

Japan Posts First Trade Deficit Since 1980

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TOKYO (AP) — The devastating March tsunami and shift of manufacturing overseas plunged Japan's trade account into the red for the first time since 1980. Experts said the years of Japan running massive trade surpluses are likely over.

The 2.49 trillion yen (\$32 billion) deficit for 2011 reflected a surge in energy imports to cover shortfalls caused by the disaster, and a 2.7 percent decline in the value of Japan's exports to 65.55 trillion yen (\$843 billion), according to the Ministry of Finance figures released Wednesday.

Manufacturers have moved some production overseas to avoid the damage inflicted by the strong yen, a trend that has accelerated in recent years. Some economists say the trade balance will be in the black again within two years, but the era of very large surpluses that allowed Japan to build a huge pile of foreign reserves has ended.

"It reflects fundamental changes in Japan's economy, particularly among manufacturers," said Hideki Matsumura, senior economist at Japan Research Institute. "Japan is losing its competitiveness to produce domestically."

"It's gotten difficult for manufacturers to export, so they've moved production abroad so that products sold outside the country are made outside the country," he said.

The yen's surge to record levels against the dollar and euro has made Japanese exports more expensive and also erodes the value of foreign earned income when brought home. Recently, manufacturers such as Nissan Motor Co. and Panasonic Corp. have shifted some of their output to factories abroad. At the same time, Japan is facing intense competition from South Korea, Taiwan and Singapore, where labor and production costs are cheaper.

Japanese manufacturers have been battered by a host of negatives in the past year. The tsunami temporarily disrupted the production of automobile makers and other manufacturers. Weakness in the U.S. economy and Europe's debt problems and recent flooding in Thailand, where many Japanese automakers have assembly lines, also contributed to export declines.

"The impact of the supply chain problem and the temporary effect of the earthquake will fade. We may see Japan's trade balance recover to a small trade surplus, but it won't return to the pre-crisis level," said Masayuki Kichikawa, chief Japan economist at B of A Merrill Lynch in Tokyo.

"The big surpluses are gone. Japan's trade balance should be almost balanced or at best a small surplus."

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Another major factor behind the deficit was the impact of the expensive energy imports Japan turned to after the March disaster touched off a nuclear crisis and led the country to shut down, or not restart, a large portion of its reactors, said Martin Schulz, senior economist with the Fujitsu Research Institute.

He said pressure to import energy will continue to weigh heavily on Japan for the next year, but will subside as the country pursues greater efficiency measures.

Much of Japan's oil and natural gas is imported from the Middle East, with which Japan had a 10.88 trillion yen trade deficit last year, up 33 percent, figures showed.

Japan still has a trade surplus with the U.S., although that is shrinking. For 2011, exports exceeded imports by 4.10 trillion yen (\$52.6 billion), down 8.2 percent from a year earlier. Exports to the U.S. declined 2.8 percent to 10.02 trillion yen during the year, while imports inched up 0.2 percent to 5.9 trillion.

Japan had a 1.57 trillion yen trade surplus with China for the year. A breakdown of figures showed a trade deficit with mainland China, but a big surplus with Hong Kong.

Trade with Germany was fairly balanced last year as imports grew nearly 10 percent to 1.86 trillion yen. Exports came to 1.87 trillion yen, giving Japan a relatively small trade surplus of 16 billion yen.

The turmoil in Europe and the U.S. has driven up the yen as global investors flock to the currency as a relative safe haven. The yen hit multiple historic highs against the dollar, and touched a record against the euro earlier this month as well.

The yen is trading at around 78 to the dollar recently, a level that is extremely painful for exporters. Five years ago, the dollar was trading above 120 yen.

Matsumura believes that Japan will likely log another trade deficit this year amid prospects for high energy prices and a persistently strong yen, but that renewed strength in the global and Asian regional economies could put Japan back into the black in 2013.

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