

Japan: Yes, China Is The Bigger Economy

Tomoko A. Hosaka, Associated Press

TOKYO (AP) — Japan confirmed Monday that China's economy surpassed its own as the world's second largest in 2010 and said a late-year downturn was its first quarterly contraction in more than a year.

Japan's economy expanded 3.9 percent in the calendar year in the first annual growth in three years. But it wasn't enough to hold off a surging China. Japan's nominal GDP last year came to \$5.4742 trillion, less than China's total of \$5.8786 trillion, the Cabinet Office said. China, however, remains far poorer with GDP per person about a fifth of that in Japan even when purchasing power differences in each country are taken into account.

China was acknowledged last year as having surpassed Japan as the world's No. 2 economy — a title it had held since 1968. But full-year Japanese data confirming it were not available until Monday. The historic shift underscores the nations' stark contrasts: China is growing rapidly and driving the global economy, while Japan is struggling with persistent deflation, an aging population and ballooning public debt.

At the same time, the rise of its Asian neighbor has been critical for Japan's own economic engine. China is now Japan's biggest trading partner and a significant source of growth for Japanese companies like Toyota Motor Corp. and Canon Inc.

Japan's economy minister Kaoru Yosano described China's expansion as important for the region and said he hopes for deeper economic ties between the two countries.

"As an economy, we are not competing for rankings but working to improve citizens' lives," Yosano told reporters after the GDP data was released. "We welcome China's economic advancement as a neighboring country."

In the latest quarter, GDP — a measure of the value of all goods and services produced domestically — shrunk at an annualized rate of 1.1 percent, a sharp reversal from a revised 3.3 percent expansion in the third quarter.

A slowdown in exports and weaker consumer demand at home led to the downturn, which is expected to be temporary. The result was better than Kyodo news agency's average market forecast of an annualized 2.2 percent decline.

Prime Minister Naoto Kan has pledged to revitalize the economy and make major reforms in the country's tax and social welfare systems. His approval ratings are eroding quickly, however, as voters question his government's ability to lead the country through its pressing problems.

Kan must first convince opposition parties to pass a record 92.4 trillion yen (\$1.1

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trillion) budget for the next fiscal year starting April, as well as unify his own party amid a political funding scandal involving a veteran Democratic lawmaker.

Standard & Poor's issued its own harsh critique of Japan's political paralysis last month when it downgraded the country's credit rating. It said the ruling Democrats lack a coherent strategy to reduce the country's massive public debt, now at twice the size of GDP.

This is the year Japan needs to start serious discussions about the sort of reforms Kan is pushing and find a political consensus, said Masayuki Kichikawa, chief economist at Bank of America-Merrill Lynch in Tokyo. But his hopes for Kan are fading fast.

"The political situation looks so chaotic," Kichikawa said. "The lack of Prime Minister Kan's leadership is very very serious, and he is having a kind of identity crisis. It seems he has lost sight of where he stands."

The fourth-quarter figure translates to a 0.3 percent fall from the previous three-month period, according to the Cabinet Office's preliminary data. Consumer spending, which accounts for some 60 percent of GDP, fell 0.7 percent. Auto sales slumped during the quarter after government subsidies for "green" vehicles expired in September.

Exports fell 0.7 percent from the previous quarter amid a strong yen and waning global demand. A rise in the Japanese currency reduces the value of exporters' profits overseas and makes Japanese goods pricier in foreign markets.

The road ahead looks brighter in terms of growth, with economists saying GDP will expand this quarter in tandem with rising global demand. The head of Japan's central bank, Masaaki Shirakawa, said last week that that recent signs indicate Japan is emerging from the "pause" and performing at par with other advanced economies.

The Bank of Japan begins a two-day policy board meeting Monday but is expected leave interest rates unchanged.

Under a "comprehensive monetary easing" policy, the central bank in October lowered its key interest rate to virtually zero percent and pledges to maintain the level until prices start rising again. It also unveiled a temporary 5 trillion yen (\$61 billion) fund to buy financial assets such as government securities, commercial paper and corporate bonds to help lift the economy and reverse deflation.

The central bank expects real GDP to expand 3.3 percent this fiscal year through March and 1.6 percent next fiscal year.

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