No.34

Eyes of IIMA Institute for International Monetary Affairs

2015.9.28

Ongoing Change in Japan’s Development Stage of Balance of Payments

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Japan’s trade balance (of goods) turned into a deficit in 2011 and registered the largest-as-ever deficit of ¥10.4 trillion in 2014. In 2015, the trade balance is expected to record a deficit for the fifth consecutive year, although the amount will be much smaller. The services balance, although narrowing in its magnitude, also continues to be in red, resulting in a continued deficit in the balance on goods and services.

On the other hand, the income balance has been registering a big surplus, supported by an expanding surplus in the primary income balance. As the surplus of the income balance has exceeded the deficit of the goods and services balance, the current account balance continue to register a surplus, despite the fall into deficit in the trade balance.

As is seen above, the balance of payments of Japan shows a recent fall into red in the goods and services balance with a continued surplus in the income balance, while the financial account has a continuous increase in net assets. In view of the development stage theory of balance of payments which states that a country’s balance of payments structure changes along with the economic development, Japan is now considered to be in a transition process from the stage of immature creditor country to that of mature creditor country[1].

Although the current account of Japan continues to be in surplus, both the actual amounts and shares in nominal GDP have been on a declining trend (Chart 1). Implications of shrinking current account surplus should be cautiously interpreted, but in terms of its impact on the GDP, more careful interpretation will be needed for its recent narrowing which was mainly brought by a surge in deficits in the balance on goods up to 2014. In the first half of 2015, current account surplus turned to expand as the trade balance on goods rapidly narrowed as imports decreased centering on the oil-related products reflecting a falling oil prices. However, exports still remain

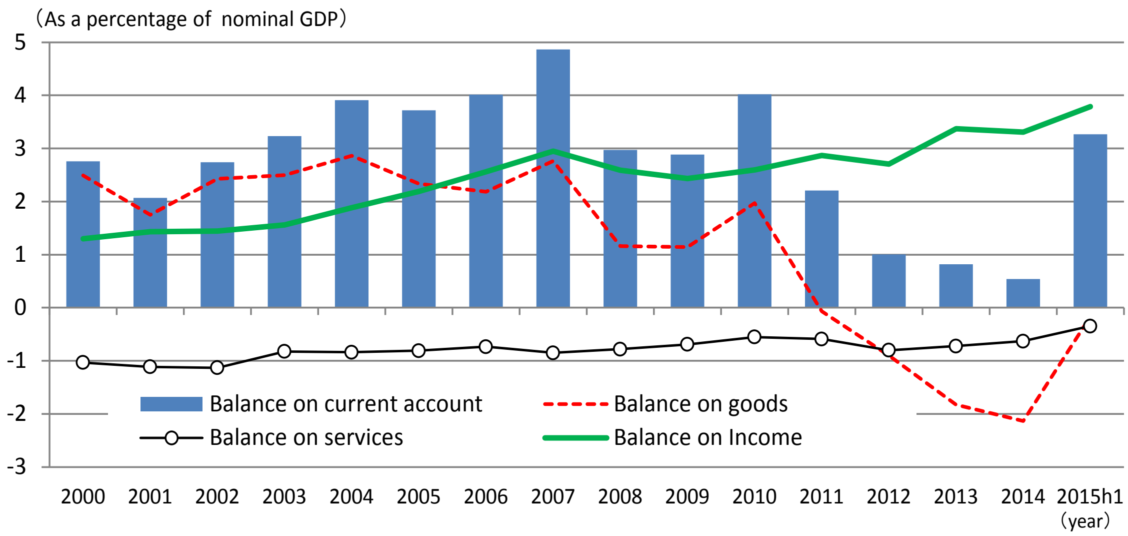
[1] In general, an immature creditor country has a surplus in all categories of current account, goods and services balance, income balance and increase in net assets of financial account, while in a mature creditor country, out of the four categories, that of goods and services balance will show a negative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

sluggish, and no optimism is allowed for the future movement of the current account surplus.

In the United States, it is considered that it shifted from a stage of immature creditor country to that of mature creditor country in the 1970s and stayed in that stage for more than 10 years until the beginning of 1980s[2]（Chart 2）. At that time, although the deficits in trade balance tended to increase, the US avoided rapid shift to an asset liquidator since its services balance turned into surplus and the surplus in investment income increased[3].

It is difficult to make a simple comparison between the US and Japan as the characteristics of the economies and times differ, but taking a lesson from the precedents of the US, in order for Japan to keep the status of mature creditor as long as possible, Japan will have to aim at increasing the surplus of both services balance and income balance through expanded travel and direct income surplus as the government set them as its policy objectives. At the same time, it will be needed to put a brake on the increase of trade deficit by such efforts as (i) market development in the emerging countries through utilization of FTA and other trade facilities, (ii) sales promotion of Japanese brand products and infrastructure by top people, and (iii) enlargement of markets for leading medium-sized firms and SMEs[4].

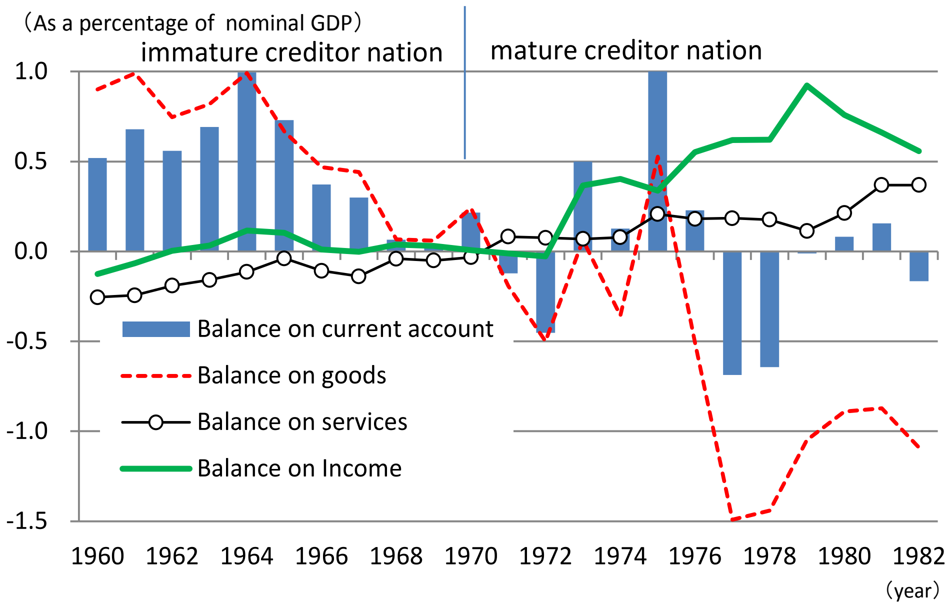
Graph1：Current Account Balance of Japan（As a percentage of nominal GDP）



（Source） Ministry of Finance Japan

2 METI: "*White Paper on International Economy and Trade 2007*", others.
3 After 1983, it is considered to have shifted to the next stage of asset liquidator.
4 METI: from 3 economic engines to support the growth in "*White Paper on International Economy and Trade 2015*"

Graph2：US Current Account Balance（As a percentage of nominal GDP）



（Source）U.S. Bureau of Economic Analysis