

Change and Issues of
International Trade
under World Economic Crisis

—Point of White Paper on
International Economy and Trade 2009—

July 16, 2009

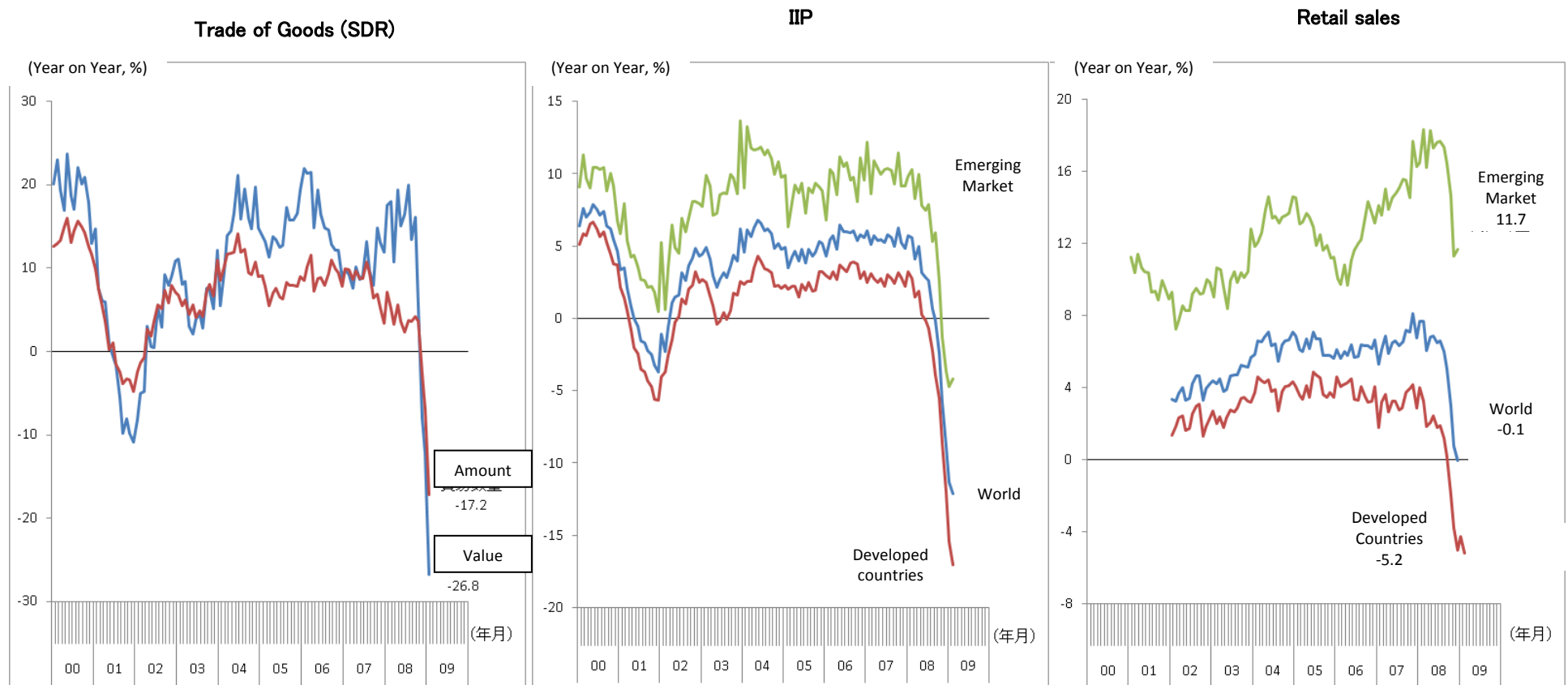
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I Worldwide Recession and Change of International Trade

1. Change of Trade after Financial Crisis

- The world trade rapidly decreased after last September.
- IIP and retail sales also show the same trend.

Trade of Goods, IIP and retail sales are decreasing rapidly.

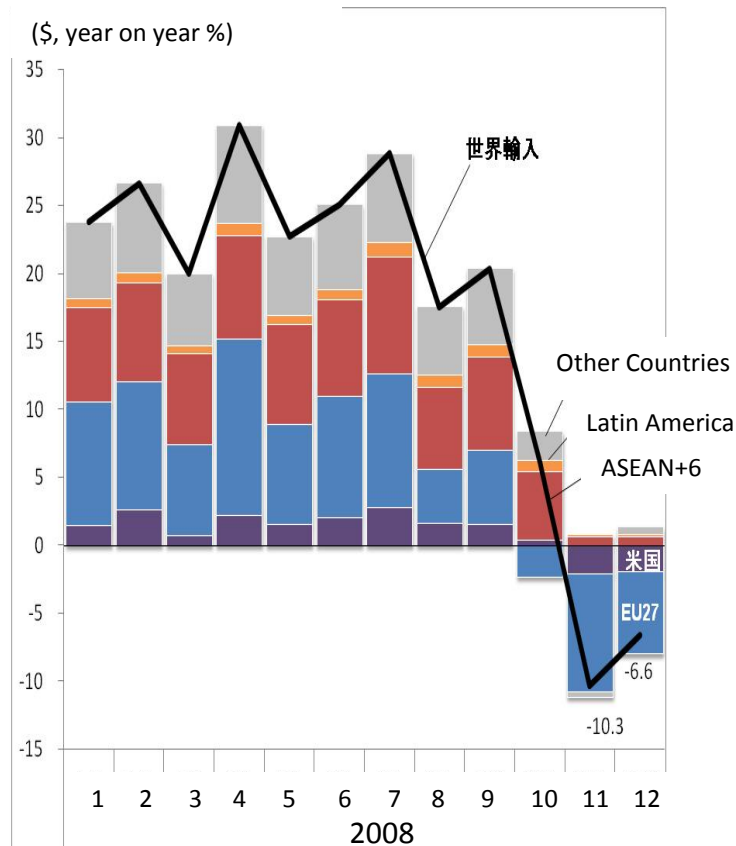


備考: 1. 先進諸国とは、米国、カナダ、英国、ユーロ圏、日本、韓国、台湾、香港、シンガポール、豪州、ニュージーランド、チェコ、デンマーク、イスラエル、ノルウェー、スウェーデン及びスイス、の計 17カ国・地域。
 2. 新興諸国とは、中国、インド、パキスタン、インドネシア、マレーシア、タイ、アルゼンチン、ブラジル、ブルガリア、チリ、コロンビア、エストニア、ハンガリー、ラトビア、リトアニア、メキシコ、ペルー、フィリピン、ポーランド、ルーマニア、ロシア、スロバキア共和国、南ア、トルコ、ウクライナ及びベネズエラの26カ国。

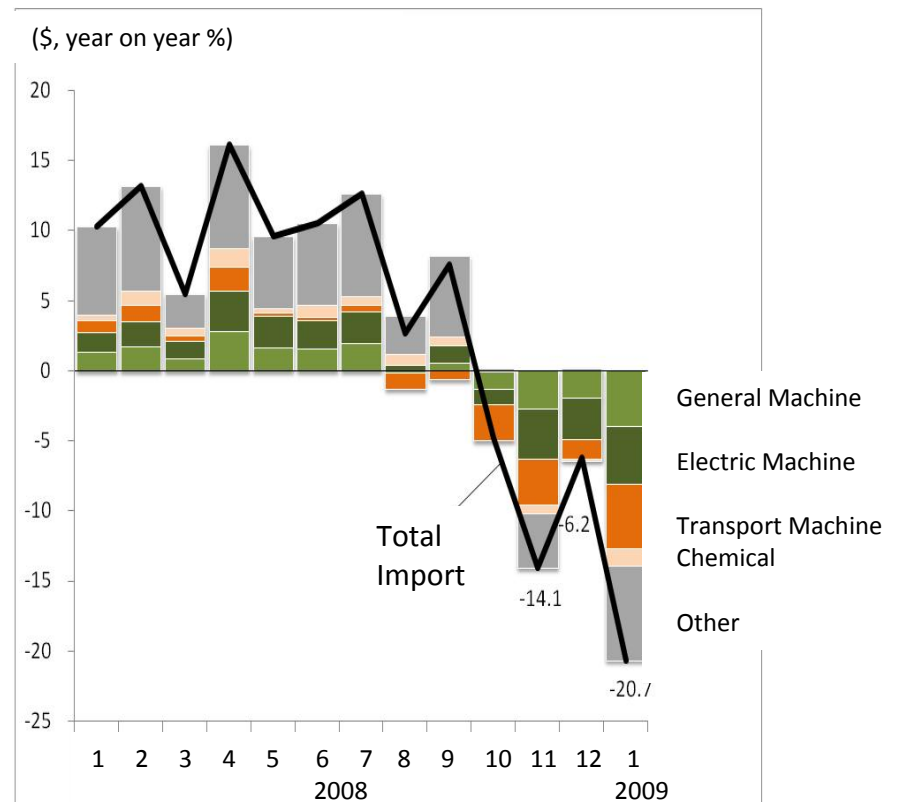
2. Change of Import

- In US and EU countries where financial institutions faced bankruptcy, personal consumption and investment decreased to a large extent, and the decrease of domestic demand made import decrease.
- Import of Europe countries and US decreased in all items. The main factor of decrease is durable consumer goods such as automobiles and electric machines and capital goods such as general machines.

Contribution by Countries to Change of World Import



Contribution by Items to Change of US and EU27 import (except resource import)

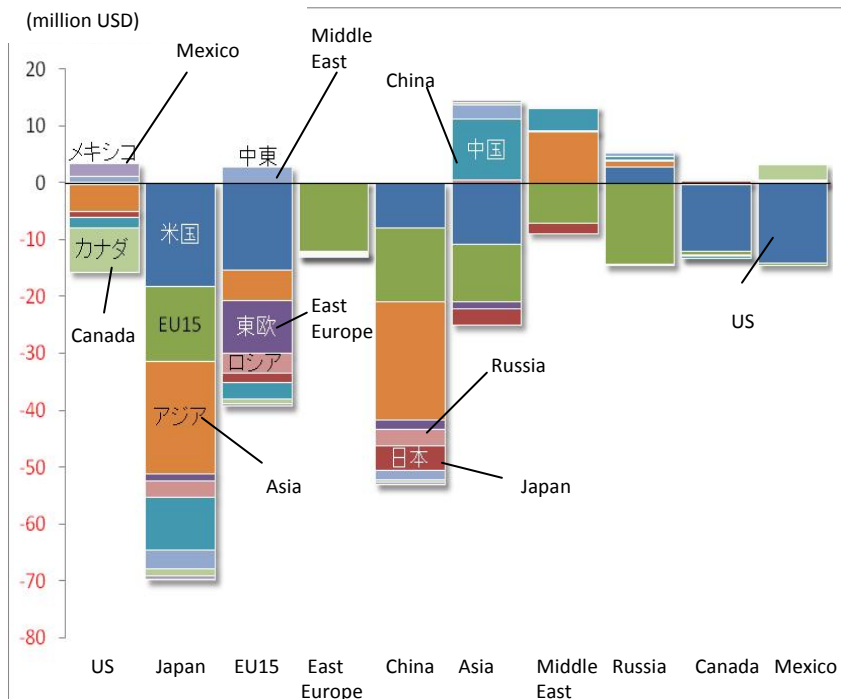


資料: Source : World Trade atlas

3. Change of Export

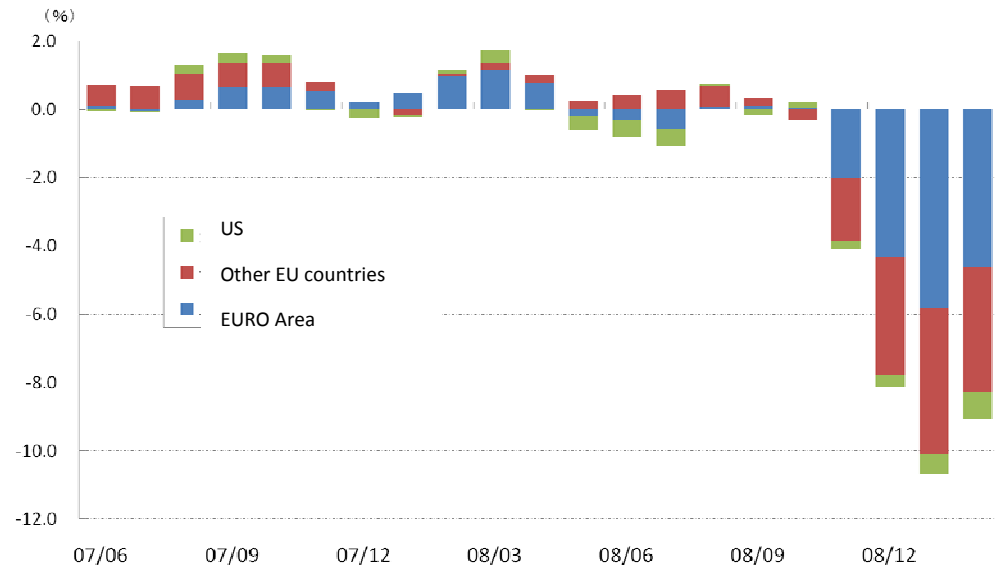
- The most drastic decrease of export happened in Japan. The decrease of export of China is the second-largest.
- Countries which exports durable consumer goods and/or capital goods experiences decrease of export as well as countries in Europe and Asia which form production network.

**Change of Export by destination
(Difference from year-ago Period)**



Source : IMF "Direction of Trade, World Trade Atlas

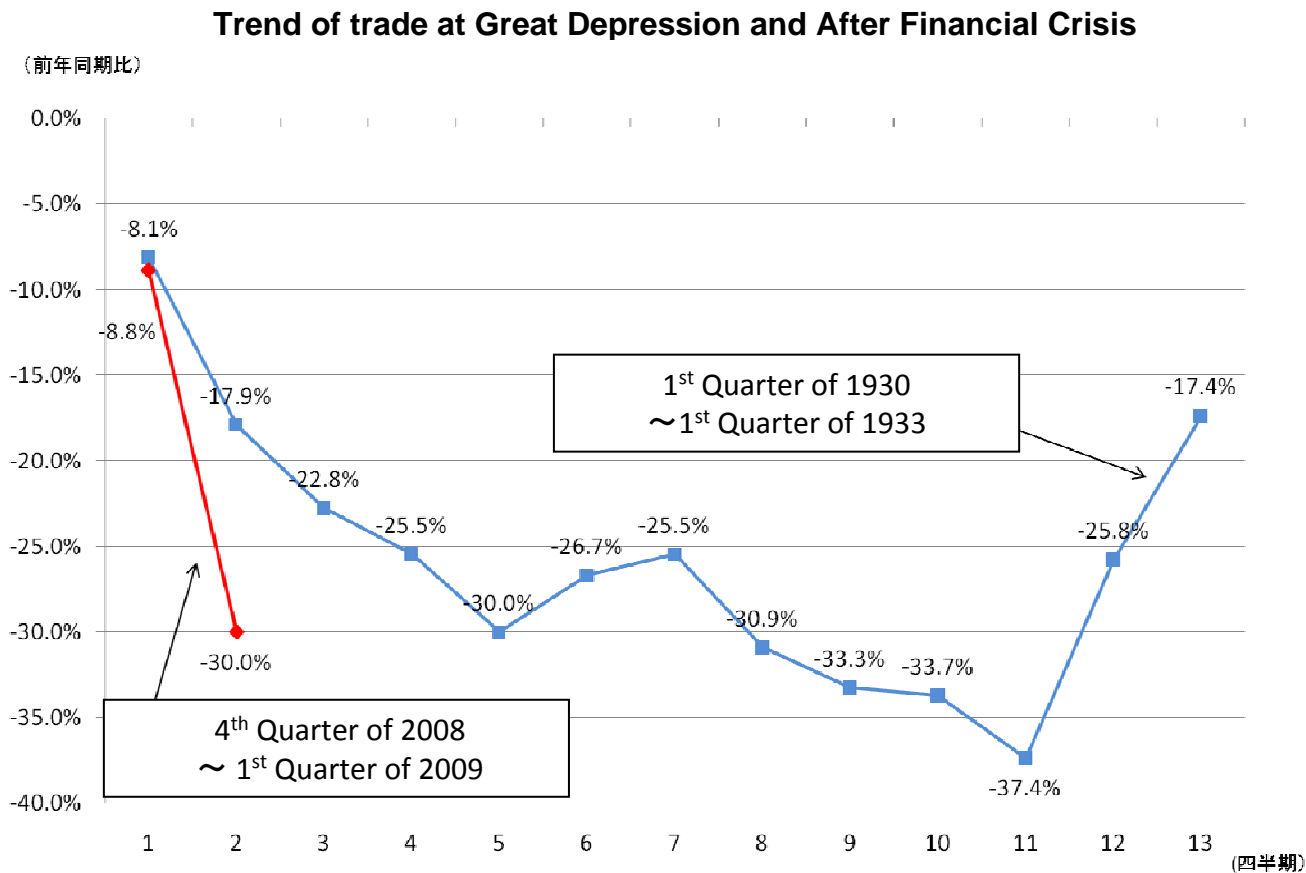
Contribution by Destination to Change of German Export



Source : Statistisches Bundesamt Deutschland,
Deutsche Bundesbank

4. Comparison with Great Depression in the 1930s

- At Great Depression in the 1930s, the decrease rate of trade gradually got worse and worse.
- The trade in the first quarter 2009 decreased more rapidly than that in the 1930s.



Note: The data from 1st Quarter of 1930 to 1st Quarter of 1933 is a total of import of 75 countries.

The data from 4th Quarter of 2008 to 1st Quarter of 2009 is a total of import of WTO member countries.

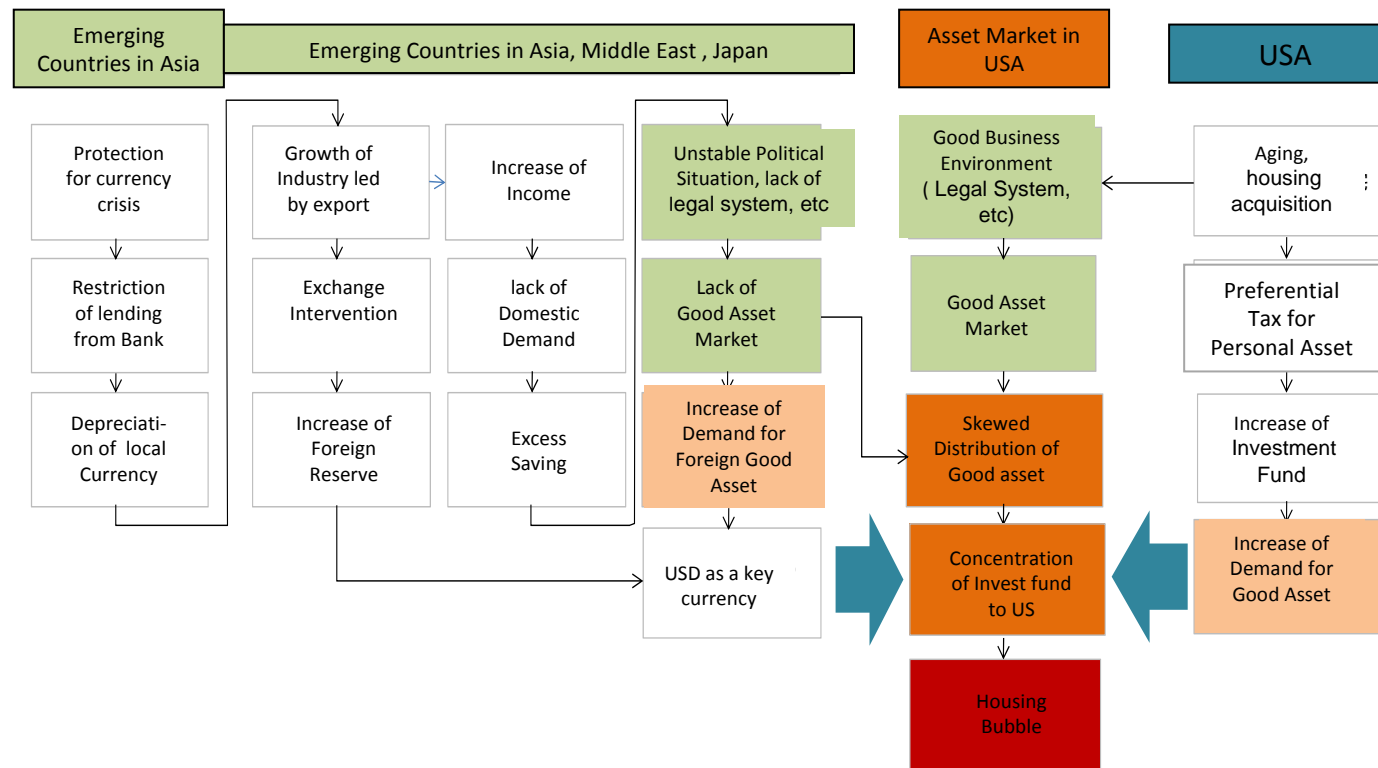
Source: Kindleberger (1984)「The World in Depression 1929-1939」, WTO.

II Background of Decrease of International Trade

1. Reason of Deacrese of International Trade

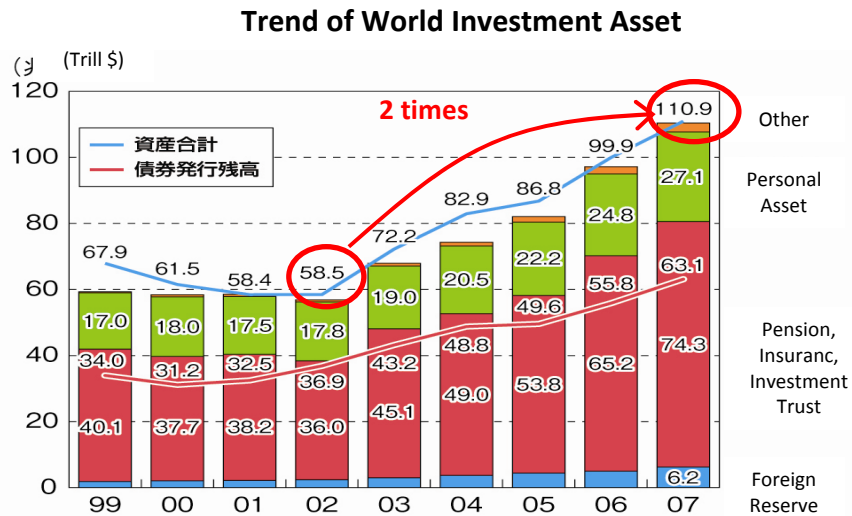
- The direct factor is World economic crisis.
- The enlargement of the housing market in US (Housing Bubble) caused financial crisis.
- Furthermore, the increase of investment funds such as pension, insurance and investment trust, which are caused y aging in developed countries and economic growth of emerging countries, and lack of good asset for investment made the housing bubble in US (The mismatch of good asset made the long term interest rate in the low level. Investors invested in US, the only supplier of good asset and the housing market grew swiftly).

Structure of the housing bubble in US

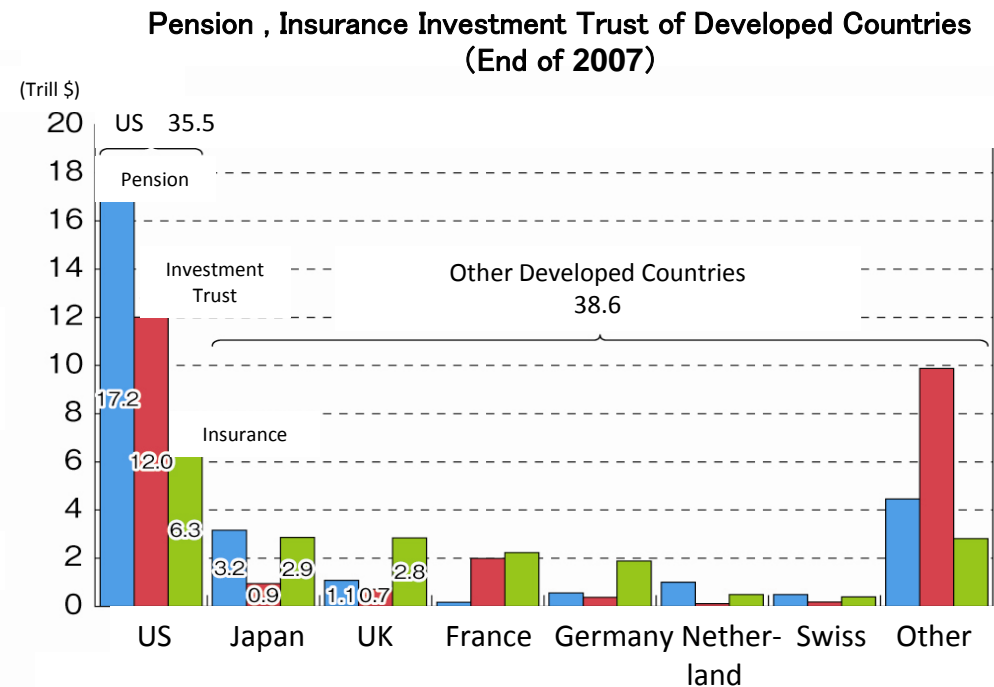


2. Increase of World Investment Fund

- The world investment fund such as pension, insurance and investment trust, got 2 times in five years from 2002 to 2007.
- Especially the amount of pension, insurance and investment trust in US is as large as that of other developed countries.



Source : IFS, CBS Fund Management 2003-2008



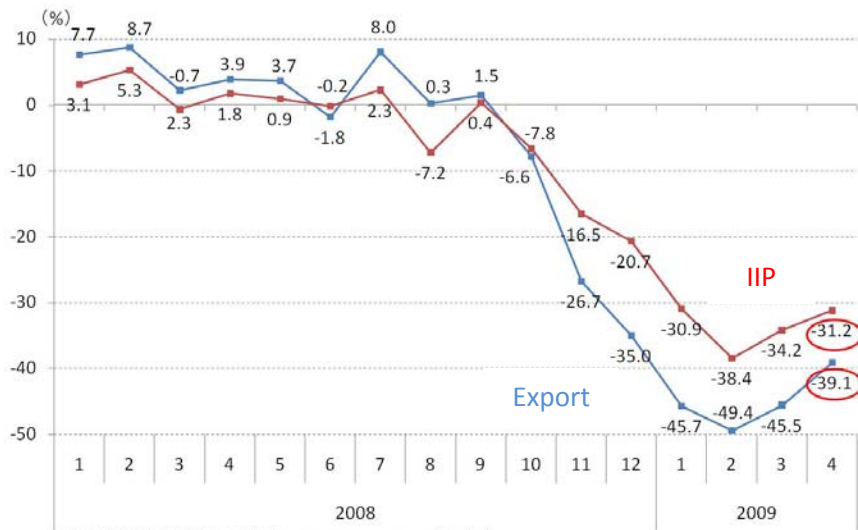
Source : IFS, CBS Fund Management 2003-2008

III Worldwide Recession and Trade of Japan

1. Japanese economy after Financial Crisis

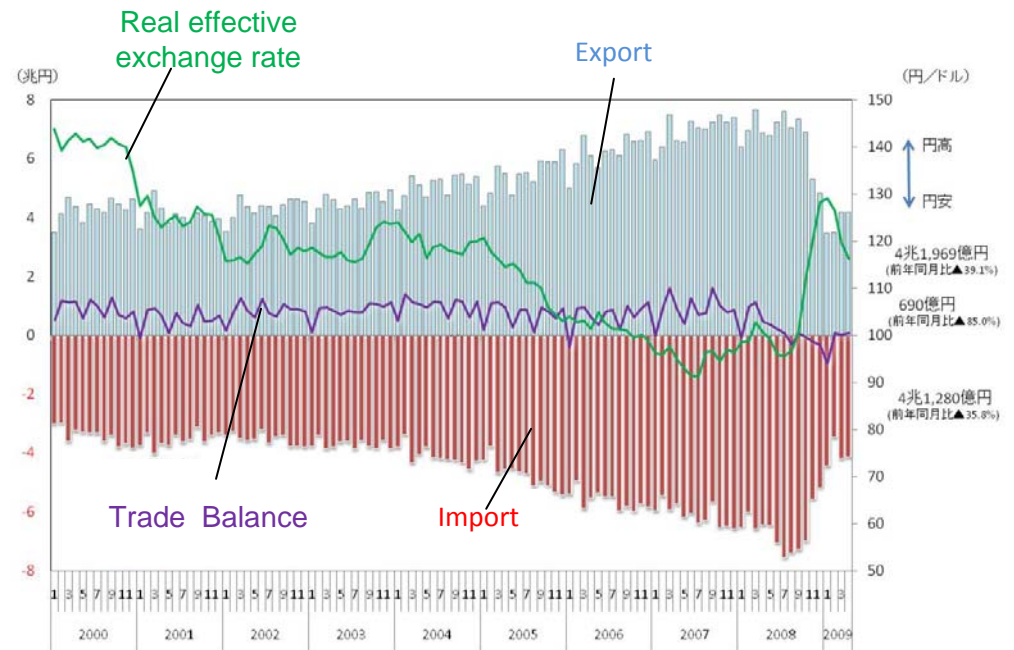
- After October 2008, export and import, which had a trend to enlarge for a long time, turned to decrease. Especially, the change ratio of export made a worst record from November 2008 to February 2009.
- Because of the swift decrease of export, trade balance moved from surplus to deficit, first in 26 years. Trade deficit continued till January 2009, but even after February, the trade surplus is in a low level.

Change Ratio of Japanese Export and IIP



Source : METI "IIP", World Trade Atlas

Trend of Japanese Trade Balance

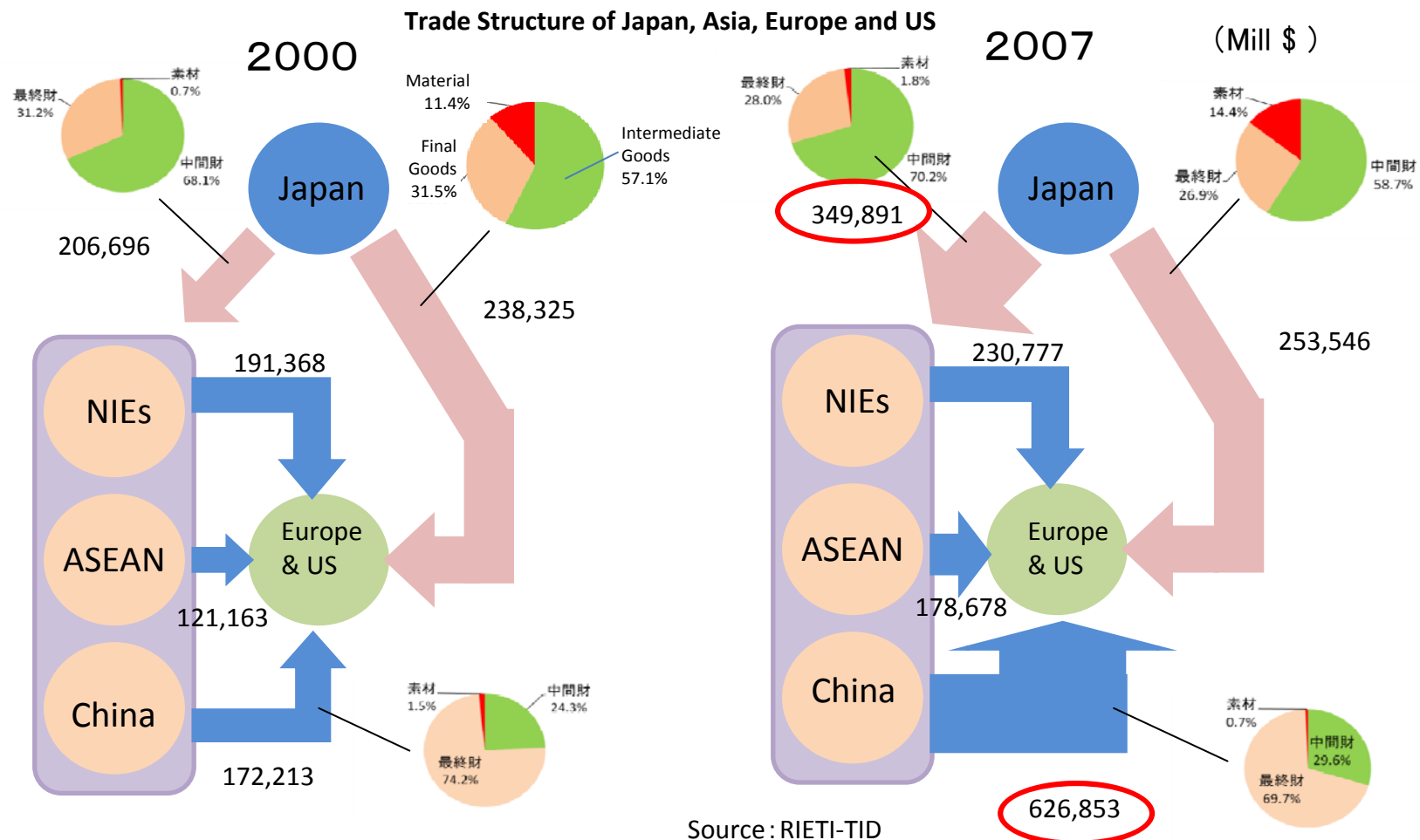


Source : Ministry of Finance , Bank of Japan

2. Background of Export Decrease (1) Development of Production Network in Asia

○ In the 2000s, Japan enlarged export of intermediate goods to Asian countries, in addition to export of final goods to Europe and US. In Asia, China increased export of final goods to Europe and US.

○ Because of recession in Europe & US, not only Japanese export to Europe & US but also export to Asia decrease. (On the other hand, Asian countries' exports to Europe & US decrease but their imports from Japan also decrease.)

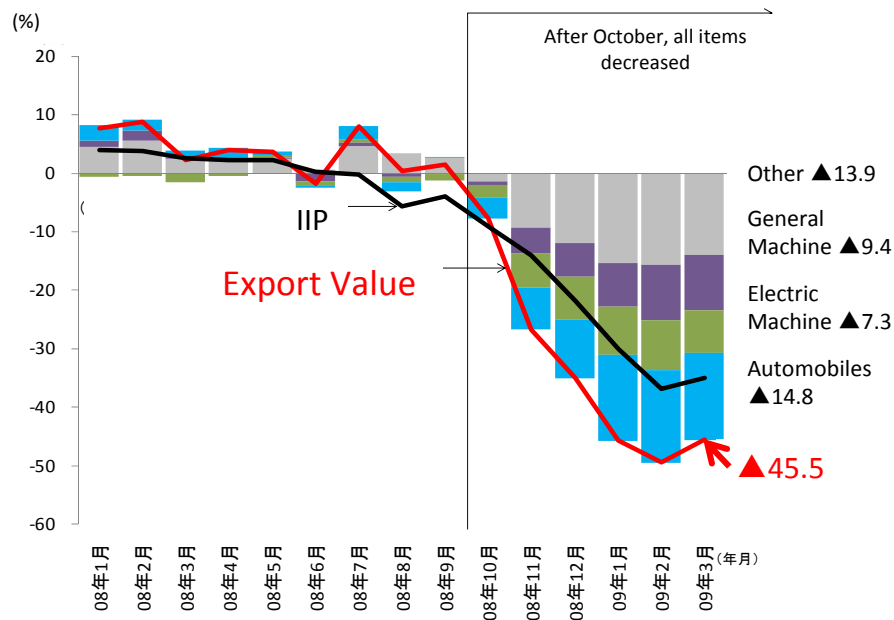


2. Background of Export Decrease (2) Increasing Value-Added of Export Goods

○ Japanese main export goods, Automobiles, electronic machines and general machines, are durable consumer goods or capital goods, which have a tendency not to be sold in recession.

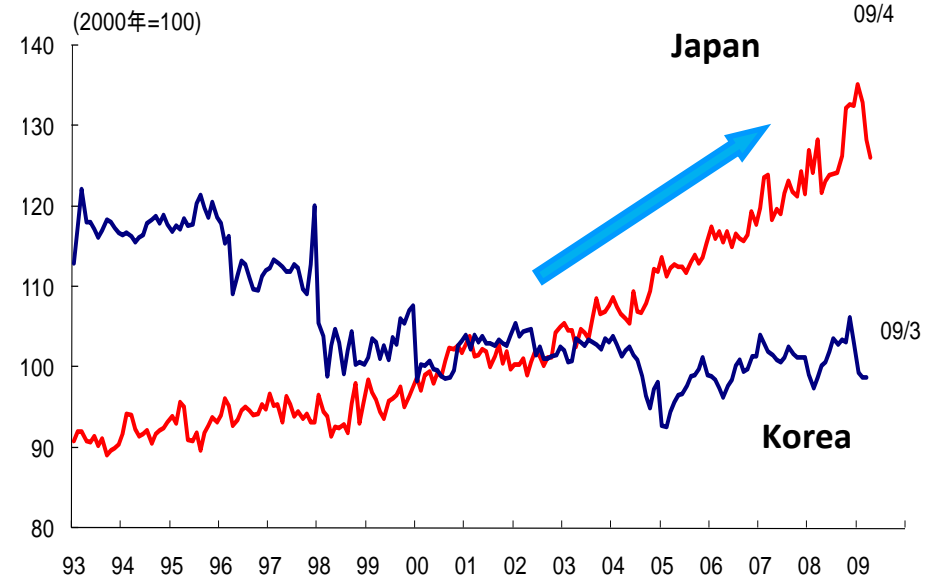
○ In addition, because Japanese exporters have been trying to increase the value-added of export goods, they became more vulnerable against recession.

Contribution to Change of Japanese Export by item



Source : World Trade Atlas

Index of Value-added of Export Goods Of Japan and Korea



Source : Mitsubishi UFJ securities

IV Policy Issues after World Economic Crisis

1. Policy Issues for World Economy

(1) Efforts to solve overconcentration of investment fund

- Because of aging and growth of emerging countries, it is highly possible that the world investment fund increases. The mechanism of “ Bubble → Collapse → Recession ” will happen again.
- As the bubble collapsed in US, which collected investment fund from all over the world, the negative impact also became worldwide. To escape from the same situation, it is needed to solve overconcentration of investment fund.
 - ① Developed countries: increase of profit rate of its own asset through sustainable economic growth by enlargement of domestic demand
 - ② Emerging countries: Increase of political stability, Upgrading of legal system, modernization of trade practice, Increase of good domestic asset

(2) Prevention of Protectionism

- WTO makes its member countries hard to adopt trade measures incompatible with WTO Agreements.
- It is important for each member country not to adopt protective measures compatible with WTO Agreements.

2. Policy Issues for Japanese Economy

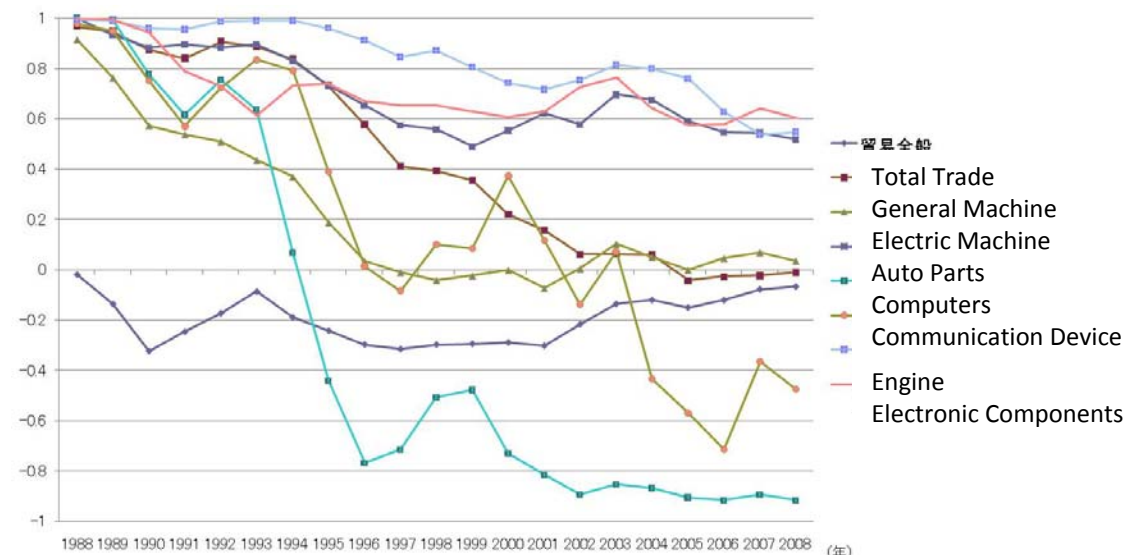
(1) Reconsideration of Export Strategy

- Japanese export of final goods heavily depends on export to US. Exporters of final goods succeeded. But they can not take the same action any more.
- They have to change export and/or FDI strategy based on the change of sale in each local market.

(2) Create of new goods and services

- The economic growth of emerging countries means of the growth of industries in emerging countries. Products made in emerging countries such as China show its presence in the world in the 2000s.
- It is hard for Japan to compete with emerging countries by producing products emerging countries can produce. It is inevitable to seek and advertise new attraction

Japan-China Trade Specialization Ratio by Item



Note : Trade Specialization Ratio = (Export - Import) / (Export + Import)

Source : Ministry of Finance "Trade Statistics"