



Abenomics, Yen Depreciation, Trade Deficit and Export Competitiveness

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Phenomena and Explanations

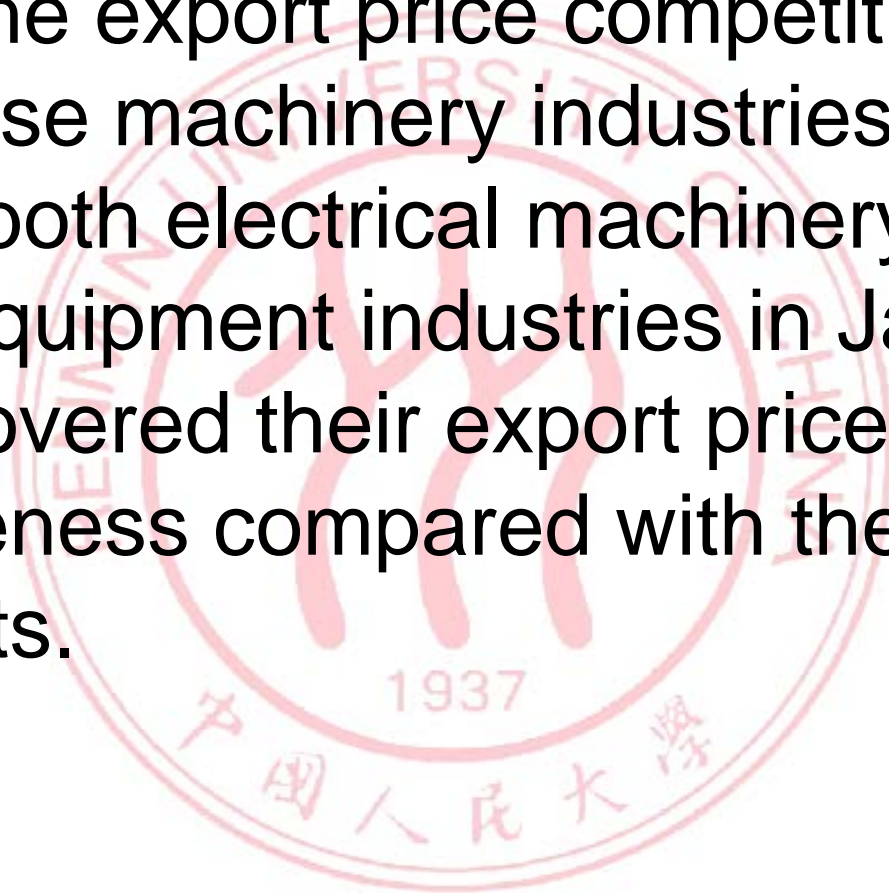
- why did trade deficit in Japanese increase under the background of depreciation of the yen since the end of 2012 (Abenomics' key goal).
- this paper makes the following three explanations or arguments:

- (1) First, a sharp appreciation of the yen since 2008 prompted many Japanese companies to improve the cross-border division of labor by expanding their production networks in other Asian countries. The result is a inevitably structure change where much of the export-boosting effect of a weaker yen is negated because an increase in Japan's export of industrial products is accompanied by an increase in the import of parts and components produced by Japanese overseas subsidiaries and affiliates.

- (2) Second, during the yen appreciation Japanese firms increased the degree of exchange rate pass-through, while Japanese firms pursue the pricing-to-market (PTM) behavior in response to the rapid yen depreciation from the end of 2012. It means that the recent depreciation of the yen does not cause the export price reductions in the destination countries, which weakens the positive impact of yen depreciation on trade balances.



- (3) Last, the recent depreciation of the yen improved the export price competitiveness of the Japanese machinery industries. In particular, both electrical machinery and transport equipment industries in Japan have rapidly recovered their export price competitiveness compared with the Korean counterparts.



Interesting Conclusions

- Thus, the slow recovery of Japanese trade balance in response to the yen depreciation can be explained by the Japanese firms' pricing behavior as well as the active overseas operation caused by the unprecedented level of yen appreciation before Abenomics.
- Whether does this means that it is more important for Japan to pay more attention to income balance more than trade balance?

Problems

- (1) We should give some serious consideration about this problem: where does the exporting competitiveness of one country come from on earth?
- Currency depreciation?
- Economy structure change?
- Improving innovation ability?



- (2) Whether will Aenomics' yen depreciation policy make a new currency war in east Asia or in the global?
- beggar-thy-neighbor effect?
- Korea and China will face the increasing currency depreciation war pressure form Aenomics' yen depreciation policy in Japan.





- (3) the yen depreciation policy has been effective at least to some extent, in stemming the excessive exodus of Japanese manufacturing overseas.
- Drawing more Japanese manufacturing overseas back to the Japan, through the yen depreciation policy, can exert an influence on reducing Japanese trade deficit and improving exporting competitiveness of Japanese manufacturing firms?

- (4) in order to offset a decrease in exports resulting from manufacturing offshoring by increasing income surplus, it is necessary to maintain the flows of overseas earnings repatriated to Japan.
- The Japanese government needs to implement measures designed to encourage companies to undertake R&D activities in Japan and remove tax impediments to the repatriation of overseas earnings by expanding the scope of application of tax exemption for foreign income.

My questions

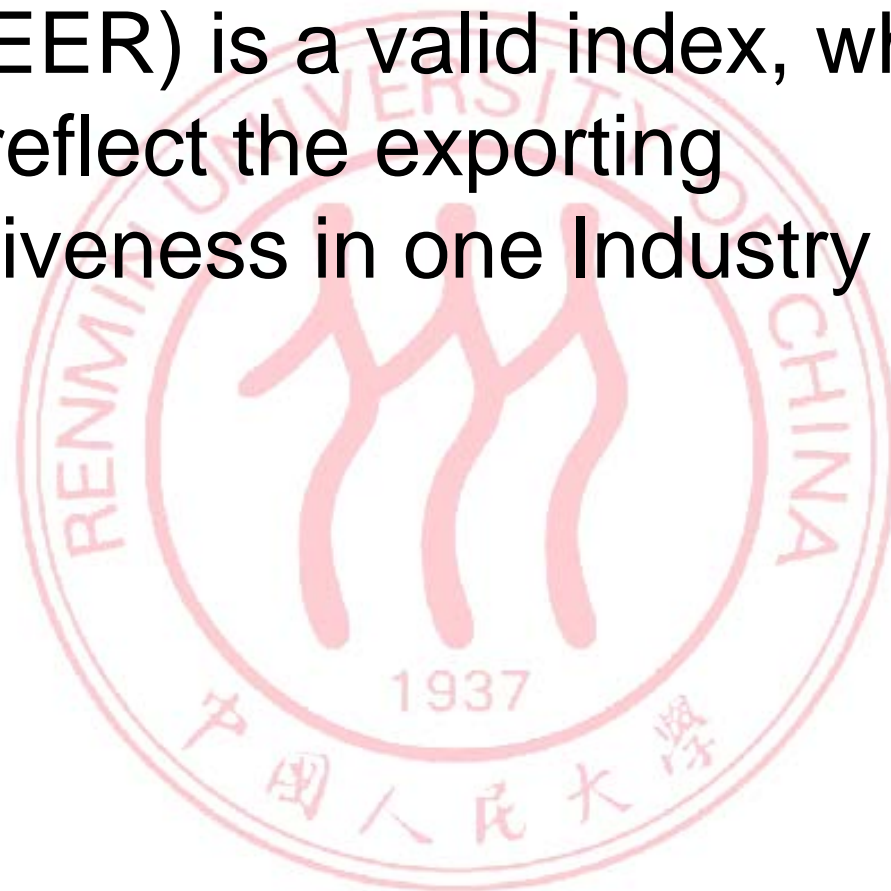
- (1) From a practical perspective, how to understand the relationships among trade deficit, income deficit, currency depreciation and exporting competitiveness as a whole rather than at one-one single angle.

- (2) Aenomics' yen depreciation policy can restore the exporting competitiveness in some manufacturing sectors and effectively solve the problem of the trade deficit ?





- (3) Industry-specific real effective exchange rates (REER) is a valid index, which can entirely reflect the exporting competitiveness in one Industry or country?





- (4) what is the third arrow of Abenomics ?
- The third arrow of Abenomics can solve the problems such as improving exporting competitiveness in some manufacturing sectors in a short time and finally reduce the trade deficit in the long run ?

