

The Global Positions of Japan in the World Economy: Long-term Trends

In 2010s one can see a qualitative shift in the global positioning of the Japanese economy. It is evident, on the one hand, that the gradual decrease of Japan's GDP share in the global economy continues, and, on the other hand, there are qualitative changes in the economic development model.

From the beginning of the current decade, most quantitative indicators characterizing the global economic position of Japan had showed negative dynamics. The financial and economic crisis of 2008–2010 led Japan to a greater economic decline than other countries. Besides, the economic recovery after the crisis took place at a substantially lower pace than anywhere else. Since 2012, the GDP growth was negative: \$5.297.3 billion in 2012, \$4.919.6 billion in 2013, \$4.602.4 billion in 2014, \$4.121.2 billion in 2015 [4].

As a result, the proportion of Japan in the global GDP in nominal terms fell from 15.2 per cent in 1992 to 5.97 per cent in 2014 [9], the third place after the United States and China. Back in 2010, Japan ceded to China the position of the second largest economy in the world that it had occupied since 1969. Subsequently, it moved to the second position in Asia and to the third in the globe. The downward trend in the dynamics of Japan's share in the world economy is of a long-term nature. According to an OECD long-term prognosis, in 2060 Japan's share of in the global GDP will be reduced almost twice, reaching 3.2 per cent [7].

Even more noticeable was Japan's loss of its positions in the global GDP, calculated by the index of purchasing power parity (PPP). Japan downshifted to the fourth place in the world after being overtaken by China in the late 1990-s and by India in 2000s. In 2015, the share of Japan in the global GDP in PPP terms was 4.255 percent, while that of China was 17.082 per cent and of the United States – 15.809 per cent [2]. With regard to the size of GDP in PPP per capita, in mid-2010s Japan was in the end of the third ten (the 29th place, totaling \$37389 in 2014) [6].

For two and a half decades the international competitiveness of Japanese economy has also significantly decreased. While prior to 1990s Japan had occupied the first place in the world, by early 2010s it had dropped down to the tenth.

However, in 2010s Japan partially regained its former positions in competitiveness rankings. According to the report of World Economic Forum (WEF) for 2016/2017 [1], in 2015 Japanese economy was the eighth in the world by its international competitiveness and the second in Asia after Singapore. Compared to the previous year, Japan has moved down from the sixth place, after being overtaken by Sweden and the United Kingdom. Among other Asian economies, in the 2015 ratings the closest positions to Japan were taken by

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Hong Kong (the 9th place), Taiwan (the 14th), Malaysia (the 25th), the Republic of Korea (the 26th), China (the 28th), Thailand (the 34th), India (the 39th), Indonesia (the 41st).

Japan continues to occupy the top ratings by separate criteria of international competitiveness. Among the strong points characterizing Japanese economy, by which Japan is among the top five in the world, are excellent infrastructure, highly sophisticated firms, typically employing unique products and production processes with significant control over international distribution mentioned in the report of the World economic forum for 2016/2017. Japanese economy is also distinguished by high-quality research institutions and company spending on R&D, coupled with an excellent availability of scientists and engineers which contribute to the country's overall highly innovative environment.

However the innovation process in Japan is gradually decreasing. While in 2007 to 2015 Japan was consistently among the top five, in 2016 it fell down to the eighth place. In a number of sectors, including industries with average and high complexity of technological and production processes, Japan has lost its former positions in the world rankings. The OECD experts indicate the under-development and archaic system of in-service training of personnel, the inflexibility of the recruitment system, and the exceedingly low share of women in total employment etc. [1].

The decline of Japan's share in the global economy has been accompanied by the loss of its position in the world markets. It is appropriate to recall that since 1960 Japan had built its prosperity as the world's leading export power, benefiting from global free trade system. However, in 2010s the previously formed trend of Japan's decline in the share in world trade in goods and services has continued.

In 2004 Japan lost to China the position of the world's leading export power. Japan's share in the global export of goods has declined from 9.8 per cent in 1993 to 2.5 per cent in 2015 [12]. By this index in 2015 Japan occupied the fourth place in the world (4 per cent) after the People's Republic of China (14 per cent), the United States (9 per cent) and Germany (8 per cent) [8].

It is especially noteworthy that since 2011 the foreign trade balance of Japan was in the red. In 2010–2014 Japan had reduced its exports by an average of 3 per cent per year and increased imports by an average of 4 per cent per annum [3, p.40]. The main reason was the weakening of the Japanese yen rate against the dollar, leading to a rise in the cost of imports. The impact of this factor is particularly noticeable on the example of energy imports. As a result of the Fukushima catastrophe of March 11, 2011, and the subsequent closure of nuclear power plants, Japan has increased the import of hydrocarbon fuels, which led to a substantial growth in the total cost of imports calculated in yen. The result was a speedy increase in trade deficit, amounting to \$118.07 billion in 2013 and \$121.97 billion in 2014 [5].

A steady decline is also seen in Japan's share in the global import of goods. Compared to 1983 when this index amounted to 6.7 per cent, in 1993 it

has dropped down to 6.4 per cent, in 2003 – to 5.0 per cent, and in 2014 – to 4.4 per cent [3, p.43]. In 2015 Japan ranked the fourth after the United States (14 per cent), China (10 per cent) and Germany (6 per cent) [8, p. 44].

With regard to trade in services, in 2014 Japan's share in the global export of services amounted 3.2 per cent, which was the seventh place in the world after the United States, Britain, Germany, France, China and the Netherlands [8, p.46]. Noteworthy is the fact that Japan's share in the world trade in services has been growing in recent period, albeit slightly.

The reduction of the share of commodity exports in Japan's foreign trade balance is the result of the formation of a new model in the division of labor between Japan and East Asian countries, in which various stages of production process are scattered among different countries of the region. There emerge transnational logistic chains within transnational corporations controlled by the Japanese capital. In other words, the share of intra-firm trade in the international trade in East Asia is growing, and its object is not so much the finished goods and services, but value added.

After shifting in the late 20th century a large part of its production capacities abroad (to China, Taiwan and ASEAN countries), where there are the best conditions for this, including cheap and qualified labor force and good industrial infrastructure, Japan left at home the production of technological solutions, as well as the production of a great part of details and components. The production processes, including those involving high value-added products, were consciously transferred abroad. For example, while in 2003 the number of Japanese cars assembled abroad amounted to 8.6 million, 10 years later this figure doubled, reaching 16.8 million in 2013 [12]. The strategy of localization of production, i.e. approaching it to potential markets, reflects not only the desire of Japanese business to maximize the advantages of countries subjected to Japanese investment, but also its concern over the potential negative effects associated with fluctuations in the exchange rate of yen.

It is from the partner countries by the regional cooperation, that Japan imports finished products, including both the consumer goods and the industrial equipment. According to open sources, the 1998–2013 the contribution of intermediate products to the growth of export was approximately 75 per cent for Japan, while for China it was approximately 40 per cent, for other East Asian countries 60 per cent [11].

The main trend for the past few years is development of exports of entire infrastructure projects from Japan to the East Asian countries. Japan promotes the so-called 'integrated systems', which mean the integrated projects in the fields of production and social infrastructure: industrial technologies projects, energy development projects, ecological projects etc. Such an approach involves not just the provision of equipment and the implementation of construction works, but also the promotion of design, technology and know-how, engineering and educational services in a single package [14, p. 183]. In order to preserve its positions in the foreign markets the Government of Japan's adopted in 2013 Strategy

of Global Outreach which makes a special emphasis on those spheres where Japan already possesses recognized advantages – electricity production, road construction, water supply, IT, health care etc.

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