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Japan's Balance of Payments **~Slowly Shifting to Mature Creditor in BOP Development Stage?**

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According to a survey by Japan Tourism Agency, foreign tourists visiting Japan increased in 2015 by 47.1% from the previous year for the fourth consecutive year of increase to a record of 19.74 million. As a result, the travel balance turned to a surplus of 1.1 trillion yen in 2015, contributing greatly to a narrower deficit on the services balance. On the other hand, recently published Economic White Paper reported that after the global financial crisis the Japanese companies had restrained their allocation of fund to domestic capital investment while increasing the funds for M&A and overseas business investment. The foreign affiliated M&As and overseas capital investment lead to Japan's acquisition of foreign assets in the form of direct investment and portfolio investment, contributing to an increase of primary income account surplus.

Regional breakdown of the travel balance and primary income balance shows that Asia and Pacific region has had a greater influence on the development of these balances in recent years. In the travel account, Asia/Pacific recorded a surplus in 2013, with an increasing surplus in the following two years (Chart 1). In the primary income account, which mainly comprises of incomes on direct investment and on portfolio investment, the surplus on the direct investment income markedly increased during the period between the global financial crisis and 2015, contributing to an increase of the surplus on the primary income balance. Among others, Asia/Pacific region showed a big presence with its continued increase in the direct investment income (Chart 2).

Chart 1 : Travel Balance by Region

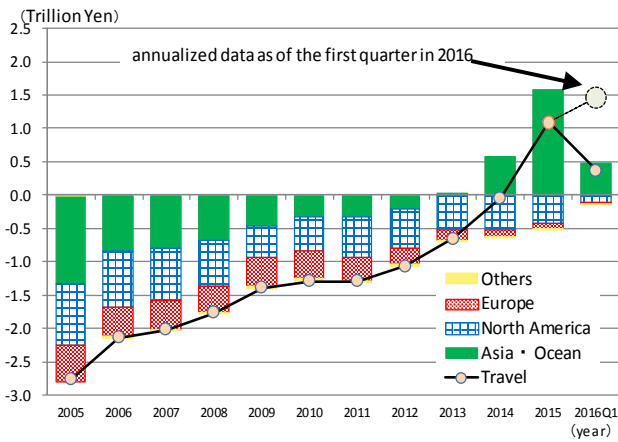
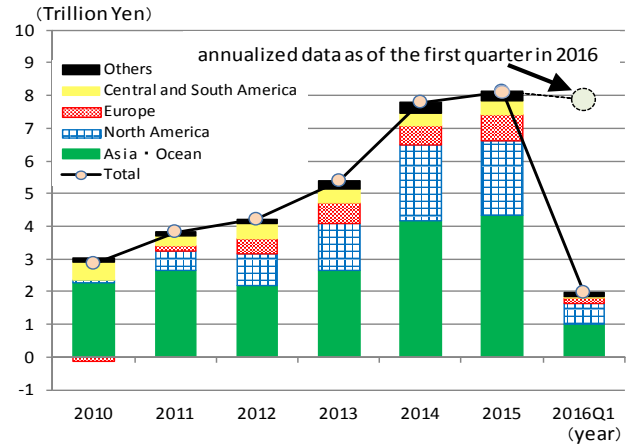


Chart 2 : Direct Investment Income by Region

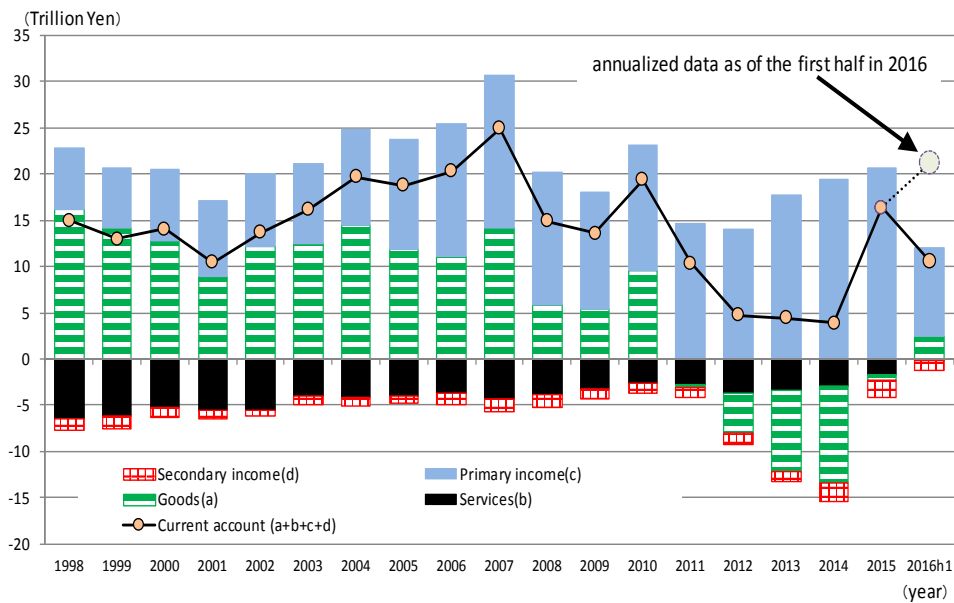


(Note) Latest data refers to the first quarter of 2016.

((Source) Ministry of Finance "Balance of Payments Statistics

In 2015, the surplus on the current account increased mainly because the deficit on trade balance (goods, the same in below) sharply decreased due to the decline of oil price, in addition to the improvement in the services and primary income balances noted above. In the first half of 2016, the trade balance turned to a surplus while the services and primary income balances maintained their latest trend. If the present trend continue into the latter half of the year, the current account for the full year is likely to exceed the surplus recorded in the previous year (Chart 3).

Chart 3 : Changes of Current Account



(Note) The latest data is for the first half of 2016.

(Source) Ministry of Finance: "Balance of Payments Statistics"

Judging from the Development Stage Theory of the Balance of Payments that states a country's balance of payments structure changes along with its economic development, Japan has been regarded as belonging to the stage of immature creditor nation for a long time since the 1970s¹. However, as Japan saw in 2011 the trade balance fall into a deficit and the current account surplus strengthen from 2012 the tendency to decrease coupled with a widening trade deficit, there emerged a view that Japan has been shifting to a stage of a "mature creditor country". At the same time, as the decrease of current account surplus was so rapid, it was pointed out that it is a challenge for Japan to slow down the pace of decline of surplus to enable it to smoothly shift to the stage of a mature creditor nation.

The current account surplus turned to expand again in 2015 and the trend continues in 2016, which seems to mean that the economy has been moving to meet such a challenge. The move of the trade balance from deficit to surplus, contributing greatly to the narrowing of the deficit in the services account, can be regarded as a successful result, especially in Asia and Pacific region, of government measures and efforts by the private sector that aim to bolster the businesses related to international tourists visiting Japan. On the other hand, the move of trade balance from deficit to surplus may not be attributed to the efforts of government and private sector to promote exports as the improvement is mainly due to the decrease in imports reflecting among others a fall of oil price. In order to expand the room for export increase, it is essential for Japan to improve productivity and competitiveness of the manufacturing sector. The promotion of growth strategy and structural reforms as is represented by the fourth industrial revolution that utilizes AI and robots and revolution of way of work to correct long working hours would provide a key to a smooth shift of Japan to the next stage in its balance of payments development.

¹ In general, an immature creditor country shows a positive position in all categories of current account, goods and services balance, income balance and increase in net assets of financial account, while in a mature creditor country, out of the four categories, that of goods and services balance will show a negative balance.