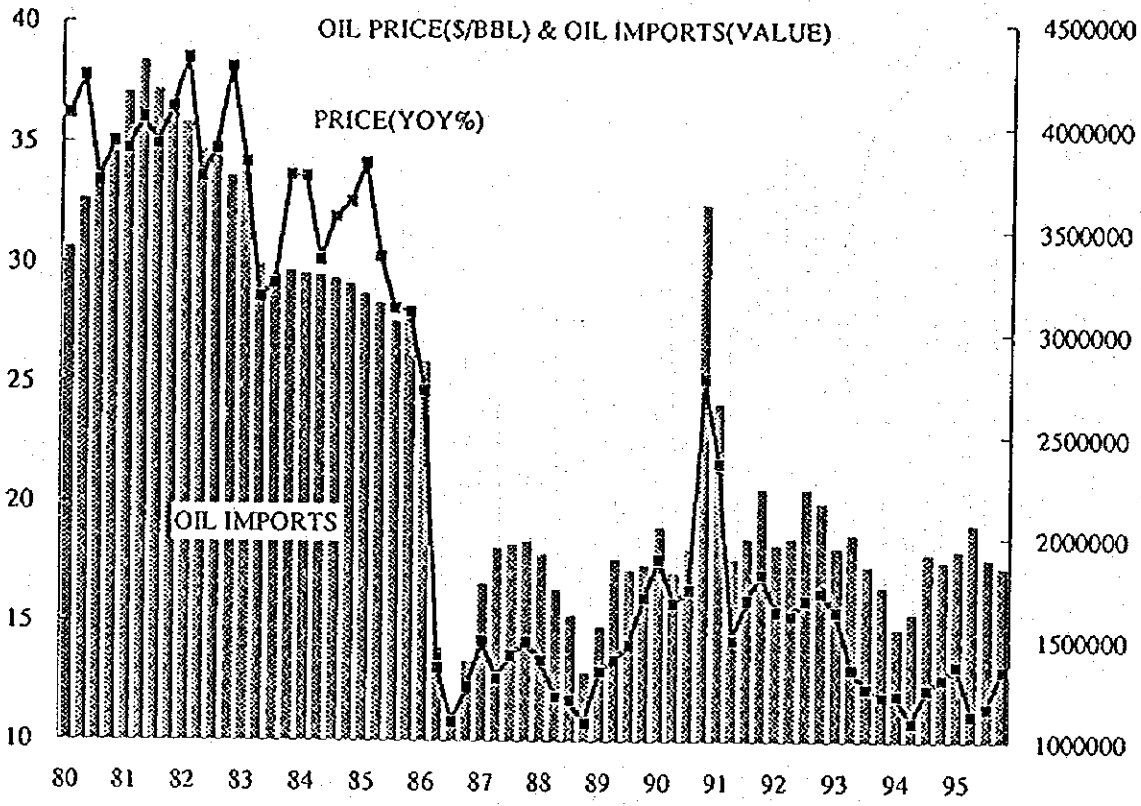
JPN TRADE BALANCE (BIL S) & EXCHANGE RATE(S/Y)



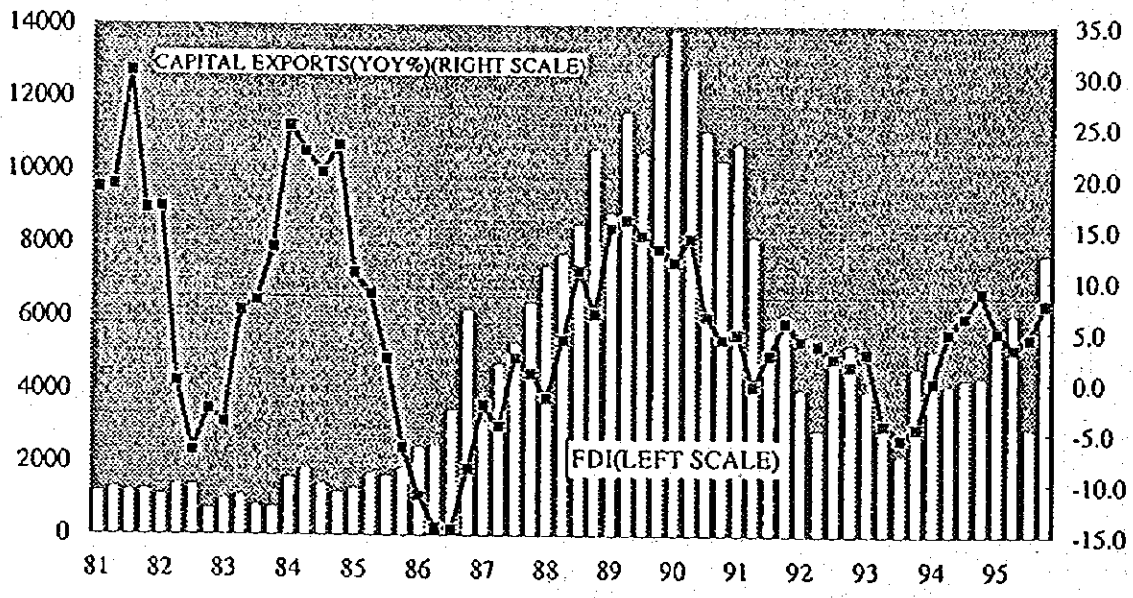
103.4

US TRADE BALANCE (BIL S) & EXCHANGE RATE(S/Y)

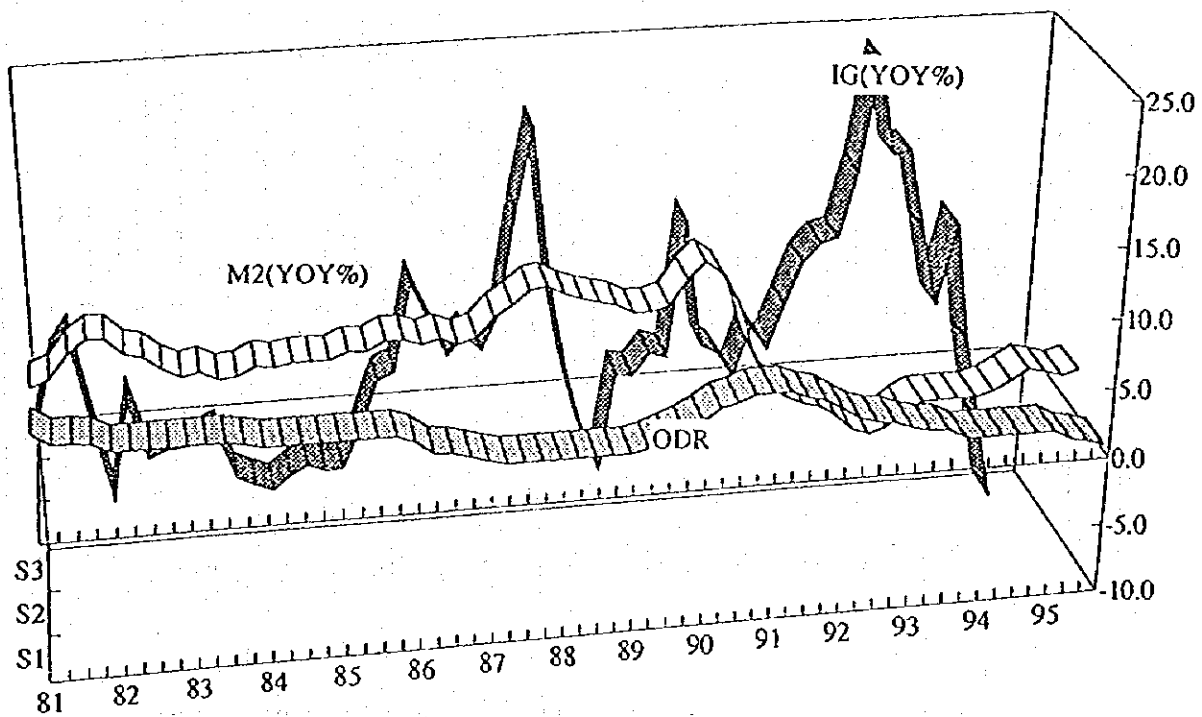




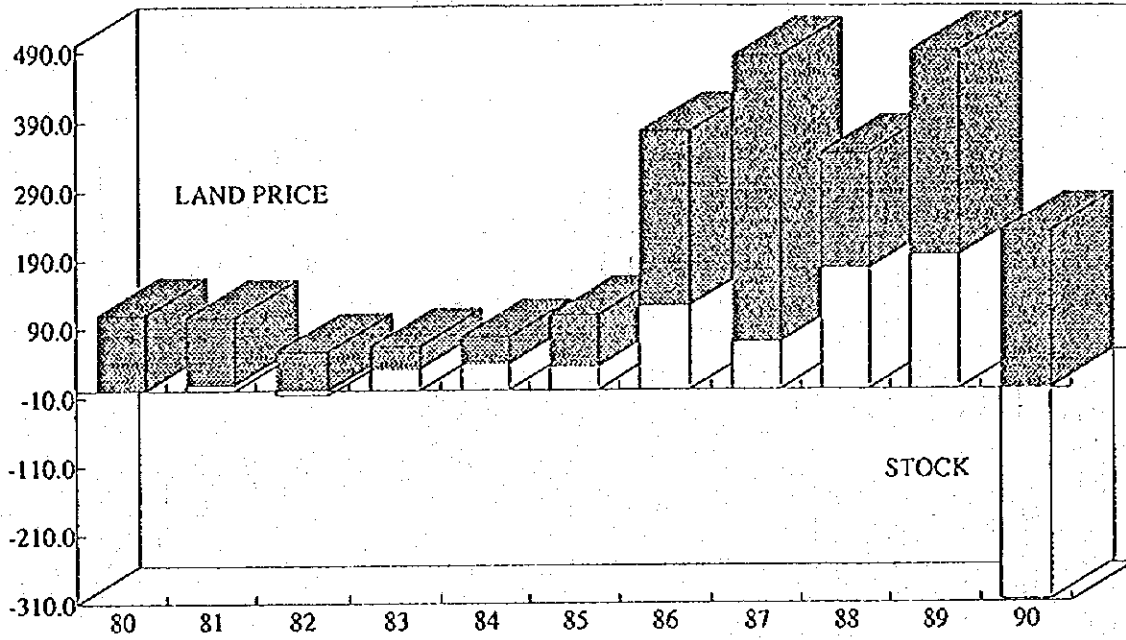
### JPN FOREIGN DIRECT INVESTMENT (MIL \$) & CAPITAL EXPORTS (YOY%)



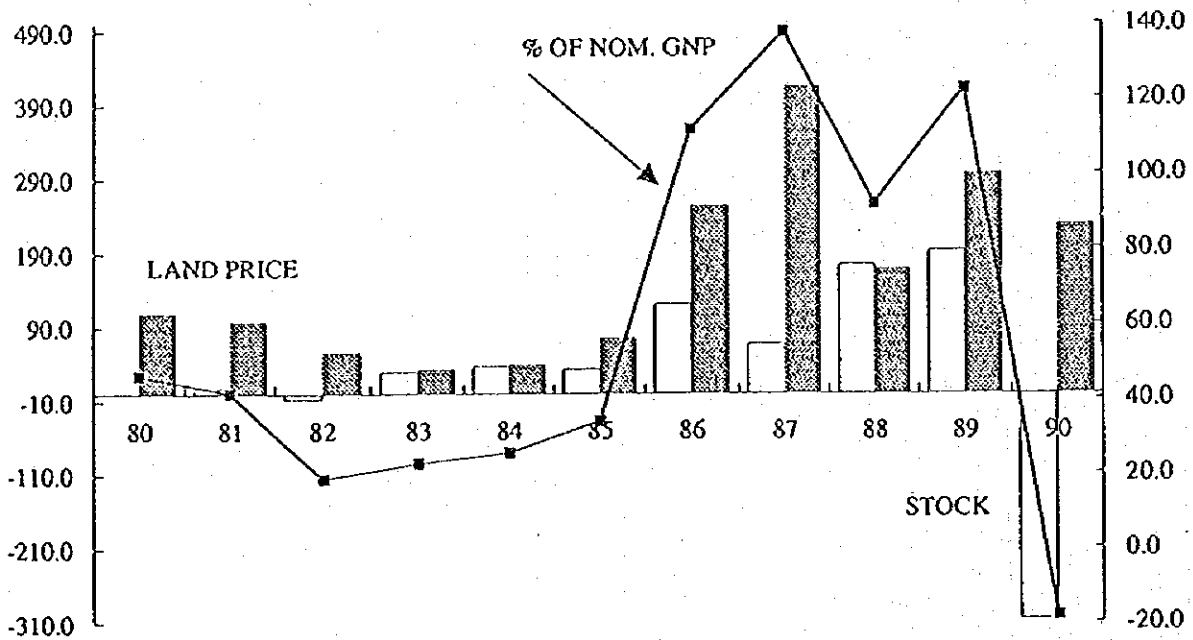
# JPN POLICY REACTIONS



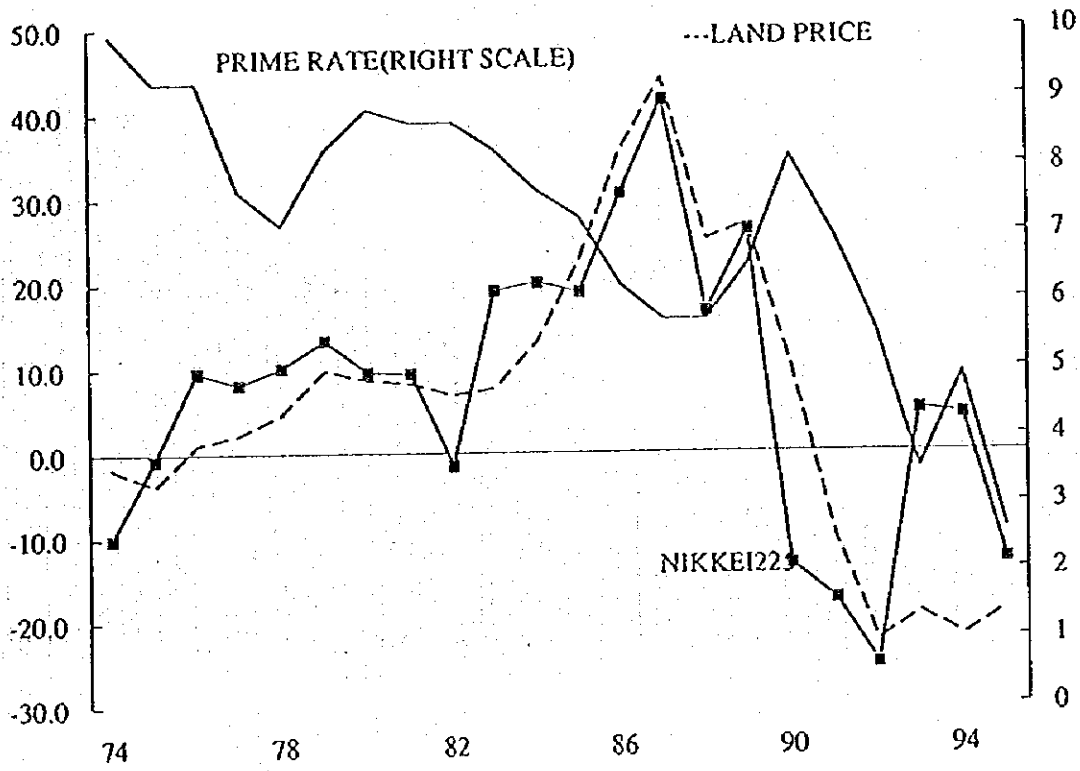
JPN CAPITAL GAIN/LOSS (TRIL YEN)



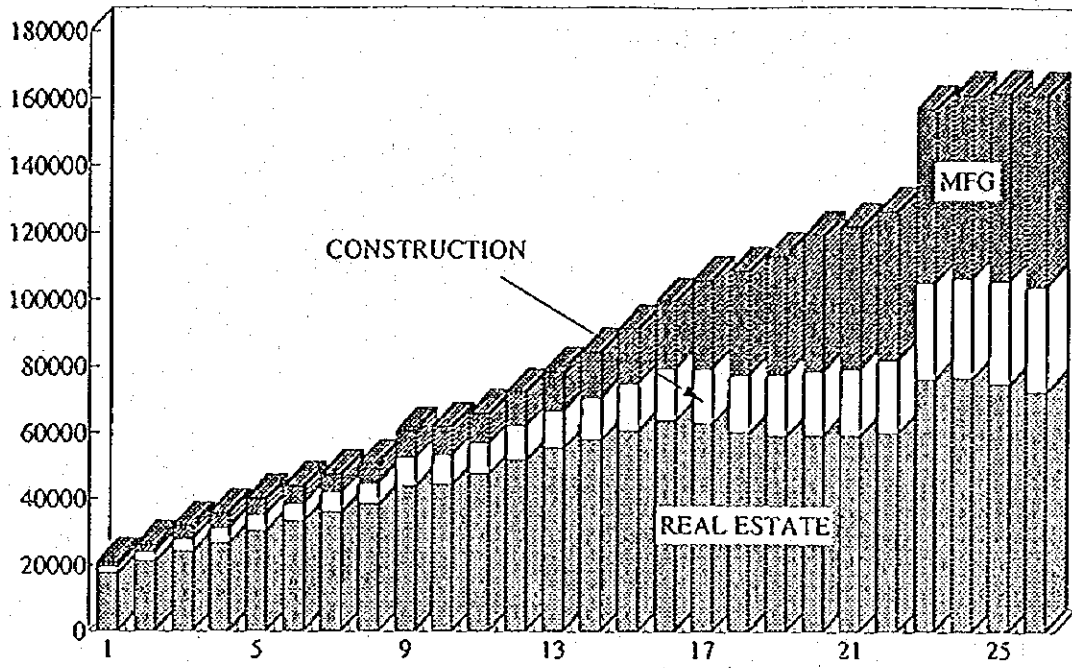
JPN CAPITAL GAIN/LOSS (TRIL YEN) & AS A % OF NOMINAL GNP



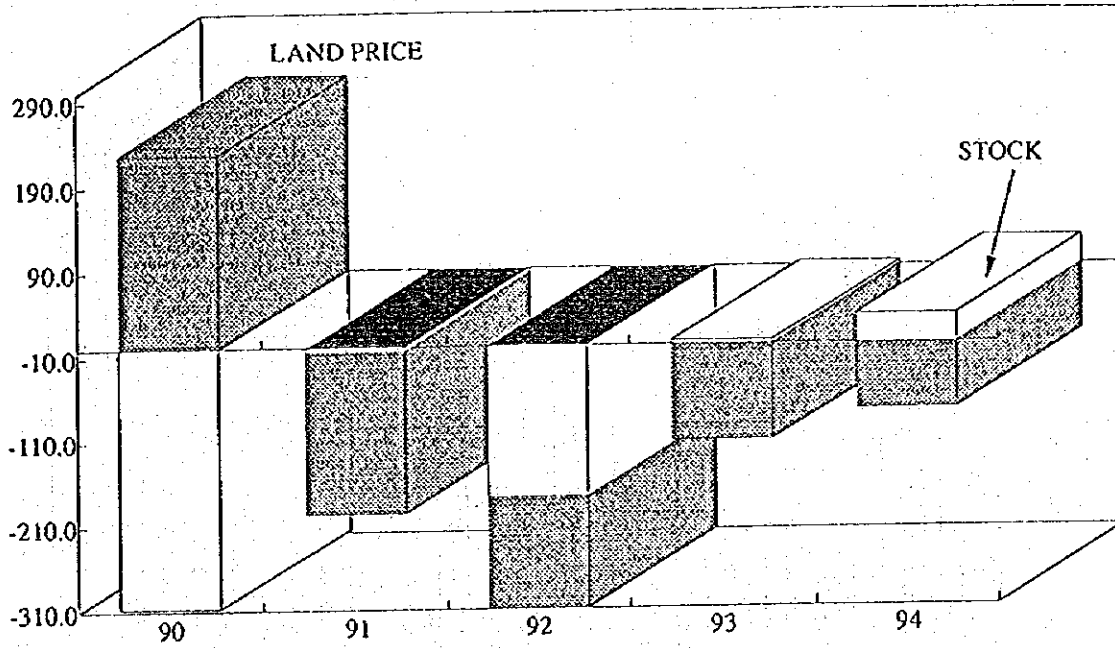
JPN STOCK PRICE, LAND PRICE & LONGTERM PRIME RATE(%)



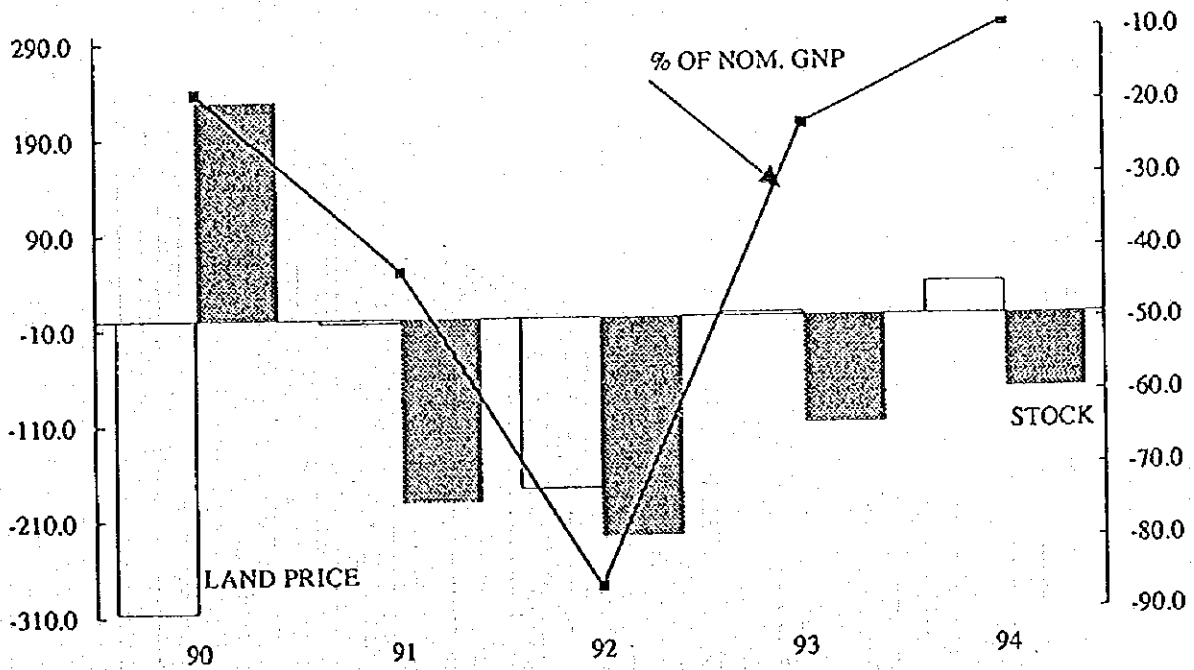
JPN BANK LOAN OUTSTANDING (BIL YEN)



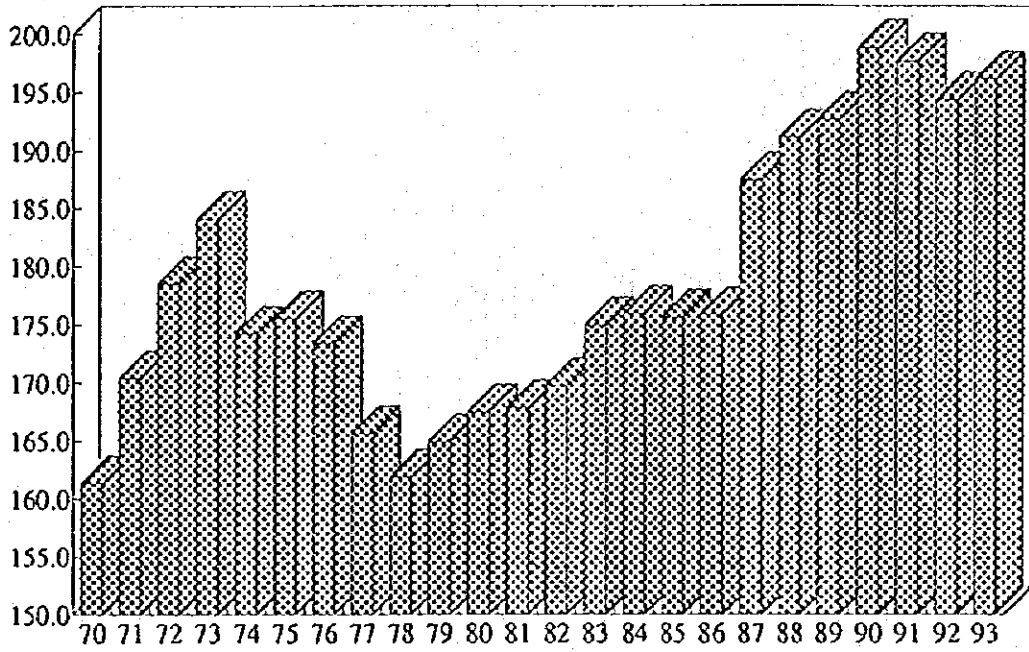
JPN CAPITAL GAIN/LOSS (TRIL YEN 1990-1994)



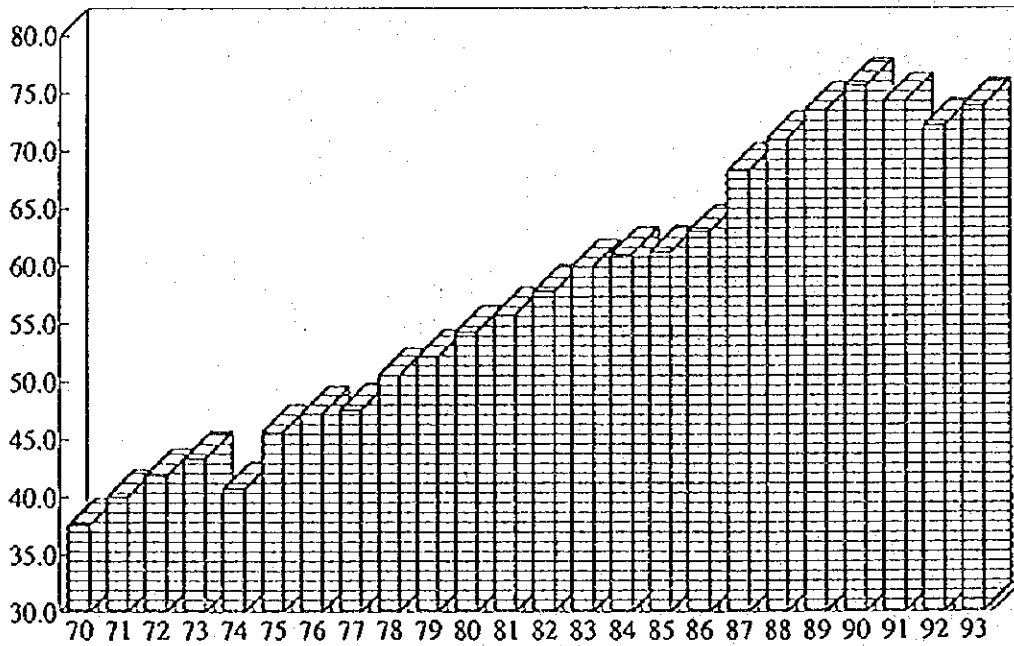
JPN CAPITAL GAIN/LOSS (TRIL YEN) & AS A % OF NOMINAL GNP(1990-1994)



### NON-FINANCIAL INC.'S DEFICITS AS A % OF NOM. GDP

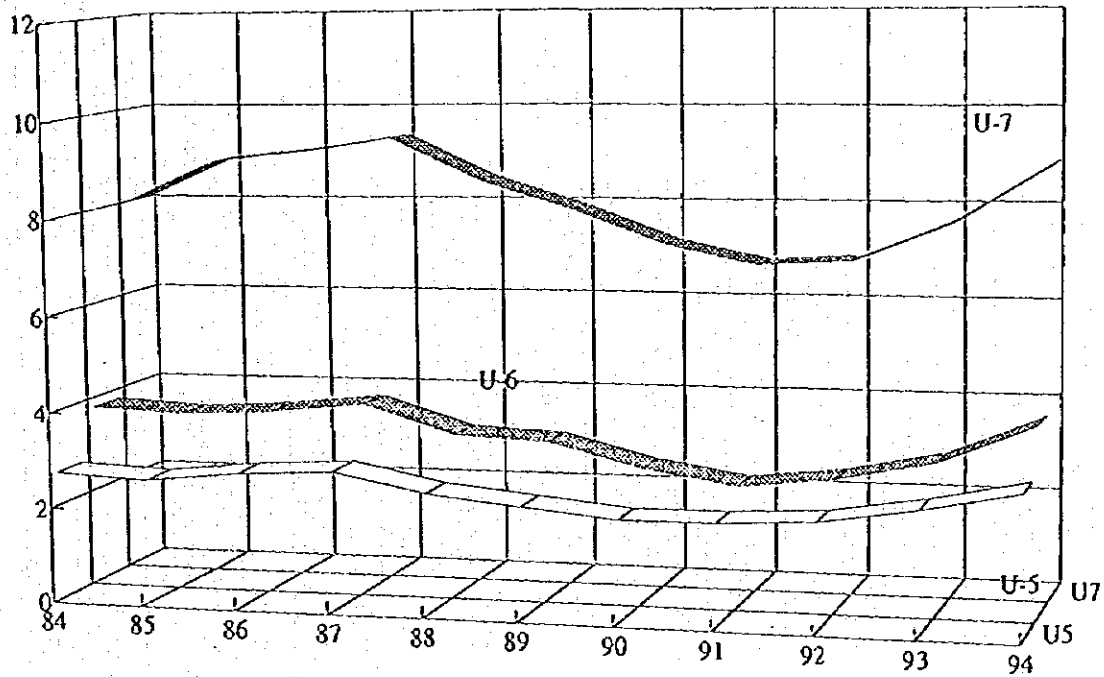


### HOUSEHOLD'S DEFICITS AS A % OF NOM. GDP



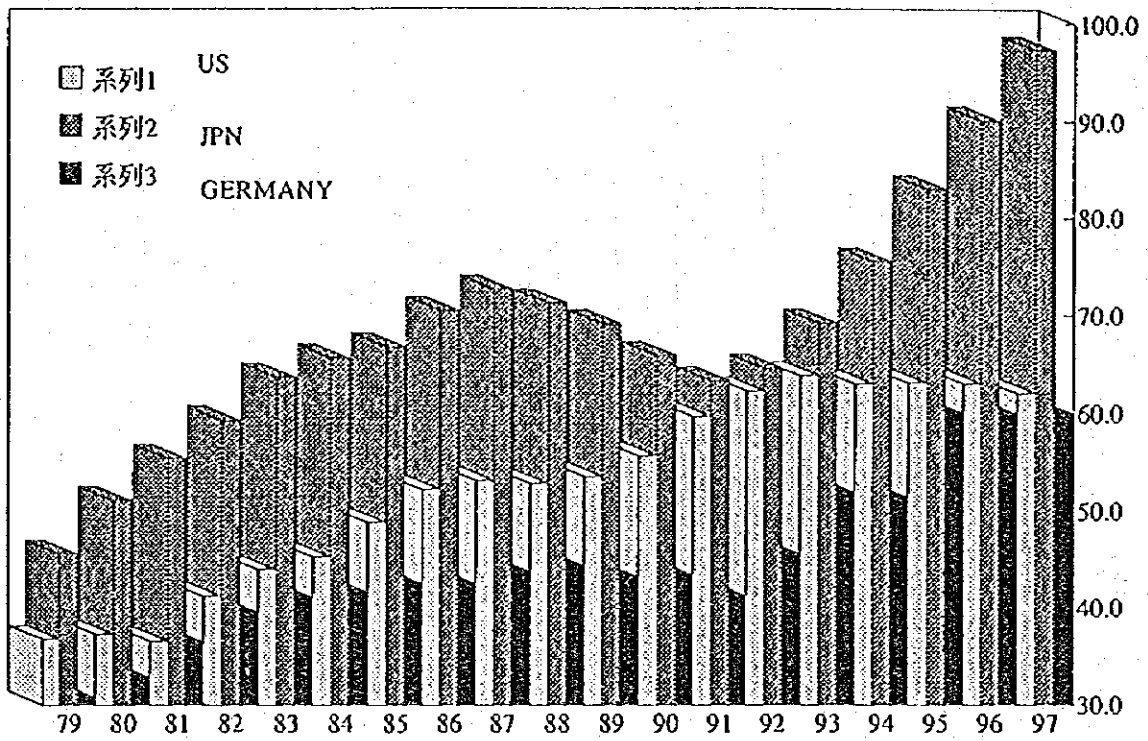


### JAPAN UNEMPLOYMENT RATE (%)

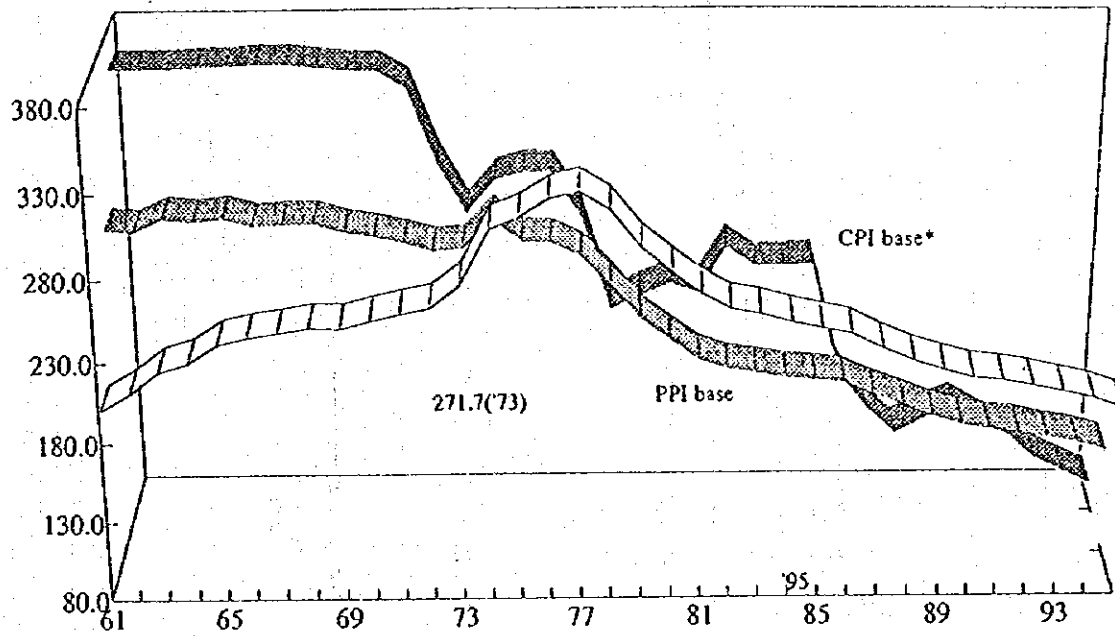


- U-1: Long-duration unemployment rate.
- U-2: Job loser rate.
- U-3: Adult unemployment rate.
- U-4: Full-time unemployment rate.
- U-5: Conventional unemployment rate.
- U-6: Rate encompassing persons working part-time for economic reasons.
- U-7: Rate adding discouraged workers.

GOVERNMENT GROSS FINANCIAL LIABILITIES AS A % OF NOM. GDP



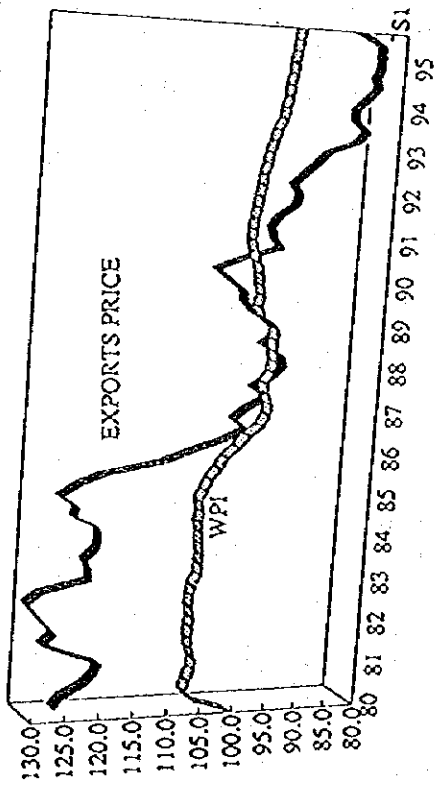
PPP&Rate(\$/¥)



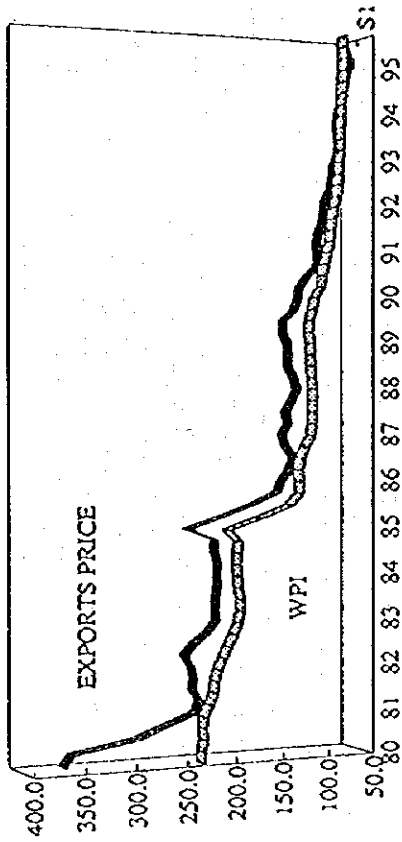
SOURCE:BOJ, MOF & US DEPT. OF COMMERCE

CPI	JPN(A)	US(B)	(B/A)	PPP	PPI	JPN(A)	US(B)	(B/A)	PPP
73	100.0	100.0	100.0	271.7	73	100.0	100.0	100.0	271.7
95	246.9	343.2	139.0	195.4	95	147.5	280.5	190.2	142.9

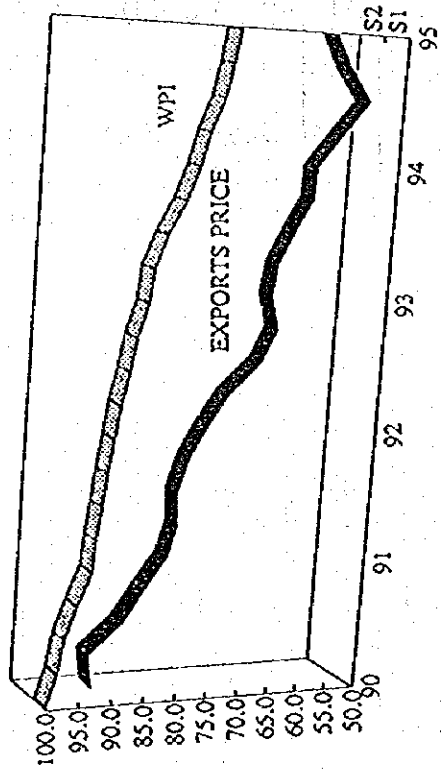
JPN WPI & EXPORTS PRICE (TOTAL 90=100)



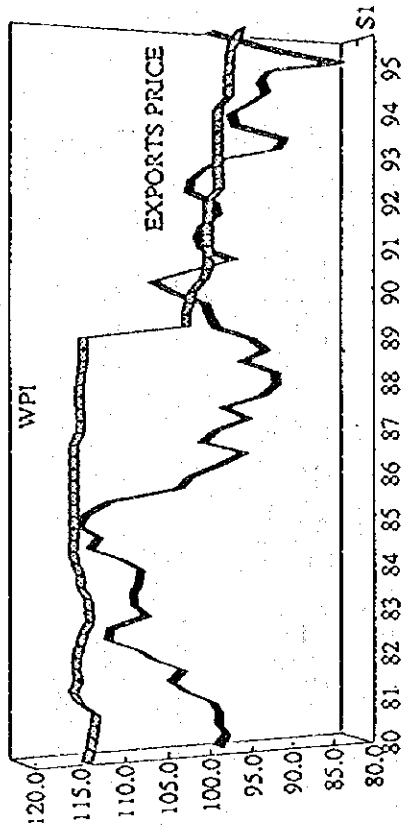
JPN WPI & EXPORTS PRICE (IC 90=100)



JPN WPI & EXPORTS PRICE (COMPUTER 90=100)



JPN WPI & EXPORTS PRICE (PASSENGER CAR 90=100)



**SUMMARY REPORT  
BY  
THE FOLLOW-UP TEAM  
FOR  
THE SEMINAR ON  
ECONOMIC DEVELOPMENT POLICIES  
GHANA  
MARCH, 1996**

**INDEX**

- 1. OBJECTIVE**
- 2. PERIOD**
- 3. MEMBERS**
- 4. SCHEDULE OF THE FOLLOW-UP TEAM**
- 5. INSTITUTIONS THE TEAM VISITED**
- 6. IMPRESSION THROUGH THE TEAM'S RESEARCH IN GHANA**

## 1. OBJECTIVES

The aims of this follow-up team are as follows:

- (1) To evaluate the course by conducting the research on how much the result of the seminar is applied and how it affects to the field concerned in Ghana.
- (2) To research the overall sector of this training field in Ghana, thus to seize the country's problems and needs.
- (3) To give the seminar concerning today's Japan's economy.
- (4) To improve the JICA's future seminar program in the field of economy

## 2. PERIOD

From March 23, 1996 to March 27, 1996

## 3. MEMBERS

Mr. Osamu Nariai

(Team Leader, Survey and Advice in the field of economy)

Professor, International School of Economics and Management, Reitaku University

Visiting Fellow, Japan Research Institute

Ms. Yasuko Furukawa

(Survey and Advice in the field of economy)

Researcher, Japan Research Institute

Mr. Tsutomu Matsuo

(Survey and Advice in the field of economy)

Researcher, Department of Research Cooperation,

Economic Research Institute, Economic Planning Agency

Ms. Makiko Kinoshita

(Planning and Coordination)

Training Officer

Specific Training Division,

Tokyo International Centre,

Japan International Cooperation Agency

#### **4. SCHEDULE OF THE FOLLOW-UP TEAM (GHANA)**

- 3/23 (Sat.)**     • Arrival at Accra
- 3/24 (Sun.)**     • Akosombo Dam and Irrigation Development Centre
- 3/25 (Mon.)**     • Tema Fishing Harbor
- Courtesy call on Embassy of Japan, JICA Office and Ministry of Finance
- Ministry of Local Government, British High Commission, UNDP
- 3/26 (Tue.)**     • Seminar at Novotel Hotel
- Interview with ex-participants and officers in charge of training at Ministry of Finance
- Interview with ex-participants and Director of Human Resources, Ministry of Local Government
- 3/27 (Wed.)**     • National Development Planning Commission
- Embassy of Japan, Ministry of Finance, World Bank Office and JICA Office
- Departure from Accra

#### **5. INSTITUTIONS AND ORGANIZATIONS THE TEAM VISITED and INTERVIEWED**

Ministry of Finance

Ministry of Local Government

National Development Planning Commission

British High Commission

UNDP

World Bank Office

## 6. IMPRESSION AND PROPOSALS OF THE TEAM

We have the following key points:

- (1) "Competitiveness" of Japanese intellectual co-operation in comparison with the international organizations and the other countries' bilateral technical co-operation.
- (2) Suitable contents of Japanese technical co-operation on the economic development.
- (3) Future Japan's role in the technical co-operation on the economic structural adjustment, and
- (4) Establishment of monitoring system of ex-participants.

We met about 10 ex-participants including related JICA training courses, and government officers such as Ministry of Finance, National Development Planning Commission, and Ministry of Local Government and Rural Development.

Ghana, which is now pursuing sustainable growth after it had solved out the most difficult structural problems together with democratization in politics, needs promotion of the private sectors' activities. His Excellency the president emphasizes capability promotion geared by resources utilization. This is expanding demands for Japan's technical co-operation on "know-how" to achieve dynamic private sectors' activities. 'Japaneseness' is becoming a popular word.

Looking back to Japan's industrial development, government initiatives should not be overestimated. The government role in the initial stage of industrialization should be establishment of production factors market as well as goods market, financial market like banking system, stock market, and labor market.

We also had opportunities to visit to the international organizations such as the World Bank Office, UNDP as well as the U.K. High Commission. Government basis technical co-operation might not have direct influences to the promotion of private activities. Foreign investment should be the best place for private activities' technical transfer. However, still the Ghana Government should take initiatives to promote private business through improving infrastructures, in terms of both "hard" and "soft" meanings. To achieve functionable market economy, important thing is not only to build-up the framework but also to foster "actors". This technical co-operation on economic development field should stimulate participants to set up practical policy measures to feed the market economy. Such a policy management is significant to the promotion of democracy in politics.

In conclusion, we are requested to provide and organize a seminar course more fitted to actual situations of individual recipient countries. We also should make efforts to monitor ex-participants through organizing regular reunion or collecting information on their activities.

Finally, we would like to express our heartfelt gratitude to all the respective authorities concerned, their superiors and our dear ex-participants for their kind co-operation, assistance and hospitality. We could not have carried out this work in the short time given to us if it had not been for tremendous help rendered by those who are concerned.

Thank you very much.



**SUMMARY REPORT  
BY  
THE FOLLOW-UP TEAM  
FOR  
THE SEMINAR ON  
ECONOMIC DEVELOPMENT POLICIES**

**EGYPT**

**APRIL, 1996**

**INDEX**

- 1. OBJECTIVE**
- 2. PERIOD**
- 3. MEMBERS**
- 4. SCHEDULE OF THE FOLLOW-UP TEAM**
- 5. INSTITUTIONS THE TEAM VISITED**
- 6. IMPRESSION THROUGH THE TEAM'S RESEARCH IN EGYPT**

## 1. OBJECTIVES

The aims of this follow-up team are as follows:

- (1) To evaluate the course by conducting the research on how much the result of the seminar is applied and how it affects to the field concerned in Egypt.
- (2) To research the overall sector of this training field in Egypt, thus to seize the country's problems and needs.
- (3) To give the seminar concerning today's Japan's economy.
- (4) To improve the JICA's future training program in the field of economy

## 2. PERIOD

From March 29, 1996 to April 3, 1996

## 3. MEMBERS

Mr. Osamu Nariai

(Team Leader, Survey and Advice in the field of economy)

Professor, International School of Economics and Management, Reitaku University

Visiting Fellow, Japan Research Institute

Ms. Yasuko Furukawa

(Survey and Advice in the field of economy)

Researcher, Japan Research Institute

Mr. Tsutomu Matsuo

(Survey and Advice in the field of economy)

Researcher, Department of Research Cooperation,

Economic Research Institute, Economic Planning Agency

Ms. Makiko Kinoshita

(Planning and Coordination)

Training Officer

Specific Training Division,

Tokyo International Centre,

Japan International Cooperation Agency

#### **4. SCHEDULE OF THE FOLLOW-UP TEAM (GHANA)**

- 3/29 (Fri.)**     • Arrival at Cairo
- 3/30 (Sat.)**     • Observation of Obour Market
- 3/31 (Sun)**     • JICA Office
- Courtesy call on Embassy of Japan
- Dept. of International Cultural Relation, Ministry of Foreign Affairs
- 4/1 (Mon.)**     • Visit to Foreign Trade Sector, Ministry of Trade and Supply
- National Planning Institute
- 4/2 (Tue.)**     • Seminar at Mariott Hotel
- Interview with ex-participants
- 4/3 (Wed)**     • Departure from Cairo

#### **5. INSTITUTIONS & ORGANIZATIONS THE TEAM VISITED and INTERVIEWED**

**Ministry of Foreign Affairs**

**Ministry of Trade and Supply**

**National Planning Institute**

## 6. IMPRESSION AND PROPOSALS OF THE TEAM

We have the following key points:

- (1) "Competitiveness" of Japanese intellectual co-operation in comparison with the international organizations and the other countries' bilateral technical co-operation.
- (2) Suitable contents of Japanese technical co-operation on the economic development.
- (3) Future Japan's role in the technical co-operation on the economic structural adjustment, and
- (4) Establishment of monitoring system of ex-participants.

We met about 10 ex-participants including other related JICA training courses, and government officers such as Ministry of Foreign Affairs, Ministry of Trade and Supply, Foreign Trade Section, and National Institute of Planning.

Egypt, Arab Republic is now pursuing sustainable growth pattern under strong political leadership. Through current balance has been improved, macroeconomic stability is still the most important policy target. In order to achieve this target, supply side reform is a key issue as well as demand control management. Structural adjustment requires reform in both public and private sectors. This is expanding demands for Japan's technical cooperation on "know-how" to achieve dynamic private activities and privatization. Looking back to Japan's industrial development, government's role had been establishment of the production factors markets, such as capital market and labor market, together with well-functioned commodities markets. Establishment of functionable banking system as well as stock exchange market will contribute to industrialization through utilization of sleeping domestic money. Also, we recognize that the government needs to promote competition by introducing anti-monopoly policy such as a legal framework like Anti-trust Law. Productivity increase is becoming an urgent issue.

Private sectors might be still influenced by the government policy to some degree in Egypt. We are very much convinced that this seminar on economic development policies have been beneficial to the development in this country, moreover during the structural adjustment period, this seminar increases its significance in the meaning of establishing the appropriate government role in industrialization under market-based economy.

Many people emphasize foreign direct investment should promote industrial activities through technology transfer. However, the government must provide attractive conditions as follows:

- (1) infrastructures in terms of both hard and soft,
- (2) incentives to foreign companies, such as tax incentives,
- (3) a number of skillful labors, and so on.

FDI should be the best school for practical technical cooperation. However we believe that the governmental basis technical cooperation through JICA should stimulate participants to set up practical policy measures to "feed" the market economy. This kind of policy management to promote private sectors absolutely contributes to promotion of democracy in politics.

In conclusion, we are requested to provide and organize training courses more fitted to actual situations of individual recipient countries. We also should make efforts to make channel with ex-

participants through organizing regular reunion or collecting information on their activities.

Finally, we would like to express our heartfelt gratitude to all the respective authorities concerned, their superiors and our dear ex-participants for their kind cooperation, assistance and hospitality. We could not have carried out this work in the short time given to us if it had not been for tremendous help rendered by those who are concerned.

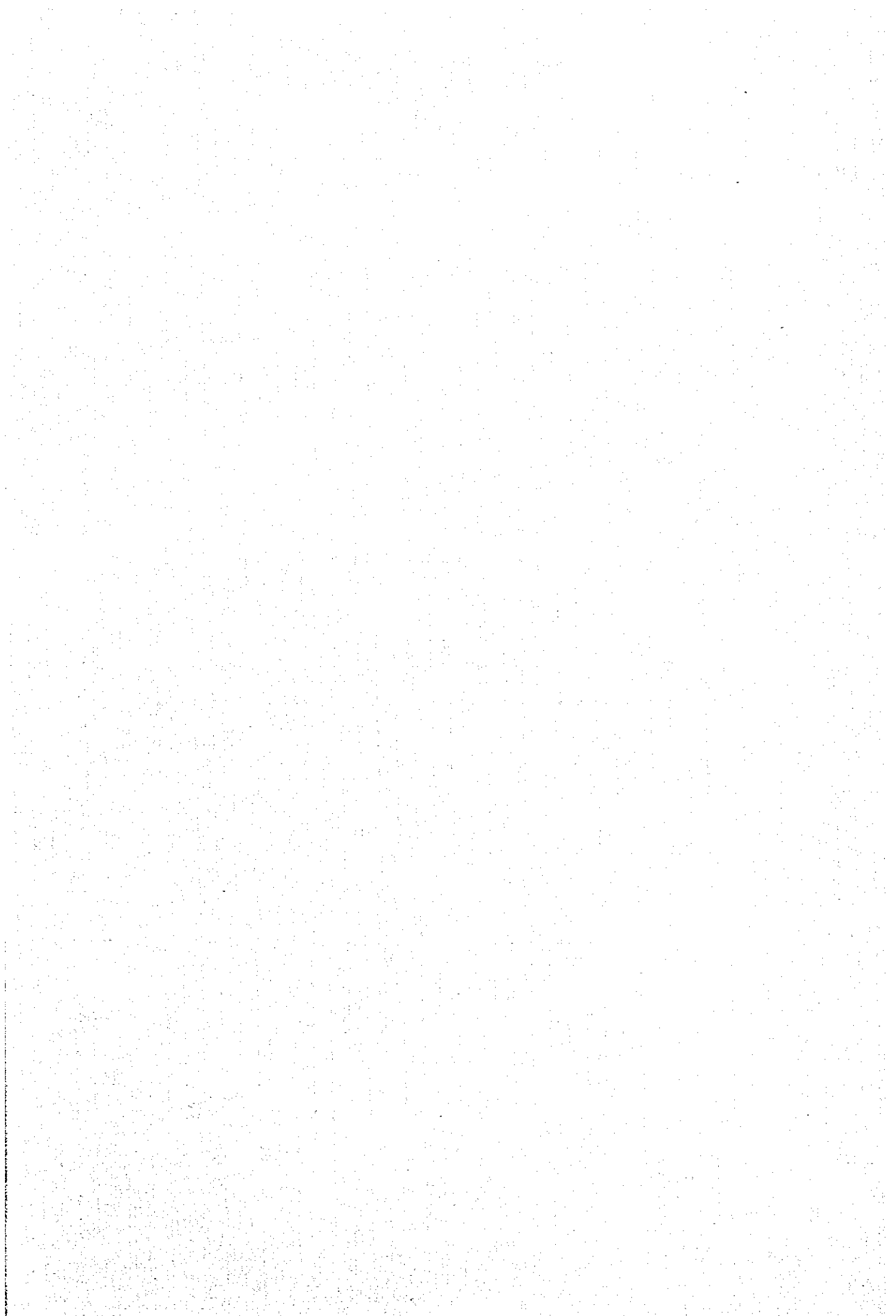
Thank you very much.











JICA