

# Japan's Balance of Payments for 2000

## I. Summary

### A. Overall Trends<sup>1</sup>

In the balance of payments for 2000, the current account surplus registered ¥12.6 trillion, an increase from the surplus of ¥12.2 trillion in 1999. The capital and financial account recorded a net outflow of ¥9.1 trillion, up from a net outflow of ¥5.4 trillion in 1999, a rise primarily reflecting movements in the financial account. The net increase in reserve assets marked ¥5.3 trillion, down from the ¥8.8 trillion of 1999.

### B. The Current Account

The current account surplus expanded by 3.7 percent from the previous year, after a decrease in 1999. This was due to a contraction in the deficit in the net balance of services, a larger income surplus, and a decrease in the current transfer deficit.

The trade balance surplus shrank for the second consecutive year.

The value of exports increased for the first time in three years, growing by 8.1 percent from the previous year and marking the second highest level historically (the highest was in 1997). The increase reflected a significant growth in Asia-bound exports of capital goods and parts related to electronics and information technology (IT).

The value of imports also increased for the first time in three years, expanding 16.2 percent year on year and marking the second highest level historically (the highest was in 1997). Imports from Asia and the Middle East mainly supported this growth, which was backed by (1) a surge in crude oil prices, (2) an increase in IT-related demand in the domestic market, and (3) a rise in the overseas procurement rate.

The deficit in the services account contracted for the fourth consecutive year, reflecting the decline in the deficit in the travel account and the deficit of other services (financial services, royalties and license fees, and other business services).

The surplus in the income account expanded after a decrease in 1999. This was partly due to the increase in (1) the surplus in direct investment income prompted by the recovery in the profits of

the overseas subsidiaries of Japanese corporations, and (2) the surplus in portfolio investment income resulting from the narrowed deficit registered in interest rate swaps.

The deficit in current transfers shrank for the first time in eight years. This was because in 2000 no large contribution (debit), such as that made in the previous year, was made to the Asian Currency Crisis Support Facility.

### C. The Capital and Financial Account

Investment in Japanese bonds and notes by nonresidents registered the highest net purchases (inflow) since 1991, while investment in Japanese equities by nonresidents saw a shift to net sales (outflow) for the first time since 1990 against the backdrop of a decline in U.S. stock prices.

In investment in foreign bonds and notes by residents, banks actively purchased U.S. and European bonds in the expectation that interest rates would decline, while life insurance companies and trust banks restrained their purchases. Net purchases (outflow) of investment in foreign equities by residents declined from the previous year reflecting the drop in stock prices worldwide.

Inward direct investment by nonresident corporations remained high reflecting the global industrial reorganization. Outward direct investment showed the largest net outflow since 1991.

## II. The Current Account (Charts 1 and 2)

### A. Trade Balance

The trade balance surplus shrank for the second consecutive year because the rise in the value of imports surpassed that of exports (charts 3 and 4).<sup>2</sup>

#### 1. Exports

The value of exports increased for the first time in three years, rising 8.1 percent from the previous year, reflecting the volume of exports, which grew for the second consecutive year primarily owing to strong exports to Asia and the United States. This was the second highest level historically (the highest was in 1997). Export prices (unit value), however, declined

1. Figures for 2000 in this article, including charts, are preliminary unless otherwise noted. For a key to the symbols and abbreviations used in this article, see page 145.

Annual, semi-annual, and quarterly figures in this article, including charts, are on a calendar year basis unless otherwise noted.  
2. The exchange rate of the yen against the U.S. dollar officially announced by the chief customs inspector (used in the compilation of trade statistics): ¥131.42 in 1998, ¥114.37 in 1999, and ¥107.36 in 2000. The yen's appreciation from the previous year was 13.0 percent in 1999 and 6.1 percent in 2000.

for the second consecutive year, as a result of the yen's appreciation (Chart 5).

On a customs-clearance basis, export volume increased by 9.4 percent year on year, while export prices declined by 0.7 percent (Chart 6). As a result, export value increased by 8.6 percent.

The annual growth of the value of exports remained around 8 to 9 percent throughout 2000. A breakdown of volume and prices shows that the growth in export volume started to decelerate in the second half of the year reflecting the slowdown in economies overseas (negative growth in exports to the United States and Europe was observed), while the growth in export prices surpassed the level of the previous year in the second half of the year due to the depreciation of the yen.

The export price index based on wholesale price indexes (WPI) takes into account improvements in product quality, while that based on customs clearance is calculated simply as the average of export prices.<sup>3</sup> A comparison of these indexes shows that the disparity between the two started to expand from the second half of the year (Chart 7).

It may thus be estimated that the rise in export prices in the second half of the year could have been caused not only by the depreciation of the yen but also by the rise in U.S. dollar-denominated nominal prices of high value-added products in exports.

#### a. Regional trends

Analysis by region of the growth in overall exports of 8.6 percent from the previous year on a customs-clearance basis showed that Asia and the United States made a positive contribution, while the European Union (EU) and the Middle East made a negative one (charts 8, 9, and 10).

##### (1) Exports to Asia

The value of exports recorded an increase on a year-on-year basis for the second consecutive year, registering the second highest level historically on a customs-clearance basis. The volume of exports also grew on a year-on-year basis for the second consecutive year reflecting brisk exports of electronics and IT-related products. Export prices showed a notable rise in the second half of 2000, with the depreciation of the yen (Chart 11).

The growth in the volume of exports to Asia, however, slackened in the second half of 2000. This may be attributed to (1) the building up of inventories of materials, namely iron and steel products, chemicals, and other raw materials in Asia, and (2) the significant decline in the growth of exports from Asia due to the slowdown in overseas economies (Chart 12).

Exports of the following items continued to show strong growth in 2000 (Chart 13).

##### (a) IT and electronics related parts

Exports increased for semiconductors and other electronic devices; parts for office machinery; parts for audiovisual apparatus; and scientific, medical, and optical instruments (liquid-crystal devices) reflecting strong demand from Japanese-owned production bases in Asia.

(b) Investment goods related to chip fabrication plants  
Exports increased for electrical measuring and controlling instruments (semiconductor test instruments); scientific, medical, and optical instruments (semiconductor lithography instruments); and metalworking machinery (semiconductor etching machines) reflecting demand from locally-owned chipmakers in Korea, Taiwan, and Singapore.

##### (c) Motor vehicles and parts

Exports to ASEAN countries surged for parts and assembled motor vehicles reflecting demand of Japanese-owned assembly facilities producing motor vehicles to be exported to third countries or to be sold locally.

##### (d) Raw materials

Exports increased for iron and steel products (mainly hot-rolled coils for motor vehicles and steel sheets for home electrical appliances) and chemicals (organic compounds and plastics). Exports of these products, however, slackened in the second half of 2000, given the building up of inventories in Asia.

##### (2) Exports to the United States

The value of exports to the United States expanded year on year after a decrease in 1999, recording the third highest level historically on a customs-clearance basis. The volume of exports increased for the fourth consecutive year reflecting the economic expansion that continued until around mid-2000. The growth in exports accelerated as sales increased for motor

3. The export price index based on WPI will remain unchanged when nominal prices increase reflecting improvements in product quality, but will decline when product quality improves and nominal prices remain unchanged.

Export price indexes based on WPI and customs clearance also differ in the number of sample items (606 items for WPI, 2,116 for customs clearance) and method of compilation (Laspeyres index for WPI, Fischer index for customs clearance).

vehicles and demand strengthened for parts related to electronics and IT, reflecting strong sales in personal computers (PCs) and servers. Export volume, however, fell below the previous year's level in the third and fourth quarters of 2000. Export prices increased after a decline in 1999, reflecting the weakening of the yen in the second half of the year and a rise in U.S. dollar-denominated prices of high value-added products in exports (charts 14 and 15).

## (3) Exports to the EU

The value of exports fell slightly below the level recorded in the previous year, declining for the second consecutive year and falling to the fifth highest level historically on a customs-clearance basis. The volume of exports returned to an annual expansion, after a fall in the previous year. The growth in export volume, however, fell behind the previous year's level in the fourth quarter of 2000. Export prices decreased for the second consecutive year, as a result of the depreciation of the euro (charts 16 and 17).

## b. Principal items

Major export items that increased on a year-on-year basis were IT-related capital goods and parts, and motor vehicle parts (Chart 18).

The following factors contributed positively to overall export growth.

## (1) Increased exports to Asia of parts and equipment related to electronics and IT

Exports of capital goods and parts to Asia, which is now serving as the world's production base for these products, continued to expand reflecting strong demand for electronics and IT-related products in the United States, Japan, and Europe. Specifically, (1) there was strong demand for semiconductors, liquid-crystal devices, and parts for audiovisual apparatus by overseas Japanese-owned assembly facilities whose production level remained high, and (2) locally operating chipmakers continued their aggressive business fixed investment due to broader global demand for IT-related products. Exports of mobile phones increased reflecting strong demand in Korea.

## (2) Increased exports of audiovisual apparatus to Europe and the United States

Exports of high value-added audiovisual apparatus to Europe and the United States, such as video cassette recorders (VCRs) and digital versatile disc (DVD) players, and TVs (including large flat- and wide-screen TVs) increased reflecting brisk sales backed by strong

private consumption and proliferation of digital home electrical appliances.

## (3) Increased exports of items related to motor vehicles

Exports of parts and engines for motor vehicles remained high as a result of strong sales in the United States and other countries and the high production level of motor vehicle assembling facilities.

A factor that contributed negatively to overall export growth was the reduction in motor vehicle exports to the EU. The number of assembled motor vehicles exported to the EU declined because of the rise in sales prices due to the depreciation of the euro, while exports of assembled motor vehicles to the United States and Asia were brisk both in value and volume. Sports utility vehicles (SUVs) accounted for a large part of the growth of motor vehicle exports to the United States. Also, export prices converted to yen declined owing to the appreciation of the yen. The drop in unit prices outweighed the rise in the number of vehicles exported and, as a result, the value of overall exports declined from the previous year (Chart 19).

## 2. Imports

### a. Overview

The volume of imports increased on a year-on-year basis for the second consecutive year primarily due to the expanded imports from Asia. Import prices also rose affected by the surge in energy prices. Thus, the value of imports rose for the first time in three years, returning to the record-high level attained in 1997 (Chart 20).

On a customs-clearance basis, import value, volume, and prices rose by 16.0 percent, 11.0 percent, and 4.6 percent, respectively, from the previous year.

### b. Principal items

Imports of mineral fuels increased as a result of the surge in crude oil prices. Imports of machinery such as office machinery, semiconductors and other electronic devices, audiovisual apparatus, and telecommunications apparatus also grew reflecting increased demand for IT-related products in Japan (Chart 21).

The following factors contributed positively to the growth of overall imports.

## (1) Increase in imports of petroleum-related products (Chart 22)

Imports of crude oil, especially imports from the Middle East (contribution to the growth in overall

imports: +4.3 percent; value, up 59.5 percent) increased due to the rise in oil prices (Chart 23). Imports of liquefied petroleum gas also jumped because of price rises stemming from high crude oil prices (Chart 24).

## **(2) Increase in demand for electronics and IT-related products (Chart 25)**

Imports of office machinery surged (contribution to overall imports, +1.8 percent; value, up 28.4 percent), mainly those of Asian-made machinery (contribution to overall imports: +1.5 percent; value, up 34.3 percent). Buoyant sales and production of PCs increased Japanese demand for low-priced PCs and parts made in Korea and Taiwan (Chart 26).

Imports of semiconductors and other electronic devices rose (contribution to overall imports: +1.7 percent; value, up 39.6 percent), mainly those made in Asia (contribution to overall imports: +1.4 percent; value, up 55.7 percent; Chart 27). The rise was prompted by strong demand in Japan for IT-related products such as notebook computers and other peripheral equipment that led to growth in imports of Korean-made Dynamic Random Access Memories (DRAMs) and electronic devices, production of which was outsourced to manufacturers in Taiwan and Singapore.

## **(3) Rise in overseas procurement rate (Chart 28)**

The import penetration rate<sup>4</sup> rose for textiles and major electrical machinery such as office machinery and semiconductors and other electronic devices (Chart 29). More electrical machinery was imported from Asia in 2000, reflecting the shift of production bases for electronics and IT-related products to Asia. Imports of textiles increased reflecting massive imports of low-priced Asian-made textiles, mainly from China.

### **c. Regional trends (charts 30, 31, and 32)**

Asia and the Middle East made a great positive contribution to the overall growth in imports in 2000 (up 16.0 percent on a customs-clearance basis). The United States, the EU, and Oceania (including Australia) also contributed positively to imports.

#### **(1) Imports from Asia**

The value of imports increased for the second consecutive year, recording the highest level historically on a customs-clearance basis. This reflected (1) the growth in volume of imports mainly of IT-related products, including office machinery and

semiconductors and other electronic devices, and mineral fuels, and (2) the rise in crude oil prices that pushed up import prices.

The following items made a positive contribution to the growth of overall imports from Asia (Chart 33). Imports of low-priced PCs and other office machinery and semiconductors and other electronic devices increased, mainly those made in Korea and Taiwan. Buoyant sales of PCs increased Japanese demand for low-priced PCs made in Korea and Taiwan, and active production of PCs in Japan increased demand for PC parts made in Korea and Taiwan. Imports of textiles jumped mainly due to an increase in low-priced textiles from China. Import prices of mineral fuels rose affected by the rise in crude oil prices.

#### **(2) Imports from the United States (Chart 34)**

The value of imports expanded for the first time in three years, registering the fourth highest level historically on a customs-clearance basis. This was because the rise in import prices due to an increase in imports of high value-added IT products outweighed the drop in the volume of imports which reflected a decline in imports of aircraft (see Box 1 on pages 140–141). Import volume declined for three years in a row.

#### **(3) Imports from the EU (Chart 35)**

The value of imports rose for the first time in three years, marking the fifth highest level historically on a customs-clearance basis. The volume of imports increased for the first time in four years mainly because of electronics and IT-related products, and this outweighed the decline in import prices brought about by the yen's appreciation against the euro.

### **B. Services**

The deficit in the services account shrank for the fourth consecutive year to ¥5,106.7 billion for 2000, which was a year-on-year decline of ¥1,043.7 billion (year-on-year decrease of 17.0 percent). This was because the contraction in the deficit in the travel and other services accounts outweighed the expansion of the deficit in the transportation account.

#### **1. Transportation (Chart 36)**

The deficit in the transportation account expanded for the first time in four years (deficit of ¥1,025.2 billion, up ¥152.7 billion year on year). This was due to the

4. Import penetration rate = (import index × weighted imports)/(aggregate supply index × weighted aggregate supply).

expansion in the deficit of air transport (up ¥211.2 billion) which offset the ¥58.7 billion decline in the deficit of sea transport. The rise in the air transport debit stemmed from an increase in passenger fare debit that paralleled a rise in the number of people traveling from Japan. The drop in the sea transport deficit was prompted by an increase in freight fare credit from tripartite trade between the United States, Japan, and other Asian countries.

## 2. Travel (Chart 37)

The deficit in the travel account contracted after an increase in 1999 (deficit of ¥3,028.3 billion, down ¥300.4 billion year on year). The year-on-year decline of 8.8 percent in travel debit outweighed the 7.0 percent drop in travel credit, both of which were affected by the appreciation in the yen.

The main reasons for the decline in travel debit despite the growth in the number of people traveling from Japan were the yen's appreciation and the following three other factors. First, household spending on recreational activities remained sluggish (expenditure on "education and recreation" declined 2.9 percent year on year according to the *Family Income and Expenditure Survey for 2000* released by the Ministry of Public Management, Home Affairs, Posts and Telecommunications). Second, purpose-specific tours to visit ancient monuments and theaters are becoming more popular than general sightseeing tours that visit many places. And third, trips to Asia, which are less expensive than those to Europe and the United States, became more popular.

### a. Number of people departing from Japan (Chart 38)

The number of people departing from Japan in 2000 grew for the second consecutive year (17,808 thousand people, up 8.9 percent year on year) and reached a historical high (the highest was 16,803 thousand in 1997). This growth was prompted by the appreciation of the yen, which continued until the middle of the year, and by traveling demand created as a result of the increase in the number of three-day holidays following the amendment of the law relating to national holidays.

The number of people traveling to Asia, in particular Korea and China, remained high

throughout the year, while those traveling to Europe increased from the previous year.

### b. Number of people entering Japan (see Box 2 on page 142)

The number of people entering Japan in 2000 expanded for the second consecutive year (4,753 thousand people, up 7.1 percent year on year) and marked a historical high. This record exceeded the previous high in 1999, when the number entering was 4,438 thousand people. The jump in 2000 was partly due to the increase in the number of regular flights between Japan and Korea.

## 3. Other services (charts 39 and 40; see Box 3 on page 143)

The deficit of other services declined for the second consecutive year (deficit of ¥1,053.2 billion, down ¥896.0 billion year on year). This was mainly because the deficit in financial services changed to a surplus (up ¥182.2 billion year on year) and that in other business services, royalties and license fees, and insurance services all decreased, by ¥441.4 billion, ¥105.7 billion, and ¥76.3 billion, respectively.

Financial services changed from a deficit to a surplus in 2000 with a rise in credits (from ¥231.6 billion in 1999 to ¥308.9 billion in 2000) and a decline in debits (from ¥308.9 billion in 1999 to ¥204.0 billion in 2000). The rise in credits was primarily due to an increase in the following items: (1) fees received for issuance of securities, owing to the growth in the issuance of yen-denominated foreign bonds, (2) brokers' commissions, reflecting the growth in securities transactions in the Japanese market by nonresidents, and (3) the compensation for merger and acquisition (M&A) in Japan by foreign corporations. The debits declined due to a decrease in the revenue from commission fees on Japanese residents' securities transactions abroad, which fell in parallel with the number of transactions.

The deficit in insurance services declined. This was mainly because insurance companies received reinsurance claim payments for the damage caused by the typhoon in September 1999 based on reinsurance contracts.<sup>5</sup>

5. Nonlife insurance companies make insurance claim payments to policyholders who have suffered various kinds of losses as agreed in their policies (direct insurance contract). These companies also reinsure insurance policies by concluding reinsurance contracts with reinsurance companies and receive reinsurance claim payments in order to diversify risk. There is a time lag between the occurrence of a disaster and receipt of reinsurance payments because a fair amount of time is required to determine the size of the reinsurance claim payments.

Under insurance services, "insurance premiums" minus "insurance claims payments" are recorded as "debits." "Reinsurance claim payments" received are thus recorded as negative figures under "debits" of insurance services.



The deficit of royalties and license fees narrowed because the rise in credits exceeded the rise in debits. The reasons for the rise in credits in royalties and license fees are the increase in revenues from the following: (1) royalties on motor vehicles reflecting strong car sales mainly in the United States, (2) royalties on IT-related products reflecting the buoyant production of IT-related products<sup>6</sup> in Asia, and (3) license fees related to character designs reflecting the growing popularity abroad of cartoon characters with copyrights held by Japanese corporations. Debits for royalties and license fees increased mainly due to the increase in royalties and license fees on IT paid to the United States.

The deficit of other business services shrank mainly due to an increase in credits in merchandising and other trade-related services (from a deficit of ¥195.1 billion in 1999 to a surplus of ¥135.3 billion in 2000). The rise in credits was mainly due to active trading of crude oil.<sup>7</sup> The decline in debits was mainly due to a drop in prices due to the appreciation of the yen and a cut in the large amount of compensation paid to firms affected by market price fluctuations.

### C. Income (Charts 41 and 42)

The income surplus (¥6,201.5 billion, up ¥505.8 billion or 8.9 percent year on year) expanded after a contraction in 1999, recording the third highest level historically. The increase in the surplus of direct and portfolio investment income exceeded the decline in the surplus of other investment income.

#### 1. Direct investment income (Chart 43)

The surplus of direct investment income (¥608.1 billion, up ¥173.9 billion year on year) expanded after narrowing for two years. The dividends and

distributed branch profits surged because no large loss-compensation debits to support the activities of overseas subsidiaries were recorded in 2000. This expansion in the surplus exceeded the deficit in reinvested earnings that had continued until the first half of 2000 reflecting across-the-board deterioration in the business performance of Japanese companies' subsidiaries and branches overseas as seen in their financial statements for fiscal 1998.

Dividends and distributed branch profits<sup>8</sup> recovered considerably since they were no longer affected by the large loss-compensation paid in the first half of 1999 by Japanese financial institutions to support the activities of their overseas subsidiaries and to compensate for the deficit registered in the settlement of accounts of their branches in Asia and the United States.

Reinvested earnings<sup>9</sup> in the first half of 2000 marked a record deficit of ¥201.7 billion, surpassing the previous record of ¥30.4 billion set in the second half of 1999. This was due to the decrease in profits of overseas subsidiaries in fiscal 1998 and the diminished value of internal reserves on a yen basis that resulted from the appreciation of the yen.<sup>10</sup>

#### 2. Portfolio investment income (Chart 44)

The portfolio investment income surplus (¥4,815.7 billion, up ¥757.7 billion year on year) expanded after narrowing in 1999. This was because money market instruments and financial derivatives, which recorded a deficit of ¥499.2 billion in 1999, registered a surplus of ¥356.4 billion in 2000.

Net interest income arising from interest rate swaps improved significantly. This was because short-term interest rates rose when Japanese banks were increasing interest rate swaps on U.S. dollar

6. Credits for "IT-related products" here refer to royalties and license fees (including those on techniques and copyrights) received from electrical machinery and computer-related companies.

7. According to the *Balance of Payments Manual* issued by the International Monetary Fund (IMF), "merchandising" is defined as "... the purchase of a good by a resident (of the compiling economy) from a nonresident and the subsequent resale of the good to another nonresident." In this process, the good does not enter or leave the compiling economy. Thus, transactions involving these goods are excluded from the import/export statistics. Instead, the difference between the value of goods when acquired and the value when sold is recorded as the value of "merchandising services" in "other services." For example, dealings in crude oil and gold are recorded in this category.

8. Dividends and distributed branch profits are dividends from overseas subsidiaries and the income from overseas branches actually remitted to the parent company or the head office in Japan.

9. In the balance of payments statistics, the increase in accumulated reserves of an overseas subsidiary in each settlement period is recorded in direct investment income. This is based on a fiction that the dividends, which are to be received by the parent company, are reinvested in the subsidiary by the parent company in Japan.

10. Reinvested earnings, the year-on-year change in accumulated reserves, are revised at the end of each settlement period. If entered into the books as a lump sum, the earnings would only be recognized as one-time data for the month of settlement. To average out the amount, the change in reserves is divided into twelve equal portions and recorded as monthly reinvestment income from six months after the settlement month, based on a report by each company. Therefore, overseas subsidiaries' fiscal 1998 settlement, which deteriorated as a result of the Asian currency crisis, affected reinvested earnings registered from September 1999 to August 2000. The recovery in fiscal 1999 settlement was reflected in reinvested earnings registered in September 2000 onward (about six months after the improvement in dividends and distributed income).

instruments for which they pay fixed-rate interest and receive floating-rate interest.

### 3. Other investment income (Chart 45)

The surplus of other investment income shrank for the first time in three years (¥778.1 billion, down ¥421.0 billion year on year). This was mainly because interest on loans diminished reflecting the continued collection of loans made by Japanese banks to their overseas branches.<sup>11</sup>

The majority of credits in interest on loans is interest on funds arising from interoffice transactions of Japanese banks (funds transferred from head offices in Japan [residents] to overseas branches [nonresidents]). On the other hand, the majority of debits in interest on loans is interest on funds acquired by the head offices of Japanese banks through their overseas branches from foreign banks. Interest on deposits is chiefly interest on transactions between foreign banks and head offices of Japanese banks.

### D. Current Transfers (Charts 46 and 47)

The deficit of the current transfers shrank for the first time in eight years (deficit of ¥1,057.8 billion, down ¥329.1 billion or 23.7 percent year on year). This was because, in 2000, no large contribution was made such as that given in the previous year to the Asian Development Bank for the Asian Currency Crisis Support Facility.

## III. The Capital and Financial Account (Chart 48)<sup>12</sup>

### A. Direct Investment

Outward direct investment by residents, which centered on the United States and Western Europe, reached a net outflow of ¥3.5 trillion, the highest level since 1991. Inward direct investment by nonresidents, which was concentrated in financial services and insurance, and in transportation equipment, recorded a net inflow of ¥882.3 billion, a level second only to the record ¥1.45 trillion in 1999. As a result, the ratio of inward direct investment to outward direct investment was

24.9 percent in 2000, which was far above the average of 10.4 percent in the 1990s.

### 1. Outward direct investment by residents (assets)

Outward direct investment, which had plunged after the bursting of the bubble and bottomed out in 1993, reached a net outflow of ¥3.5 trillion in 2000, the highest level since 1991 (Chart 49). This mainly reflected (1) acquisition of and capital participation in telecommunications companies and carmakers following the industrial reorganization and intensified competition on a global scale, (2) an increase of capital at subsidiaries by carmakers and telecommunications companies eager to expand their overseas business, and (3) financial support extended to overseas subsidiaries of material manufacturers by parent companies for the purpose of improving the subsidiaries' financial condition.

Recent trends by area showed a drop in investment in Asia from 1998 onward, and a significant increase in investment in Western Europe from 1999 on (Chart 50).<sup>13</sup> In the second half of 2000, a Japanese mobile telephone service company engaged in capital participation in a mobile telephone service company in the Netherlands. Investment in the United States has also been buoyant, and a Japanese long-distance telecommunications company made a large-scale acquisition of a U.S. Internet access provider in the second half of 2000.

By industry, there were noteworthy developments in telecommunications and transportation equipment. Large-scale investments were made in the telecommunications industry, as seen in the acquisition of a U.S. Internet access provider and capital participation in a mobile telephone service company in the Netherlands. In the transportation equipment industry, investments were made to fortify global business strategy as seen in the increase of capital at subsidiaries in Europe, the United States, and Mexico by carmakers. In the financial services industry, there were moves to establish corporate-type investment trusts mainly in the Cayman Islands.<sup>14</sup>

11. For details, see Section III.C.

12. Figures for securities lending are not included in the analysis in this article unless otherwise noted. This is because they are large and volatile, and therefore could hinder accurate understanding of securities transactions and loans if they are included in portfolio investment and other investment in the capital and financial account.

13. Figures for regional direct investment for the second half of 2000 are not yet available. They are scheduled to be released in June 2001.

14. Investment in corporate-type investment trusts is considered as direct investment if the investor acquires a stake of 10 percent or more. Investment to acquire a stake of less than 10 percent is registered as portfolio investment (equity securities).



## 2. Inward direct investment by nonresidents (liabilities)

Inward direct investment by nonresidents remained sluggish until the mid-1990s but started to increase from 1997 and recorded ¥882.3 billion in 2000, the second highest level since 1999 when it marked ¥1,451.3 billion. Inward direct investment started to increase in 1997 for the following reasons. First, industrial reorganization and intensified competition progressed on a global scale. Second, an increasing number of companies began to accept participation of foreign capital in the process of business restructuring and in order to improve their financial condition. And third, an increasing number of foreign firms anticipated expanded business opportunities in Japan. In 2000, active investments were made in financial services and insurance, and transportation equipment. Investment in 2000 was equivalent to almost 20 percent of the ¥4.7 trillion inward direct investment outstanding as of the end of 1999.

While active inward direct investment continued in 2000, there was partial collection of investment returns reflecting favorable business performances of subsidiaries in Japan as well as large-scale withdrawals of investment given the consolidation of subsidiaries in Japan for greater management efficiency. If these special cases of large-scale investment withdrawals are excluded, inward direct investment in 2000 surpassed the record high of 1999. It can, therefore, be concluded that an upward trend in inward direct investment by overseas firms reflecting global industrial reorganization continued into 2000.

By region, investment from Western Europe remained high (Chart 51). Following the capital participation in a Japanese carmaker by a French carmaker in 1999, a French life insurance company bought out a Japanese life insurance company, and a German carmaker engaged in capital participation in a Japanese carmaker in 2000. Investment from the United States continued to be on a rising trend. A large net capital outflow was recorded in the first half of 2000 due to sales of equities of Japanese subsidiaries by U.S. software and oil companies. In the second half of 2000, however, a large amount of capital seems to have been directed to Japan as in, for example, the capital participation in a Japanese consumer finance company by a U.S. financial conglomerate.

By industry, there were noteworthy developments in financial services and insurance, and transportation equipment. In financial services and insurance, a U.S. investment fund acquired a Japanese bank, a French life insurance company acquired a Japanese life insurance company, and a U.S. financial conglomerate increased the capital holding of its Japanese subsidiary (a consumer finance company). As for investment in transportation equipment, U.S. and German carmakers engaged in capital participation in Japanese carmakers.

## B. Portfolio Investment (Excluding Securities Lending)

### 1. Outward portfolio investment by residents

Until the late 1990s, the majority of outward portfolio investment by residents was investment in foreign bonds and notes by life insurance companies, trust banks, and other investors that convert yen into foreign currency to invest. Recently, banks' investment in foreign bonds and notes, and trust banks' investment in equities are also on an increasing trend.

#### a. Investment in foreign equities by residents (assets)

Investment in foreign equities by residents increased in terms of net purchases (outflow) every year from 1996 to 1999, but dropped in 2000 from the record high of the previous year (a net outflow of ¥2,177.2 billion in 2000 against ¥3,657.0 billion in 1999; Chart 52). Active purchases by trust banks supported the increase in net purchases from 1996 to 1999, and this support continued in 2000 as seen in the purchases of European and U.S. equities using funds newly accepted as pension funds and funds shifted from investment in bonds. There were also purchases by investment trusts that have established new funds. On the other hand, life insurance companies restrained purchases reflecting sluggish growth in the acceptance of new funds. Other investors also sold part of their equity holdings to secure profits in view of the book closing at the first semi-annual period (end-September) and the fiscal year (end-March) amid weakened market sentiment for purchases following the worldwide plunge in stock prices (charts 53, 54, and 55).

By area, investment in U.S. equities generally stayed at a high level reflecting buying of stocks on the dip (Chart 56). Net purchases declined for investment in European equities primarily because trust banks and life insurance companies sold

German and French equities to secure profits in the third quarter of 2000 in anticipation of the drop in stock prices reflecting the rise in crude oil prices and the weak euro.

## b. Investment in foreign bonds and notes by residents (assets)<sup>15</sup>

Investment in foreign bonds and notes by residents had recorded net purchases throughout the 1990s mainly due to investment by life insurance companies, trust banks, and investment trusts that converted yen into foreign currency to invest, but in 2000, net purchases (outflow) narrowed slightly from the previous year (a net outflow of ¥7,984.7 billion in 2000 against ¥8,648.2 billion in 1999; Chart 57). Banks anticipating a decline in interest rates actively purchased U.S. and European bonds, but this was partly offset by the following factors: (1) investment trusts restrained reinvestment of funds obtained through redemption of Euro-yen bonds, and (2) trust banks and life insurance companies curbed investment reflecting concerns over the appreciation of the yen.

Investment in foreign bonds and notes by residents (sales and purchases) in 2000 continued to record net purchases (outflow), but at a level below the previous year (a net outflow of ¥7,495.3 billion in 2000 against ¥10,060.8 billion in 1999). Banks increased investment in U.S. and European bonds, including government bonds, U.S. agency securities, and German *Pfandbriefe*,<sup>16</sup> in anticipation of a decline in interest rates in the United States and Europe given the drop in stock prices and signs of an economic slowdown (charts 58 and 59). Investment trusts, however, did not actively reinvest funds gained through redemption of Euro-yen bonds because they prepared cash for the possible cancellation of contracts for yen-denominated public and corporate bond investment trusts.<sup>17</sup> Trust banks and life insurance companies also restrained investment in anticipation of the appreciation of the yen.

Recent trends by area showed that institutional investors such as life insurance companies had increased the weight of European bonds in their portfolio from around 1997. In 2000, however, the level of net purchases contracted for investment in European bonds, because the investment environment for euro-denominated bonds deteriorated with the rapid appreciation of the yen against the euro and investment trusts did not reinvest funds gained through redemption of Euro-yen bonds (Chart 60).<sup>18</sup> Investment in U.S. bonds moved into net purchases in 2000 reflecting investment in anticipation of a decline in interest rates amid the slowing of the U.S. economy. Investment in bonds and notes issued in other countries recorded high net purchases, mainly because banks and life insurance companies purchased beneficiary certificates of investment trusts issued in the Cayman Islands.

Issuance and redemption of bonds and notes issued in Japan by nonresidents shifted to a net issuance (outflow) from a net inflow of ¥1,412.6 billion in 1999 to a net outflow of ¥489.4 billion in 2000 (charts 61 and 62). Redemption (inflow) remained high, but this was more than offset by a surge in issuance (outflow) brought about by (1) active financing of yen funds by U.S. and European firms for their business operations in Japan, (2) an improved environment for issuance of bonds by government organizations of newly industrialized countries following their economic recovery, and (3) strong incentive for investment by Japanese investors in bonds issued by foreign firms with high credit ratings.<sup>19</sup>

The cost of issuing corporate bonds in Japan has been declining on a U.S. dollar basis, since the end of 1999 often falling below that in the United States (Chart 63). An improvement in the bond issuing environment in Japan also contributed to an increase in the issuance of yen-denominated foreign bonds.

15. Investment in foreign bonds and notes by residents (assets) is the sum of sales and purchases and issuance and redemption of bonds and notes issued in Japan by nonresidents.

16. German *Pfandbriefe* are bonds issued as a means of refinancing by private mortgage banks and *Land* banks that provide mortgages and public-sector lending.

17. Yields on public and corporate bond investment trusts became less attractive after the termination of the zero interest rate policy by the Bank of Japan. To prepare for the possible withdrawal of funds following cancellation of contracts, investment trusts restrained reinvestment of funds gained through redemption of Euro-yen bonds.

18. Regional figures for investment in foreign bonds and notes by residents are categorized according to the nationality of the issuers. A resident's investment in Euro-yen bonds issued by European firms is thus recorded as investment in European bonds.

19. According to *Securities Investment at Home and Abroad* (compiled based on the value of transactions settled), the amount of yen-denominated foreign bonds issued in 2000 was ¥2,856.7 billion, surpassing the record of ¥1,653.4 billion set in 1993.

### c. Investment in foreign money market instruments by residents (assets)

Investment in foreign money market instruments by residents continued to record net purchases (outflow) in 2000 but at a level below that of the previous year (a net outflow of ¥1,346.4 billion in 2000 against ¥4,250.0 billion in 1999; Chart 64). In the first half of 2000, there were (1) moves by individual investors to purchase Euro-yen structured bonds such as exchangeable bonds (EBs),<sup>20</sup> and (2) increased purchases by investment trusts of Euro-yen bonds issued by European firms such as telecommunications companies, given the inflow of new funds into yen-denominated public and corporate bond investment trusts.<sup>21</sup> However, there was a decline in the issuance of *samurai* commercial paper (CP) by overseas subsidiaries of Japanese financial institutions to liquidate their credits, and trust banks and banks increased sales of their holdings of U.S. Treasury bills.

## 2. Inward portfolio investment by nonresidents

Inward portfolio investment had been recording net purchases for equities since 1991 and net sales for bonds and notes since 1992 except in 1996 and 1997, when it marked net purchases by small margins. In 2000, however, sales (outflow) slightly exceeded purchases (inflow) for equities, and purchases substantially exceeded sales for bonds and notes. This reflected the worldwide plunge in stock prices, and purchases of government securities stemming from the increase in the weight of Japanese government bonds in the portfolios of foreign investors and arbitrage transactions by foreign investors.

### a. Investment in Japanese equities by nonresidents (liabilities)

Investment in Japanese equities by nonresidents in 2000 recorded net sales (outflow) for the first time since 1990 (from a net inflow of ¥11,386.6 billion in 1999 to a net outflow of 449.2 billion in 2000 [net outflow was ¥1.9 trillion in 1990]; Chart 65). Since 1991, purchases of Japanese equities by nonresidents continued to surpass sales, producing a record inflow

in 1999 reflecting the worldwide rise in prices of IT-related stocks. Until March 2000, European stocks and the U.S. Nasdaq stocks showed strong movements, and investors, primarily those from Europe, made robust purchases. However, from April 2000, U.S. investors started to sell IT-related stocks to realize profits, following the plunge of the Nasdaq stocks (charts 66, 67, and 68). Investment remained sluggish in the latter half of 2000 reflecting the unclear outlook for Japan's economic recovery and corporate restructuring, as well as concerns over unwinding of cross-shareholdings by Japanese financial institutions.

By area, sales by U.S. investors far outweighed purchases in the second quarter of 2000 (Chart 69). Sales, however, decreased considerably toward the end of the year partly due to the decline in the weight of Japanese equities in such investors' portfolios. Purchases by European investors continued to exceed sales in the first half of 2000. However, in the second half of 2000, European investors started to take a wait-and-see stance partly due to the fall in European and U.S. stock prices.

Developments by industry reveal that telecommunications stocks were actively purchased in the first quarter of 2000 when stock prices were firm, but from the second quarter of 2000, sales far exceeded purchases, in particular for electrical machinery, telecommunications, and IT-related service and wholesale industry stocks. Purchases of telecommunications stocks exceeded sales in the fourth quarter of 2000 due to public offerings of a major telecommunications company's stock to overseas investors, but the general stance on investment remained unchanged. Net purchases were recorded in so-called defensive issues<sup>22</sup> such as pharmaceutical, electricity, and gas stocks, and in transportation equipment stocks reflecting expectations of improved business performance achieved through corporate restructuring.

### b. Investment in Japanese bonds and notes by nonresidents (liabilities)<sup>23</sup>

In 2000, investment in Japanese bonds and notes by nonresidents marked net purchases (inflow); a net

20. If the underlying share price falls below the set strike price on the conversion date, the bond is redeemed not in cash but in equities.

21. As already explained in Footnote 17, funds were being withdrawn from MMFs and other yen-denominated public and corporate bond investment trusts in the second half of 2000 following the termination of the zero interest rate policy. As a result, investment in short-term Euro-yen bonds by investment trusts also dropped.

22. Defensive issues are stocks that are expected to maintain relatively good performance even when stock prices are generally on the decline.

23. Investment in Japanese bonds and notes by nonresidents (liabilities) is the sum of sales and purchases and issuance and redemption of bonds and notes issued overseas by residents.

inflow of ¥8,546.5 billion in 2000 after a net outflow of ¥1,645.9 billion in 1999 (Chart 70). These were the highest net purchases since 1991, when they marked ¥9.3 trillion. Investment in Japanese bonds and notes by nonresidents had remained low since 1992, reflecting redemption of corporate bonds issued by Japanese firms overseas during the bubble period. In 2000, however, overseas investors increased the weight of Japanese government bonds in their portfolios and executed arbitrage transactions using swaps.

Investment in Japanese bonds and notes by nonresidents (sales and purchases) switched to net purchases (inflow) and marked the highest level historically (from a net outflow of ¥1,481.7 billion in 1999 to a net inflow of ¥9,602.0 billion in 2000), exceeding the record-high net purchases of ¥5,620.1 billion recorded in 1997. Purchases increased in the first half of 2000 because (1) European investors with low weight of Japanese bonds and notes in their portfolios relative to global indices<sup>24</sup> increased purchases partly due to improved profitability of yen-denominated bonds following the appreciation of the yen against the euro (Chart 71), and (2) there were purchases of bonds and notes with funds obtained through sales of Japanese equities amid the decline in Japanese stock prices. Brisk purchases continued in the second half of 2000 mainly due to (1) active purchases associated with asset swaps (see Box 4 on page 144)<sup>25</sup> amid the narrowing of swap spreads (the spread between the swap rate and government bond yields; Chart 72), (2) purchases of Japanese government bonds by European banks to hedge currency swap transactions concluded with issuers of yen-denominated foreign bonds (*samurai* bonds),<sup>26</sup> and (3) purchases reflecting the unclear outlook for an economic recovery in Japan.

Net redemption (outflow) of issuance and redemption of bonds and notes issued overseas by residents expanded in 2000 with a high level of redemption in straight bonds (a net outflow of ¥1,055.5 billion in 2000 against ¥164.1 billion in

1999). Despite the issuance of government-guaranteed bonds by government financial institutions and that of subordinate bonds by some banks, issuance generally remained sluggish and therefore more bonds were redeemed than issued given moves to reduce interest-bearing liabilities amid a recovery in corporate profits.

## c. Investment in Japanese money market instruments by nonresidents (liabilities)

Investment in Japanese money market instruments by nonresidents switched to net sales (outflow) in 2000 (from a net inflow of ¥749.0 billion in 1999 to a net outflow of ¥932.9 billion in 2000; Chart 73). In January, treasury bills (TBs) and financing bills (FBs) were purchased by foreign investors who had not rolled over matured TBs and FBs into new ones in late 1999 to prepare for the Year 2000 problem and demand for year-end funds. In July, some foreign banks purchased large amounts of TBs and FBs when short-term interest rates rose given the view that the zero interest rate policy would be terminated and the margin between yields on TBs and FBs and yen funding cost widened (Chart 74). The effects of these purchases, however, were cancelled out by massive sales of TBs by overseas branches of foreign banks to their Japanese branches in order to prepare for the shift to real-time gross settlement (RTGS). TBs can be used as collateral when borrowing funds from the Bank of Japan under the RTGS system.

## C. Other Investment (Excluding Securities Lending)

In 2000, other investment shifted to a net outflow (from an inflow of ¥3,169.7 billion in 1999 to an outflow of ¥1,051.1 billion in 2000; Chart 75) with net repayments (outflow) on the liability side surpassing net collections (inflow) on the asset side. Net collections (inflow) continued on the asset side (including loans, and bank deposits) mainly as funds that had been lent to Japanese banks' overseas branches through interoffice accounts were repaid. Meanwhile, net repayments (outflow) continued on the liability side (including loans payable, and bank

24. The outstanding amount of European and U.S. government bonds is on the decline with the improvement in fiscal conditions in European countries and the United States, while that of Japanese government bonds is increasing. As a result, the weight of Japanese government bonds rose in the global bond index used by institutional investors.

25. A combination of Japanese government bond purchases and interest rate swaps (fixed-rate interest payments and floating-rate interest receipts; see Box 4).

26. Some of the issuers of yen-denominated foreign bonds (*samurai* bonds) convert principal from yen to U.S. dollars through currency swaps at the time of issuance, thereby converting fixed-rate interest payments in yen to U.S. dollar interest payments. European banks that concluded currency swaps with these issuers purchased Japanese government bonds to cover their fixed-rate interest payments in yen.

deposits received) as Japanese nonfinancial firms repaid their Euro-yen impact loans.

## 1. Loans and loans payable

### a. Loans (assets: lending by residents to nonresidents)

In 2000, loans continued to record net collections (inflow) mainly due to collection of funds through interoffice accounts, but the amount dropped substantially from that recorded in the previous year (a net inflow of ¥8,573.7 billion in 2000 against ¥25,562.4 billion in 1999; Chart 76).

Overall net repayments (inflow) in interoffice accounts (loans by Japan-based offices to overseas offices) declined considerably in 2000. This was partly because (1) overseas branches of Japanese banks more or less finished repaying loans to head offices in Japan in 1999 given an improvement in fund-raising conditions and a reduction in overseas assets, and (2) Japanese branches of foreign banks made large loans to their overseas offices to support financing of yen funds.

### b. Loans payable (liabilities: borrowing by residents from nonresidents)

In 2000, loans payable continued to show net repayments (outflow), but overall net repayment plunged from the previous year (a net outflow of ¥4,222.6 billion in 2000 against ¥15,961.6 billion in 1999; Chart 77). This was primarily because interoffice accounts moved into net borrowings (inflow) despite the continued net repayments (outflow) in Euro-yen impact loans.

Interoffice accounts (borrowing by Japan-based offices from overseas offices) shifted to net borrowings (inflow). This was because Japanese banks actively borrowed funds from their overseas branches to invest

in foreign bonds and because Japanese branches of foreign banks borrowed funds from their overseas offices to purchase Japanese government bonds.

As for the flow of funds related to Euro-yen impact loans (yen-denominated loans extended by nonresidents to residents), overseas branches of Japanese banks continued to collect funds (repayment by Japanese firms) to reduce their assets, but with a decline in loans outstanding, net repayments (inflow) continued to narrow.

## 2. Currency and deposits

### a. Assets (deposits made by residents to nonresidents)

Overall, assets shifted to net deposits (outflow) in 2000 (from a net inflow of ¥373.5 billion in 1999 to a net outflow of ¥5,067.3 billion in 2000; Chart 78). Net deposit (outflow) expanded for banks' deposits (deposits made by banks in Japan to nonresidents) as Japanese banks actively deposited surplus funds when interest rates on these deposits became relatively high and invested funds raised in preparation for the shift to the RTGS in overseas deposits.<sup>27</sup> Collateral deposits<sup>28</sup> for securities borrowing transactions by securities firms also shifted to net deposits (outflow).

### b. Liabilities (deposits by nonresidents to residents)

On the liabilities side, deposits made by nonresidents to residents changed to net receipts (inflow) in 2000 (from an outflow of ¥6,843.5 billion in 1999 to an inflow of ¥714.7 billion in 2000; Chart 79). Banks' deposits received (deposits received by banks in Japan from nonresidents) shifted to net receipts (inflow) because deposits received by Japanese banks from overseas increased reflecting improvements in the fund-raising environment.<sup>29</sup>

27. Some of the surplus funds invested through bank deposits were not withdrawn at the end of 2000 and were rolled over given the rise in interest rates on deposits maturing over the year-end.

28. Payment of collateral deposits related to securities borrowing transactions by residents from nonresidents is included in the assets of currency and deposits (repayment of collateral deposits indicates a reduction in collateral-backed securities borrowings by residents from nonresidents).

29. Fund-raising by Japanese banks through deposits received from overseas had been on a downward trend since 1997 due to deterioration in the fund-raising environment and moves to reduce assets.

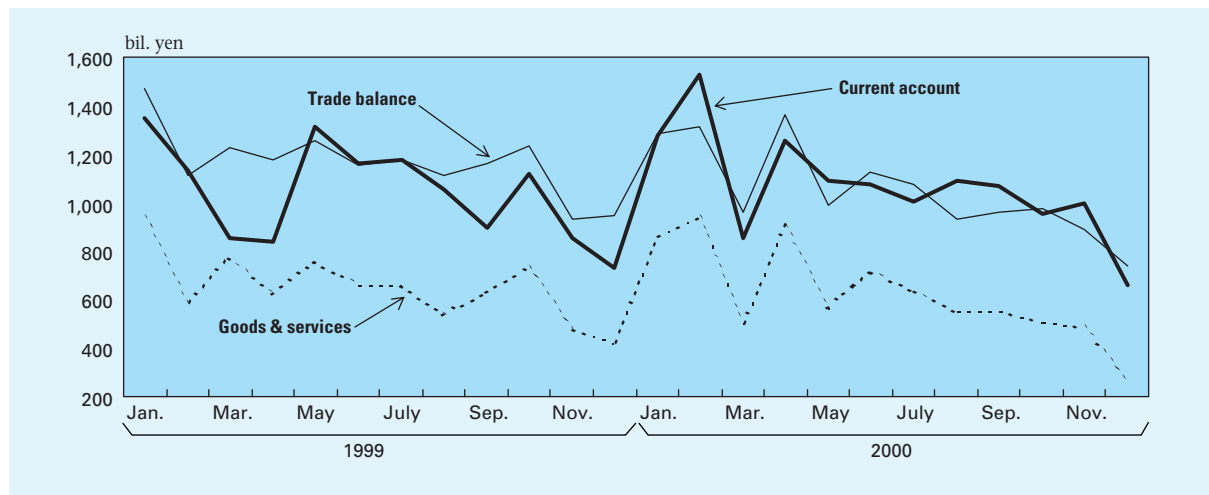
# Japan's Balance of Payments for 2000

**Chart 1**  
**Current Account**

bil. yen

	2000	Changes from a year earlier	99
<b>Current account</b>	12,620.7	+446.8	12,173.8
<b>Goods and services</b>	7,476.9	-388.1	7,865.0
<b>Trade balance</b>	12,583.6	-1,431.8	14,015.5
Exports	49,514.6	+3,719.8	45,794.8
Imports	36,930.9	+5,151.6	31,779.3
<b>Services</b>	-5,106.7	+1,043.7	-6,150.5
Transportation	-1,025.2	-152.7	-872.6
Travel	-3,028.3	+300.4	-3,328.7
Other services	-1,053.2	+896.0	-1,949.2
<b>Income</b>	6,201.5	+505.8	5,695.7
<b>Current transfers</b>	-1,057.8	+329.1	-1,386.9

**Chart 2**  
**Current Account (Seasonally Adjusted)**



**Chart 3**  
**Trade Balance**

bil. yen; figures in parentheses are % chg. from a year earlier

	2000	Changes from a year earlier
<b>Net balance</b>	12,583.6	-1,431.8 (-10.2)
Exports	49,514.6	+3,719.8 (+8.1)
Imports	36,930.9	+5,151.6 (+16.2)



Chart 4

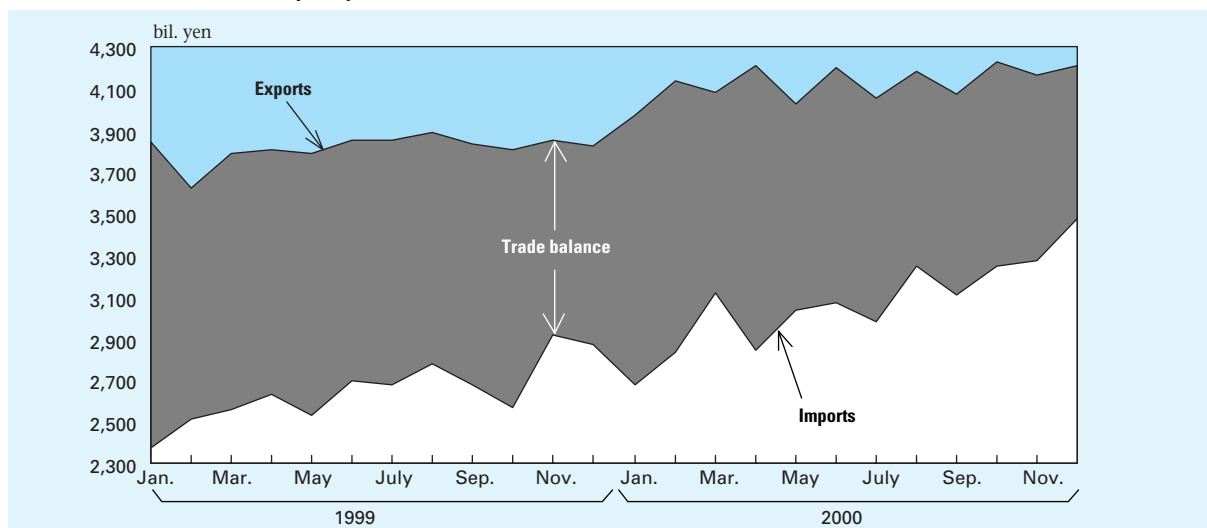
**Trade Balance (Seasonally Adjusted)**

Chart 5

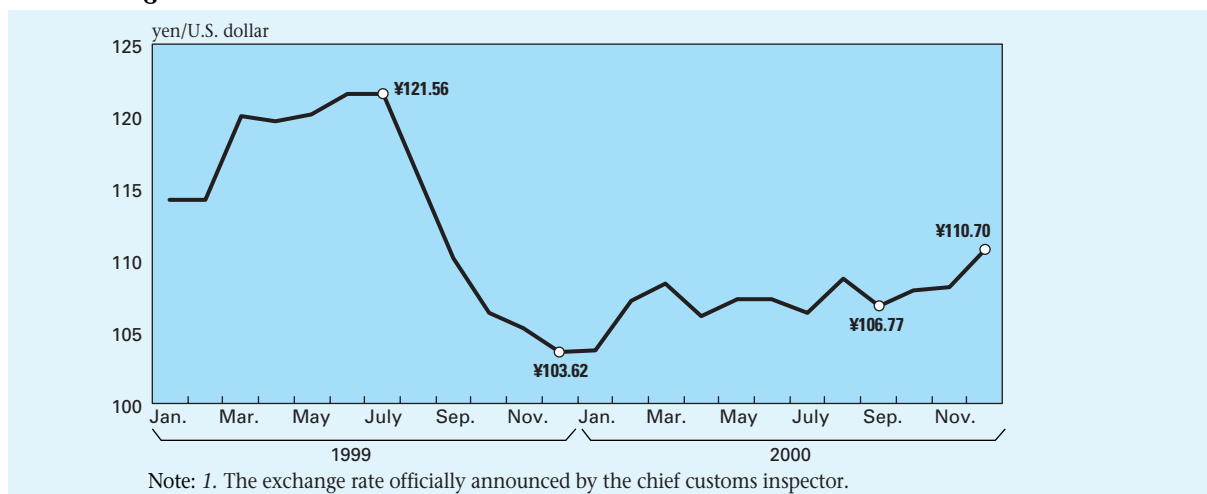
**The Exchange Rate<sup>1</sup>**

Chart 6

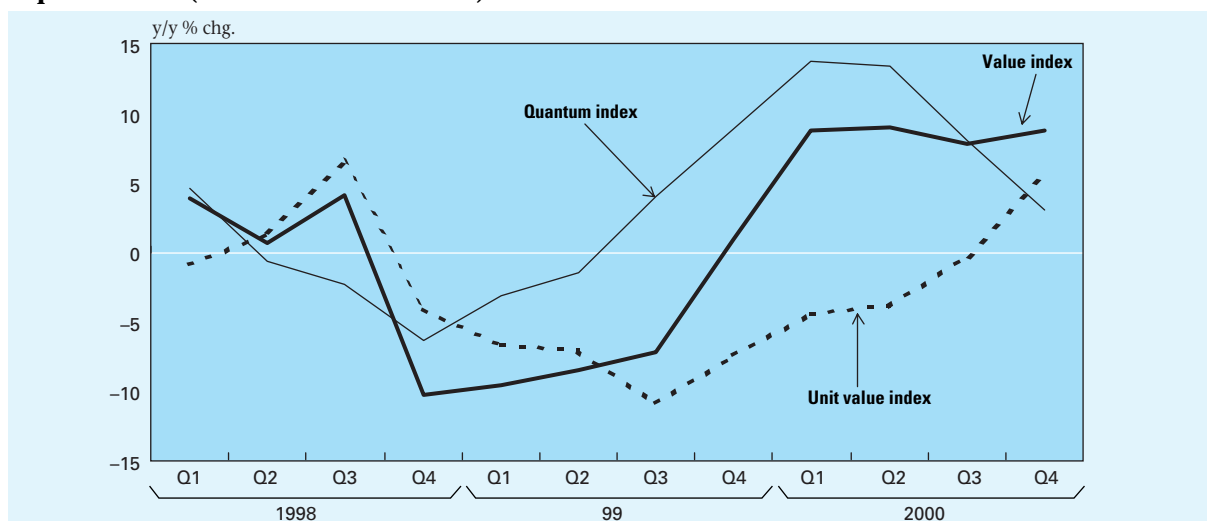
**Export Indexes (Customs-Clearance Basis)**

Chart 7  
Export Prices

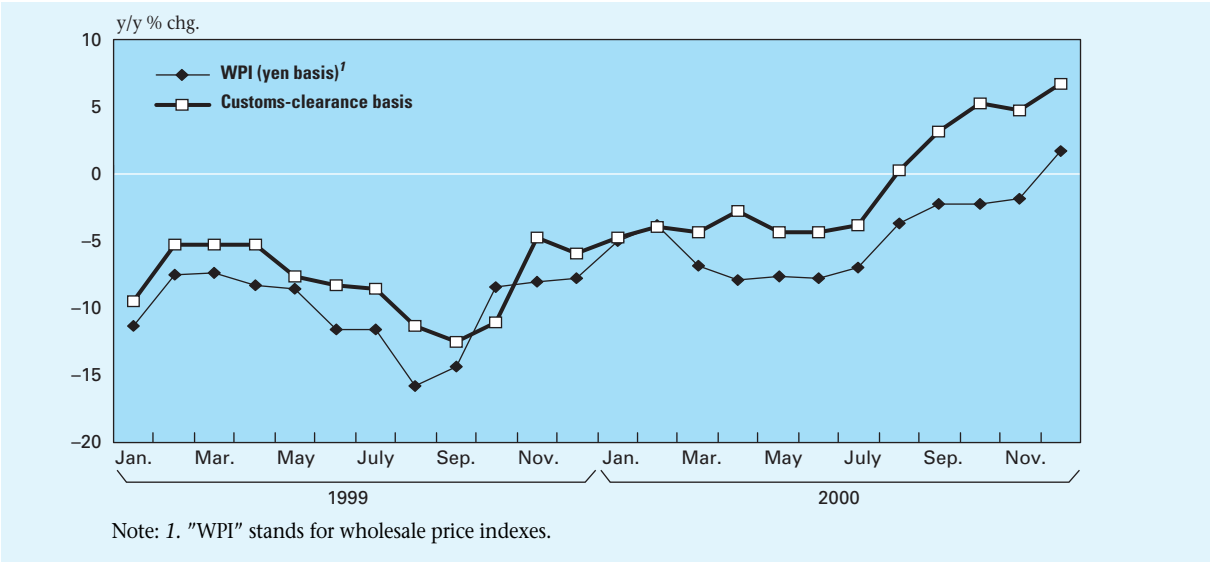


Chart 8  
Contribution to Overall Export Growth by Area (Customs-Clearance Basis)

	Overall exports	United States	European Union	Asia	NIEs	ASEAN	China	Middle East
Contribution	+8.6	+1.6	-0.1	+7.5	+4.5	+2.5	+1.3	-0.1

Chart 9  
Contribution to Overall Growth in Export Value by Area (Customs-Clearance Basis)

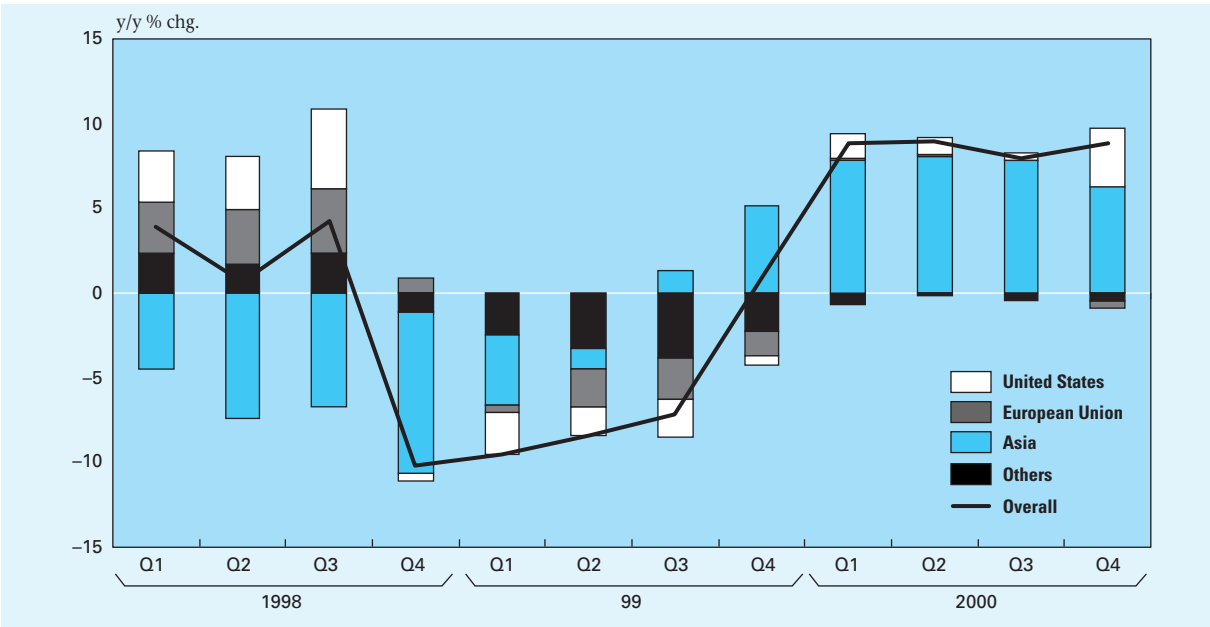


Chart 10

**Exports to Asia, the United States, and the European Union (Customs-Clearance Basis)**

y/y % chg.

	Value	Volume	Price
Asia	+20.1	+17.1	+2.6
United States	+5.1	+2.9	+2.1
European Union	-0.4	+3.9	-4.1

Chart 11

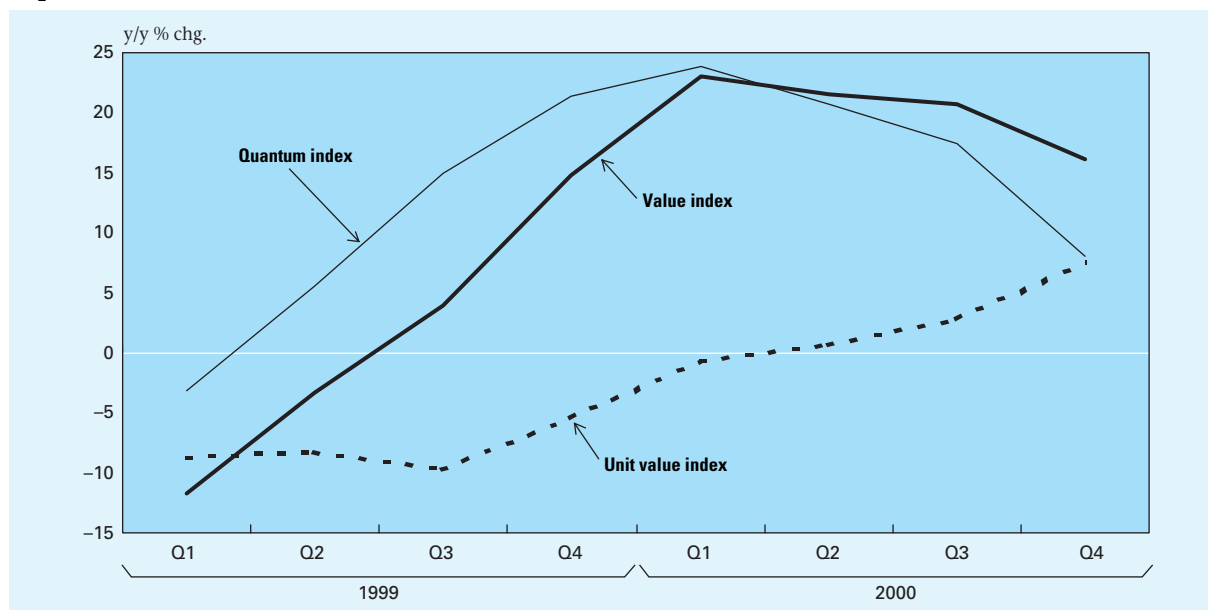
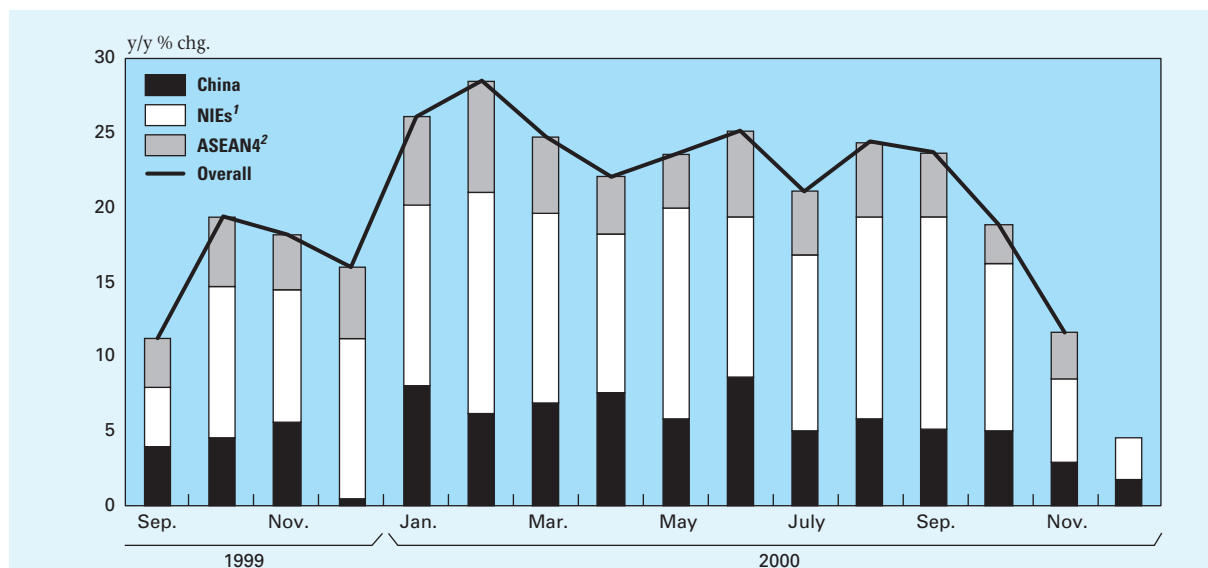
**Exports to Asia (Customs-Clearance Basis)**

Chart 12

**Breakdown of Growth in Exports from Asia**

Notes: 1. NIEs comprise Korea, Taiwan, Hong Kong, and Singapore.

2. ASEAN4 comprises Indonesia, Thailand, Malaysia, and the Philippines.

Chart 13

## Exports to Asia: Contribution to Overall Export Growth by Item

Items	Contribution (percent changes from a year earlier)	Items	Contribution (percent changes from a year earlier)
Semiconductors and other electronic devices	+3.4	Parts for motor vehicles	+0.6
Scientific, medical, and optical instruments	+1.7	Iron and steel products	+0.6
Electrical measuring and controlling instruments	+0.8	Organic compounds	+0.5
Office machinery <sup>1</sup>	+0.8	Plastic products	+0.5
Motor vehicles	+0.8	Parts for audiovisual apparatus	+0.4

Note: 1. Includes parts for office machinery.

Chart 14

## Exports to the United States (Customs-Clearance Basis)

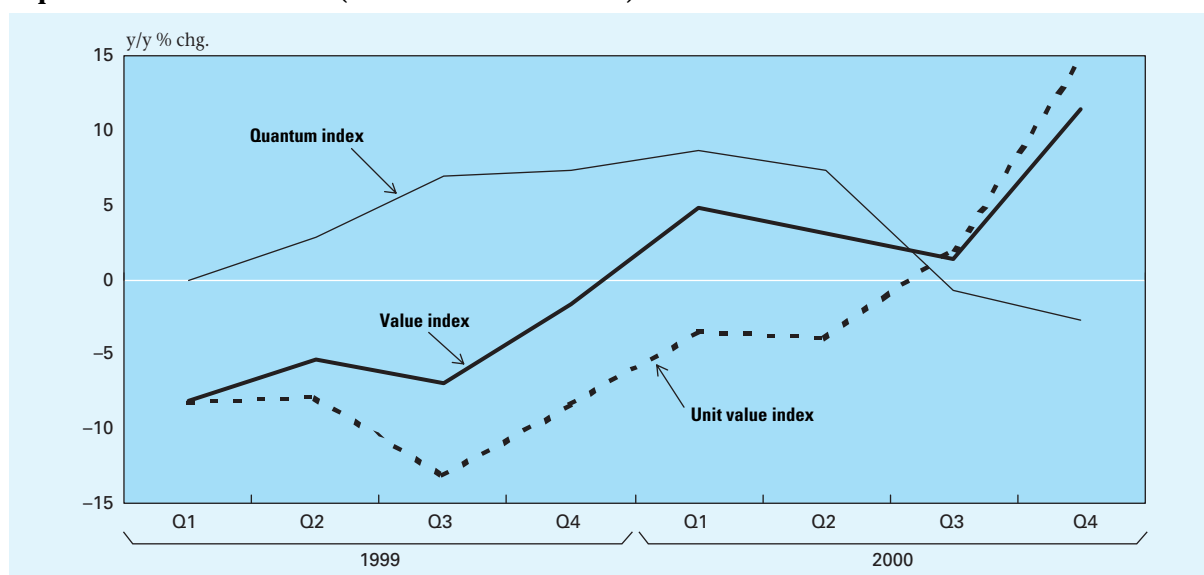


Chart 15

## Exports to the United States: Contribution to Overall Export Growth by Item

Items	Contribution (percent changes from a year earlier)	Major factors
Semiconductors and other electronic devices	+0.8	Increase in demand for parts for PCs and networking hardware
Motor vehicles	+0.8	Continued brisk sales in the United States, especially of SUVs
Parts for motor vehicles	+0.4	Increase in production of motor vehicles in the United States
Motorcycles	+0.4	Continued strong demand in the United States
Visual equipment	+0.4	Brisk sales of DVD players and large flat- and wide-screen TVs
Scientific, medical, and optical instruments	+0.4	Increase in demand for steppers for semiconductors
Metalworking machinery	+0.3	Increase in demand for semiconductor etching machines
Electrical measuring and controlling instruments	+0.3	Increase in demand for production facilities for IT-related products
Power generating machinery	+0.3	Increase in demand for motor vehicle engines and gas turbine generators
Office machinery	-0.6	Shifting of Japanese manufacturers' production bases to Asia

Chart 16

## Exports to the European Union (Customs-Clearance Basis)

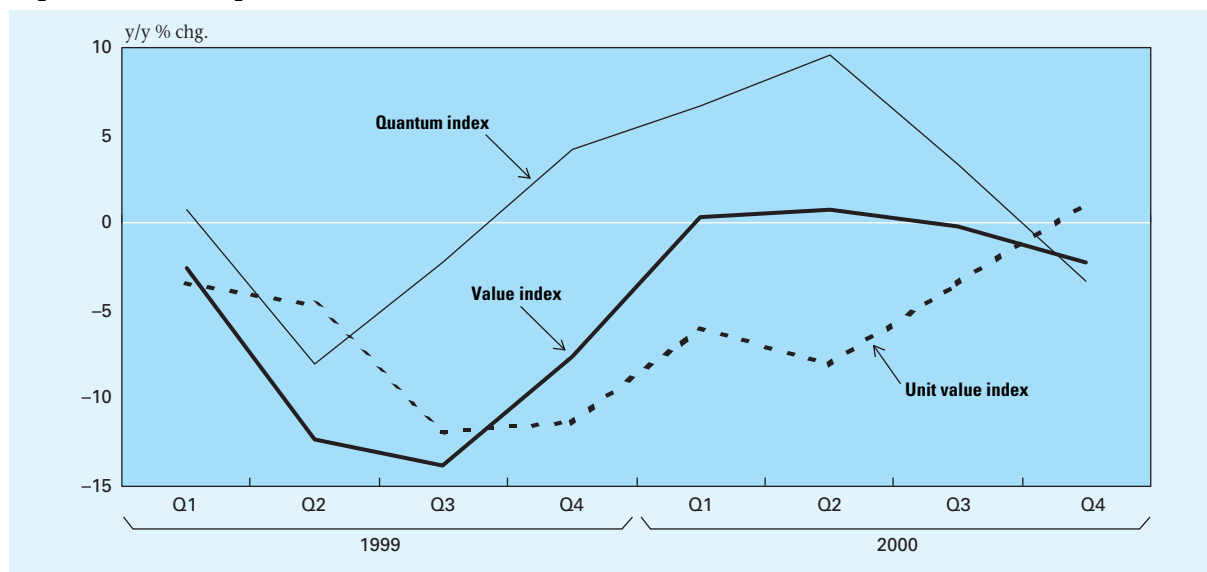


Chart 17

## Exports to the European Union: Contribution to Overall Export Growth by Item

Items	Contribution (percent changes from a year earlier)	Major factors
Motor vehicles	-3.8	Weak price-competitiveness of Japanese products as a result of the appreciation of the yen against the euro and the fall in the number of motor vehicle exports affected by intensified competition with carmakers in the EU
Office machinery	-0.3	Shifting of Japanese manufacturers' production bases to Asia
Audio equipment	-0.2	Shifting of Japanese manufacturers' production bases to Eastern Europe
Semiconductors and other electronic devices	+1.4	Increase in demand for IT-related products in the EU
Telecommunications apparatus	+1.0	Increase in demand for parts for mobile phones and telecommunications infrastructure equipment
Visual equipment	+0.9	Increase in demand for DVD players and large flat- and wide-screen TVs
Electrical measuring and controlling instruments	+0.2	Increase in demand for production facilities for IT-related products
Parts for motor vehicles	+0.2	Increase in production in the EU
Parts for audiovisual apparatus	+0.1	Increase in production in the EU

Chart 18

## Contribution to Overall Export Growth by Item

Items	Contribution (percent changes from a year earlier)	Major factors
Semiconductors and other electronic devices	+1.8	Increase in demand for parts for PCs and networking hardware
Scientific, medical, and optical instruments	+0.8	Increase in demand for steppers for semiconductors and optical fibers
Parts for motor vehicles	+0.5	Increase in the production of motor vehicles in the United States and Asia
Electrical measuring and controlling instruments	+0.4	Increase in demand for semiconductor test instruments
Visual equipment	+0.4	Brisk sales of DVD players and large flat- and wide-screen TVs in Europe and the United States
Power generating machinery	+0.3	Increase in demand for motor vehicle engines and gas turbine generators
Telecommunications apparatus	+0.3	Increase in demand for parts for telecommunications apparatus in Europe and the United States and for mobile phones in Asia
Plastic products	+0.2	Increase in Asia-bound exports
Metalworking machinery	+0.2	Increase in demand for semiconductor etching machines
Office machinery	+0.1	Increase in demand for parts for PCs and peripheral equipment
Motor vehicles	-0.3	Decline in the average unit price in yen terms (the number of exported motor vehicles increased by 1.4 percent from the previous year)

Chart 19

## Contribution of Motor Vehicles to Overall Export Growth by Area

y/y % chg.

	Overall exports	United States	European Union	Asia	Others
Value	-2.3	+1.7	-4.5	+1.9	-1.4
Volume	+1.4	+2.5	-3.6	+2.3	+0.2

Chart 20

## Import Indexes (Customs-Clearance Basis)

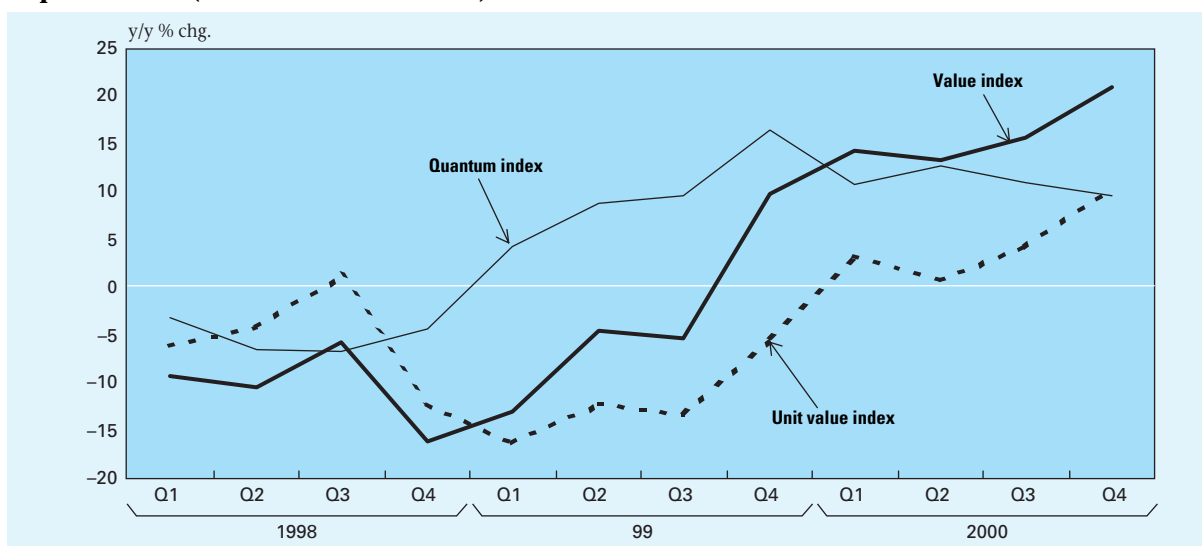




Chart 21

## Contribution to Overall Import Growth by Item (Customs-Clearance Basis)

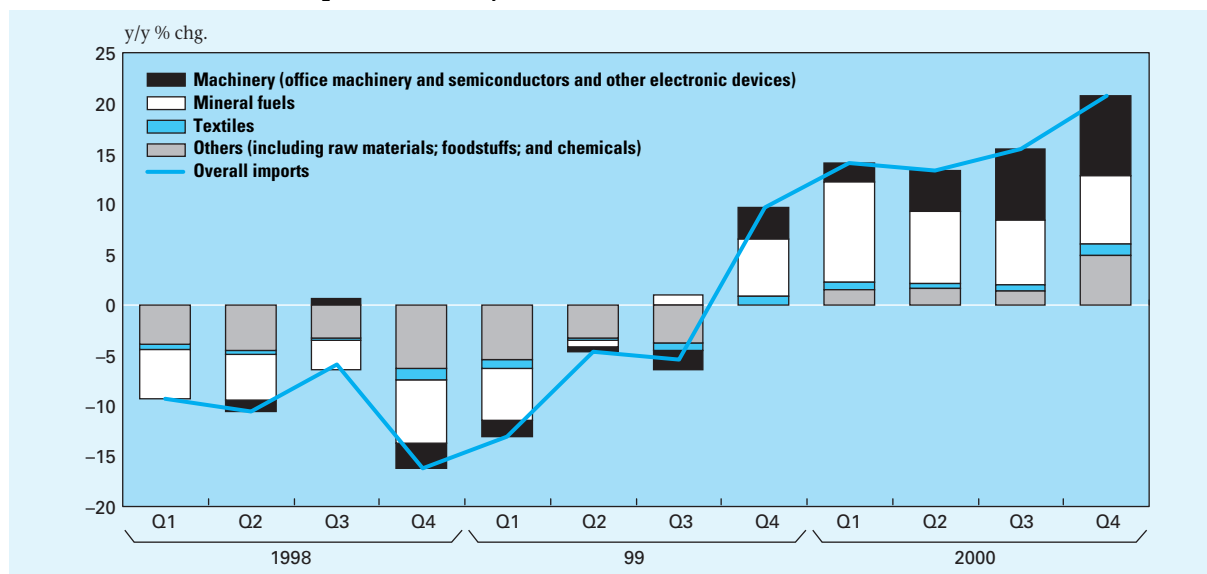


Chart 22

## Growth in Imports of Petroleum-Related Products

y/y % chg.

Commodities	Contribution to overall import growth	Value	Volume
Crude oil	+5.0	+58.5	-0.4
Liquefied petroleum gas	+1.3	+47.6	+3.8
Petroleum products	+0.8	—	—

Chart 23

## Oil Prices (Dubai Spot Price; Monthly Average)

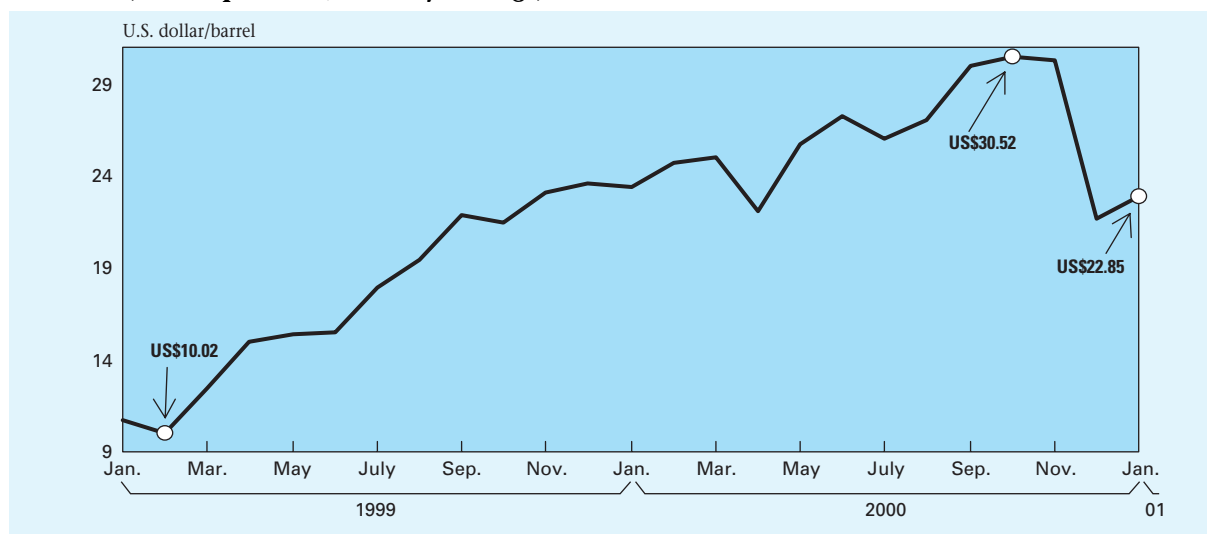


Chart 24

## The Share and Contribution of Mineral Fuels in Overall Import Growth

	2000		99	
	Share (percent)	Contribution (percent changes from a year earlier)	Share (percent)	Contribution (percent changes from a year earlier)
Value of overall imports	100.0	+16.0	100.0	-3.8
Mineral fuels	20.3	+7.6	16.0	+0.1
Of which Crude oil	11.8	+5.0	8.6	+0.3

Chart 25

## Increased Demand for Electronics and IT-Related Products

y/y % chg.

Products	Contribution	Value
Office machinery	+1.8	+28.4
Semiconductors and other electronic devices	+1.7	+39.6
Audiovisual apparatus	+1.7	—

Chart 26

## Contribution of Office Machinery to Overall Import Growth by Area

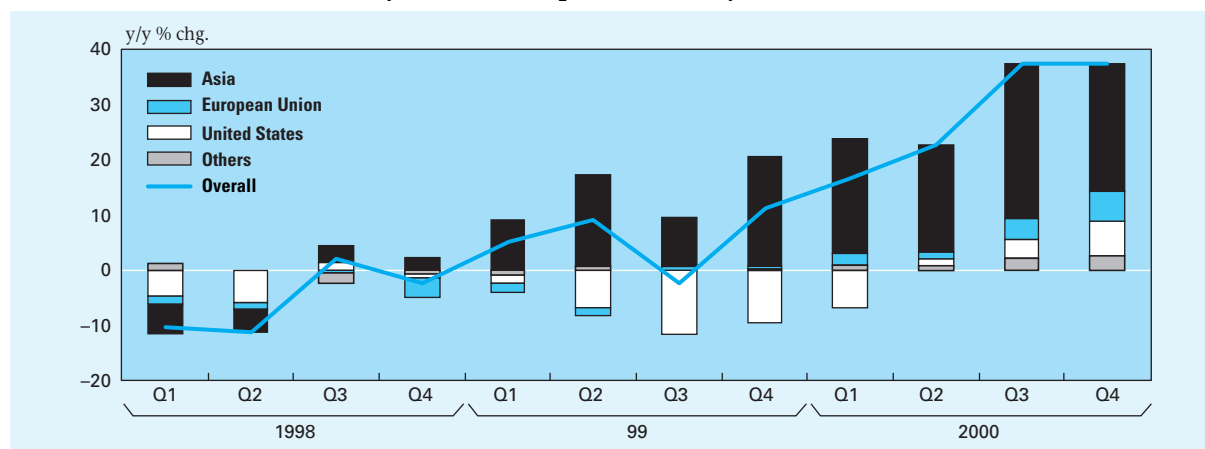


Chart 27

### Contribution of Semiconductors and Other Electronic Devices to Overall Import Growth by Area

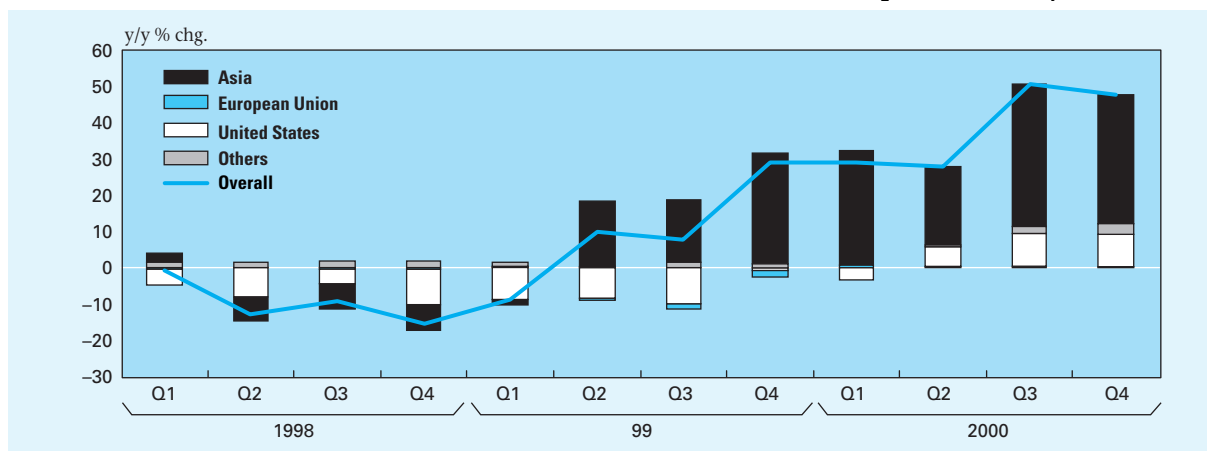


Chart 28

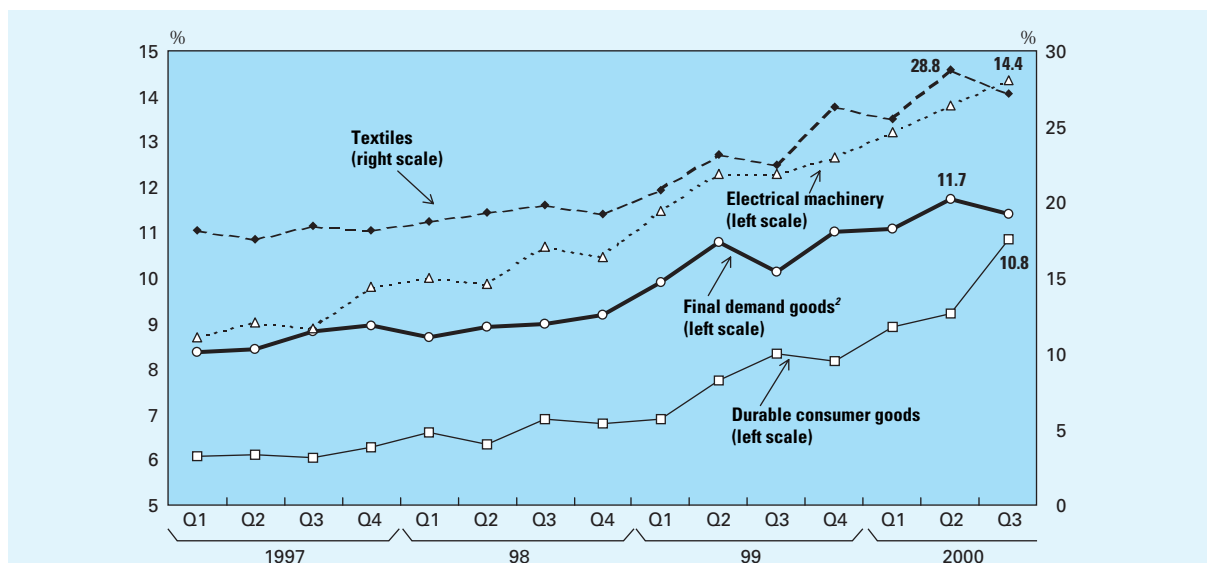
### Increased Procurement from Overseas

%

Products	Contribution to overall import growth	Value (changes from a year earlier)
Textiles	+0.8	+11.6
Chemicals	+0.6	+8.2
Audiovisual apparatus	+0.5	—
Meats	+0.1	+7.2

Chart 29

### Rates of Import Penetration<sup>1</sup>



Notes: 1. Import penetration rate = (import index × weighted imports)/(aggregate supply index × weighted aggregate supply).

2. Final demand goods = investment goods + consumer goods.

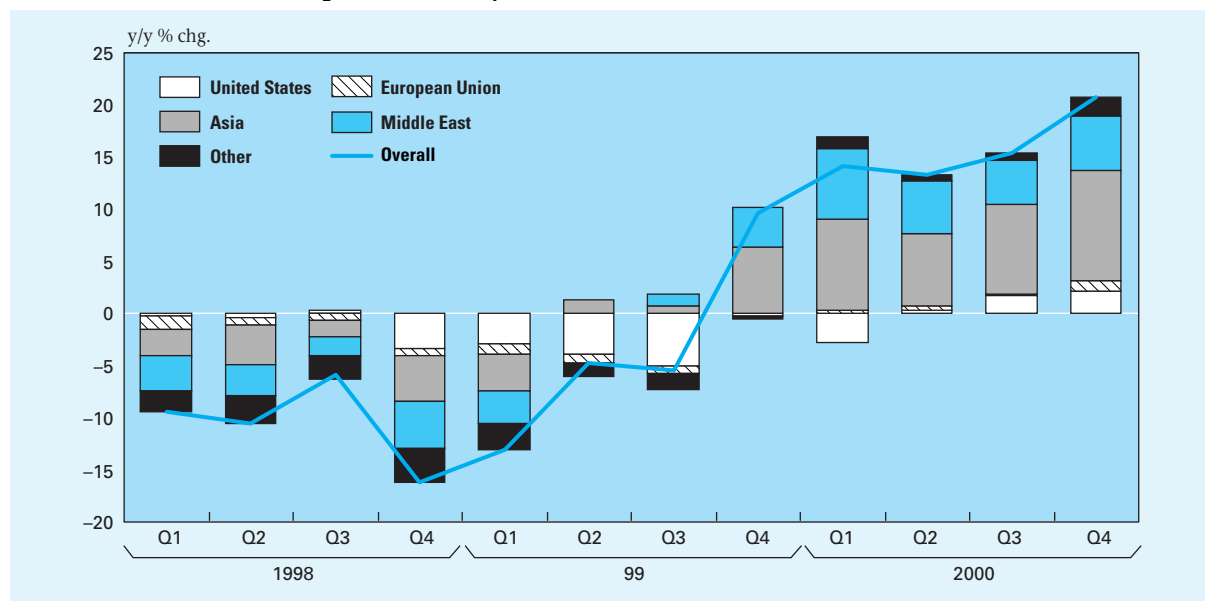
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

**Chart 30**  
**Contribution to Overall Import Growth by Area (Customs-Clearance Basis)**

y/y % chg.

	Overall imports	United States	European Union	Asia	NIEs	ASEAN	China	Oceania	Middle East
Contribution	+16.0	+0.4	+0.5	+8.8	+2.6	+3.3	+3.0	+0.4	+5.3

**Chart 31**  
**Contribution to Overall Import Growth by Area (Customs-Clearance Basis)**



**Chart 32**  
**Contribution to Overall Import Growth by Area (Customs-Clearance Basis)**

y/y % chg.

	Value	Volume	Unit price
Asia	+22.1	+19.8	+1.9
United States	+1.8	-0.1	+1.9
European Union	+3.7	+5.6	-1.8

Chart 33

**Imports from Asia: Contribution to Overall Import Growth by Item**

y/y % chg.

Items	Contribution
Office machinery	+3.7
Semiconductors and other electronic devices	+3.5
Textiles	+2.2
Liquefied petroleum gas	+2.2
Audiovisual apparatus	+1.1
Crude oil	+1.0
Gasoline	+1.0
Meats	-0.2

Chart 34

**Imports from the United States: Contribution to Overall Import Growth by Item**

Items	Contribution (percent changes from a year earlier)	Major factors
Semiconductors and other electronic devices	+1.1	Increase in imports of high value-added ICs
Telecommunications apparatus	+0.8	Increase in imports of apparatus for base stations for mobile phones
Power generating machinery	+0.6	Increase in imports of motor vehicle engines
Office machinery	+0.3	Increase in imports of networking hardware
Aircraft	-4.2	Decline in imports of jumbo jets

Chart 35

**Imports from the European Union: Contribution to Overall Import Growth by Item**

Items	Contribution (percent changes from a year earlier)	Major factors
Office machinery	+1.4	Increase in imports of PCs and related components
Meats	+0.6	Increase in imports of meats from Denmark following the suspension of imports from Korea caused by the outbreak of foot-and-mouth disease
Semiconductors and other electronic devices	+0.4	Increase in imports of IT-related components
Telecommunications apparatus	+0.3	Increase in imports of apparatus for base stations for mobile phones
Textiles	-0.5	Sluggish sales of expensive apparel in Japan
Alcoholic beverages	-0.4	Sluggish sales of wine in Japan

Chart 36

**Transportation**

bil. yen

	2000	Changes from a year earlier	99
Transportation	-1,025.2	-152.7	-872.6
Sea transport	-458.0	+58.7	-516.7
Credit	1,808.3	+105.4	1,703.0
Debit	2,266.3	+46.6	2,219.7
Air transport	-561.8	-211.2	-350.6
Passenger	-876.6	-183.5	-693.1
Credit	279.4	+21.4	258.1
Debit	1,156.1	+204.9	951.2
Freight	49.1	-26.4	75.5
Credit	286.7	+24.6	262.1
Debit	237.6	+51.0	186.6

Chart 37

**Travel**

bil. yen

	2000	Changes from a year earlier	99
Travel	-3,028.3	+300.4	-3,328.7
Credit	363.7	-27.2	390.9
Debit	3,392.0	-327.6	3,719.6



Chart 38

**Travelers Departing from and Entering Japan**

thous. people; figures in parentheses are % chg. from the same period of the previous year

	1998		99		2000	
	Jan.-June	July-Dec.	Jan.-June	July-Dec.	Jan.-June	July-Dec. <sup>1</sup>
Departure	7,429 (-8.3)	8,377 (-3.7)	7,676 (+3.3)	8,682 (+3.6)	8,313 (+8.3)	9,495 (+9.4)
Entry	1,938 (-4.4)	2,168 (-1.1)	2,126 (+9.7)	2,312 (+6.7)	2,286 (+7.5)	2,467 (+6.7)

Note: 1. Figures are preliminary.

Source: Japan National Tourist Organization (JNTO).

Chart 39

**Other Services**

bil. yen

	2000	Changes from a year earlier	99
Other services	-1,053.2	+896.0	-1,949.2
Financial services	104.9	+182.2	-77.3
Credit	308.9	+77.3	231.6
Debit	204.0	-105.0	308.9
Construction services	198.2	+35.4	162.7
Credit	601.1	-54.4	655.5
Debit	403.0	-89.9	492.8
Insurance services	-199.3	+76.3	-275.6
Credit	17.4	+25.9	-8.4
Debit	216.8	-50.4	267.2
Computer and information services	-161.6	+32.2	-193.8
Credit	169.1	+26.4	142.7
Debit	330.7	-5.8	336.6
Royalties and license fees	-84.6	+105.7	-190.3
Credit	1,098.9	+167.8	931.0
Debit	1,183.4	+62.1	1,121.3
Other business services	-724.4	+441.4	-1,165.8
Credit	1,892.0	+97.2	1,794.7
Debit	2,616.3	-344.2	2,960.5

# Japan's Balance of Payments for 2000

Chart 40  
Other Services

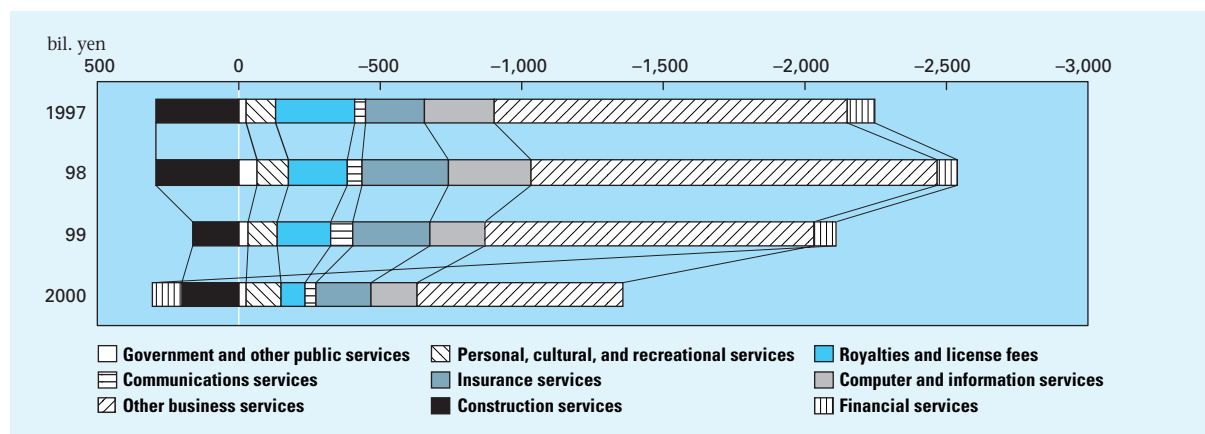


Chart 41  
Income

bil. yen

	2000	Changes from a year earlier	99
<b>Income</b>	6,201.5	+505.8	5,695.7
<b>Direct investment income</b>	608.1	+173.9	434.2
Dividends and distributed branch profits	697.4	+563.2	134.2
Credit	955.8	+463.2	492.6
Debit	258.4	-99.9	358.4
Reinvested earnings	-180.7	-380.7	200.0
Credit	-190.6	-269.8	79.3
Debit	-9.8	+110.9	-120.8
<b>Portfolio investment income</b>	4,815.7	+757.7	4,058.0
Bonds and notes	3,966.1	+3.7	3,962.4
Credit	5,157.0	+60.7	5,096.3
Debit	1,190.9	+57.0	1,133.9
Money market instruments and financial derivatives	356.4	+855.6	-499.2
Credit	12,487.6	+1,123.5	11,364.1
Debit	12,131.2	+267.9	11,863.3
<b>Other investment income</b>	778.1	-421.0	1,199.1
Interest on loans	757.0	-151.7	908.7
Interest on deposits	-75.8	-26.1	-49.7

Chart 42  
Income

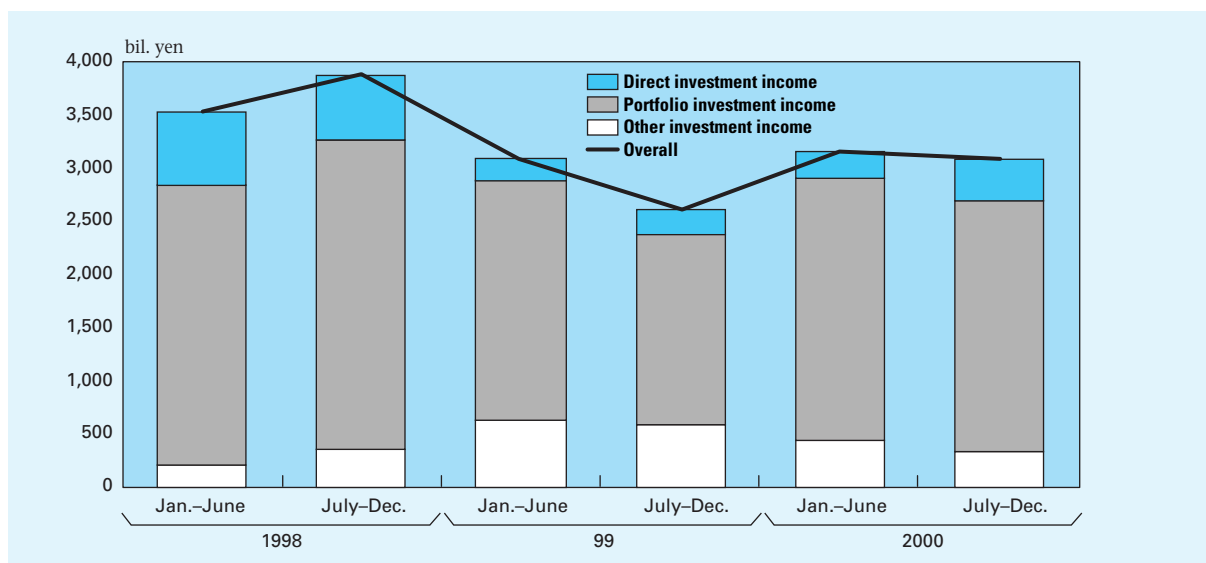
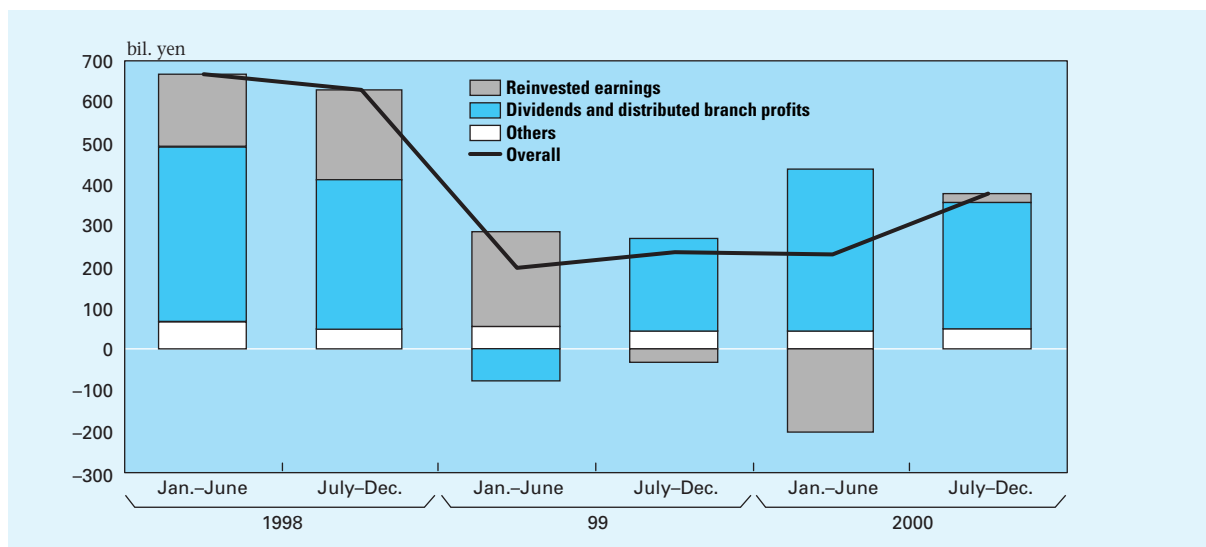


Chart 43  
Direct Investment Income



# Japan's Balance of Payments for 2000

Chart 44  
Portfolio Investment Income

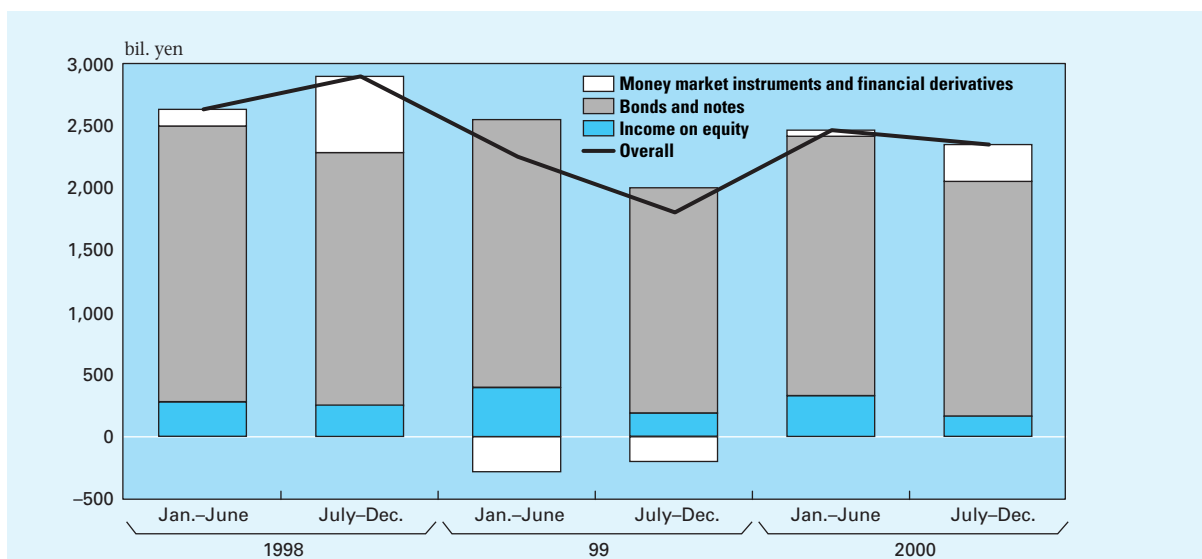


Chart 45  
Other Investment Income

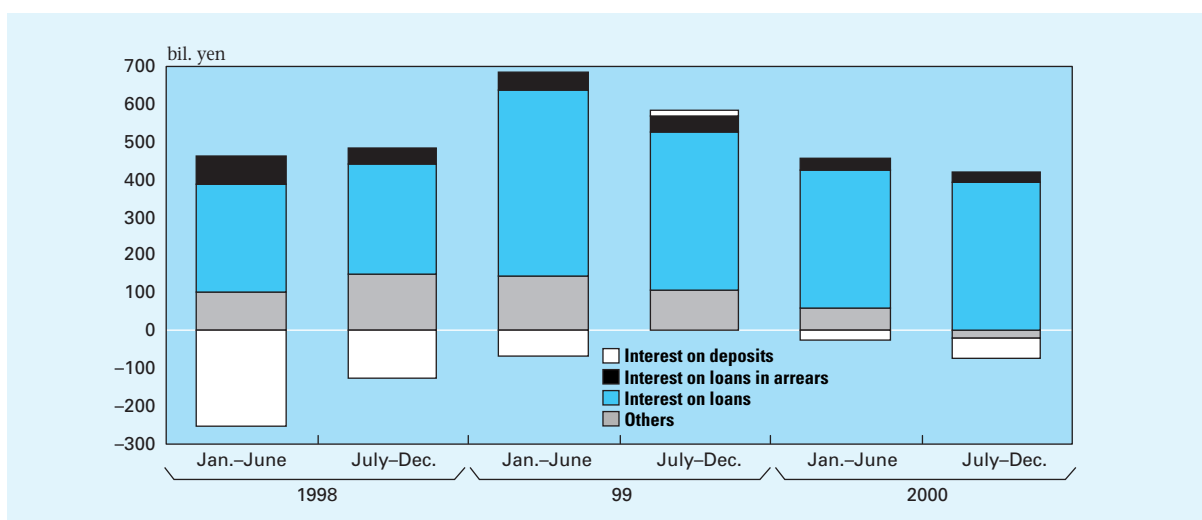


Chart 46  
Current Transfers

bil. yen

	2000	Changes from a year earlier	99
Current transfers	-1,057.8	+329.1	-1,386.9
General government sector	-314.0	+303.6	-617.6
Credit	20.1	+5.5	14.6
Debit	334.0	-298.2	632.2
Other sectors	-743.8	+25.5	-769.3
Credit	774.4	+84.5	689.9
Debit	1,518.2	+59.0	1,459.2

Chart 47  
Current Transfers

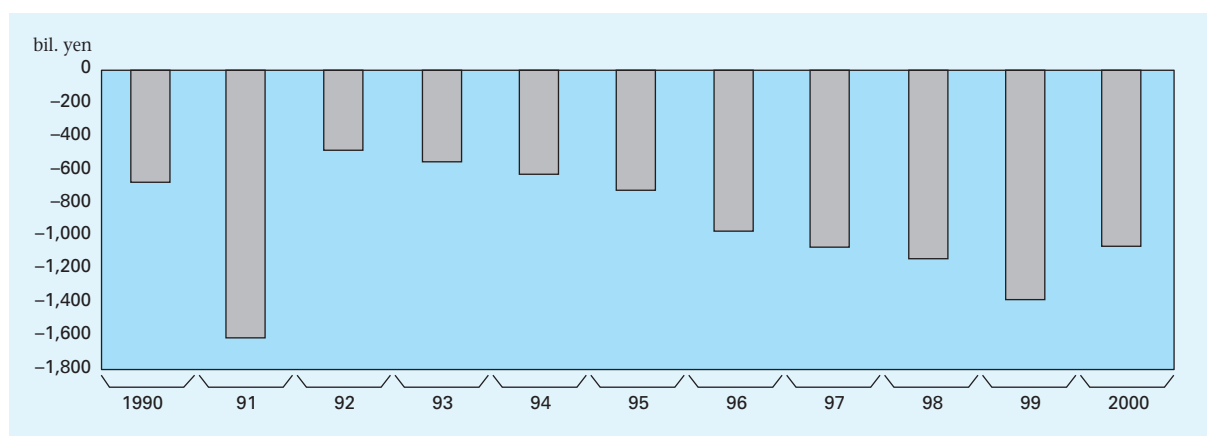


Chart 48  
Capital and Financial Account<sup>1</sup>

bil. yen

	2000			99		
Current account	12,620.7			12,173.8		
Capital and financial account	-9,134.3	Assets (outward investment)	Liabilities (inward investment)	-5,396.0	Assets (outward investment)	Liabilities (inward investment)
Financial account	-8,152.1			-3,487.2		
Direct investment	-2,661.7	-3,544.0	882.3	-1,139.3	-2,590.6	1,451.3
Portfolio investment <sup>2</sup>	-4,554.8	-11,824.8	7,270.0	-5,517.5	-18,034.4	12,516.9
Of which						
Equity securities	-2,626.5	-2,177.2	-449.2	7,729.6	-3,657.0	11,386.6
Bonds and notes	561.9	-7,984.7	8,546.5	-10,294.1	-8,648.2	-1,645.9
Money market instruments	-2,279.3	-1,346.4	-932.9	-3,501.0	-4,250.0	749.0
Other investment <sup>2</sup>	-1,051.1	2,072.9	-3,124.0	3,169.7	26,840.8	-23,671.1
Of which						
Loans	4,351.1	8,573.7	-4,222.6	9,600.7	25,562.4	-15,961.6
Currency and deposits	-4,352.6	-5,067.3	714.7	-6,470.0	373.5	-6,843.5
Capital account	-982.2			-1,908.8		
Changes in reserve assets	-5,260.9			-8,796.3		
Errors and omissions	1,774.5			2,018.4		

Notes: 1. Negative figures show capital outflow. Capital outflow of assets means an outward investment by residents and an increase in reserve assets, whereas capital outflow of liabilities means the withdrawal of inward investment by nonresidents.

2. Figures exclude securities lending (see Footnote 12 in the text for details).

Chart 49

## Outward and Inward Direct Investment

	1996		97		98		99		2000		Avg. in the 1990s
	Value (bil. yen)	Percent changes from a year earlier	Value (bil. yen)	Percent changes from a year earlier	Value (bil. yen)	Percent changes from a year earlier	Value (bil. yen)	Percent changes from a year earlier	Value (bil. yen)	Percent changes from a year earlier	Value (bil. yen)
Outward direct investment	-2,548.5	+19.7	-3,144.9	+23.4	-3,161.6	+0.5	-2,590.6	-18.1	-3,544.0	+36.8	-3,077.9
Inward direct investment	24.8	6.4 times	390.1	15.7 times	417.9	+7.1	1,451.3	3.5 times	882.3	-39.2	318.6
Inward/outward (percent)	1.0		12.4		13.2		56.0		24.9		10.4

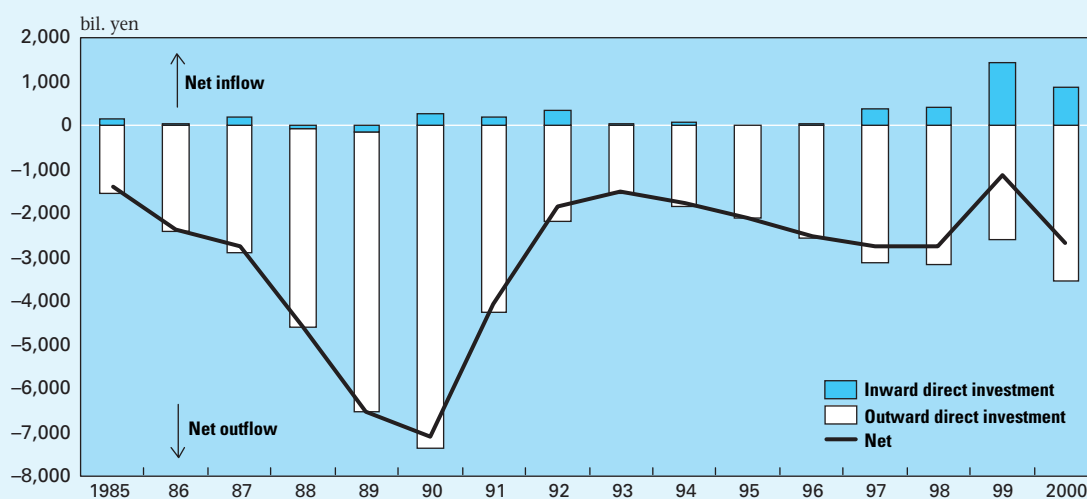
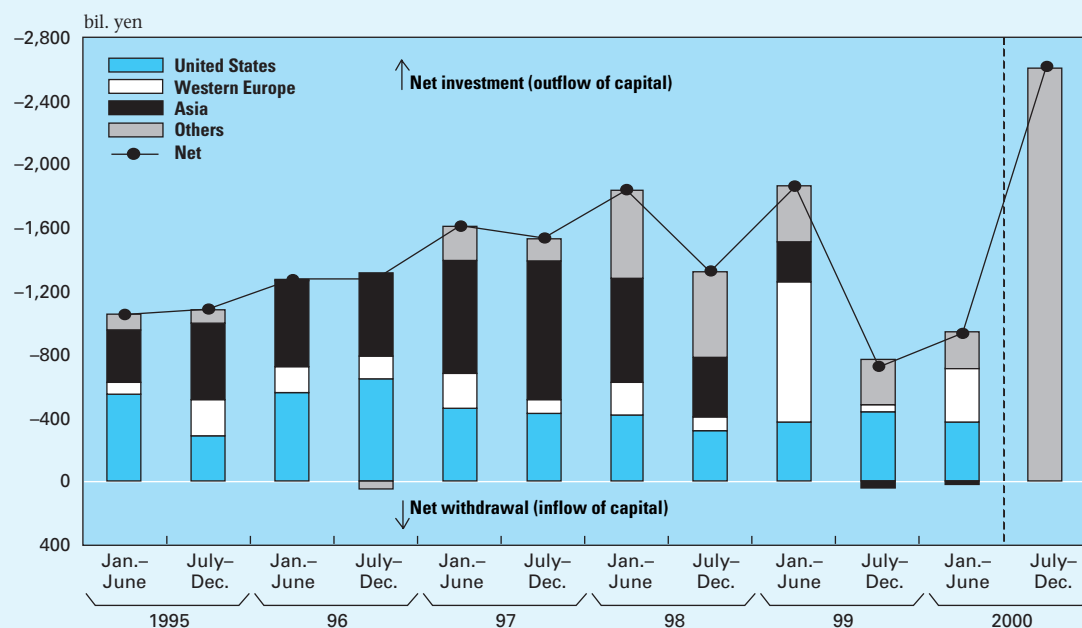




Chart 50

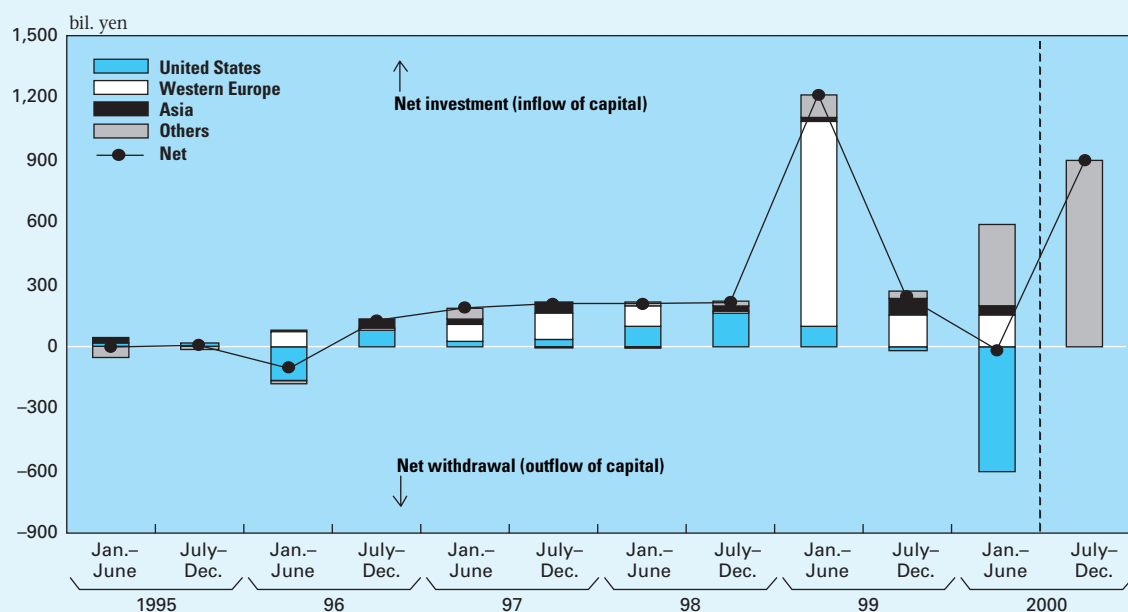
**Outward Direct Investment by Residents (By Area)<sup>1</sup>**

bil. yen

		United States	Western Europe	Asia	Others	Overall outward direct investment
1995	Jan.-June	-553.4	-78.5	-321.9	-94.8	-1,048.6
	July-Dec.	-282.9	-237.4	-477.6	-82.1	-1,080.0
96	Jan.-June	-558.7	-162.1	-535.1	-19.5	-1,275.3
	July-Dec.	-647.7	-146.4	-524.8	45.8	-1,273.1
97	Jan.-June	-464.4	-214.7	-716.9	-212.6	-1,608.7
	July-Dec.	-430.0	-86.9	-869.7	-149.6	-1,536.2
98	Jan.-June	-420.1	-204.2	-659.3	-551.4	-1,835.0
	July-Dec.	-323.9	-87.1	-369.6	-546.1	-1,326.6
99	Jan.-June	-370.9	-883.8	-260.2	-348.5	-1,863.4
	July-Dec.	-437.2	-52.1	36.8	-274.7	-727.2
2000	Jan.-June	-380.0	-328.6	15.5	-239.9	-933.0
	July-Dec.	n.a.	n.a.	n.a.	n.a.	-2,611.0

Note: 1. Detailed figures for the second half of 2000 are scheduled to be released in June 2001.  
Negative figures show a net outflow of capital.

**Chart 51**  
**Inward Direct Investment by Nonresidents (By Area)<sup>1</sup>**



bil. yen

		United States	Western Europe	Asia	Others	Overall inward direct investment
1995	Jan.-June	15.1	0.0	29.2	-43.9	0.4
	July-Dec.	12.4	3.1	1.1	-13.1	3.5
96	Jan.-June	-165.7	69.4	7.8	-10.9	-99.4
	July-Dec.	80.7	8.3	40.4	-5.1	124.3
97	Jan.-June	25.9	78.8	28.6	50.0	183.3
	July-Dec.	37.5	119.2	58.5	-8.4	206.8
98	Jan.-June	98.1	97.6	19.1	-9.2	205.6
	July-Dec.	164.9	4.5	31.4	11.5	212.3
99	Jan.-June	96.7	987.9	16.2	107.8	1,208.6
	July-Dec.	-21.9	154.0	79.3	31.3	242.7
2000	Jan.-June	-607.5	155.4	44.6	389.0	-18.5
	July-Dec.	n.a.	n.a.	n.a.	n.a.	900.9

Note: 1. Detailed figures for the second half of 2000 are scheduled to be released in June 2001.  
Negative figures show a net outflow of capital.

Chart 52

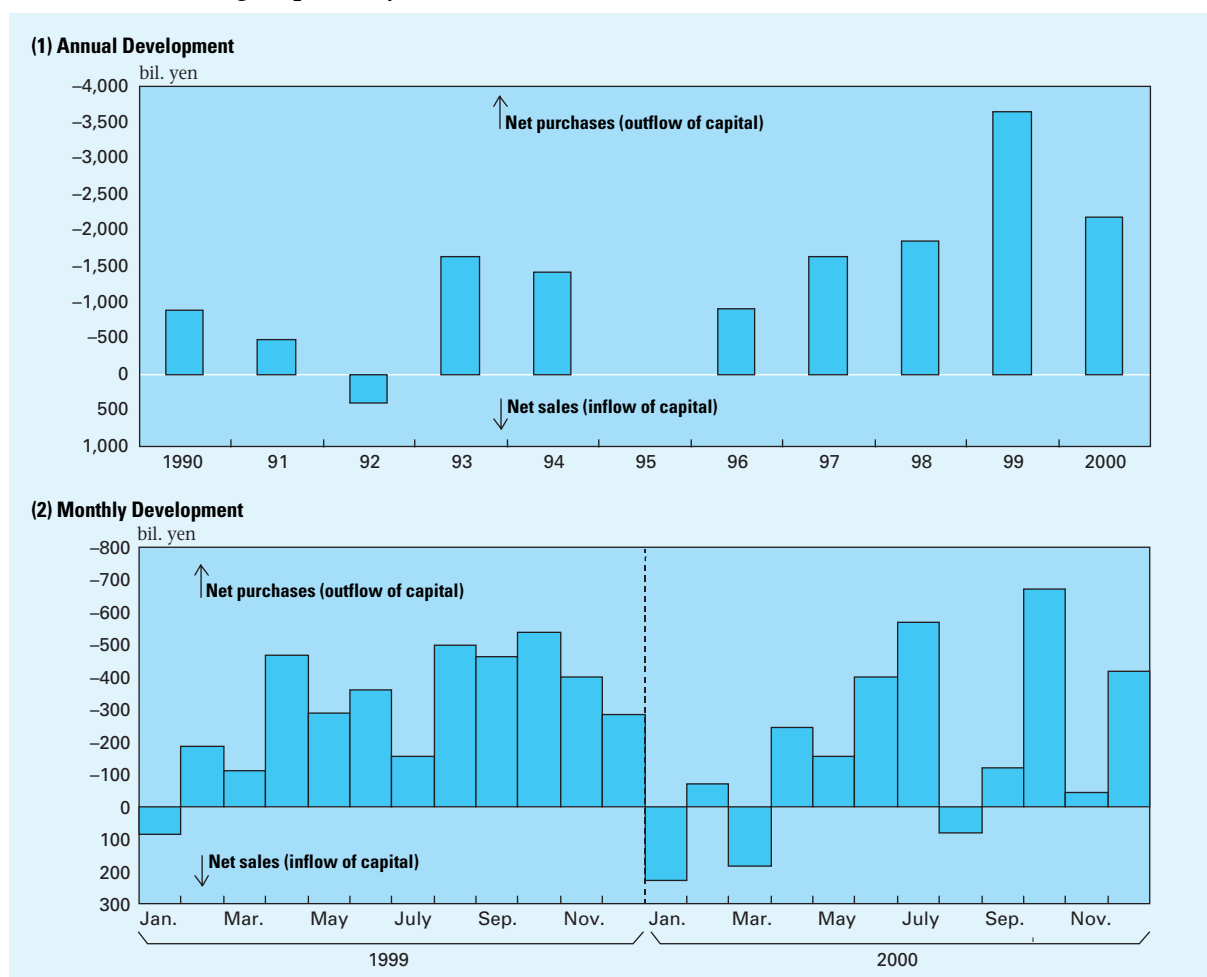
**Investment in Foreign Equities by Residents**

Chart 53

**Investment in Foreign Equities by Residents<sup>1</sup>**

bil. yen

	1997	98	99	2000
Life insurance companies	-39.0	-611.3	-353.9	93.1
Trust banks <sup>2</sup>	-1,930.8	-881.4	-3,050.6	-1,883.7
Investment trusts	123.9	-416.0	9.6	-282.5
Others <sup>3</sup>	226.2	84.7	-334.2	-52.2

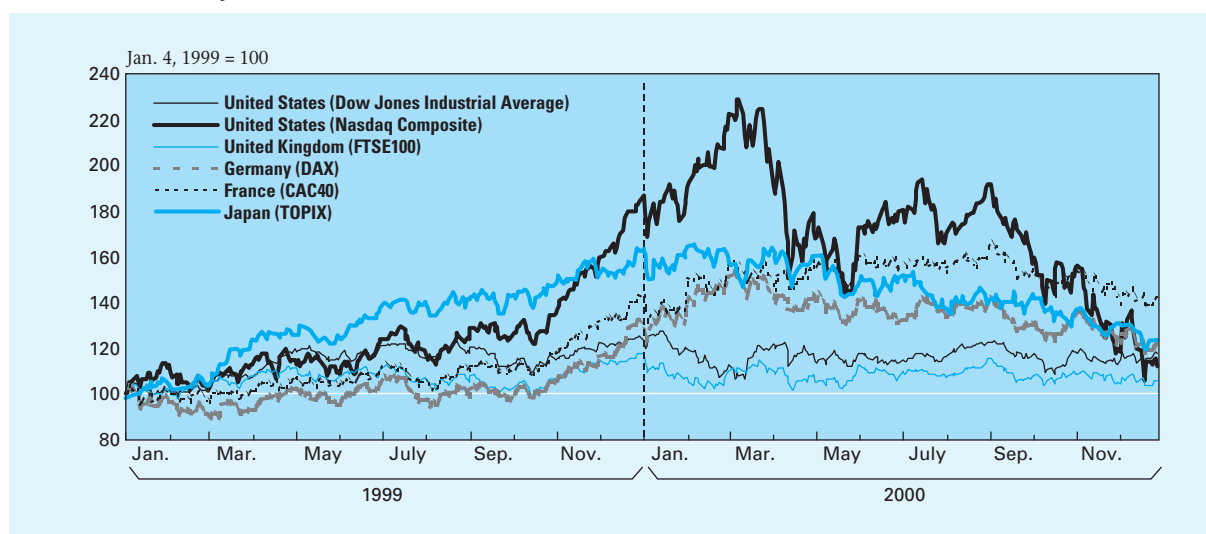
Notes: 1. Negative figures show outflow of capital.

2. Excluding figures for bank accounts.

3. Includes securities companies, individuals, and nonfinancial corporations.

Source: Ministry of Finance, "Securities Investment at Home and Abroad."

**Chart 54**  
**Stock Prices in Major Industrial Countries**



**Chart 55**  
**Unrealized Profits/Losses on Investment in Foreign Equities by Residents (Yen Basis)<sup>1</sup>**

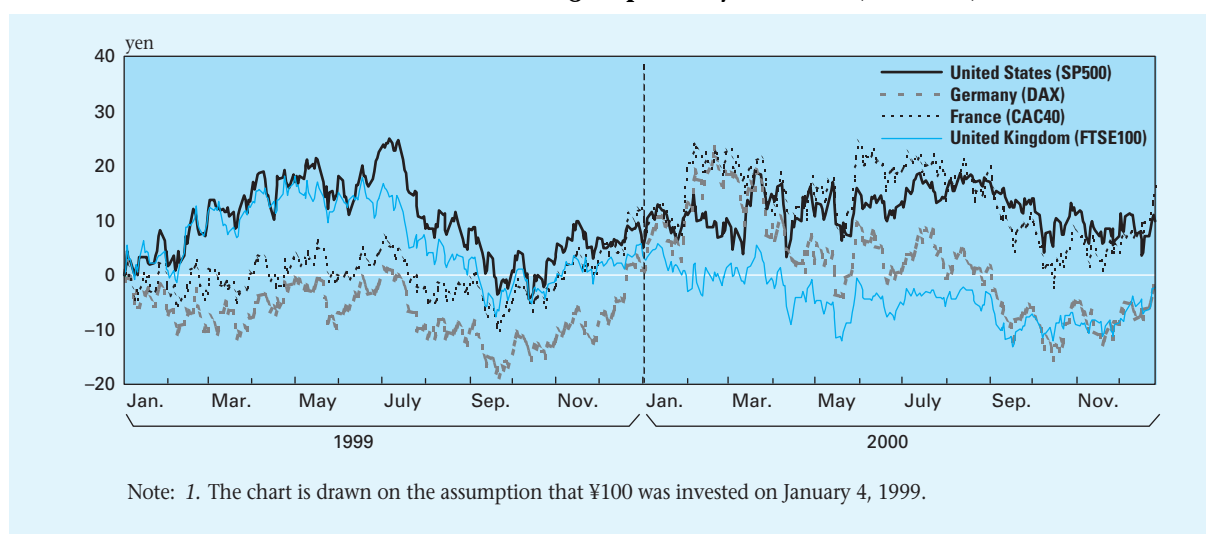
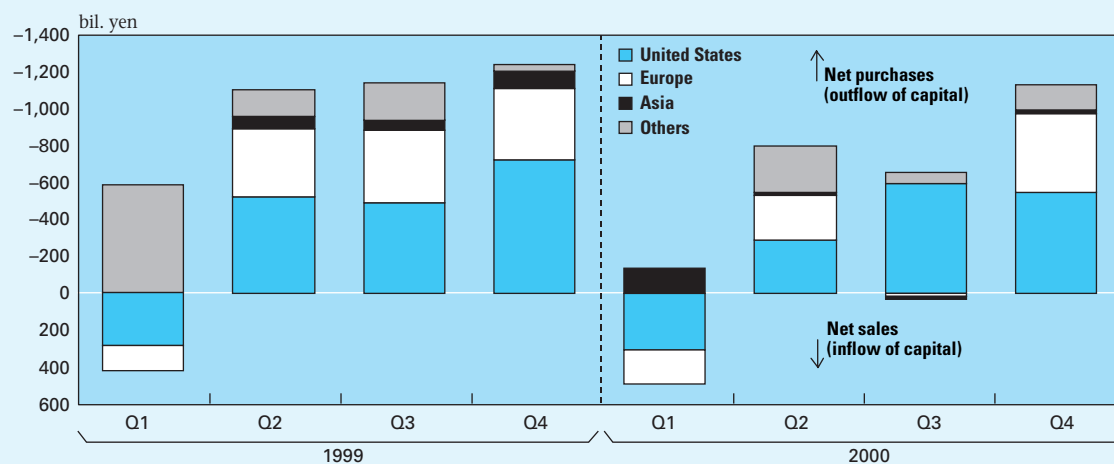


Chart 56

**Investment in Foreign Equities by Residents (By Area)<sup>1</sup>**

bil. yen	1997	98	99	2000	IIP <sup>2</sup> (end of 1999)
United States	-1,310.1	-530.3	-1,462.1	-1,133.8	14,620.6
Europe <sup>3</sup>	-491.6	-836.4	-1,020.4	-465.0	8,957.8
Of which Germany	88.3	-96.3	-154.5	95.9	1,498.1
France	-87.7	-227.8	-246.8	-7.1	1,857.4
United Kingdom	-233.8	-137.5	-368.8	-344.9	3,540.2
Asia <sup>4</sup>	488.5	198.7	-218.9	-155.7	1,140.7

Notes: 1. Negative figures show a net outflow of capital.

2. International investment position (IIP) includes securities lending.

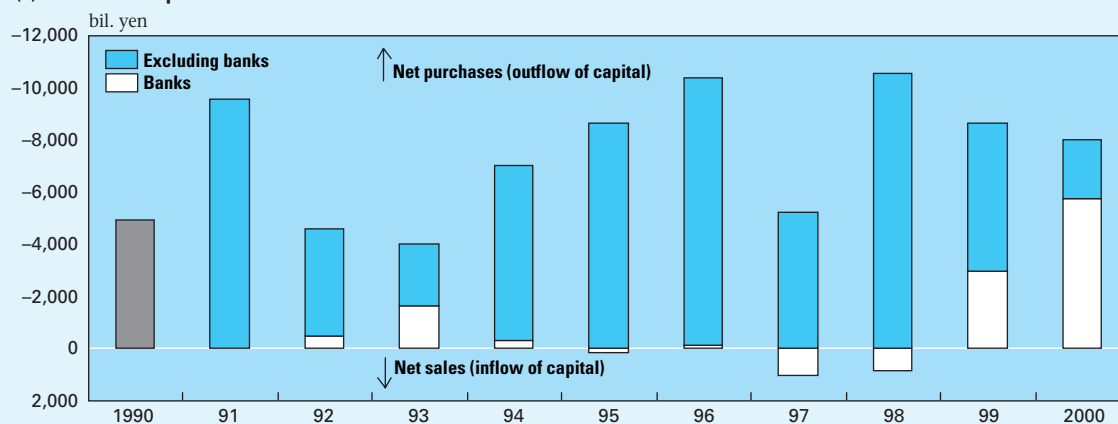
3. Figures are the total for Germany, France, the United Kingdom, the Netherlands, Luxembourg, and Switzerland, except for IIP that includes Belgium in addition to these countries.

4. Figures are the total for Hong Kong, Korea, Thailand, Malaysia, and Singapore.

Source: Ministry of Finance, "Securities Investment at Home and Abroad."

Chart 57  
Investment in Foreign Bonds and Notes by Residents<sup>1,2</sup>

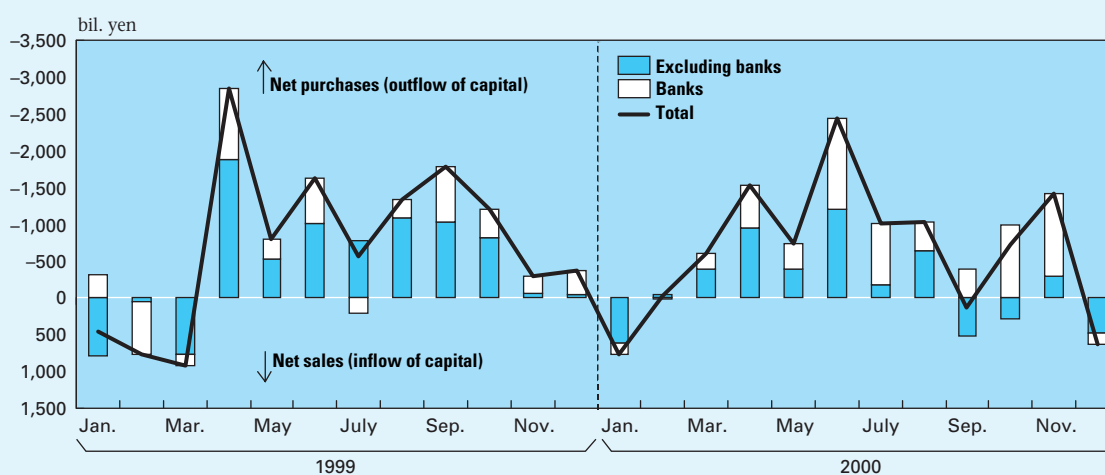
## (1) Annual Development



bil. yen

	1997	98	99	2000	IIP <sup>3</sup> (end of 1999)
Overall investment	-4,221.4	-9,728.2	-8,648.2	-7,984.7	91,743.4
Banks	1,023.4	853.5	-2,995.3	-5,780.2	20,336.3
Other sectors	-5,515.6	-11,015.8	-6,188.1	-2,622.4	63,946.7

## (2) Monthly Development



Notes: 1. Breakdown figures by sector are not available for 1990.

2. Negative figures show a net outflow of capital.

3. International investment position (IIP) includes securities lending, and issuance and redemption of bonds and notes issued in Japan by nonresidents.

Chart 58

# Long-Term Interest Rates in Major Industrial Countries (10-Year Government Bonds)

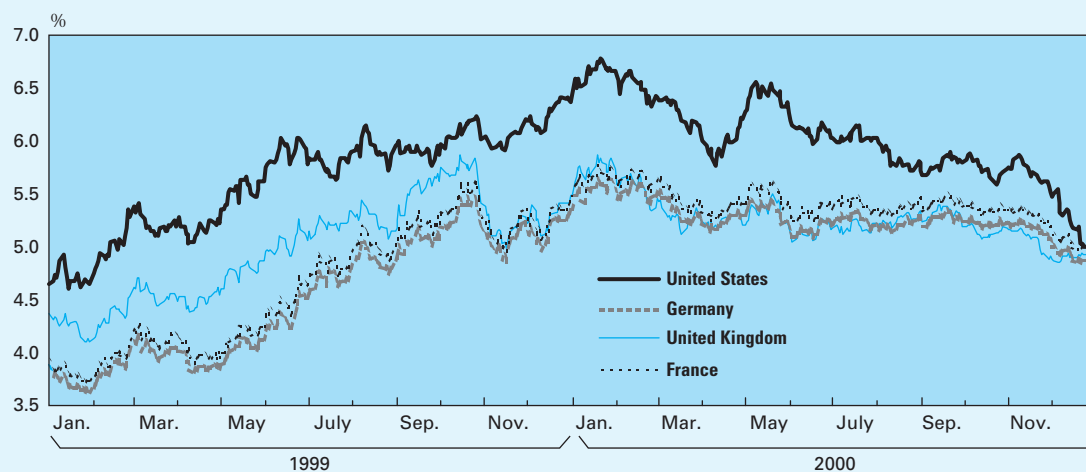


Chart 59

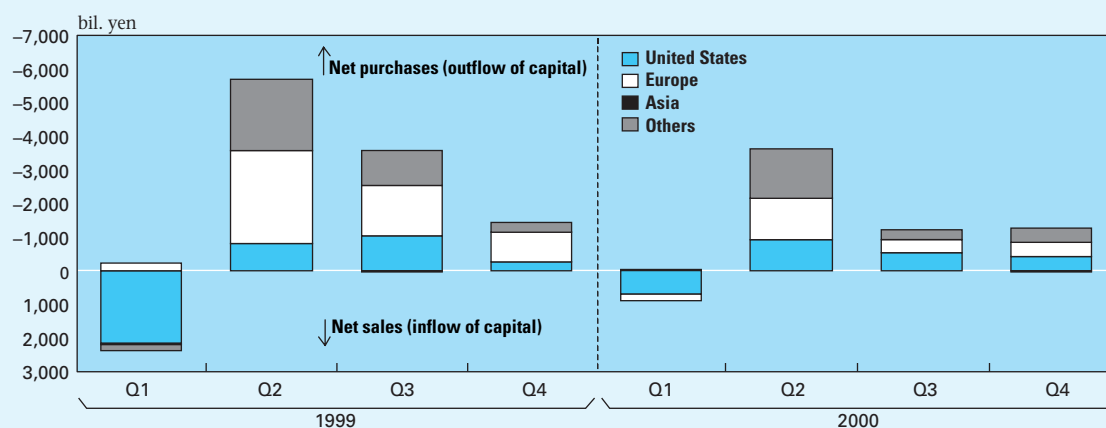
# Unrealized Profits/Losses on Investment in Foreign Bonds by Residents (Yen Basis)<sup>1</sup>



Note: 1. The chart is drawn on the assumption that investment equivalent to ¥100 was made on January 4, 1999 in 10-year U.S. government bonds to be redeemed on May 15, 2008 and in 10-year German government bonds to be redeemed on July 4, 2008.

Chart 60

## Investment in Foreign Bonds and Notes by Residents (By Area)<sup>1</sup>



bil. yen

	1997	98	99	2000	IIP <sup>2</sup> (end of 1999)
United States	-2,471.5	-3,309.8	38.7	-1,240.0	26,966.1
Europe <sup>3</sup>	-2,796.1	-7,270.1	-5,406.4	-1,825.5	31,092.9
Of which					
Germany	-546.9	-3,967.6	-2,074.5	-1,309.2	10,179.4
France	28.7	-1,456.8	-1,424.2	-603.7	4,134.8
United Kingdom	-1,335.4	-853.5	-336.5	358.1	7,417.7
Asia <sup>4</sup>	-57.1	69.9	74.6	58.3	1,492.7

### [Reference] Comparison of the Definitions in the Balance of Payments and Securities Investment at Home and Abroad

	Balance of Payments	Securities Investment at Home and Abroad
Criteria for determining inward/outward investment	Issuer: residents/nonresidents	Denomination of securities: foreign currency/yen
Outward portfolio investment	Residents' sales and purchases of <u>securities issued by nonresidents</u>	Residents' sales and purchases of <u>securities denominated in foreign currency (including Euro-yen)</u>
Inward portfolio investment	Nonresidents' sales and purchases of <u>securities issued by residents</u>	Residents' sales and purchases of <u>securities denominated in yen</u>

Notes: 1. Negative figures show a net outflow of capital.

2. International investment position (IIP) includes securities lending, and issuance and redemption of bonds and notes issued in Japan by nonresidents.

3. Figures are the total for Germany, France, the United Kingdom, the Netherlands, Luxembourg, and Switzerland, except for IIP that includes Belgium in addition to these countries.

4. Figures are the total for Hong Kong, Korea, Thailand, Malaysia, and Singapore.

5. For example, in the *Balance of Payments*, a purchase by a nonresident of foreign-currency denominated securities issued by a resident is recorded under "investment in Japanese securities by nonresidents" as a nonresident's purchase of securities issued by a resident. In *Securities Investment at Home and Abroad*, the same transaction is recorded under "investment in foreign securities by residents" as a resident's sale of securities denominated in foreign currency.

Source: Ministry of Finance, "Securities Investment at Home and Abroad."



Chart 61

# Issuance and Redemption of Bonds and Notes Issued in Japan by Nonresidents

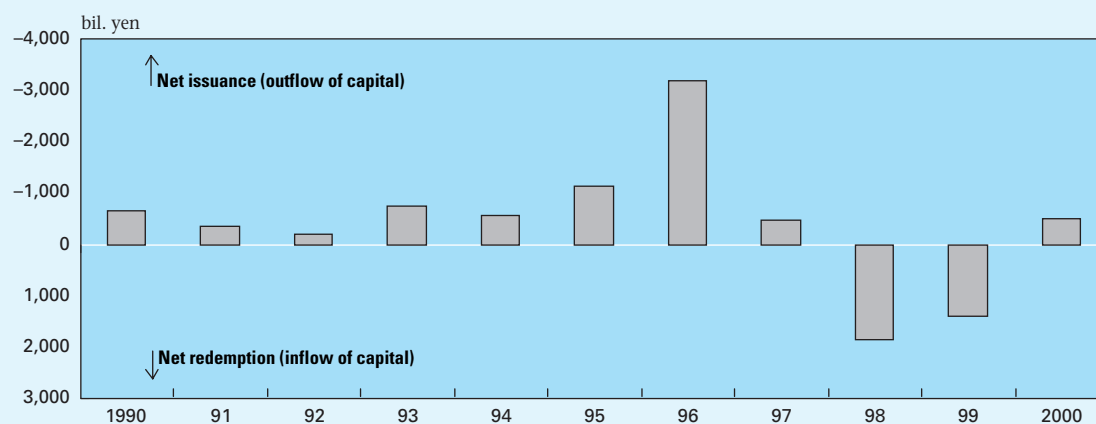
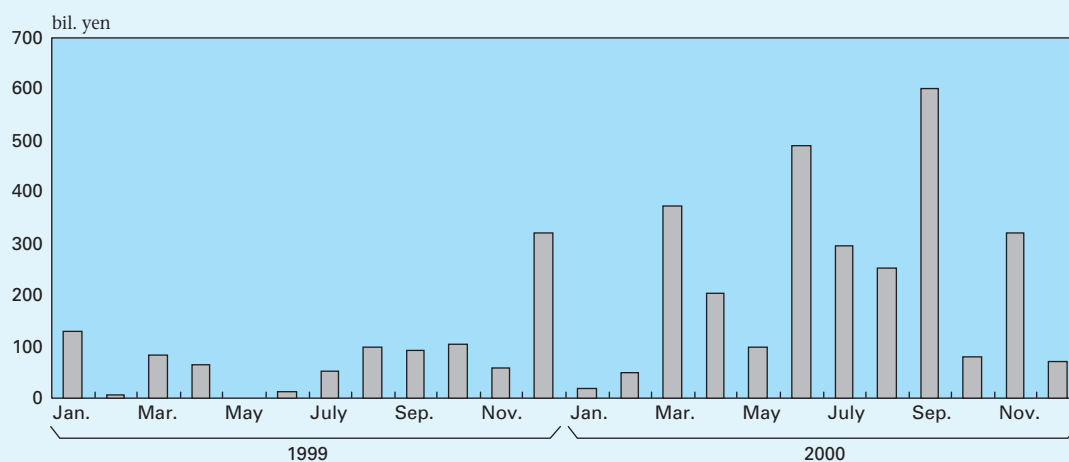


Chart 62

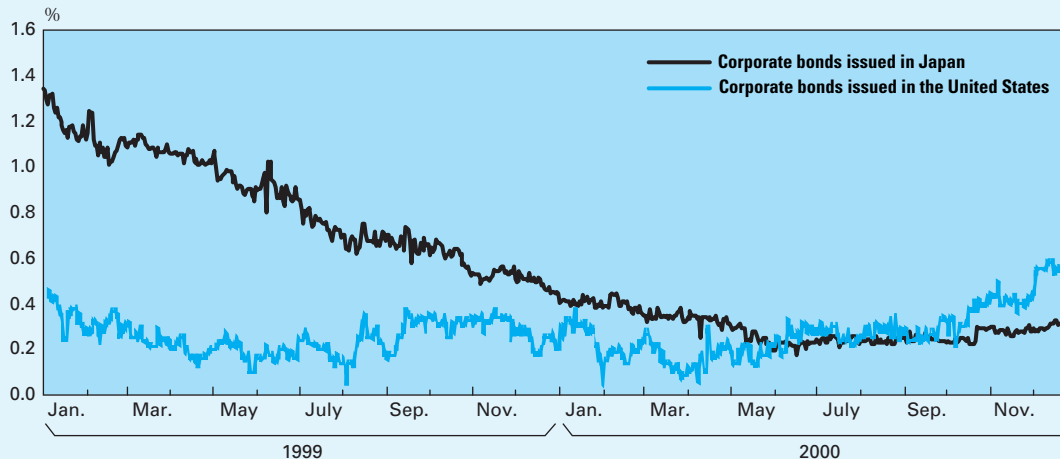
# Issuance of Yen-Denominated Bonds and Notes Issued in Japan by Nonresidents



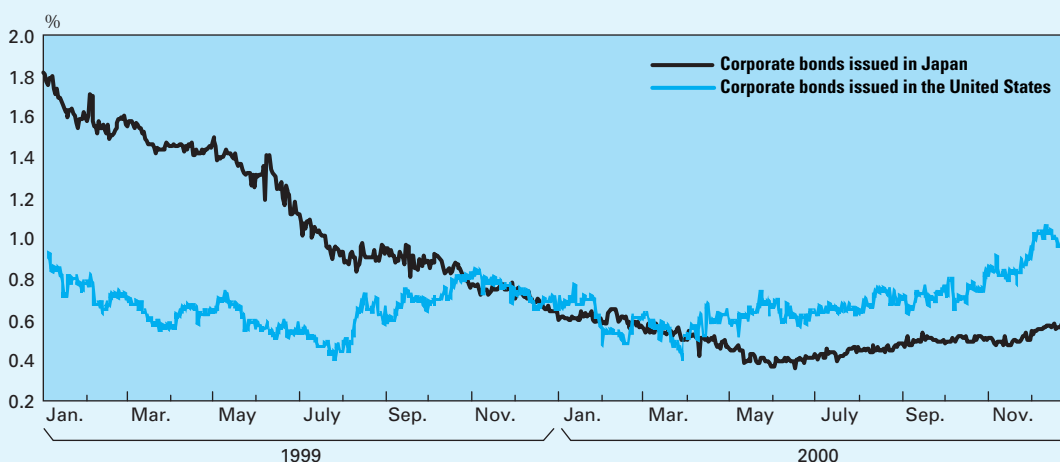
Source: Ministry of Finance, "Securities Investment at Home and Abroad."

Chart 63  
Cost of Issuing Corporate Bonds in Japan and the United States<sup>1</sup>

(1) A-Rated Bonds<sup>2</sup>



(2) Baa-Rated Bonds<sup>2</sup>



Notes: 1. Chart 63 (1) and (2) shows borrowing costs in terms of the premium over LIBOR (London Interbank Offered Rate). For yen bonds issued in Japan, fixed-rate interest in yen is converted by cross-currency interest rate swaps into floating-rate interest in U.S. dollars. For U.S. dollar bonds issued in the United States, fixed-rate interest is converted by interest rate swaps into floating-rate interest.

2. Ratings by Moody's Investors Service Inc.

Sources: Japan Securities Dealers Association;  
Bloomberg.

Chart 64

## Investment in Foreign Money Market Instruments by Residents

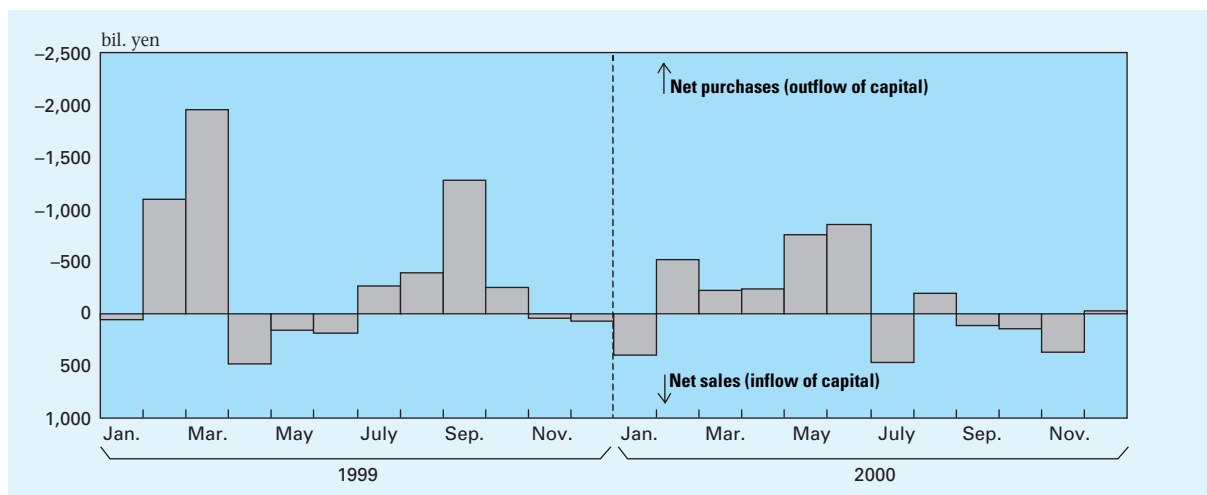


Chart 65

## Investment in Japanese Equities by Nonresidents

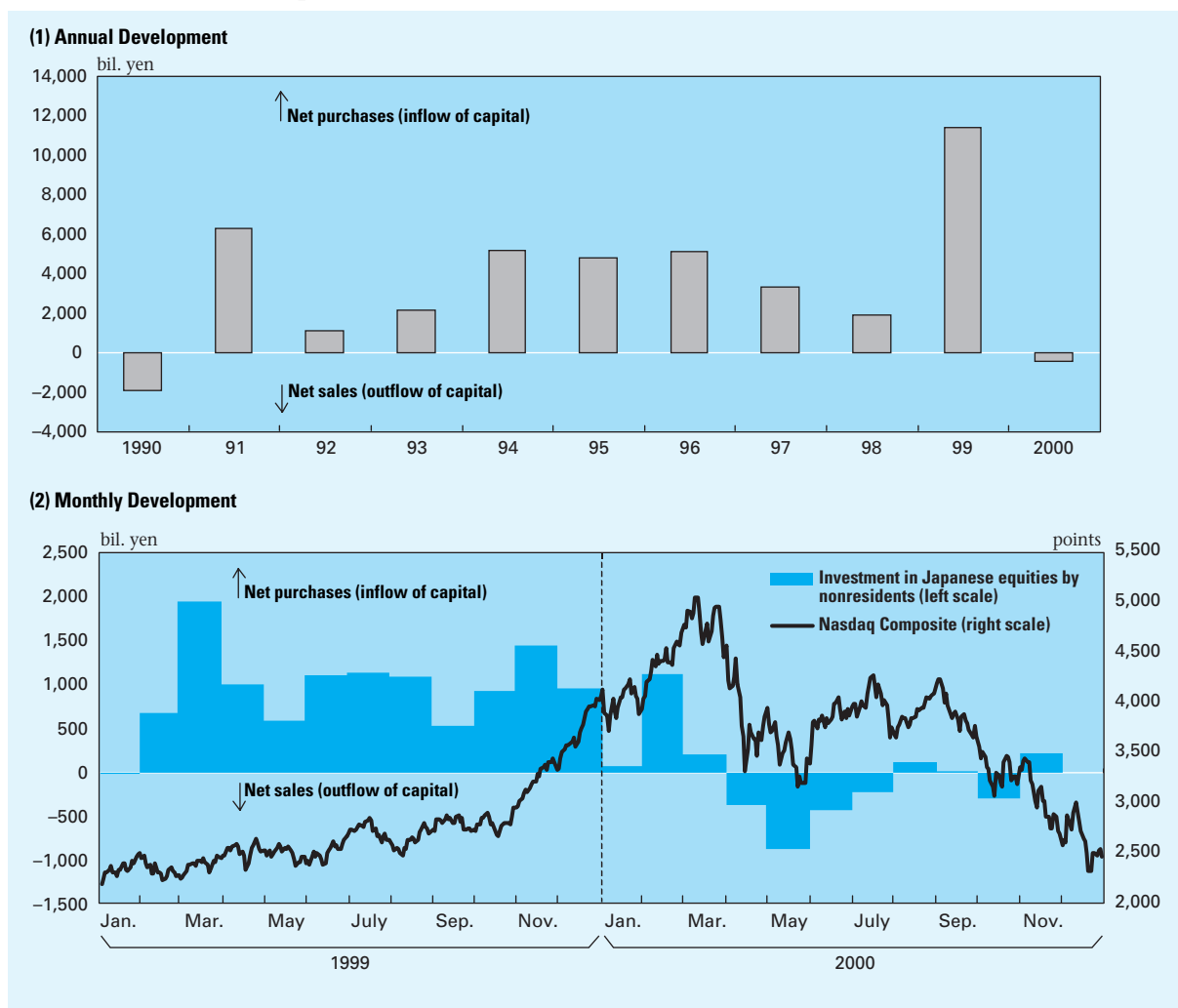


Chart 66  
Nikkei 225 Stock Average and TOPIX<sup>1</sup>

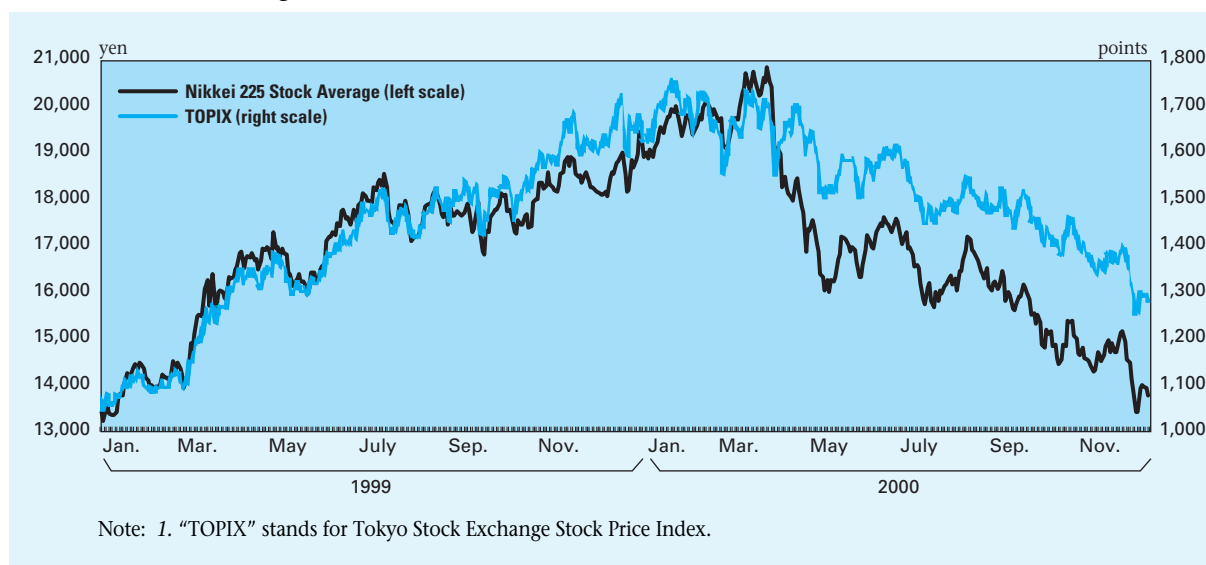


Chart 67  
Performance of Stocks in the Electrical Machinery and High-Technology Sectors (U.S. Dollar Basis)<sup>1</sup>

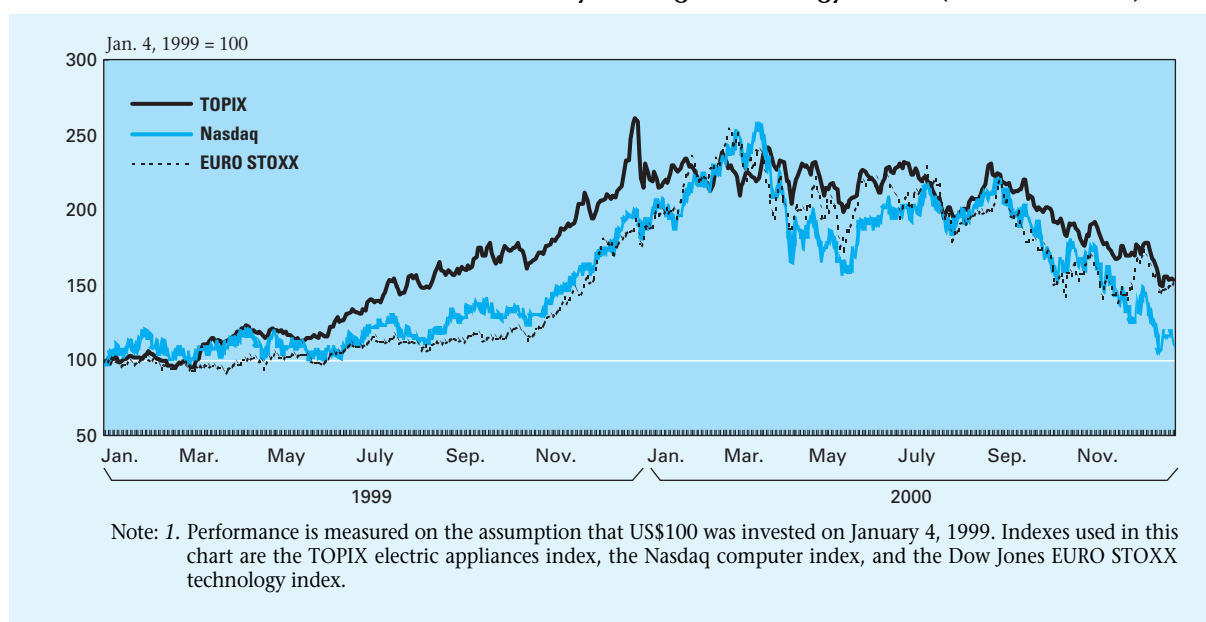
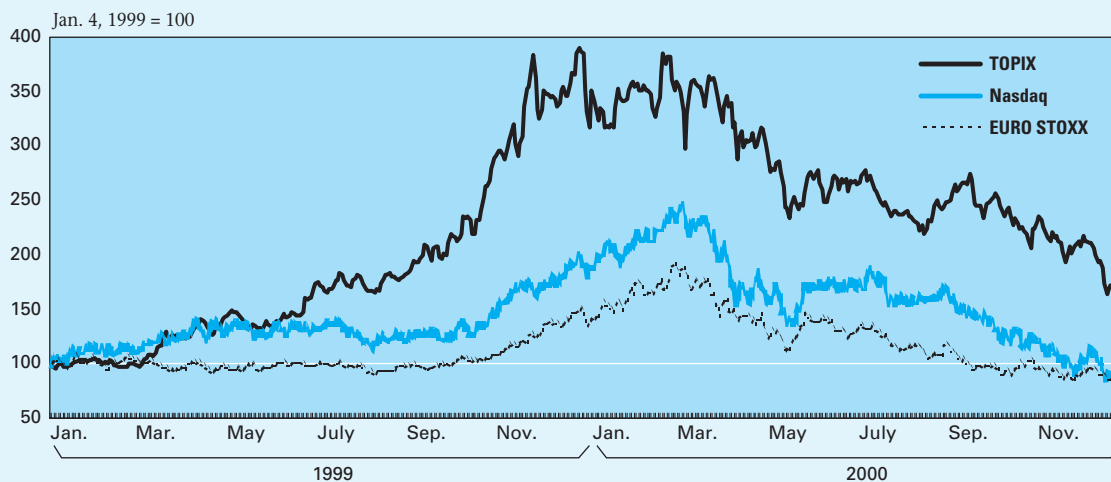


Chart 68

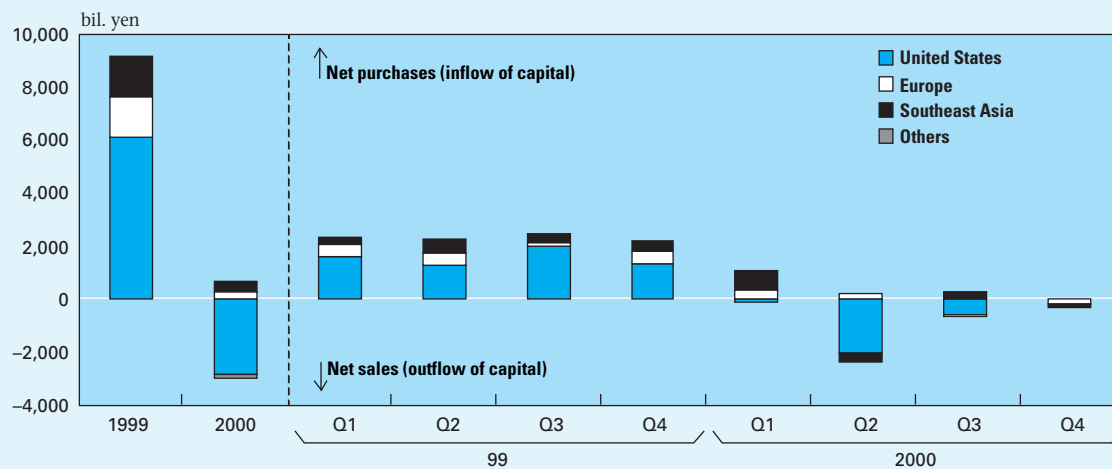
# Performance of Stocks in the Telecommunications Sector (U.S. Dollar Basis)<sup>1</sup>



Note: 1. Performance is measured on the assumption that US\$100 was invested on January 4, 1999. Indexes used in this chart are the TOPIX communications index, the Nasdaq telecommunications index, and the Dow Jones EURO STOXX telecommunications index.

Chart 69

# Investment in Japanese Equities by Nonresidents (By Area)



Source: Tokyo Stock Exchange, "Investments in Listed Stocks by Nonresidential Investors (By Region)."

**Chart 70**  
**Investment in Japanese Bonds and Notes by Nonresidents**

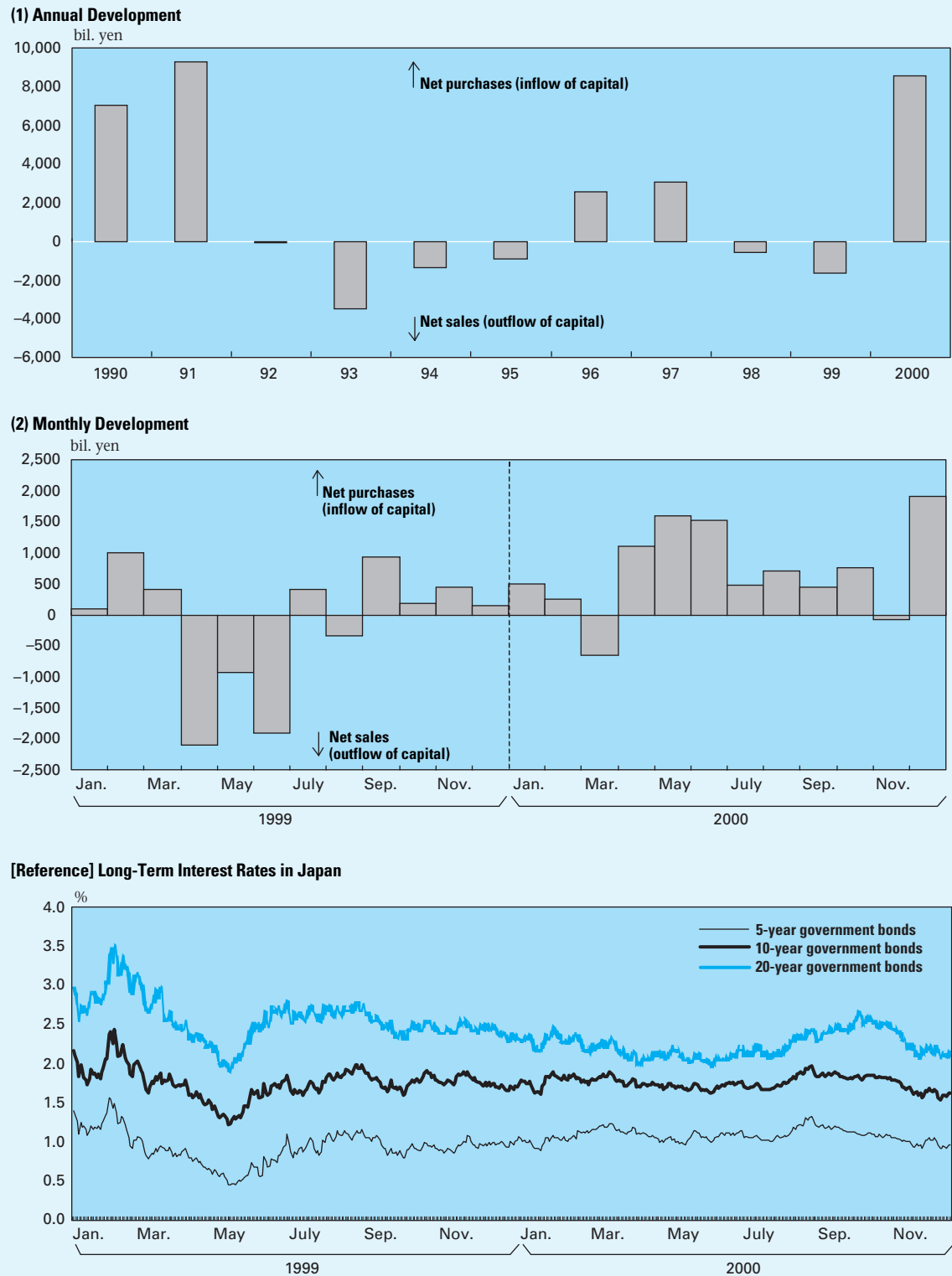
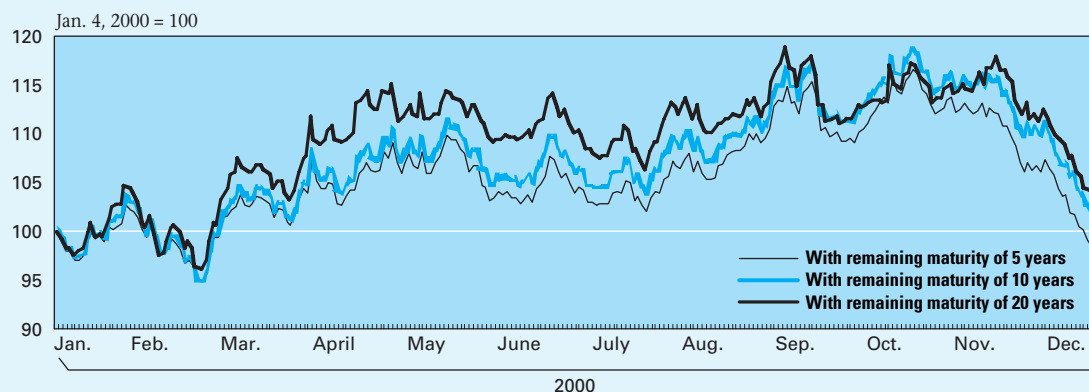
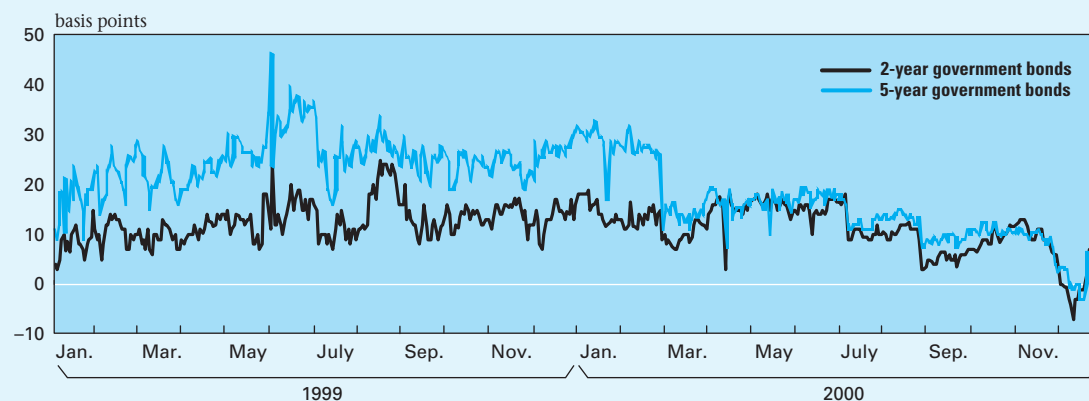


Chart 71

**Performance of Japanese Government Bonds (Euro Basis)<sup>1</sup>**

Note: 1. Performance is measured on the assumption that 100 euros were invested on January 4, 2000. Issues used in this chart are the 178th and 218th issues of 10-year government bonds, and the 44th issue of 20-year government bonds.

Chart 72

**Swap Spread**

Note: 1. Swap spread = swap rate – government bond yields.  
Source: Bloomberg.

Chart 73

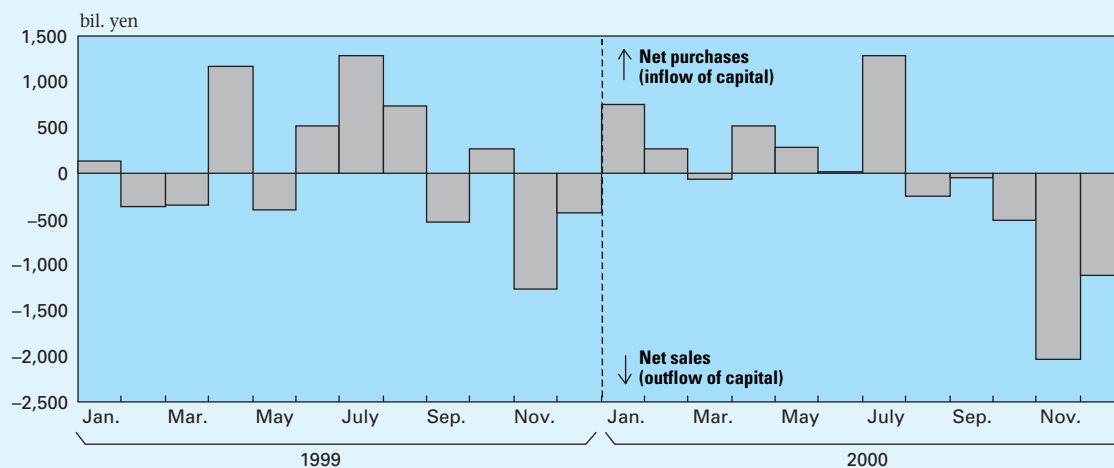
**Investment in Japanese Money Market Instruments by Nonresidents**

Chart 74  
Spread between Interest Rates on Three-Month Financing Bills and Cost of Raising Yen Funds

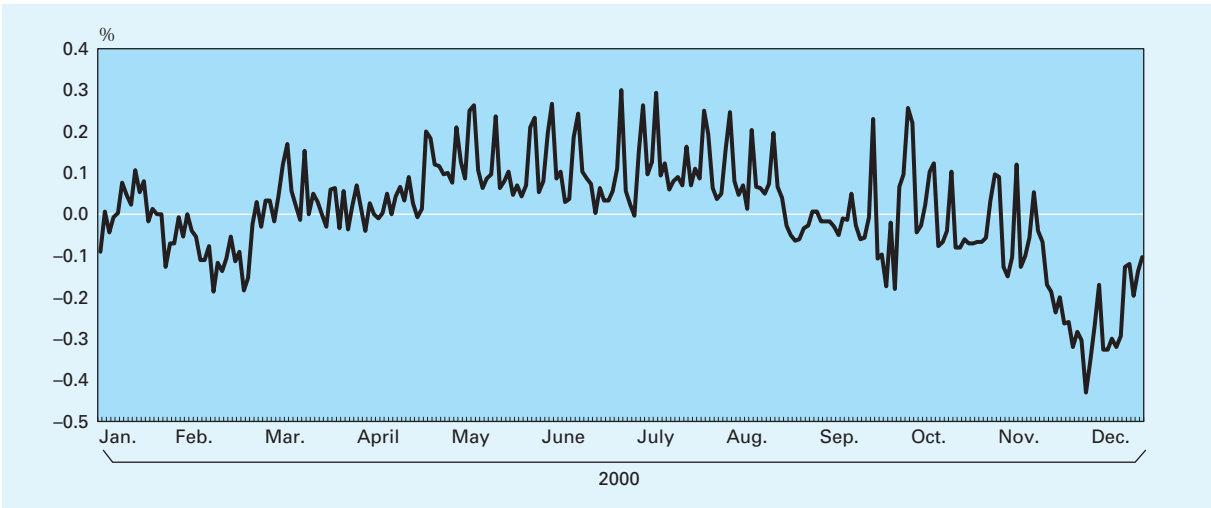


Chart 75  
Other Investment

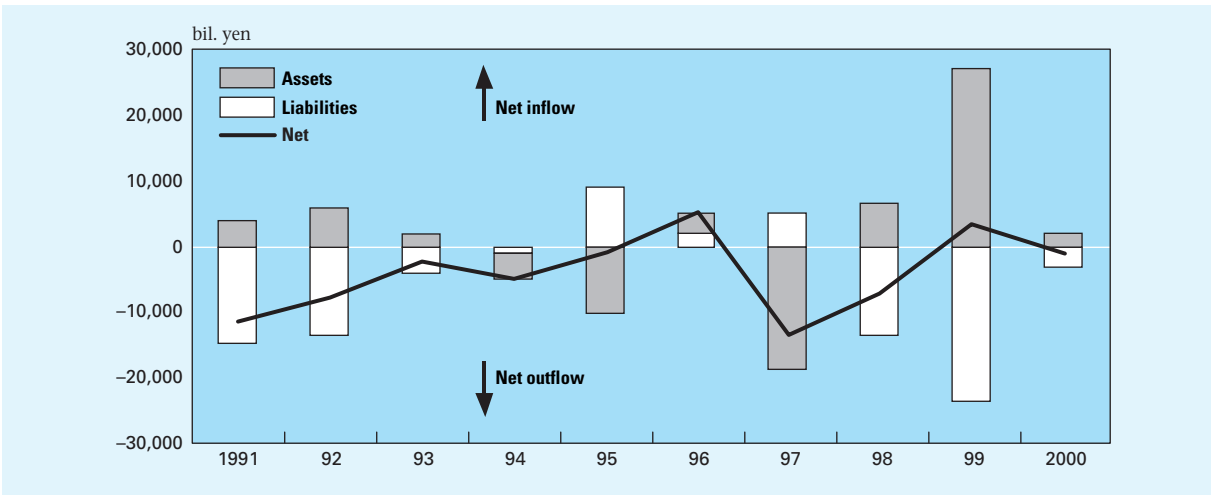


Chart 76  
Loans

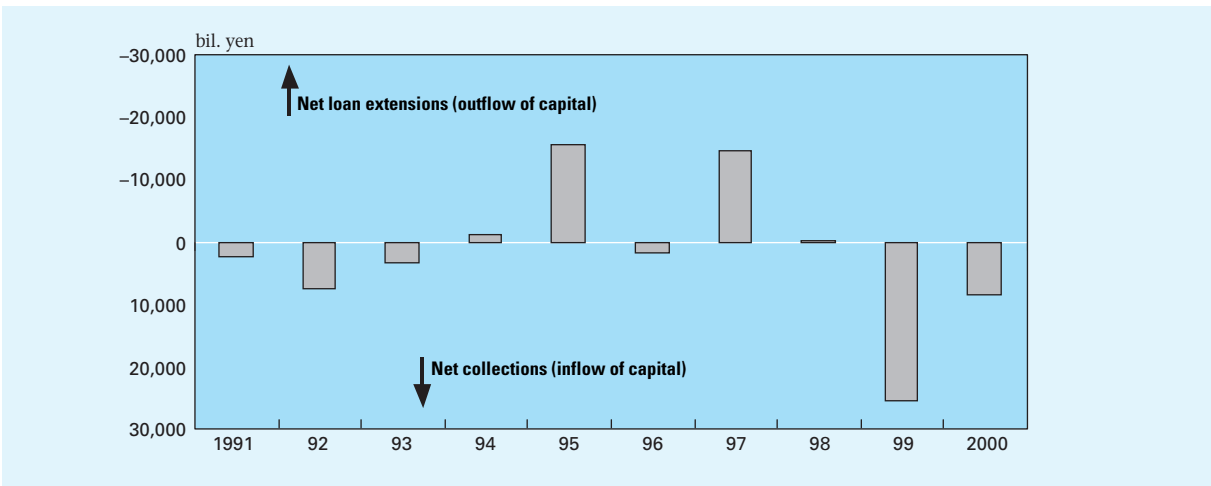




Chart 77  
**Loans Payable**

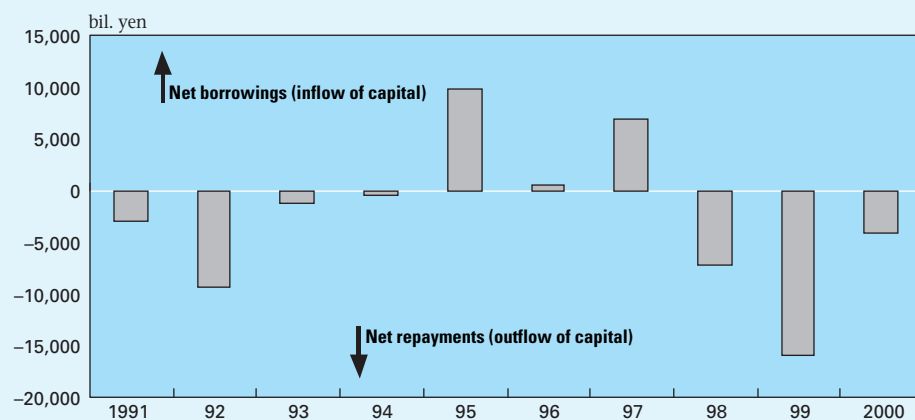


Chart 78  
**Deposits Made by Residents to Nonresidents**

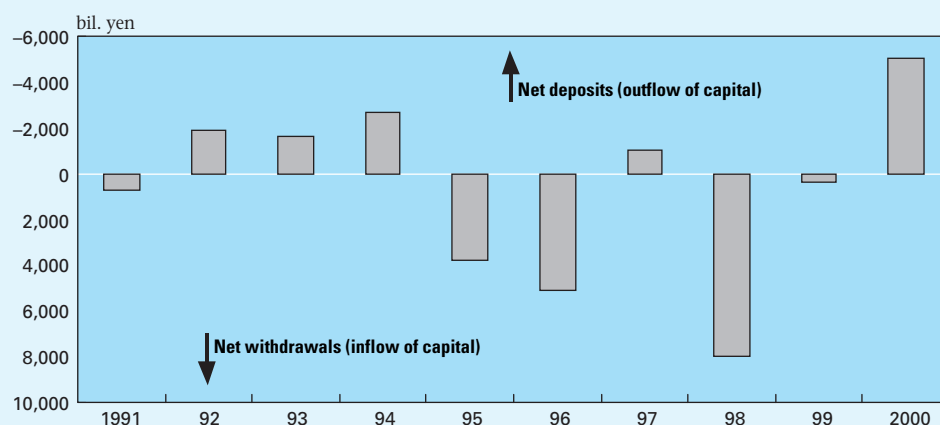
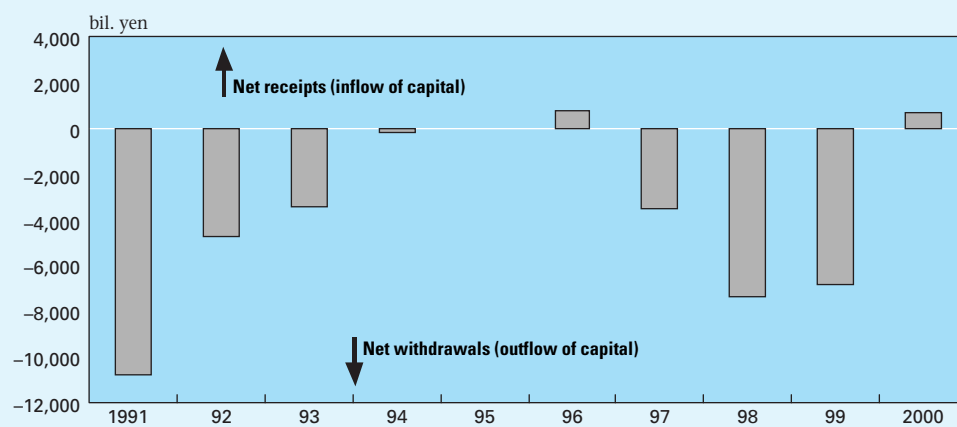


Chart 79  
**Deposits Made by Nonresidents to Residents**



### Box 1 Growth in Imports of IT-Related Products from the United States

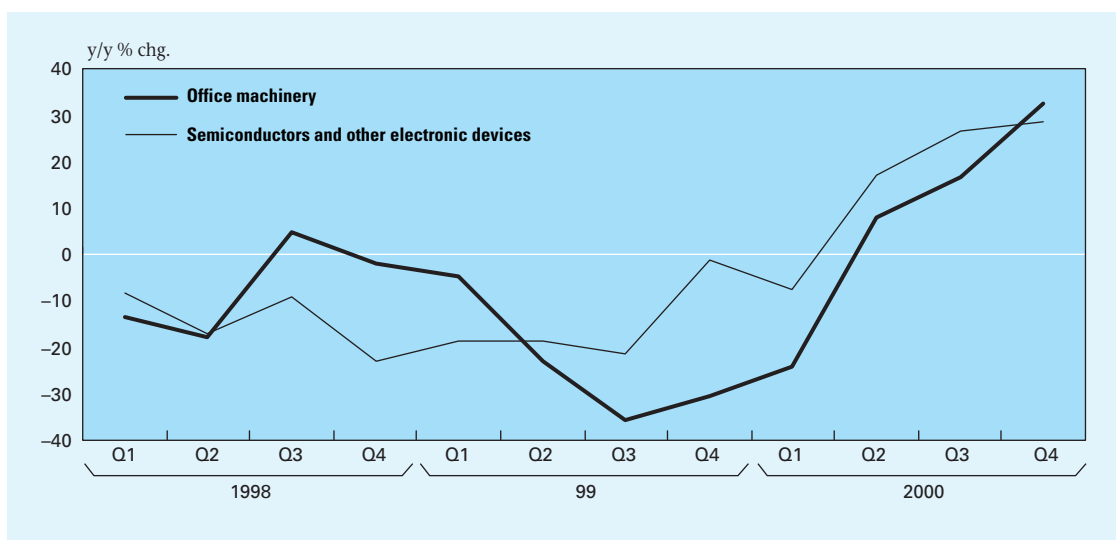
In 2000, imports from the United States increased on a customs-clearance basis after declining in 1998 and 1999. The growth in imports of electronics and IT-related products, such as office machinery and semiconductors and other electronic devices, was especially notable (Chart 1 for Box 1). Imports of these products from the United States had declined until 1999 due to the shift in PC production bases from the United States to Asia.

In office machinery, imports concentrated not on PCs but on high value-added networking hardware such as routers, switches, and servers,<sup>1</sup> which are indispensable for establishing local area network (LAN)/wide area network (WAN) systems or Internet communication (Chart 2 for Box 1).

IT-related items that require high technology for their production have been manufactured in the United States, and there has not yet been a large-scale shift in production bases from the United States to Asia for these products.

Among semiconductors and other electronic devices, imports increased substantially for dynamic random access memories (DRAMs), static random access memories (SRAMs), and composite ICs including application specific ICs (ASICs) (Chart 3 for Box 1).<sup>2</sup> An increase in IT-related investment and in demand for mobile phones in Japan led to an increase in imports of these competitive and high value-added U.S. products.

Chart 1 for Box 1 Imports of IT-Related Products from the United States



1. A router is a machine that determines the next network point to which a file, such as an e-mail message on a LAN or the Internet, should be forwarded.

A switch is a network device that selects a path or circuit for sending a unit of data to its next destination.

A server is a computer used in a LAN or the Internet. It has a structure similar to PCs, but its memory and data processing capacity are much larger. It is used for various purposes including storing shared files, and adding extra information such as that of the receiver to data being sent.

2. A DRAM is a random access memory; using it, a PC processor can access any part of the memory or data storage space directly. Its storage cells need to "refresh" constantly. It is suitable for expanding memory capacity.

A SRAM is a type of memory IC that retains data bits in its memory as long as power is being supplied. It provides faster access to data than a DRAM.

An ASIC is a type of IC customized for specific purposes. For example, there is an ASIC that includes memory and a microcomputer.

Chart 2 for Box 1 Imports of Office Machinery from the United States

Major items <sup>1</sup>	HS-code	2000			2000 Avg. unit price (thous. yen)	99 Avg. unit price (thous. yen)
		Value		Volume		
		Percent changes from a year earlier	Contribution <sup>2</sup> (percent changes from a year earlier)	Percent changes from a year earlier		
Overall	—	+4.6	+4.6	—	—	—
Workstations	8471. 49-000	+0.3	+0.0	+76.1	1,340	2,354
Servers	8471. 50-000	+10.3	+1.6	+19.3	721	779
Routers and switches	8471. 80-000	+46.7	+8.2	+9.5	214	160
PC expansion boards and modules	8473. 30-010	-10.2	-4.9	+6.9	45	54
Others	8471. 90-000	2.1 times	+0.9	+35.0	—	—

Notes: 1. Major items included in each HS (the Harmonized Commodity Description and Coding System)-code, which is a categorization used in trade statistics.

2. Contribution of each item to overall import growth of office machinery from the United States.

Chart 3 for Box 1 Imports of Semiconductors and Other Electronic Devices from the United States

Major items <sup>1</sup>	HS-code	2000			2000 Avg. unit price (thous. yen)	99 Avg. unit price (thous. yen)
		Value		Volume		
		Percent changes from a year earlier	Contribution <sup>2</sup> (percent changes from a year earlier)	Percent changes from a year earlier		
Overall	—	+15.7	+15.7	—	—	—
DRAMs <sup>3</sup>	8542. 13-021	+94.4	+3.2	+63.9	0.428	0.360
SRAMs <sup>3</sup>	8542. 13-022	3.1 times	+3.3	+69.9	0.827	0.459
Composite ICs <sup>3</sup>	8542. 30-010	+39.3	+7.3	+35.7	0.082	0.080
	8542. 30-090					

Notes: 1. See Note 1 of Chart 2 for Box 1 for the definition.

2. See Note 2 of Chart 2 for Box 1 for the definition.

3. See Footnote 2 for Box 1 for the definition.

**Box 2 Recent Developments in the Number of Travelers Visiting Japan from Other Parts of Asia****1. Rising Number of Travelers from Asia**

The number of people entering Japan has been increasing since 1999, recording an annual expansion of around 6 to 8 percent year on year (Chart for Box 2). Most of the increase is due to the rise in the number of travelers from Asia, mainly Korea and Taiwan.

The travel account in 2000, on both the credit and the debit side, shrank from the previous year's level due to the appreciation of the yen. The increase in number of travelers from Asia curbed the decrease in credits, and was one of the reasons for the contraction of the travel deficit.

**2. Factors behind the Increase**

An outstanding economic recovery in Asian countries is one factor behind the rise in the number of travelers visiting Japan from Asia. Besides this, there are structural factors that are expected to support this trend in the future.

**(1) Increasing popularity of Japan among young people**

In Korea, an increasing number of young people have an affinity for Japan. This is largely due to the fact that (1) Japan will co-host the 2002 FIFA World Cup, and (2) under the Kim Dae-jung administration Japanese popular culture is gradually being introduced following the lifting of a long-standing ban.

In Hong Kong and Taiwan, young people and families with children are attracted to theme parks in Japan reflecting the popularity of Japanese cartoon characters. An increasing number of travel agencies in these countries are providing tours that include visits to these theme parks.

**(2) Active spending**

Shopping in Tokyo and other metropolitan areas is

a major attraction for travelers from Asia. Spending is especially active at mass retailers of home electrical appliances and at department stores.

Popular items purchased at mass retailers of home electrical appliances are the latest precision equipment and high-technology products such as game machines, audiovisual apparatus, notebook computers, cameras, and watches. Average price per purchase is rather expensive, ranging from ¥40,000 to ¥50,000.

At department stores, shopping concentrates on apparel and other expensive items such as clothes of brands popular among young people, expensive clothes for children, and high-quality fashion clothes (*haute couture*).

**(3) Increasing popularity of Hokkaido and hot springs<sup>1</sup>**

For Asian travelers, theme parks and shopping have long been the main attractions when visiting Japan, but recently Hokkaido, the northern island, and hot springs nationwide are becoming popular destinations.

Previously, tours to Hokkaido from Hong Kong and Taiwan had been planned with the idea of experiencing the snows in winter as it does not snow in these countries. Recently, however, Hokkaido is becoming popular for its cool summer and its golf resorts. As a result, tourists are now visiting Hokkaido throughout the year.

Hot springs and Japanese-style hotels (*ryokan*) are popular as leisure spots where tourists can have an instant experience of Japanese culture. Given the decline in the number of Japanese visitors, more *ryokan* are providing cheap package tours for Asian tourists.

**Chart for Box 2 Travelers from Asia and the United States: Contribution to Overall Growth in the Number of People Entering Japan**

y/y % chg.

	Total	Asia	Of which Korea	Taiwan	Hong Kong	United States
Weight <sup>1</sup>	(100.0)	(63.8)	(21.2)	(21.0)	(5.7)	(15.7)
1997	+9.9	+4.9	+0.3	+2.9	+0.5	+0.9
98	-2.7	-5.0	-6.0	+0.6	+2.0	+1.1
99	+8.1	+7.3	+6.4	+2.2	-1.7	+0.7
2000/Jan.-Oct.	+6.8	+4.8	+2.8	-0.3	-0.4	+0.6

Note: 1. Weighted based on figures for 1999.

Source: Japan National Tourist Organization (JNTO).

1. Diversification of traveling destination and purpose is due partly to the rise in the number of repeat travelers from Asia. According to the Japan National Tourist Organization (JNTO), the number of travelers who have paid more than one visit to Japan was 67.5 percent during 1998 and 1999 as compared to 65.6 percent during 1996 and 1997.

### Box 3 Communications Services<sup>1</sup>

Credits and debits in communications services are both contracting since 1998 (Chart for Box 3). This contraction is due to the following changes in the environment surrounding international communications.

#### 1. Drop in the Connection Fees Paid by International Telephone Companies

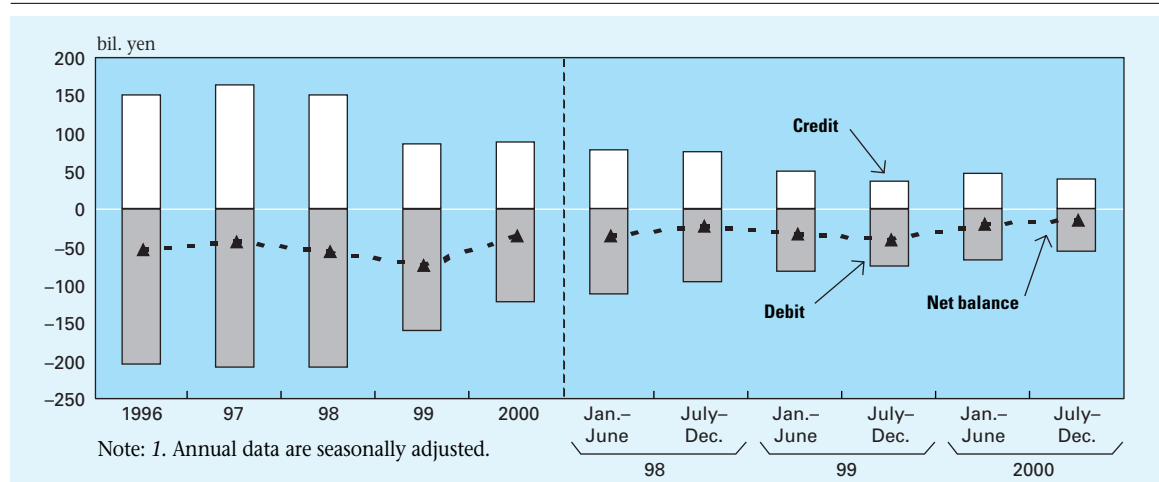
Connection fees paid between international telephone companies account for the majority of credits/debits in communications services.<sup>2</sup> The unit price of these connection fees has been declining since the second half of 1998, mainly for fees between the United States and Japan.<sup>3</sup> The pace of decline has accelerated especially in the past year, owing to intensified competition following a weakening of the oligopoly. There are three factors behind the lowering of the unit price. First, international telephone companies consider that they can make greater profits by cutting fees charged to consumers because the cut will

stimulate demand for international communication. Second, it was necessary to lower connection fees between telephone companies in order to secure profits while cutting fees charged to consumers. And third, the U.S. government, the pioneer in the deregulation of telecommunication industries, requested governments of other countries to lower connection fees for international telecommunications.

#### 2. Shift to New Communications Tools such as the Internet and E-Mail<sup>4</sup>

The rapid growth of cheap and convenient communication tools, such as the Internet and e-mail, is one reason behind the sluggish growth in credits and debits in communications services. E-mail enables quick and low-cost transmission of massive amounts of information. To take advantage of this, more firms are shifting to the Internet and e-mail from conventional tools such as international mail, telephone, and facsimile.

Chart for Box 3 Communications Services<sup>1</sup>



1. Communications services include (1) telecommunications services, and (2) postal and courier services. The former accounts for the majority of international communications between Japan and other countries.

2. Fees for international calls made by consumers are paid to telephone companies in Japan. These payments, therefore, do not directly affect the balance of communications services. The balance of communications services is largely dependent on the level of connection fees paid between international telephone companies.

3. The U.S. Federal Communications Commission (FCC) has set "benchmarks" for connection fees for international telecommunication to alleviate the cost borne by U.S. telecommunications companies. The FCC requested Japanese international telecommunications companies and those of other industrial countries operating in the United States to lower connection fees per minute to 15 cents or below from January 1999.

4. Access charges for the Internet are fixed because they depend on the circuit capacity of the cable. Thus, expansion in the use of the Internet and e-mail do not directly affect credits and debits in communications services. Access charges will increase only if the circuit capacity of the cable is enlarged.

Japanese Internet service providers (ISPs) pay access fees to the United States and other ISPs based on annual contracts. The reverse case is rare. This is because the Internet originated in the United States and, thus, ISPs all over the world secure international access by connecting to ISPs in the United States. This is why Internet access fees are mostly recorded as debits in communications services.

ISPs of the United States have predominance in the Internet access services and thus receive the majority of the world's access fees.

#### Box 4 An Outline of Asset Swaps

When, for example, a foreign bank concludes a contract on an interest rate swap (a combination of fixed-rate interest payments and floating-rate interest receipts) with a swap house<sup>1</sup> and purchases Japanese government bonds using funds raised in the market for floating-rate interest, it is called an asset swap. The flow of funds in this transaction is explained below (Chart for Box 4).

##### 1. Funds with Fixed-Rate Interest

In the above example, the foreign bank receives fixed-rate interest on Japanese government bonds and pays fixed-rate interest to the swap house as agreed in the swap contract. Losses often occur in this case because payments often exceed receipts.

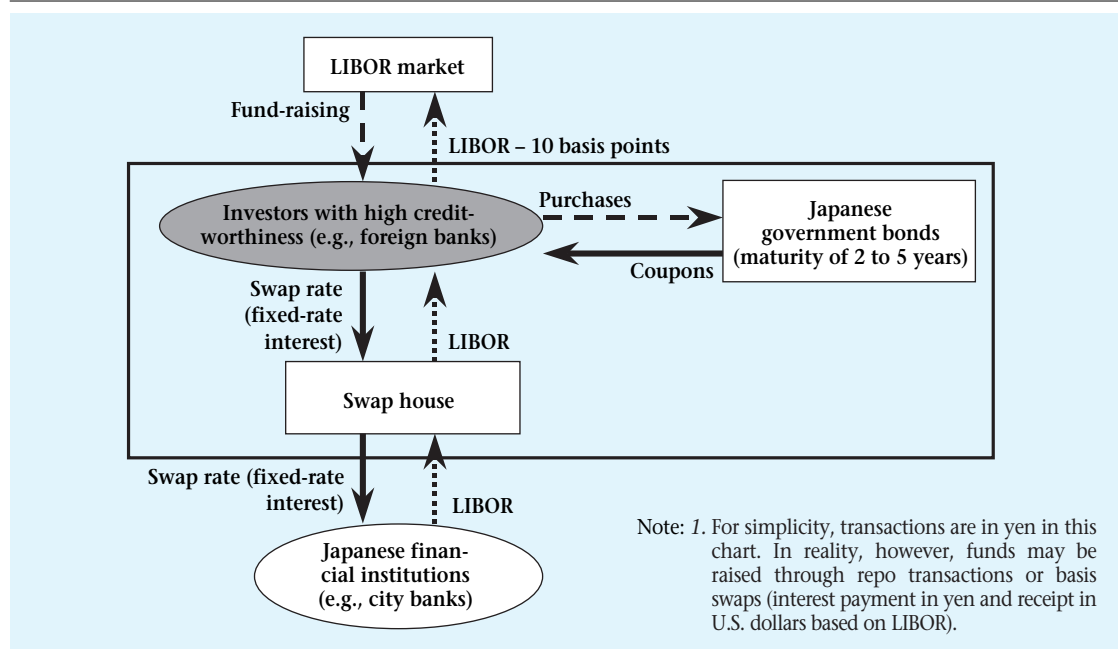
##### 2. Funds with Floating-Rate Interest

In the above example, the foreign bank receives floating-rate interest (usually at LIBOR [London Interbank Offered Rate]) and pays floating-rate

interest to the provider of funds used for purchasing Japanese government bonds.<sup>2</sup> A profit is often made in this case because foreign banks with high creditworthiness can raise funds at a rate of interest below LIBOR and thus receipts often exceed payments.

In general, a profit cannot be made in the above transaction because the losses incurred through payment/receipt of fixed-rate interest are larger than the profits gained through payment/receipt of floating-rate interest. Recently, however, the losses incurred through payment/receipt of fixed-rate interest are declining due to a contraction in the swap spread (the spread between interest on Japanese government bonds and fixed-rate interest paid/received based on swap contracts). As a result, arbitrage profits are made with the profits outweighing the losses.

Chart for Box 4 An Outline of Asset Swaps<sup>1</sup>



1. Swap houses are large financial institutions with high creditworthiness that act as an intermediary in swap transactions. They often conclude interest rate swaps that combine payments of fixed-rate interest and receipts of floating-rate interest with major Japanese commercial banks.  
2. Japanese government bonds are basically purchased using funds raised in yen. These purchases do not, therefore, affect the foreign exchange rate.

### **Symbols and Abbreviations Used in This Article**

Q	Calendar quarter	Avg.	Average
%	Percent	n.a.	Not available
% chg.	Percentage changes	thous.	Thousands
y/y % chg.	Percentage changes from the previous year	bil.	Billions