Services in International Trade of Japan: Factors Influence on the Share

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Abstract

This study examines possible factors influencing on the share of services in international trade of Japan. Until China overtook in 2004, Japan had stayed as the leading Asian exporter. Together with the United States and Germany, Japan was one of the major exporter of value added in final demand for many countries around the world. While the most of major OECD countries were carrying on economic growth through the export expansions for the past ten years, the proportion of exports to Japan’s GDP and its growth in the percentage are low, especially in relation to services trade. Therefore, this research pays attention to the periodical changes of services in international trade of Japan in order to determine the factors. To build a theoretical framework, qualitative method is used based on the literature review within the frame of reference to services and perspective of international trade. With respect, the perception and perspectives of different critics were reviewed and analyzed during that data collection in different languages: Japanese, Chinese, English, and Korean. The factors influenced on the shares of services in international trade of Japan are determined through the analysis and they are: technological development, direct foreign investment, liberalization of trade, agreements with neighboring and foreign countries, and natural disaster.

Keywords: Services, International Trade, Japanese Business, Service Sector, Services in Trade

1. Background

Japan is reviewed as the third largest economy in the world after the United States (US) and China today [1][2]. But, Japan’s economic growth has remained unstable while domestic consumption is inactive, yen is weakening, and capital expenditure is weak [2-4]. Abenomics, the Shinzo Abe’s three strategies on aggressive monetary policy, flexible fiscal stimulus and structural reforms, was introduced in 2012 giving greater consumer confidence and positive
result in financial markets, however, it did not influence on the economic progress. In the 1980s, the country used to be called by a popularized term, ‘Japan Inc.’ during the boom, for its corporate world which emphasized Japan’s traditional, highly centralized economic system describing its alliance of business and government interests [5]. Now due to the changes of trade and economy, Japan needs not only its own government’s support but international partnerships and cooperations in order to sustain its economic status.

Particular emphasis is made on the opportunities which Japanese services in trade can take from international market in relation to the neighboring countries. Firstly, obstacles Japan has dealt with in the period of liberalization and development of international trade in services. International trade in services is dominated by infrastructural services, therefore, secondly computer and information services, financial services, other business services, royalties and license fees, communication services, insurance and travel are examined over the region. Then, this study can present a comprehensive assessment of international trade in services and an analysis of its prospects and contributes to the understanding of positive and negative factors influence on the share of services in international trade of Japan.

2. Methodology

Data in English, Japanese, Chinese, and Korean languages are collected from articles, books, governmental web sites, analysis of the scholars, statistics, especially the White Paper on International Economy and Trade Summaries from 2002 to 2016 are reviewed and analyzed. Then the collected data in Japanese, Chinese and Korean are translated and analyzed in English. Qualitative research method is used to build a theoretical framework based on the literature review which draws the boundary for this study and places its discipline within the context of services and perspective of international trade. Figure 1 on Services Net Balance is developed in this study based on the data for the last twenty years in services trade from the White Paper on International Economy and Trade of Japan. Figure 2 and 3 on Service Export and Service Import are developed in this study based on the data for last five years in the services commercial trade from International Trade Centre Map (ITC Map).

3. Literature Review

According to the WTO Statistics 2015, global trade in commercial services increased by 8% on average annually over the last two decades showing the 18% average annual growth of
world exports of computer and information services as the most dynamic services export sector between 1995 and 2014 [6]. In addition, financial services, other business services, and royalties and licence fees are recording particularly high growth rates, leading the entire services trade. In particular, Asia’s share of computer and information services rose from an estimated 8% in 1995 to 29% in 2014 as India’s and China’s exports multiplied [6]. While trading goods has slowed down around the world, trading service is steadily growing. However, Japan’s services exports by sector are low compared to the other major countries. Services account balance of Japan has stayed in deficit. The deficit was 3,080.1 billion yen in 2014 [7]. Through the analysis, factors influence on the share of Japan can be determined and suggestions will be made in order to enhance the competitiveness of its services industries and improve the investment environment in the neighboring emerging countries.

Recently, Japan is in need of re-planning its trade strategy in both directions, Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP), due to the US pulling out from the TPP in January 2017. Trans-Pacific Partnership (TPP) trade deal was designed to deepen economic ties between the members for creating a new single market like that of the EU and signed up by twelve countries which border the Pacific Ocean in February 2016 [8]. Japan’s Prime Minister Shinzo Abe said a TPP without the US would be meaningless at the time since it is about the market size of 250 million consumers [8][9]. However, Japan’s Finance Minister Taro Aso, who is also a deputy prime minister, said that the TPP without U.S. could be ratified quickly adding there will be no chance for renegotiation of terms [10][11]. Although Kenichi Kawasaki, a professor at the National Graduate Institute for Policy Studies (GRIPS), claimed 11 would still benefit from TPP even without US by eliminating the non-tariff barrier [12], Aso expects possibility of U.S. back to the TPP deal [13] while strengthening joint between Japan and New Zealand to effectuate agreement [14].

4. Data Analysis

4.1 Service Sectors of International Trade

In this study, the General Agreement on Trade Services (GATS) concept which covers the most of services possibly trade commercially in all modes of supply is respected. The record of trade in services shows the value of services exchanged between residents and non-residents of an economy which also includes services provided through foreign affiliates established abroad [15]. According to the categories of services sector listed under WTO, there are ten
sectors including: computer and information services; financial services; other business services; royalties and license fees; communication services; insurance services; travel; transport; personal cultural and recreational services; and construction. In the White Paper on International Economy and Trade of Japan and ITC Map, the following service sectors are included: transport (輸送); travel (旅行); manufacturing services on physical inputs owned by others (委託加工サービス); maintenance and repair services n.i.e. (維持修理サービス); construction (建設); insurance and pension services (保険・年金サービス); financial services (金融サービス); charges for the use of intellectual property n.i.e. (知的財産権等使用料); telecommunication computer and information services (通信・コンピュータ・情報サービス); other business services (その他業務サービス); personal cultural and recreational services (個人・文化・娯楽サービス); and government goods and services, n.i.e (公的サービス等).

4.2 Japan’s Services Net Balance

![Services Net Balance](image)

[Fig. 1] Japan’s Services Net Balance in International Trade 1996-2016

The deficit of trade balance was about US$ 27 billion (3,080 billion yen) in 2014 which was dropping since 2011 after the earthquake [16]. From 1995 to 2014, transport sector in the global market has been the backbone of merchandise trade although transport and finance were the sectors most affected by the global economic crisis as it is shown in Figure 1. Likewise,
the export ratio of transportation services in Japan have remained low as well as financial services compared with the ratios for other major countries. As witnessing worldwide expansion in services trade, the growth rates of international services exports recording particularly high for computer and information services, followed by market for financial services and other business services.

While the size of the global market is largest for travel services at 1.2 trillion US dollars and consulting and other business services at 1.1 trillion US dollars in 2014, Japan's services account balance has stayed low showing a decline in the deficit relating to travel at 1.3 trillion yen and growth in the surplus in the balance relating to charges for the use of intellectual property at 2.1 trillion yen in 2016. The export value of fees for the use of intellectual property including licensing fees, is high for Japan due to receipts of such fees from overseas subsidiaries and R&D services among professional services is at a high level although the overall ratio has stayed low.

### 4.3 Export of Services

![Service Export](image)

[Fig.2] Service Export of Japan 2012-2016: Developed based on Trade Map - International Trade Statistics (US$ Thousand)

Charges for intellectual property n.i.e., other business services, transport, and travel are relatively higher sectors than the others, but the transport value shows deficit every year since
2012. EU countries and China are the first and second major importers of the charges for intellectual property sector from Japan and UK and USA are the third and the fourth among fifty one countries (23 including Intra-EU28). Insurance and pension services dropped to minus in 2012 due to the disaster in the previous year. Although it showed its recovery to plus value in 2013, it has dropped and is staying pretty low. In case of travel sector in export, there was rapid increase in importing market from China which was at US$ 5.34 billion in 2014 to US$ 9.27 billion in 2015. Interestingly, the second and third markets are Taipei and Hong Kong at US$ 3.82 billion and US$ 1.94 billion. However, there was no data appeared for Korea from ITC Map under the export of travel although the figures were appeared as one of the four main market imported by Korea which exceeded US$ 3 billion higher than the import amount than Taipei and little less than Hong Kong. Obviously, charges from intellectual property, travel, and financial services show their potential in export services in trade of Japan with positive growth each year.

4.3 Import of Services

[Fig.3] Service Import of Japan 2012-2016: Developed based on Trade Map - International Trade Statistics (US$ Thousand)

Other business services in Japan relatively depend on import from many countries around the world, especially US took the one third of supplying market for the service imported by Japan at US$ 21 billion in 2016. Japan’s dependency on the import of transport and travel has
declined every year since 2012 except for the travel sector in 2016. US has appeared to be the most attractive destination among the supplying market taking US$ 4.75 which is more than a quarter of the Japan’s total imported amount of US$ 16 billion in 2015. China is the second and Korea follows besides EU. While the charges for the use of intellectual property was fluctuating telecommunication, computer, and information services recorded upward each year. Like its export relation to the foreign countries, Japan highly relies on the importing activities in commercial services.

5. Findings and Conclusion

Japan has built and maintained long term, stable, and diplomatic relationship with foreign countries through being a member of the UN, the OECD, the G7, the G8, the G20, APEC, and ASEAN Plus Three. On top of that, Japan has made structural change of the trade in 2011 from all inclusive industrial structure which once made Japan’s economy to work for Japan to “International Specialization” structure due to the changes of trade and economy, industrial structure, and geographical conditions. For improving service profit, ongoing efforts on attracting foreign tourists should be continued since it has increased three time for the last nine years. Through the analysis, the share of services in Japan is determined to be sensitive to the multiple factors: technological development, direct foreign investment, liberalization of trade, agreements with neighboring and foreign countries, and natural disaster. The country relies on the imports of inexpensive final goods and intermediate goods from its overseas factories and foreign companies. In order to overcome the obstacles of Japan geographically and economically, such agreements with foreign countries like TPP and RCEP should be promoted for achieving the benefit of great-sphere economy.

References


