

# Japan's Balance of Payments for 2001

## I. Summary

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

In the balance of payments for 2001, the current account surplus registered 11.1 trillion yen, a decline from the surplus of 12.6 trillion yen in 2000.<sup>2</sup> The capital and financial account recorded a net outflow of 7.0 trillion yen, down from a net outflow of 9.1 trillion yen in 2000, a fall primarily reflecting movements in the financial account. The year-on-year growth in reserve assets was 4.9 trillion yen, down from the 5.3 trillion yen in 2000.

### B. Major Developments in the Balance of Payments for 2001

#### 1. A sizable decrease in the surplus in goods and services (Chart 1)

The surplus in goods and services declined sharply, recording the second lowest level since 1985. This sharp decline was due mainly to developments in the trade surplus, which was reduced substantially, with a fall in export growth exceeding steady growth in imports. Exports plunged due to cyclical factors, such as a slowdown in the U.S. economy and sluggish final demand for IT-related products, while the growth in imports was firm due to a structural factor, an increase in imports of goods developed and produced especially for the Japanese market (see Box 1 on pages 119–122 for developments in trade between Japan and China).

#### 2. A record high surplus in income (charts 2 and 3)

The surplus in the income account expanded considerably and reached a new high, reflecting large increases in the surplus of direct investment and portfolio investment income. As a result, the surplus accounted for about 80 percent of the current account surplus, exceeding the trade surplus for the first time. Factors behind this expansion were (1) an increase in profits of overseas subsidiaries of Japanese companies, (2) an increase in amount outstanding of outward portfolio investment by residents, and (3) a depreciation of the yen that pushed up income in yen-denominated credits (see Box 2 on pages 123–124 for determinants of portfolio investment income).

#### 3. A sharp fall in the deficit in services after the terrorist attacks in the United States (Chart 4)

The number of Japanese travelers going overseas by air from Japan fell sharply due to concerns about terrorism after the terrorist attacks in the United States on September 11, 2001. As a result, deficits in the transportation (passenger fares for air transport) and travel accounts shrank substantially from September, causing a decline in the deficit in the services account (see Box 3 on pages 125–126 for the effects of the terrorist attacks on the balance of payments).

#### 4. A high level of outward direct investment by residents (Chart 5)

Outward direct investment by residents reached a net outflow of 4.7 trillion yen, the highest level since 1990 when it marked 7.4 trillion yen. This was mainly due to active investment in telecommunications companies and carmakers in the United States and Western Europe. Meanwhile, inward direct investment by nonresidents decreased for the second consecutive year to 599.3 billion yen. This was due to no large-scale investment in the automobile industry and financial services and insurance, after substantial investment in these industries in 1999 and 2000.

### C. The Current Account

The current account surplus decreased by 12.0 percent, after increasing in the previous year. This was due to a substantial decline in the trade surplus and an expansion of deficits in the services account.

The surplus in the trade balance shrank for the third consecutive year, reflecting the following developments in exports and imports.

The value of exports declined by 5.9 percent from the previous year, after showing positive growth in 2000. The decline was mainly due to a decrease in exports of capital goods and parts related to electronics and IT to Asia.

The value of imports grew by 3.0 percent year on year, increasing for the second consecutive year to reach a new high. Although imports, especially from the United States and newly industrialized economies (NIEs), decreased in value due to slack demand for IT-related products, this decrease was more than

1. Figures for 2001, including charts, are preliminary unless otherwise noted. For a key to the symbols and abbreviations used in this article, see page 127.

Annual, semiannual, and quarterly figures in this article, including charts, are on a calendar-year basis unless otherwise noted.

2. From the figures for January 2002, interest received on financial derivatives is included in the capital and financial account (financial account), instead of the current account (income account). Revised figures have been released by the Ministry of Finance and the Bank of Japan from the figures for January 1996. Figures in this article, however, do not reflect this revision.

Statistical data other than those for the balance of payments are those available at the end of February 2002.

balanced by an increase in imports mainly from Asia, and by the rise in import prices due to the depreciation of the yen.

The deficit in the services account expanded for the first time in five years, owing to an increase in the deficit in other services.

The surplus in the income account expanded for the second consecutive year and recorded a new high.<sup>3</sup> This was partly due to an increase in (1) the surplus in direct investment income caused by the recovery in the profits of overseas subsidiaries of Japanese companies and the depreciation of the yen, and (2) the surplus in portfolio investment income resulting from the change to a surplus in interest rate swaps and the depreciation of the yen. The income account surplus exceeded the trade surplus for the first time and accounted for almost 80 percent of the current account surplus.

The deficit in current transfers shrank for the second consecutive year. This was owing to the decline in (1) contributions to international organizations in the official sector and (2) payments of fines and settlement payments in other sectors.

#### D. The Capital and Financial Account

Outward direct investment by residents recorded a large net outflow reflecting the global industrial reorganization. For the second consecutive year, inward direct investment declined due to no large-scale investment.

Investment in foreign bonds and notes by residents recorded an increase in net purchases (outflow) because life insurance companies and banks actively purchased U.S. and European bonds. Investment in foreign equities by residents registered a decrease in net purchases (outflow) reflecting a decline in stock prices worldwide.

In investment in Japanese bonds and notes by nonresidents, net purchases (inflow) narrowed substantially because investors were reluctant to purchase government bonds given that there was hardly any room for interest rates to decline further. Investment in Japanese equities by nonresidents saw a shift to net purchases (inflow), reflecting active investment in the first half of the year based on expectations for an economic recovery and structural reforms under the Koizumi administration.

Other investment shifted to a large net inflow. This was because Japanese banks collected funds deposited with other banks overseas (inflow) as they matured given that yen funds were abundant in the overseas financial markets, while foreign banks in Japan raised funds from overseas (inflow) when the cost of funding yen in exchange for the U.S. dollar became negative.

## II. The Current Account (Chart 6)

The current account surplus decreased by 12.0 percent from the previous year, primarily reflecting a large fall of 56.9 percent in the surplus in goods and services. The surplus in income expanded considerably, increasing by 42.2 percent from the previous year.

The trade surplus plunged to the lowest level since 1983, and the lowest in the revised data available from January 1985 (see Footnote 3).

The surplus in goods and services declined to the lowest level since 1996, and the second lowest in the revised data since 1985 (see Footnote 3).

The surplus in income reached a new high—the previous high was 7,401.1 billion yen in 1998—exceeding the trade surplus for the first time.

In sum, major developments in 2001 were (1) the sizable decrease in the surplus in goods and services, (2) a record surplus in income, and (3) the sharp fall in the deficit in the services account after the terrorist attacks in the United States (see Section I).

#### A. Trade Balance (Chart 7)

The value of exports declined by 5.9 percent from the previous year mainly due to a decrease in the volume of exports to Asia, the United States, and Europe. Export prices rose for the first time in three years because of the depreciation of the yen (Chart 8).

The value of imports rose 3.0 percent from the previous year, marking a record high due to an increase in import prices mainly reflecting the depreciation of the yen. The volume of imports decreased because of a decline in production and a weakening of demand in Japan.

The trade surplus contracted for the third consecutive year, owing to a decline in exports and a rise in imports.

3. In the figures revised and compiled on the basis of the fifth edition of the *Balance of Payments Manual* issued by the International Monetary Fund (IMF), available from January 1985 figures. Both the original data and seasonally adjusted figures are available.

The narrowing of the trade surplus was due particularly to the following factors: (1) the fall in export volume caused by cyclical factors, namely a recession in the U.S. economy and sluggish final demand for IT-related products; and (2) the firm growth in imports due to structural factors, namely a shift of production bases overseas by Japanese companies and the rise in the rate of import penetration brought about by increased imports of goods developed and produced especially for the Japanese market.

## **(1) Cyclical factors, i.e., the slowdown in overseas economies and sluggish demand for IT-related products**

In 2001, Japan's exports were hit by changes in the export environment. Final demand for electronics and IT-related products, which had been firm worldwide until 2000, became weak, while prices for semiconductors fell sharply reflecting a global buildup of inventories of semiconductors and other electronic parts (charts 9 and 10). External demand in Asia, which is easily affected by the performance of IT-related industries and the U.S. economy, weakened because a recession began in the United States in March 2001 as determined by the National Bureau of Economic Research. These developments dampened exports from Japan, which were mainly destined for other Asian countries and the United States (Chart 11).

## **(2) Structural factors including the shift of production bases overseas**

In 2001, Japanese manufacturers continued to shift their production bases to South East Asia and China, where the cost of labor is low (Chart 12).<sup>4</sup> Japanese trading companies further expanded imports of foodstuffs and textiles developed and produced especially for the Japanese market. These structural factors increased imports (Chart 13).

### **1. Exports**

The value of exports declined by 5.9 percent from the previous year with a fall in the volume of exports more than offsetting a rise in export prices. Export prices (unit value) increased from the previous year for the first time in three years, chiefly due to the depreciation of the yen. The volume of exports declined for the first time in three years, mainly

reflecting a decline in exports to Asia, the United States, and Europe.

On a customs-clearance basis, export volume decreased by 10.2 percent year on year, while export prices increased by 5.6 percent. Export value, as a result, decreased by 5.1 percent.

Looking at developments by quarter, the volume of exports started to decline from the beginning of 2001, reflecting the slowdown in overseas economies and weakened demand for IT-related products. Export prices, which started to rise from the end of 2000 as the yen depreciated, increased more slowly toward the end of 2001 (Chart 14). This was because U.S. dollar-denominated nominal prices fell, reflecting a decline in prices of raw materials and semiconductors (Chart 15).

### **a. Regional trends**

Exports to the European Union (EU), Asia, and the United States contributed negatively to the overall export growth (charts 16, 17, and 18). The EU's negative contribution increased, while Asia and the United States shifted from a positive to a negative contribution. China continued to make a positive contribution.

### **(1) Exports to Asia**

Both the volume and value of exports decreased from the previous year for the first time in three years. Export prices rose for the second consecutive year, reflecting the depreciation of the yen. The pace of increase in prices, however, was slower than that of the weakening of the yen because U.S. dollar-denominated nominal prices declined for raw materials (such as iron and steel, and plastics) and integrated circuits (ICs), both of which account for a large proportion of total exports.

The decline in exports was notable for the following items.

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

Exports of semiconductors and other electronic parts, and parts for office machinery and audiovisual apparatus decreased reflecting weakened final demand, mainly for personal computers (PCs).

#### **(b) Capital goods related to chip fabrication plants**

Exports of the following goods declined substantially: electrical measuring and controlling instruments (semiconductor test equipment; scientific, medical,

4. A shift of production base to Asia by Japanese manufacturers does not always lead to an immediate fall in exports. This is because, as well as leading to a decline in exports of final products, such movements increase exports of parts for production bases overseas. However, the average unit price of exports will fall as the share of inexpensive parts in total exports rises. Furthermore, in the long term, an increase in production of these parts at overseas production bases may lead to a decline in the value of exports.

and optical instruments (semiconductor lithography instruments); and metalworking machinery (semiconductor etching machines).

**(c) Raw materials**

Exports of iron and steel products (hot-rolled coils) and chemicals (organic compounds and plastics) decreased.

The value of iron and steel products exported to Asia decreased from the previous year in 2001. Monthly figures, however, showed positive year-on-year growth from October reflecting strong demand in China and increased demand in the Korean construction industry.

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

The value of exports declined from the previous year, with the fall in export volume more than offsetting the rise in export prices. The volume of exports decreased year on year for the first time in five years due to weakened demand for electronics and IT-related parts mainly reflecting sluggish sales of related final products such as PCs. Export prices increased year on year for the second consecutive year, reflecting the depreciation of the yen and the rise in U.S. dollar-denominated nominal prices due to an increase in exports of high value-added products.

**(3) Exports to the EU**

The value of exports decreased for the third consecutive year, with the decline in volume more than offsetting the rise in prices. The volume of exports fell to give a year-on-year decline mainly reflecting a decrease in exports of motor vehicles and capital goods and parts related to electronics and IT. Export prices increased for the first time in three years, due to the depreciation of the yen.

**b. Principal items (Chart 19)**

Major export items that contributed to the fall in overall exports were capital goods and parts related to electronics and IT, and raw materials (chemicals). Exports increased for motor vehicles and iron and steel products.

**(1) A decrease in exports of equipment and parts related to electronics and IT to Asia, the United States, and Europe**

Exports declined for capital goods and parts, especially those destined for Asia. The decline was due mainly to the following developments against the background of weakened demand for electronics and IT-related products in the United States, Japan, and Europe and a buildup of inventories

of intermediate goods. First, demand for key parts such as semiconductors and parts for office machinery weakened as production in assembly facilities overseas decreased. Second, the number of orders for semiconductor manufacturing equipment dropped reflecting cuts in business fixed investment by overseas chipmakers. And third, investment in base stations by U.S. telecommunications companies decreased as they considered their past investment excessive, and demand for related key parts waned.

**(2) A decrease in exports of audiovisual apparatus to the United States and Europe**

Exports decreased for high value-added audiovisual apparatus, mainly digital versatile disc (DVD) players and television cameras, as more Japanese manufacturers shifted their production bases overseas. Exports, however, increased for video projectors and digital cameras destined for the EU, and for liquid crystal televisions.

**(3) An increase in exports of motor vehicles**

The value of exports of motor vehicles increased overall. Exports to the United States declined in volume but increased in value. This was because sales of motor vehicles continued to be brisk, especially those of relatively expensive vehicles, resulting in a rise in the average unit price. Sales continued to be strong even after the terrorist attacks, owing to sales promotion programs launched by Japanese carmakers such as introduction of new models and offers of zero-interest car loans. Exports to the Middle East increased both in value and volume reflecting strong purchases in the public and the private sector. In contrast, exports to the EU and Asia declined.

**2. Imports**

The value of imports increased for the second consecutive year, as the rise in import prices more than offset the decline in volume. The volume of imports decreased from the previous year for the first time in three years. The volume declined, mainly due to a decline in imports from the United States and NIEs of semiconductors and other electronic parts used in telecommunications-related household electrical appliances for exports and in office machinery, reflecting the worldwide economic slowdown. Import prices rose with the depreciation of the yen.

On a customs-clearance basis, import value increased by 3.6 percent from the previous year, while volume fell 1.4 percent and prices rose 5.0 percent (see Reference to Chart 14 for the difference between *Merchandise Trade Statistics* released

by the Customs and Tariff Bureau of the Ministry of Finance and trade balance figures compiled in accordance with the *Balance of Payments Manual* issued by the IMF).

Looking at developments by quarter, the value of imports registered a year-on-year decline from the July–September quarter (Chart 20). This was because the volume of imports started to decrease year on year from the April–June quarter, and import prices also fell in the October–December quarter reflecting a plunge in commodity prices.

## a. Principal items

The value of imports declined for office machinery and for semiconductors and other electronic parts reflecting the weakness in demand for IT-related products at home and abroad, and also for crude oil and petroleum products reflecting the drop in commodity prices (Chart 21). Despite these declines, overall imports recorded 3.6 percent growth from the previous year (down from 16.1 percent growth in 2000), due to (1) the depreciation of the yen, which pushed up import prices; (2) an increase in imports of mineral fuels other than crude oil, such as liquefied natural gas and coal; (3) an increase in imports of audiovisual apparatus from relocated production bases in Asia and other countries; and (4) an increase in imports of foodstuffs and textiles developed and produced especially for the Japanese market.

The following factors contributed positively to overall import growth in terms of value.<sup>5</sup>

### (1) A rise in import prices resulting from the depreciation of the yen

In 2001, the yen depreciated by 12.7 percent against the U.S. dollar from the previous year to 120.95 yen in 2001 from 107.36 yen in 2000, on the basis of the rate officially announced by the chief customs inspector. This depreciation pushed up the prices of imports, about 70 percent of which are traded on a U.S. dollar basis.

### (2) An increase in imports of manufactured goods (excluding IT-related products)

An increasing amount of audiovisual apparatus, mainly television sets and DVD players, was imported from China and ASEAN countries (contribution to overall imports: +0.5 percent; value, up 24.1 percent).

Imports of textiles increased for the second consecutive year (contribution to overall imports:

+0.6 percent; value, up 9.4 percent). This reflected a steady growth in import volume of inexpensive clothing and related items, such as T-shirts and underwear, mainly from China.

### (3) An increase in imports of foodstuffs developed and produced especially for the Japanese market and the impact of the bovine spongiform encephalopathy (BSE)

Imports of foodstuffs increased (contribution to overall imports: +0.7 percent; value, up 5.6 percent). Imports of vegetables from China continued to grow (contribution to overall imports: +0.1 percent; value, up 10.2 percent) and those of meat from various countries increased (contribution to overall imports: +0.2 percent; value, up 10.7 percent) as the BSE problem hit sales of domestically produced beef. More pork was imported from Denmark, beef from North America, and chicken from China and Thailand.

### (4) An increase in imports of liquefied natural gas and coal

Electric power companies are reducing the share of crude oil in their fuel imports to avoid price volatility. Specifically, imports of liquefied natural gas, which is considered as clean energy, increased from Indonesia and Malaysia (contribution to overall imports: +0.5 percent; value, up 13.3 percent). Imports of coal from Australia and China also increased (contribution to overall imports: +0.4 percent; value, up 28.1 percent) because coal from these countries is relatively inexpensive and its supply is stable.

The following factors contributed negatively to overall import growth.<sup>6</sup>

### (1) A weakening of demand for IT-related products

Imports of semiconductors and other electronic parts (contribution to overall imports: –0.6 percent; value, down 10.7 percent) from Asia plunged, while those from the United States also declined. This was due to a decrease in demand for IT-related products such as notebook computers and other peripheral equipment that led to a decline in imports of Korean-made dynamic random access memories (DRAMs) and electronic parts, production of which was outsourced to foundry manufacturers in Taiwan and Singapore by Japanese manufacturers.

Imports of office machinery (contribution to overall imports: –0.4 percent; value, down 5.0 percent) decreased mainly for those made in Asia. Demand

5. Changes in value are on a customs-clearance basis.

6. See Footnote 5.



decreased for low-priced PCs and parts and liquid crystal displays made in Korea and Taiwan, reflecting the sluggish demand due to the economic slowdown in Japan.

Imports of telecommunications apparatus (contribution to overall imports: -0.1 percent; value, down 7.1 percent) from the United States and the EU decreased because of a weakening of demand for parts for telephones and mobile phones.

## **(2) The plunge in international commodity prices**

Imports of crude oil (contribution to overall imports: -0.3 percent; value, down 2.1 percent) and petroleum products (contribution to overall imports: -0.1 percent; value, down 5.3 percent) declined mainly due to a decline in those from the ASEAN countries. The decline was due to the fall in crude oil prices in the second half of 2001 after the terrorist attacks in the United States and as overseas demand weakened (Chart 22), and to a decrease in demand for fuel in Japan's manufacturing sector as production became sluggish.

### **b. Regional trends**

The EU, Oceania, the Middle East, the ASEAN countries, and China contributed positively to the overall growth in imports (up 3.6 percent on a customs-clearance basis), while the United States and NIEs contributed negatively (charts 23 and 24). Imports from the EU increased for chemicals such as pharmaceuticals and plastics, and those from Asia (China and ASEAN) increased for manufactured goods such as audiovisual apparatus and textiles. However, imports from the United States and NIEs decreased for machinery such as semiconductors and other electronic parts, office machinery, and telecommunications apparatus.

## **B. Services**

The deficit in the services account expanded for the first time in five years to 5,315.1 billion yen for 2001, which was a year-on-year expansion of 181.4 billion yen (up 3.5 percent). This was because the widening of the deficit in other services more than offset the contraction in deficit in the transportation and travel accounts.<sup>7</sup>

### **1. Transportation (Chart 25)**

The deficit in the transportation account decreased to 994.8 billion yen, down 29.1 billion yen, after

increasing in 2000. This was because the passenger fare payments (debit in "passenger") for air transport dropped, reflecting a considerable decline in the number of Japanese travelers going overseas after the terrorist attacks in the United States in September.

### **2. Travel (Chart 26)**

The deficit in the travel account narrowed for the second consecutive year to 2,828.5 billion yen by 244.5 billion yen from the previous year (down 8.0 percent, as against a fall of 7.7 percent in 2000). The deficit fell to the 2 trillion yen level for the first time in seven years, following a rapid year-on-year decline of 30.1 percent in the period from September to December. Receipts (credit) in the travel account increased by 10.5 percent year on year due to the depreciation of the yen. Payments (debit) in the travel account declined by 6.0 percent from 2000, due to a sharp fall in the number of Japanese travelers going abroad after the terrorist attacks in the United States (Chart 27).

#### **a. Consumption per traveler**

Consumption per Japanese traveler going overseas increased from the previous year for the first time in three years to 199,000 yen (up 3.3 percent). The increase was due largely to the sharp depreciation of the yen, as the annual average for the interbank exchange rate of the yen depreciated by 12.8 percent against the U.S. dollar to 121.53 yen in 2001 from 107.77 yen in 2000. Consumption per traveler in terms of the U.S. dollar was down 8.4 percent from the previous year. Consumption per traveler decreased because travel to Asia, where outlays for travel were relatively low compared to other regions, continued to be popular. The number of Japanese travelers to Asia has increased since 1998, accounting for 50.4 percent of total travelers going abroad during January to November 2001 compared to 47.6 percent in 2000. Consumption per traveler entering Japan also increased for the first time in four years to 84,000 yen, up 10.3 percent from 2000 due to the income effect resulting from the depreciation of the yen. The amount in U.S. dollars, however, decreased slightly, down by 2.2 percent in 2001.

#### **b. Travelers departing from and entering Japan**

### **(1) Number of Japanese travelers going overseas (charts 28 and 29)**

The number of Japanese travelers going overseas

7. Certain transactions related to travel conducted between residents and nonresidents are registered under the following items in the services account. Air fare payments are recorded under "passenger" for air transport in the transportation account. Expenditures on goods and services of nonresidents traveling in Japan and residents traveling abroad are entered in the travel account.

from Japan fell to 16.22 million in 2001 from a record high of 17.82 million in 2000, due to a reluctance to travel by air after the terrorist attacks in the United States. The decline was 9.0 percent, the largest ever, exceeding the previous largest decline in 1998. The number of Japanese travelers had declined only three times in the past since the deregulation of personal travel overseas in 1964.<sup>8</sup>

By destination, the decline was notable for the United States, including Hawaii. The number of travelers visiting the United States dropped by 52.8 percent in the three-month period from September to November from the same period of the previous year, according to calculations by the Bank of Japan.

## (2) Number of travelers entering Japan (charts 30 and 31)

The number of travelers entering Japan increased slightly to 4.77 million in 2001 from the previous high of 4.76 million in 2000. The number increased despite the decline after the terrorist attacks in the United States owing to a steady growth in the first half of the year.

There was an increase in travelers to Japan from Korea and Europe, while those from the United States and Taiwan decreased.<sup>9</sup>

## 3. Other services (charts 32 and 33)

The deficit in other services was 1,491.7 billion yen, expanding for the first time in three years by 455.0 billion yen from the previous year. This was primarily because the deficit expanded in other business services by 215.2 billion yen from 2000, in insurance services by 140.1 billion yen, and in personal, cultural, and recreational services by 29.7 billion yen, and the surplus narrowed for construction services by 80.0 billion yen.

The deficit expanded in other business services because payments (debit) in yen increased due to the depreciation of the yen, and there was an increase in payments to overseas institutions for research and development of vehicles and pharmaceutical products.

The deficit expanded for insurance services primarily because no sizable reinsurance payments were received in 2001.<sup>10</sup>

The surplus narrowed for construction services because, unlike in the previous year, no large-scale payments for submarine cable construction or other construction projects were received, and receipts from construction of chemical plants decreased in 2001.

The deficit increased for personal, cultural, and recreational services chiefly owing to an increase in payments (debit) for distribution rights reflecting the strong sales of foreign movies in Japan.

## C. Income (Charts 34 and 35)

The income surplus expanded for the second consecutive year and marked a record high of 8,825.8 billion yen, surging by 2,619.7 billion yen or 42.2 percent from the previous year, reflecting a considerable increase in the surplus in direct and portfolio investment income.

### 1. Direct investment income

The surplus in direct investment income increased for the second consecutive year to 1,545.5 billion yen, up 937.4 billion yen from the previous year (Chart 36). Reinvested earnings<sup>11</sup> marked a surplus of 659.5 billion yen, increasing by 840.3 billion yen, and surpassed the previous peak due to (1) higher profits for fiscal 2000 posted by overseas subsidiaries and branches of Japanese companies and banks,<sup>12</sup> and (2) a considerable rise in value reflecting the depreciation of the yen. The surplus in dividends and

8. The past declines were at the time of the second oil crisis in 1980 (down 3.2 percent), the Gulf War in 1991 (down 3.3 percent), and negative economic growth in Japan in 1998 (down 5.9 percent).

9. Travelers from the United States and Taiwan decreased both for business and pleasure. Those from the United States decreased due to the terrorist attacks, and those from Taiwan decreased because the economy entered a phase of negative growth.

10. In 2000, nonlife insurance companies received sizable reinsurance claim payments for the damage caused by the typhoon in September 1999. Reinsurance claim payments are made only after nonlife insurance companies determine the amount of insurance claim payments and reinsurance companies assess the figures presented by insurance companies. There is a time lag between the occurrence of a disaster and receipt of reinsurance payments. The deficit in insurance increased in 2001 because no large-scale reinsurance claim payments (a factor decreasing debits) such as those in 2000 were received.

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

11. In the balance of payments statistics, an increase in accumulated reserves of an overseas subsidiary in each accounting period is recorded as reinvested earnings 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.

12. Reinvested earnings, the year-on-year change in accumulated reserves, are revised at the end of each accounting period. If entered into the books as a lump sum, the earnings would only be recognized as one-time data for the month ending the accounting period. 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 end of the previous accounting period, based on a report submitted by each company. Therefore, the results of the accounting of overseas subsidiaries for fiscal 2000 greatly affected reinvested earnings in the second half of 2001.



distributed branch profits expanded by 77.3 billion yen from the previous year.

## 2. Portfolio investment income

The surplus in portfolio investment income increased for the second consecutive year to 6,662.5 billion yen, increasing by 1,849.2 billion yen from 2000, and reached a new high (Chart 37). The surplus in bonds and notes continued to expand, increasing by 1,014.0 billion yen due to an increase in amount outstanding of investment in foreign bonds and notes by residents and the depreciation of the yen. The surplus in money market instruments and financial derivatives increased by 776.5 billion yen.

Interest rate swaps, which account for a large proportion of money market instruments and financial derivatives and had been in deficit until the previous year, changed to a surplus. This was because (1) short-term rates declined when Japanese banks increased interest rate swaps (fixed-rate interest receipts and floating-rate interest payments) with nonresidents to hedge swap transactions (fixed-rate interest payments and floating-rate interest receipts) with resident companies as concerns over a rise in Japanese interest rates waned;<sup>13</sup> and (2) interest income received by Japanese financial institutions engaged in coupon swaps,<sup>14</sup> for which they receive fixed interest in U.S. dollars and pay fixed interest in yen to meet the needs of resident companies, increased in yen terms due to the depreciation of the yen.

## 3. Other investment income

The surplus in other investment income contracted for the second consecutive year to 622.8 billion yen, falling by 162.3 billion yen (Chart 38). This was due to an increase in payments of interest on loans because (1) Japanese banks raised more funds in overseas markets to increase investment in foreign bonds, and (2) foreign banks transferred surplus yen funds to branches in Japan.

## D. Current Transfers (Charts 39 and 40)

The deficit in current transfers decreased for the second consecutive year to 968.5 billion yen,

narrowing by 91.1 billion yen or 8.6 percent from a year earlier. The decline was due primarily to the fall in contributions to international organizations in the official sector, and of fines and settlement payments paid by other sectors.

## III. The Capital and Financial Account (Chart 41)

In 2001, the capital and financial account recorded a net outflow of 7.0 trillion yen.

Outward direct investment by residents recorded a large net outflow reflecting the global industrial reorganization. For the second consecutive year, inward direct investment declined due to no large-scale investment.

Investment in foreign bonds and notes by residents recorded an increase in net purchases (outflow) because life insurance companies and banks actively purchased U.S. and European bonds. Investment in foreign equities by residents registered a decrease in net purchases (outflow) reflecting a decline in stock prices worldwide.

In investment in Japanese bonds and notes by nonresidents, net purchases (inflow) narrowed substantially because investors were reluctant to purchase government bonds given that there was hardly any room for interest rates to decline further. Investment in Japanese equities by nonresidents saw a shift to net purchases (inflow), reflecting active investment in the first half of the year based on expectations for an economic recovery and structural reforms under the Koizumi administration.

Other investment shifted to a large net inflow. This was because Japanese banks collected funds deposited with other banks overseas (inflow) as they matured given that yen funds were abundant in the overseas financial markets, while foreign banks in Japan raised funds from overseas (inflow) when the cost of funding yen in exchange for the U.S. dollar became negative.

13. Application of macro-hedge accounting is seen as another possible factor behind the increase in swap transactions (receipt of fixed-rate interest and payment of floating-rate interest) by Japanese banks. In macro-hedge accounting, interest on swap transactions concluded to hedge another transaction are recorded on an accrual basis, rather than on a mark-to-market basis, and are included as interest on the hedged assets/liabilities. Recording of profits/losses at market value can thus be deferred for fixed-rate interest received for swap transactions, unlike those from purchases of straight bonds under this method. This accounting method was introduced initially as a temporary measure effective until the end of March 2001 (the end of the fiscal year), but was extended by a year.

14. An agreement to exchange periodic interest payments in two currencies of equivalent value (the discounted present value at the time of contract). The notional principal is not exchanged. An exchange of fixed-rate interest has the same effect as forward exchange contracts.

## A. Direct Investment (Chart 42)

Outward direct investment by residents,<sup>15</sup> mainly investment by Japanese telecommunications companies and carmakers in their subsidiaries in the United States and Western Europe, recorded a net outflow of 4.7 trillion yen, the highest since the 7.4 trillion yen in 1990. Inward direct investment by nonresidents<sup>16</sup> recorded a net inflow of 599.3 billion yen, decreasing for the second consecutive year, because no large-scale investment in the automobile industry and financial services and insurance was made in 2001, unlike the past two years. As a result, the ratio of inward direct investment to outward direct investment was 12.8 percent. This was less than half the ratio recorded in the previous year but was above the average of 10.4 percent in the 1990s.

In the first half of 2001, investment increased from the same period in the previous year for both outward and inward direct investment. Residents made large-scale direct investment in telecommunications companies overseas, while nonresidents actively invested in financial services and insurance in Japan. In the second half of 2001, however, investment declined for both, with most of the decline being in IT and telecommunications, as business performance in IT-related industries deteriorated.

### 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 4.7 trillion yen, the highest level since the 7.4 trillion yen in 1990. This mainly reflected payments due to (1) acquisition of and capital participation in telecommunications companies, carmakers, and manufacturers of parts

for vehicles following the industrial reorganization and intensified competition on a global scale; (2) an increase of capital at subsidiaries by carmakers in an attempt to expand their overseas business; and (3) financial support extended to their overseas subsidiaries by electrical machinery manufacturers for the purpose of improving the subsidiaries' financial condition. Receipts arose mainly from financial institutions' reduction of their business overseas by selling off or withdrawing capital from their subsidiaries.

In the first half of 2001, Japanese telecommunications companies engaged in capital participation in a U.S. telecommunications company and a mobile communications company in Taiwan.<sup>17</sup> Further, Japanese carmakers increased capital at subsidiaries in Europe to increase production overseas.<sup>18</sup> Companies in the financial services and insurance industries decreased capital at or sold off their subsidiaries in the United States. Japanese companies continued to establish or increase capital in corporate-type investment trusts mainly in the Cayman Islands.

The following developments were observed in direct investment by area in the first half of 2001 (Chart 43). Investment in Asia increased, mainly in production bases for vehicles and other goods for export, and in China, with its growing market. Investment in Western Europe, which has shown a notable growth since 1999, continued to increase in the first half of 2001, reflecting large capital participation by a Japanese mobile communications company in a U.S. telecommunications company through investment in its U.K. subsidiary. Net outflow of investment in the United States narrowed, reflecting selling off of and

15. Outward direct investment by a resident refers to direct investment by a resident in an economy in a resident in another economy (a nonresident), and is recorded on the assets side in the balance of payments statistics. It includes investment by Japanese companies in their foreign subsidiaries (with paid-in capital of 10 percent or more) such as initial capitalization, capital increase, loan capital (excluding loans between financial institutions), and reinvested earnings.

16. Inward direct investment by a nonresident refers to direct investment by a resident in another economy (nonresident) in a resident, and is recorded on the liabilities side in the balance of payments statistics. It includes investment by nonresident companies in their Japanese subsidiaries (with paid-in capital of 10 percent or more) such as initial capitalization, capital increase, loan capital (excluding loans between financial companies), and reinvested earnings.

17. Companies in the mobile communications industry are buying and establishing equity ties with companies worldwide to benefit from economies of scale in view of the introduction of next-generation mobile phones. In 2001, a Japanese mobile communications company engaged in capital participation in a U.S. telecommunications company, while a U.K. telecommunications company purchased shares of a Japanese telecommunications company in a takeover bid. Outward direct investment by telecommunications companies, however, is expected to decrease in the future, as these companies are likely to scale down investment plans due to the waning of demand for telecommunications products and large debts accumulated from past takeovers that have narrowed their ability to invest further.

18. Industrial reorganization is progressing rapidly on a global scale in the automobile industry. Large corporate groups are being formed, in pursuit of cost-efficient research and development work on environmentally friendly products and in order to benefit from economies of scale.

withdrawal of capital from U.S. subsidiaries by Japanese financial institutions.

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

Inward direct investment by nonresidents started to increase in 1997 for the following reasons. First, industrial reorganization progressed and competition intensified on a global scale. Second, an increasing number of foreign firms planned to expand their business in Japan. And third, an increasing number of Japanese companies began to accept participation of foreign capital in the process of business restructuring and in order to improve their financial condition. In 2001, there was active investment in financial services and insurance, and in IT and telecommunications companies, producing a net inflow of 599.3 billion yen, the third highest level (the highest was the 1,451.3 billion yen in 1999). Net inflow on a year-on-year basis, however, narrowed since there was no large-scale investment in carmakers or in financial services and insurance as seen in the previous year and due to an outflow of capital following sales of Japanese subsidiaries by foreign firms as part of business reorganization.

Active investment was made in companies in financial services and insurance<sup>19</sup> and in IT and telecommunications industries. A life insurance company in the United States purchased a Japanese life insurance company, and a U.K. telecommunications company increased its stake in a Japanese telecommunications company.

Inward direct investment by nonresidents by area showed the following developments in the first half of 2001 (Chart 44). Investment from Western Europe was sluggish because a U.K. subsidiary of a U.S. office machinery manufacturer sold shares in its Japanese subsidiary to a Japanese office machinery manufacturer, which was a nonresident's withdrawal of capital (outflow). Investment from the United States remained high, reflecting capital participation in banks that took over business from failed financial institutions.

## B. Portfolio Investment (Excluding Securities Lending)

### 1. Outward portfolio investment by residents

In 2001, outward portfolio investment by residents increased substantially resulting in an expansion of net purchases, a net outflow of 13,225.1 billion yen in 2001 as against 11,825.8 billion yen in 2000. Investment in equities decreased as stock prices fell reflecting a slowdown in economies worldwide. There was, by contrast, a significant increase in investment in bonds and notes as banks actively purchased foreign bonds in anticipation of a decline in long-term interest rates in the United States and Europe. Life insurance companies also actively purchased foreign bonds, hedging against exchange rate risk at the same time.<sup>20</sup>

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

Investment in foreign equities by residents continued to decrease in 2001, resulting in a decline in net purchases (outflow) of 1,444.3 billion yen as against 2,140.5 billion yen in 2000 (Chart 45). Investors were reluctant to purchase foreign equities as stock prices declined reflecting a slowdown in economies worldwide.

Many life insurance companies sold highly volatile foreign equities to shift their funds to foreign bonds and notes because their ability to take risks weakened following the decline in stock prices in Japan (charts 46 and 47). Investment by trust banks (trust accounts) recorded net purchases as in the previous year, as they purchased foreign equities mainly using funds newly accepted as pension funds in April and October. There were also purchases by investment trusts that had established new funds. As a result, net purchases were recorded for the sixth consecutive year.

By area, investment in U.S. equities continued to record a net outflow while investment in European equities changed to a net inflow (Chart 48). This was mainly because Japanese investors shifted funds from European stocks to U.S. stocks to adjust their portfolio in line with the global indices, in which the weight of European stocks declined as a result of a revision of the calculation method.

19. In the financial sector, an increasing number of foreign firms are engaging in capital participation in Japanese life insurance companies and banks with the aim of expanding business in Japan, taking advantage of their ability to develop financial products and their sales expertise.

20. The risk of exchange rate volatility is hedged against by forward exchange contracts and other means, enabling investors to fix the exchange rate that will be applied at the time of sales. The use of this type of investment strategy attracted many life insurance companies, because the income gain in yen-denominated terms was larger than could be achieved by investing in domestic bonds or money market instruments, even after the cost of hedge transactions is taken into account.

Investment in Asian equities recorded a small net inflow. However, purchases of stocks in Hong Kong, Taiwan, and China increased markedly starting in the autumn, as investment trust funds investing in China, widely considered an attractive investment given that it was going to join the World Trade Organization (WTO) in the near future, had attracted a large amount of funds. This contributed to the shift of investment in Asian equities to a net outflow in the October–December quarter.

## b. Investment in foreign bonds and notes by residents (assets)

Net purchases (outflow) expanded for investment in foreign bonds and notes by residents to 11,080.4 billion yen in 2001 from 7,692.3 billion yen in 2000 (Chart 49). This expansion was mainly due to active purchases by life insurance companies and banks. Issuance and redemption of yen-denominated bonds and notes issued in Japan by nonresidents saw a shift to net redemption (inflow), as a result of a decline in the value of yen-denominated bonds issued in Japan by nonresidents (*samurai* bonds).

Net purchases (outflow) in sales and purchases by residents widened to 11,151.4 billion yen in 2001 from 7,202.9 billion yen in 2000. This was because banks and life insurance companies purchased foreign bonds and notes against the background of deteriorating investment opportunities in Japan due to low interest rates and weak stock prices (charts 50 and 51). Banks purchased U.S. and European bonds anticipating an economic slowdown and a fall in long-term interest rates (an increase in bond prices) in the United States and Europe following the terrorist attacks in the United States.<sup>21</sup> Life insurance companies shifted some short-term funds invested in Japanese bonds and stocks to U.S. agency securities for higher returns.

By area, investment in U.S. bonds recorded net purchases much higher than the previous year (Chart 52). This was because life insurance companies and banks increased purchases of U.S. government bonds and agency securities in anticipation of a decline in interest rates following an economic slowdown in the United States. Net purchases of 3.7 trillion yen recorded in the single month of October, the month immediately after the terrorist attacks, was especially notable. Investment in

European bonds continued to record net purchases, reflecting increased purchases in the expectation that the economic slowdown in the United States would spread to Europe. Investment in bonds and notes issued in other countries recorded large net purchases, mainly due to purchases of beneficiary certificates of investment trusts issued in the Cayman Islands and purchases of bonds issued by the World Bank and other international organizations (regional classification is not applied to international organizations).

Issuance and redemption of bonds and notes issued in Japan by nonresidents shifted to a net redemption (inflow) mainly because the amount of *samurai* bonds declined in the second half of 2001 (a net inflow of 71.0 billion yen in 2001 as against a net outflow of 489.4 billion yen in 2000; Chart 53). Issuance of *samurai* bonds remained high until September reflecting the low issuance cost of and strong demand for *samurai* bonds issued by institutions with low credit ratings from Japanese investors looking for investment opportunities (charts 54 and 55). The amount of issuance, however, declined from September as some issuers postponed issuance considering that investors were becoming increasingly concerned about credit risk following (1) the bankruptcy of Mycal, one of Japan's largest retailers, in September; (2) the downgrading and subsequent failure of Enron, a U.S. energy company, during November and December; and (3) heightened concern about the financial system in Argentina in December.

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

Investment in foreign money market instruments by residents changed to net sales (inflow) for the first time since 1995, marking a net inflow of 159.3 billion yen in 2001 as against a net outflow of 1,677.5 billion yen in 2000 (Chart 56). Overseas subsidiaries of Japanese financial institutions continued to issue *samurai* commercial paper (CP) to liquidate their loans toward autumn, and amid the continued decline in money market rates, investment trusts purchased Euro-yen CP, following the shift of funds to public and corporate bond investment trusts with relatively higher yields such as money management funds (MMFs). However, sales outweighed

21. Investment in foreign bonds and notes by residents in October 2001 recorded net purchases of 5.5 trillion yen, due to active purchases by banks. Some of these bonds were sold toward the year-end after the surge in U.S. long-term interest rates in mid-November.

purchases overall as they increased after the bankruptcy of Enron in November, causing prices of MMFs that included Euro-yen bonds issued by Enron to fall below par, and leading to increased sales to prepare cash for possible cancellation of contracts.

## 2. Inward portfolio investment by nonresidents

Net purchases (inflow) declined for inward portfolio investment by nonresidents to net purchases of 5,367.3 billion yen in 2001 from 7,279.6 billion yen in 2000. Investment in Japanese equities changed to net purchases (inflow) due to active purchases by foreign investors in the first half of the year reflecting expectations for an economic recovery and structural reforms under the Koizumi administration. Investment in Japanese bonds and notes by nonresidents recorded substantially narrowed net purchases (inflow) because sales of Japanese government bonds increased as nonresidents closed their asset swap positions in the second half of the year.

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

Investment in Japanese equities by nonresidents changed to substantially large net purchases (inflow) in 2001 of 4,081.1 billion yen from net sales (outflow) of 440.7 billion yen in 2000 (Chart 57). In a positive reaction to the monetary easing measures taken by the Bank of Japan in February and March and the start of the Koizumi administration in April, foreign investors purchased Japanese equities in the first half of 2001 to adjust their portfolios after they had lowered the weight of Japanese equities relative to the global indices in 2000. After the terrorist attacks in September, foreign investors took a wait-and-see stance given a further slowdown in the world economy and increasing concern about the outlook for the Japanese economy. Foreign investors reduced outright purchases and sales, while they continued to conduct arbitrage and other technical transactions.

By area, purchases by U.S. investors exceeded sales by far, while European investors engaged in more sales than purchases (Chart 58).

### b. Investment in Japanese bonds and notes by nonresidents (liabilities)<sup>22</sup>

Net purchases (inflow) contracted considerably for investment in Japanese bonds and notes by

nonresidents to 1,475.3 billion yen in 2001 from 8,547.6 billion yen in 2000 (Chart 59). This primarily reflected a large fall in net purchases (inflow) under sales and purchases of Japanese securities. Issuance and redemption of bonds and notes issued overseas by residents shifted to net issuance (inflow).

Investment in Japanese bonds and notes by nonresidents (sales and purchases) continued to record net purchases (inflow) due to the following developments. First, purchases associated with asset swaps<sup>23</sup> became active at the beginning of the year amid the narrowing of swap spreads (the spread between the swap rate and government bond yields; Chart 60). Second, purchases were made on the expectation of further monetary easing measures by the Bank of Japan. And third, public institutions shifted funds from treasury bills (TBs) and financing bills (FBs) to long-term government bonds for higher returns on yen assets. In the second half of 2001, however, hedge funds and other investors closed their asset swap positions<sup>24</sup> in view of the closing of books in December and sold Japanese government bonds. The level of net purchases (inflow), therefore, fell sharply to 1,412.6 billion yen in 2001 from 9,601.6 billion yen in 2000.

By area, purchases by European and U.S. investors exceeded sales (Chart 61).

Issuance and redemption of bonds and notes issued overseas by residents changed to a net issuance (inflow) of 62.7 billion yen in 2001 from a net redemption (outflow) of 1,054.0 billion yen in 2000. Government financial institutions issued government-guaranteed bonds and banks issued subordinated bonds, while companies issued large-scale convertible bonds. A decrease in redemption of bonds also contributed to the change to net issuance.

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

Investment in Japanese money market instruments by nonresidents continued to record net sales (outflow) of 800.1 billion yen in 2001 as against 932.9 billion yen in 2000 (Chart 62). This was because central banks and international organizations shifted funds from short-term securities such as TBs and FBs to long-term government bonds, and some

22. 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.

23. A combination of Japanese government bond purchases and interest rate swaps (fixed-rate interest payments and floating-rate interest receipts).

24. A combination of Japanese government bond sales and interest rate swaps (fixed-rate interest receipts and floating-rate interest payments).



international organizations reduced their holdings of TBs and FBs.

## C. Other Investment (Excluding Securities Lending)<sup>25</sup>

Other investment shifted to a large net inflow of 5,241.5 billion yen in 2001 from a net outflow of 1,194.9 billion yen in 2000 (Chart 63).

Net collection (inflow) in assets (such as loans, including interoffice accounts, and bank deposits) expanded considerably to 4,805.6 billion yen in 2001 from 2,155.0 billion yen in 2000. The expansion was due to the following developments. First, Japanese banks did not roll over deposits held with other banks overseas given that yen funds were abundant in the overseas financial markets. Second, head offices of foreign banks in Japan reduced their holdings of yen assets and repaid (inflow) loans extended by their Japanese branches through interoffice accounts. And third, foreign investors

who had been increasing their holdings of Japanese government securities since the end of 2000 sold these securities in March 2001 to secure profits on the basis that there was hardly any room for interest rates to decline further, and repaid funds (cash collateral) that had been raised through securities lending transactions with Japanese securities companies for purchasing the securities.

Liabilities (borrowing by residents from nonresidents including interoffice accounts and Euro-yen impact loans,<sup>26</sup> and bank deposits) shifted to net borrowings (inflow) of 435.9 billion yen in 2001 from a net outflow of 3,349.9 billion yen in 2000. Foreign banks borrowed funds from their offices overseas through interoffice accounts when the cost of funding yen in exchange for U.S. dollars became negative. Net repayments by Japanese firms to overseas branches of Japanese banks narrowed with a decline in the amount outstanding of Euro-yen impact loans.

25. Excludes securities lending transactions but includes exchange of cash collateral associated with securities lending transactions as well as payment and receipt of funds when borrowed securities are sold and repaid in cash. These transactions are recorded under currency and deposits or other assets/liabilities in other investment.

26. Yen-denominated loans extended by nonresidents to residents.



Chart 1  
Goods and Services

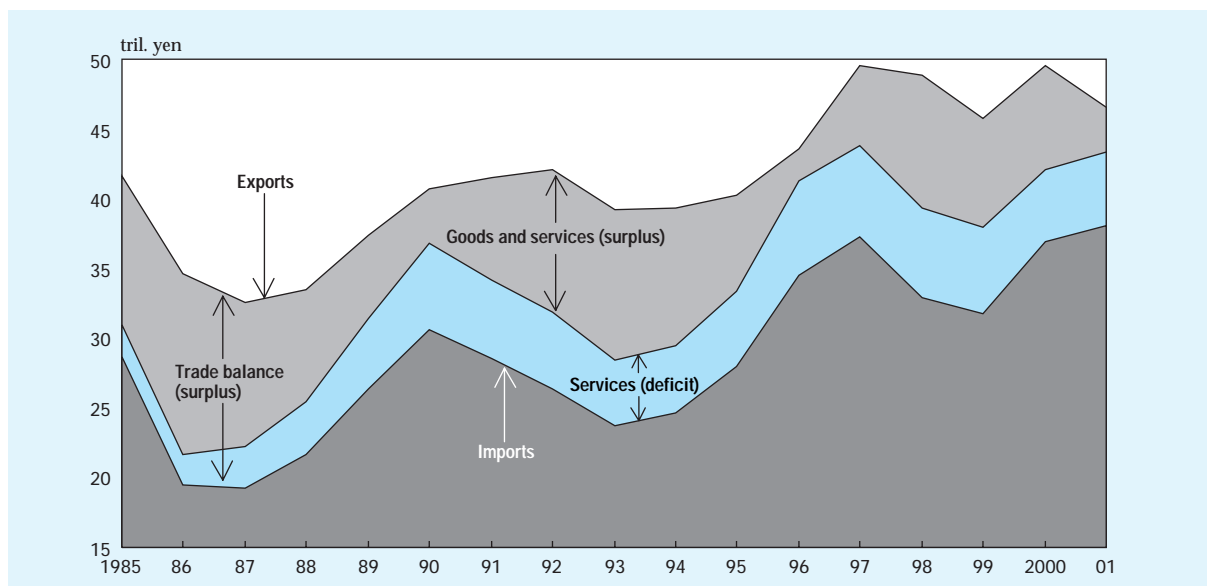
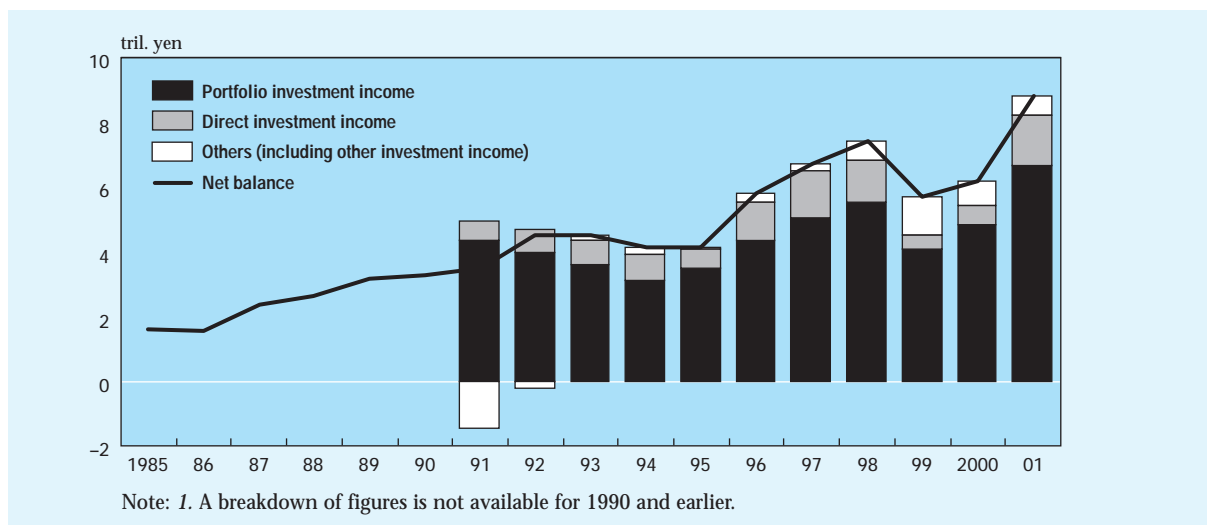


Chart 2  
Income<sup>1</sup>



# Japan's Balance of Payments for 2001

Chart 3  
Current Account<sup>1</sup>

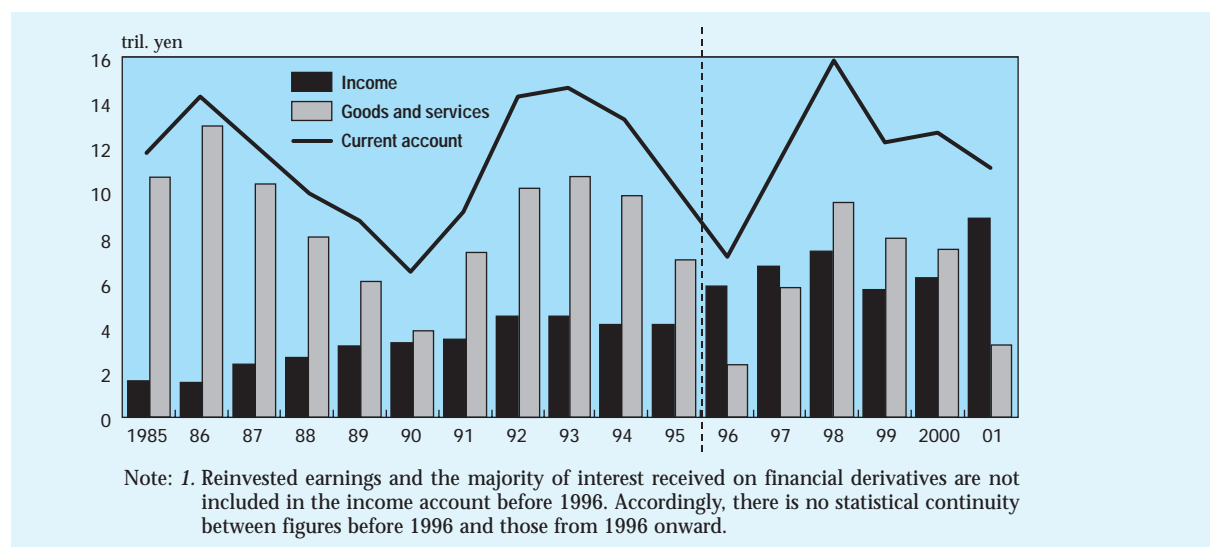


Chart 4  
Services Deficit and Number of Japanese Travelers Going Overseas<sup>1</sup>

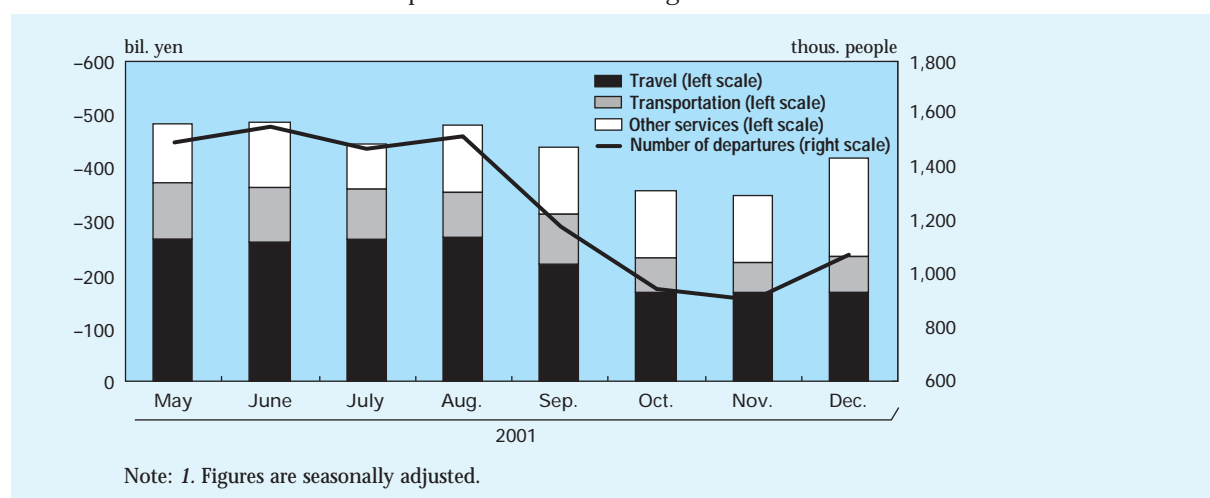


Chart 5  
Outward and Inward Direct Investment

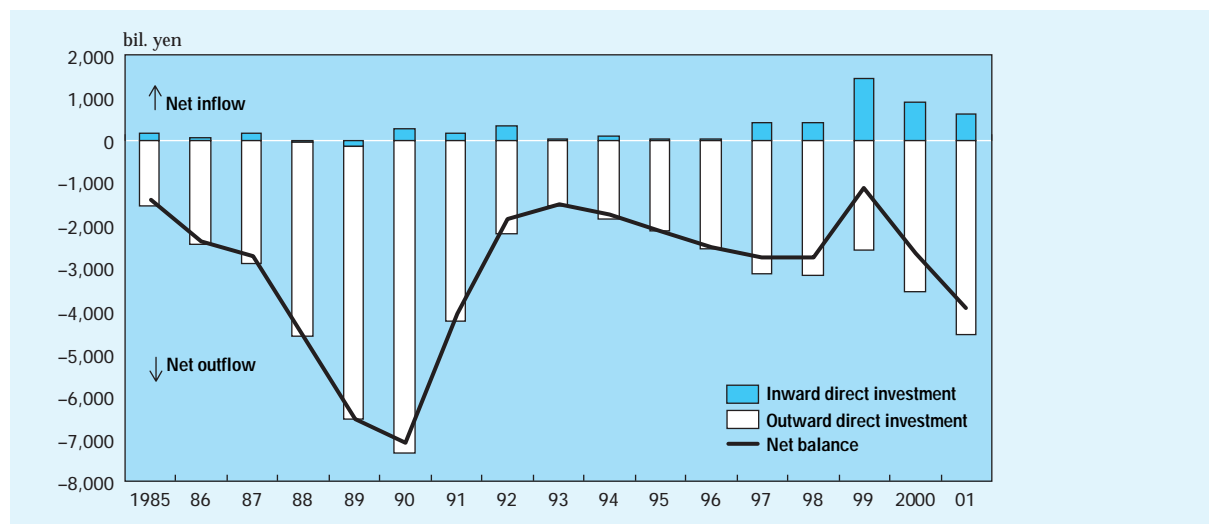


Chart 6  
Current Account

bil. yen

	2001 <sup>1</sup>	Changes from a year earlier	2000
Current account	11,063.3	-1,513.1	12,576.3
Goods and services	3,205.9	-4,223.9	7,429.8
Trade balance	8,521.0	-4,042.4	12,563.4
Exports	46,583.1	-2,942.6	49,525.7
Imports	38,062.1	+1,099.9	36,962.2
Services	-5,315.1	-181.4	-5,133.6
Transportation	-994.8	+29.1	-1,023.9
Travel	-2,828.5	+244.5	-3,073.0
Other services	-1,491.7	-455.0	-1,036.7
Income	8,825.8	+2,619.7	6,206.1
Current transfers	-968.5	+91.1	-1,059.6

Note: 1. Figures are preliminary.

# Japan's Balance of Payments for 2001

Chart 7  
Trade Balance

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

		2001	
		Changes from a year earlier	
Net balance	8,521.0	-4,042.4	(-32.2)
Exports	46,583.1	-2,942.6	( -5.9)
Imports	38,062.1	+1,099.9	( +3.0)

Chart 8  
The Exchange Rate<sup>1</sup>

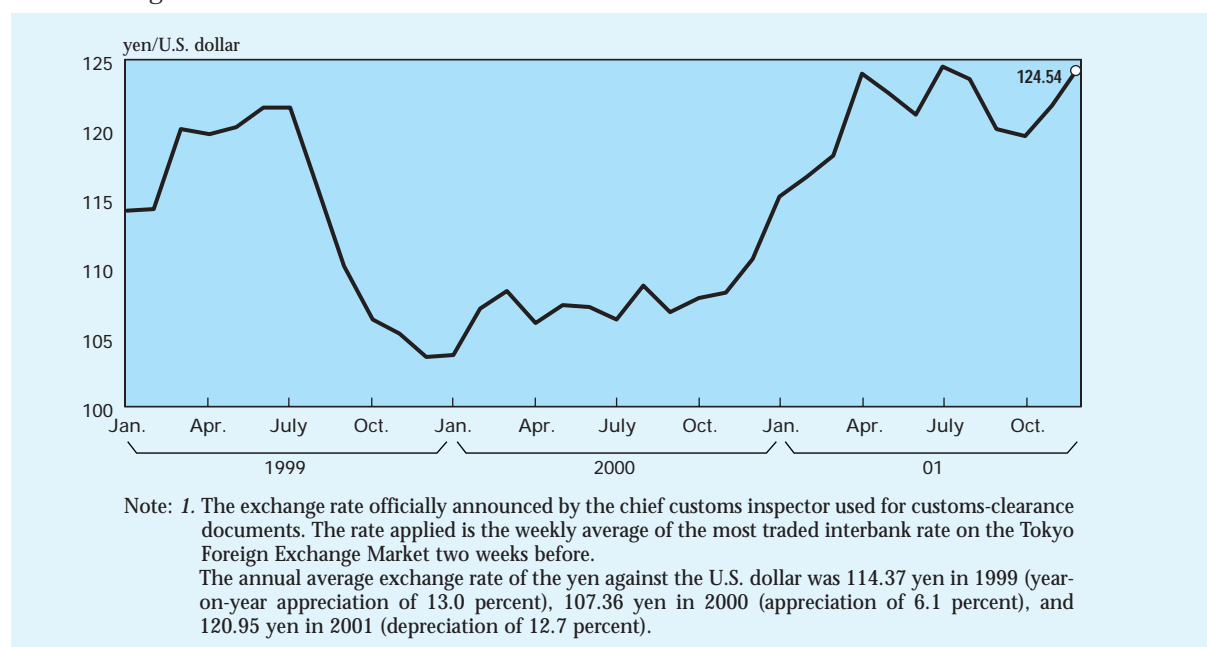
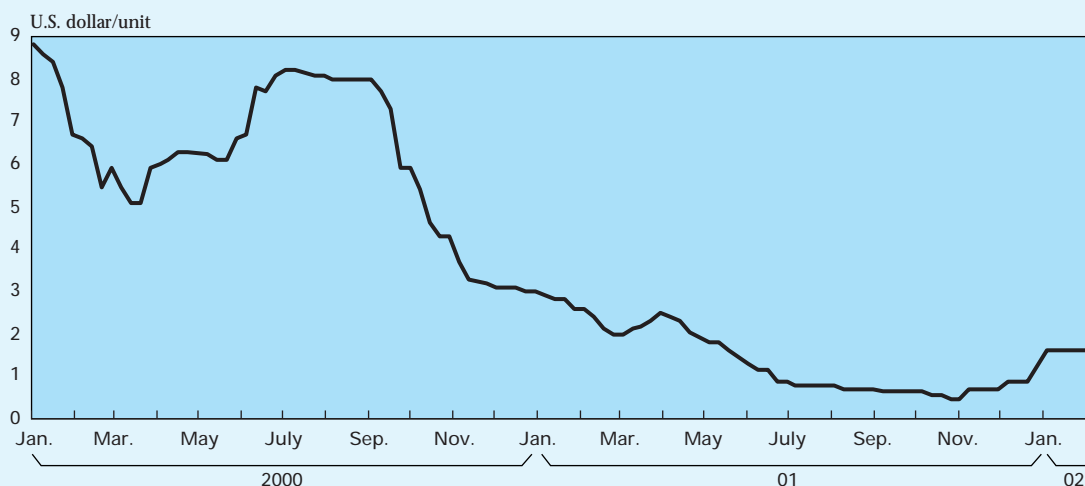
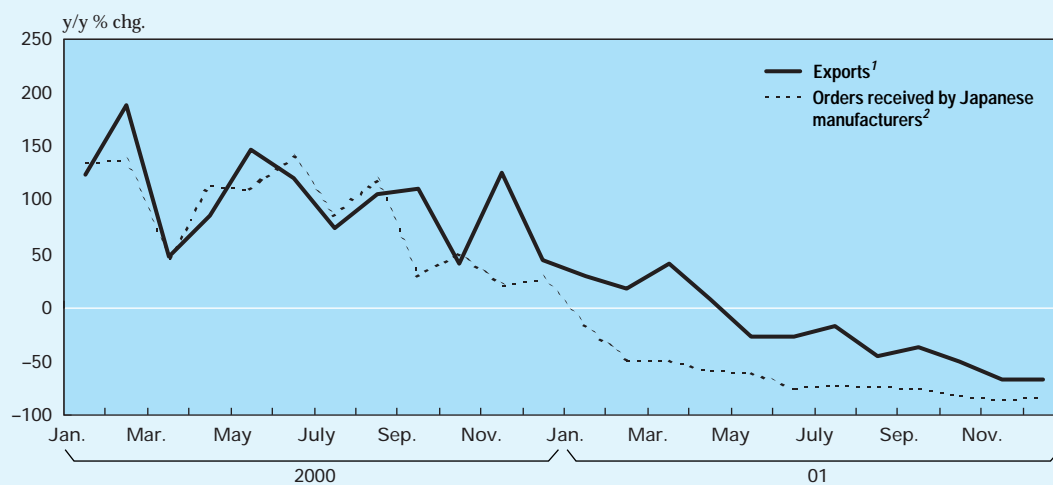


Chart 9  
Prices of 64-Megabit DRAMs<sup>1</sup>



Note: 1. Abbreviation for dynamic random-access memory. Prices are the median price on the Hong Kong market.  
Source: The *Nihon Keizai Shimbun*.

Chart 10  
Orders Received for and Exports of Semiconductor Manufacturing Equipment



Notes: 1. Total exports of semiconductor etching machines and steppers in value on a customs-clearance basis.  
2. Orders received in and outside Japan.  
Source: Semiconductor Equipment Association of Japan, "Orders and Sales of Semiconductor Manufacturing Equipment."

# Japan's Balance of Payments for 2001

Chart 11  
U.S. Industrial Production and Japan's Overall Exports

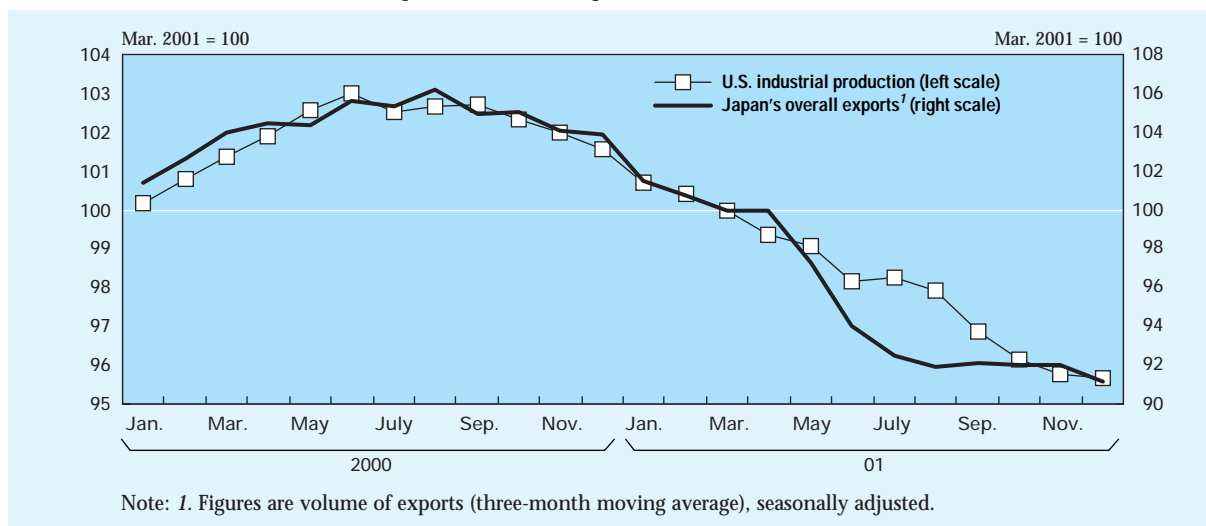


Chart 12  
Overseas Production by Japanese Manufacturers

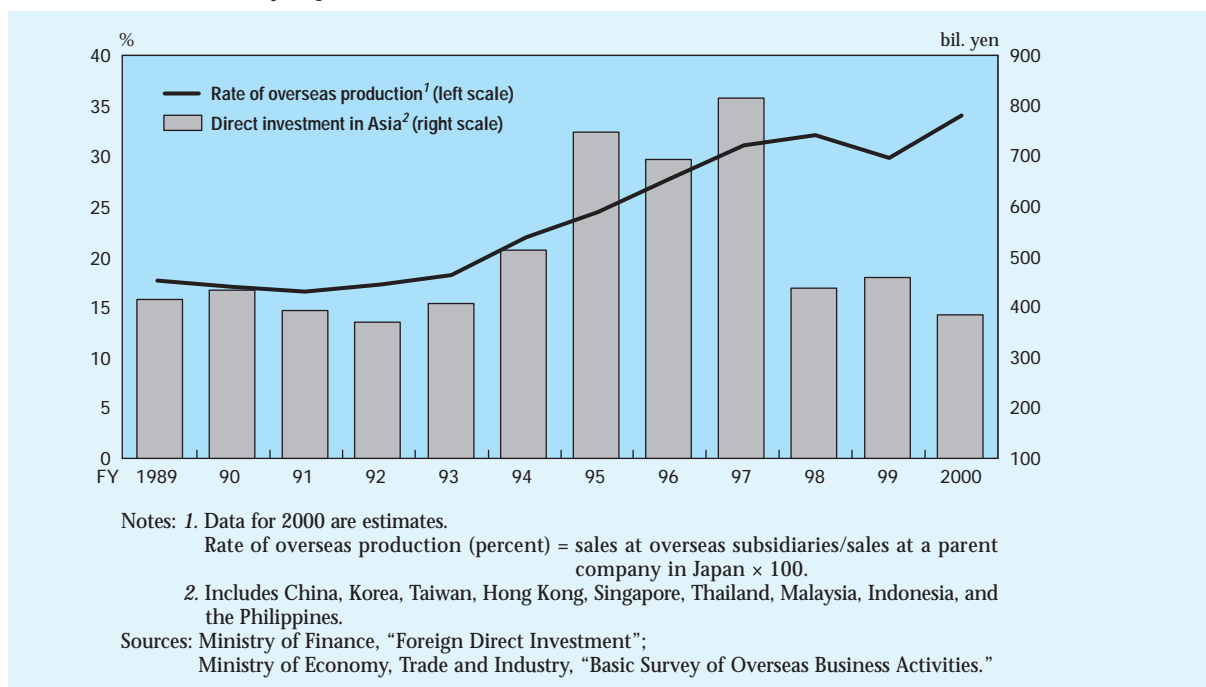
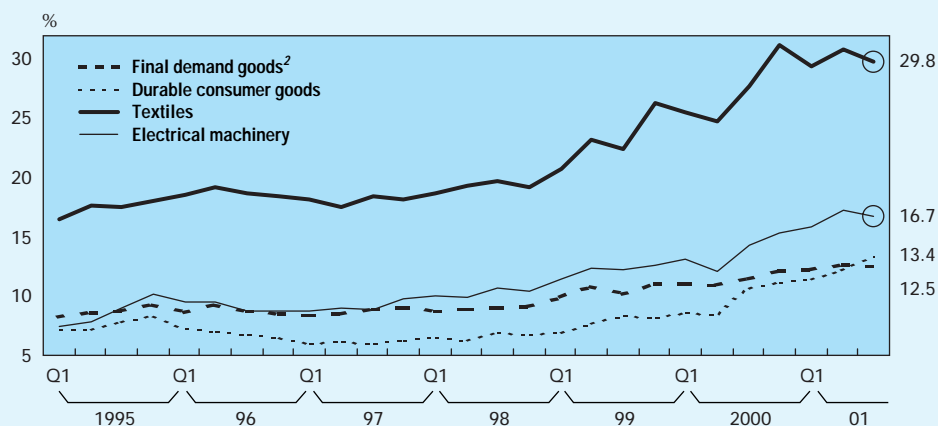




Chart 13  
Rates of Import Penetration<sup>1</sup>

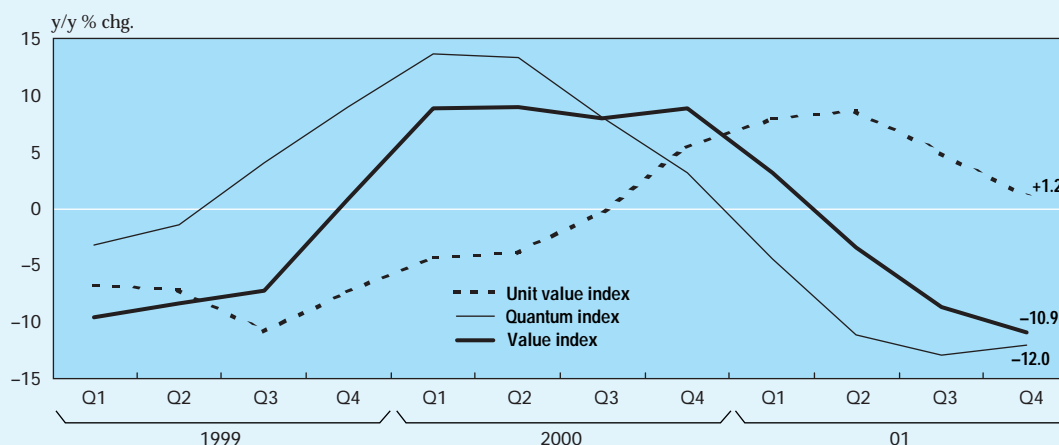


Notes: 1. Import penetration rate = (import index × weighted imports)/(aggregate supply index × weighted aggregate supply).

2. Final demand goods = investment goods + consumer goods (durable consumer goods + nondurable consumer goods).

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

Chart 14  
Export Indexes (Customs-Clearance Basis)



[Reference] Comparison of the Accounting Method for Merchandise Trade Statistics and for the Balance of Payments<sup>1</sup>

	Merchandise Trade Statistics	Balance of Payments
Price quoted <sup>2</sup>	Exports: FOB Imports: CIF	Exports: FOB Imports: FOB
Coverage	Goods that have crossed the customs frontier of the reporting economy	Goods whose ownership has been transferred between residents and nonresidents
Time of recording	Exports: When the ship or the aircraft carrying the goods leaves the port Imports: When imported goods are officially recognized	When the ownership is transferred

Notes: 1. Merchandise Trade Statistics are trade statistics on a customs-clearance basis.

2. FOB stands for "free on board" and CIF for "cost, insurance, and freight." On an FOB basis, the price of goods at the exporting country is recorded. On a CIF basis, freight charges and insurance premiums in addition to the price of goods are recorded.

# Japan's Balance of Payments for 2001

Chart 15  
Prices of Major Export Items (U.S. Dollar Basis)<sup>1</sup>

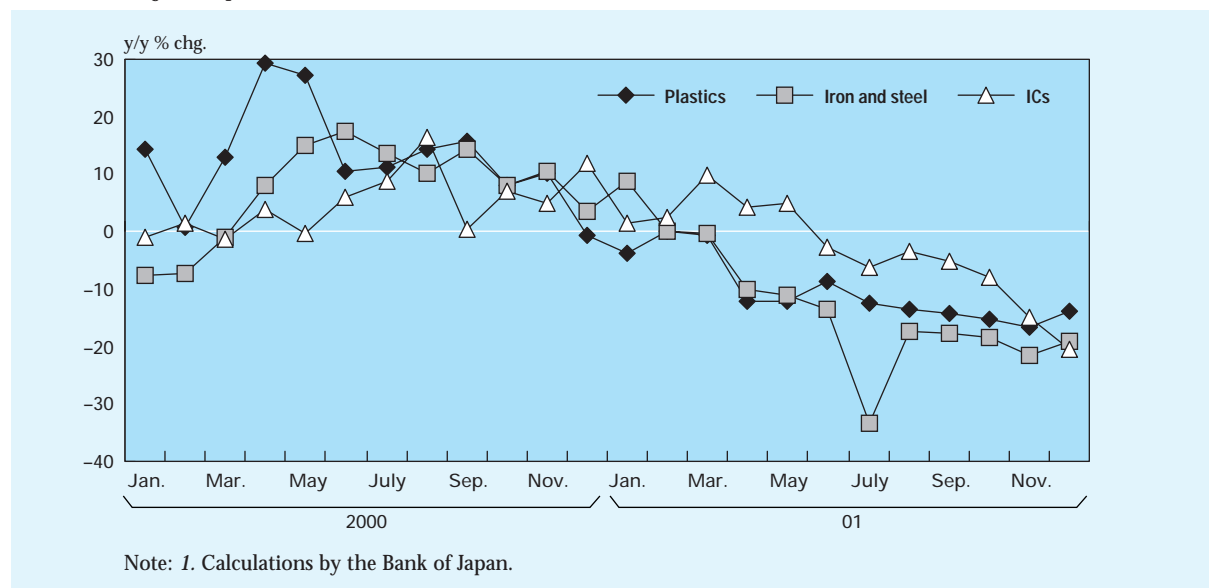


Chart 16  
Contribution to Overall Export Growth in Value by Area (Customs-Clearance Basis)  
y/y % chg.

	Overall exports	United States	European Union	Asia	NIEs <sup>1</sup>	ASEAN <sup>1</sup>	China	Middle East
2000	+8.6	+1.6	-0.1	+7.5	+4.4	+2.5	+1.3	-0.1
01	-5.1	-1.2	-1.2	-2.9	-3.3	-1.5	+0.9	+0.4

Note: 1. Includes exports to Singapore.

Chart 17  
Contribution to Overall Export Growth in Value by Area (Customs-Clearance Basis)

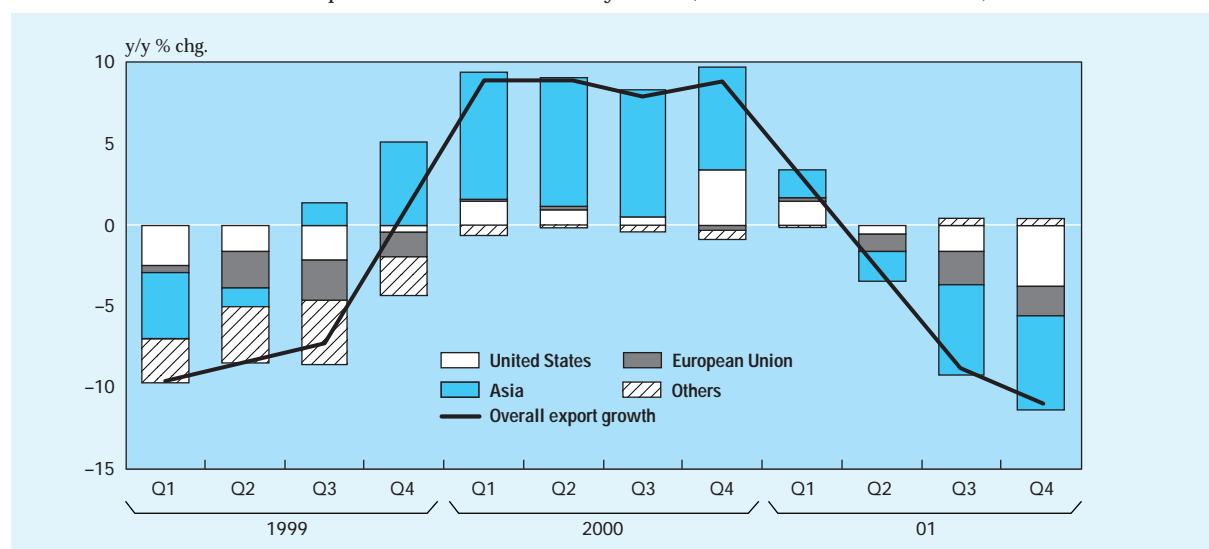


Chart 18

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

y/y % chg.

	Value	Volume	Price
Asia	-7.1	-9.5	+2.6
United States	-4.1	-14.8	+12.6
European Union	-7.3	-16.8	+11.4

Chart 19

Contribution to Overall Export Growth by Item

Items	Contribution (percent changes from a year earlier)	Major factors
Electronics and IT-related products	-3.4	—
Semiconductors and other electronic parts	-1.8	Decrease in demand for parts for PCs and networking hardware
Office machinery	-0.5	Decrease in demand for parts for PCs and peripheral equipment
Telecommunications apparatus	-0.3	Decrease in demand for telecommunications apparatus mainly for base stations in the United States and Europe
Metalworking machinery	-0.2	Decrease in demand for semiconductor etching machines
Scientific, medical, and optical instruments	-0.2	Decrease in demand for semiconductor lithography apparatus
Electrical measuring and controlling instruments	-0.2	Decrease in demand for semiconductor test instruments
Parts for audiovisual apparatus	-0.1	Decrease in production of audiovisual apparatus in Asia and decrease in demand for audiovisual apparatus overseas
Audio apparatus	-0.2	Shift overseas of Japanese manufacturers' production bases and decrease in demand overseas
Chemicals	-0.1	Weak demand due to decrease in production in Asia
Motor vehicles	+0.6	Increase in the average unit price and brisk sales in the United States and the Middle East
Foodstuffs	+0.3	Food aid to Asia (rice)
Power generating machinery	+0.2	Increase in demand for large-scale gas turbine generators in the United States and Latin America
Iron and steel products	+0.1	Increase in demand for steel pipes (for oil and gas in the Middle East), for steel bars (for the construction industry in the United States), and for semi-finished products (for manufacturers in China)
Value of overall exports	-5.1	—

# Japan's Balance of Payments for 2001

Chart 20  
Import Indexes (Customs-Clearance Basis)

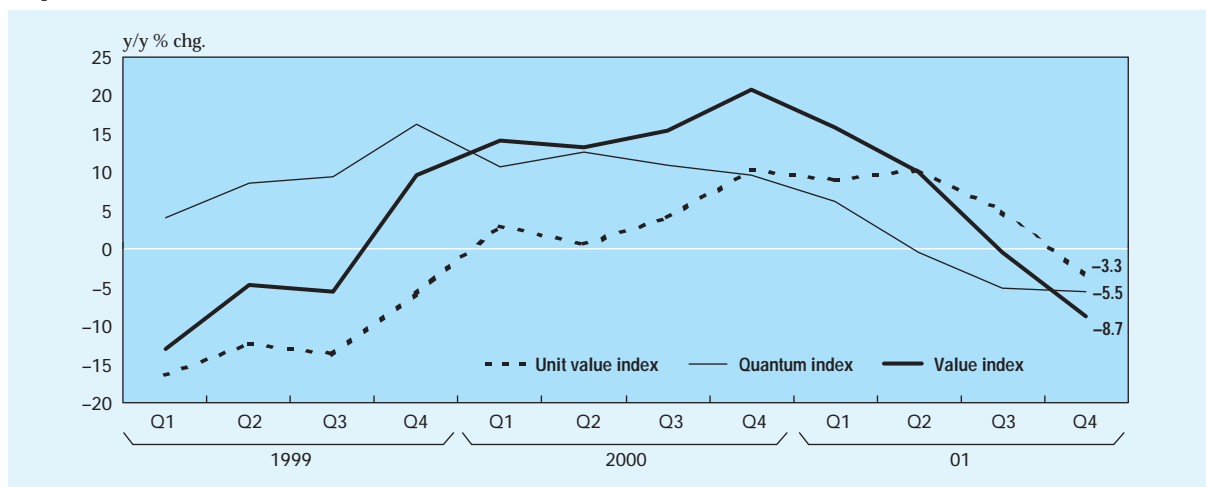


Chart 21  
Contribution to Overall Import Growth in Value by Item (Customs-Clearance Basis)

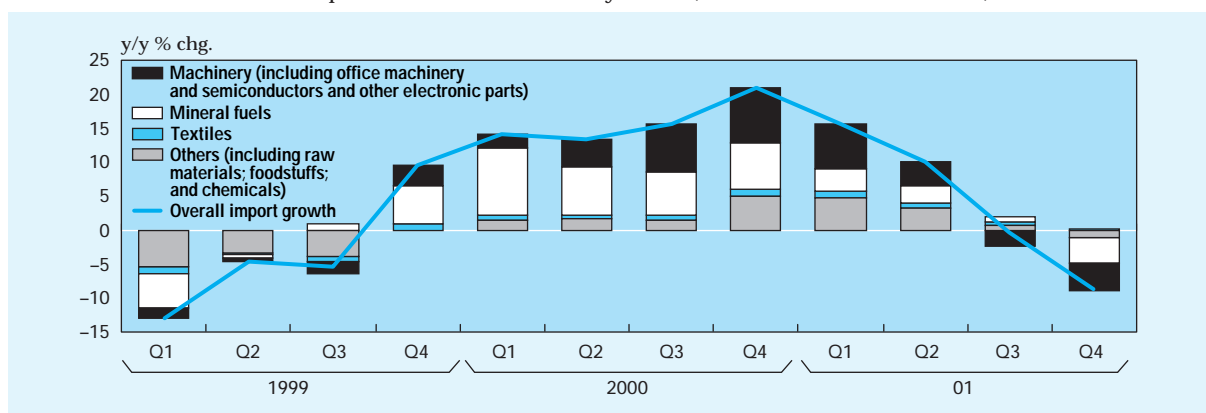
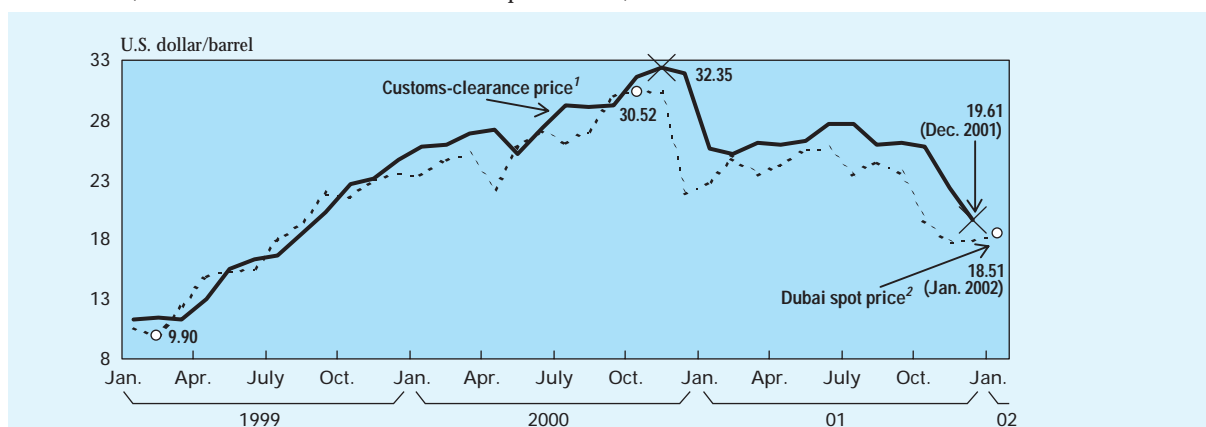


Chart 22  
Oil Prices (Customs-Clearance and Dubai Spot Prices)



Notes: 1. Customs-clearance price per barrel in 2001: US\$25.70 in October; US\$22.30 in November; and US\$19.61 in December. There is a time lag of approximately 40 days before market price is reflected in the customs-clearance price.  
2. Monthly average.

Chart 23

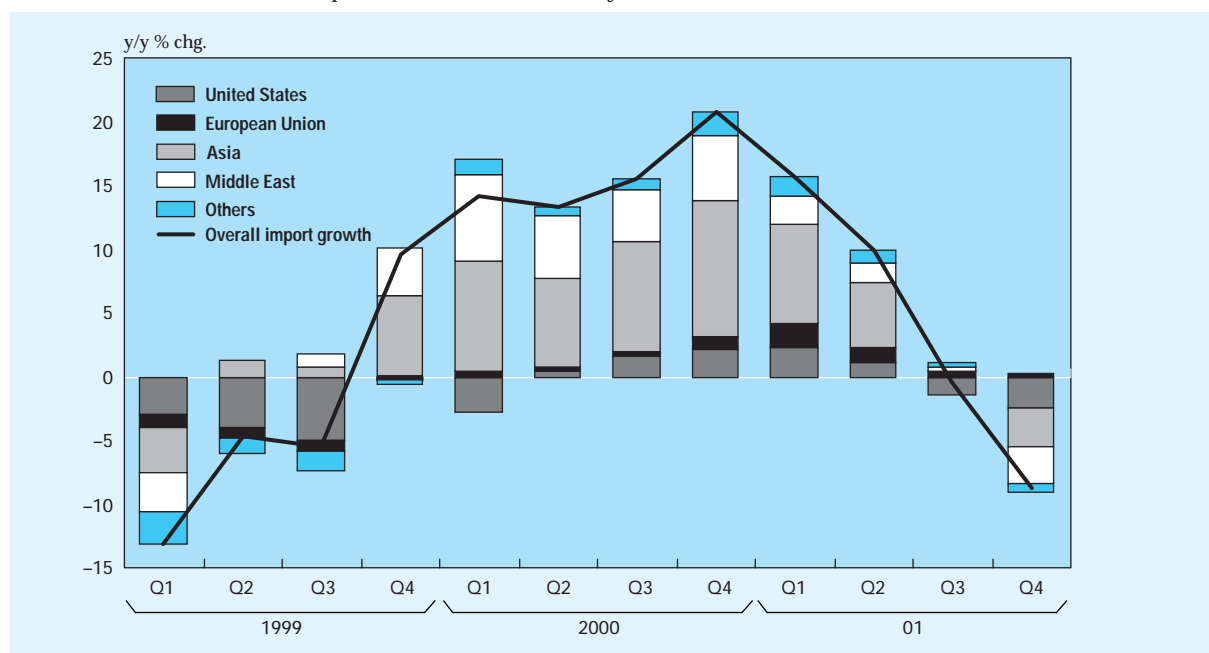
## Contribution to Overall Import Growth in Value by Area (Customs-Clearance Basis)

y/y % chg.

	Overall imports	United States	European Union	Asia	NIEs	ASEAN	China	Oceania	Middle East
<b>2000</b>	<b>+16.1</b>	<b>+0.4</b>	<b>+0.5</b>	<b>+8.8</b>	<b>+2.6</b>	<b>+3.3</b>	<b>+3.0</b>	<b>+0.5</b>	<b>+5.3</b>
<b>01</b>	<b>+3.6</b>	<b>-0.3</b>	<b>+0.9</b>	<b>+2.2</b>	<b>-0.9</b>	<b>+0.4</b>	<b>+2.6</b>	<b>+0.4</b>	<b>+0.2</b>

Chart 24

## Contribution to Overall Import Growth in Value by Area (Customs-Clearance Basis)



# Japan's Balance of Payments for 2001

Chart 25  
Transportation  
bil. yen

	2001	Changes from a year earlier	2000
<b>Transportation</b>	<b>-994.8</b>	<b>+29.1</b>	<b>-1,023.9</b>
<b>Sea transport</b>	<b>-470.3</b>	<b>-10.1</b>	<b>-460.2</b>
Credit	1,991.4	+180.1	1,811.3
Debit	2,461.6	+190.2	2,271.5
<b>Air transport</b>	<b>-516.8</b>	<b>+41.5</b>	<b>-558.3</b>
<b>Passenger</b>	<b>-795.1</b>	<b>+84.3</b>	<b>-879.5</b>
Credit	295.4	+16.0	279.4
Debit	1,090.6	-68.4	1,158.9
<b>Freight</b>	<b>6.0</b>	<b>-49.2</b>	<b>55.2</b>
Credit	238.2	-48.4	286.6
Debit	232.2	+0.9	231.4

Chart 26  
Travel  
bil. yen

	2001	Changes from a year earlier	2000
<b>Travel</b>	<b>-2,828.5</b>	<b>+244.5</b>	<b>-3,073.0</b>
<b>Credit</b>	<b>402.0</b>	<b>+38.3</b>	<b>363.7</b>
<b>Debit</b>	<b>3,230.5</b>	<b>-206.2</b>	<b>3,436.7</b>



Chart 27

## Travelers Departing from and Entering Japan

## (1) Quarterly Developments

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

	2001			
	Jan.-Mar.	Apr.-June	July-Sep.	Oct.-Dec <sup>1</sup>
<b>Departure</b>	<b>4,475</b> (+6.1)	<b>4,197</b> (+2.4)	<b>4,719</b> (-6.0)	<b>2,823</b> (-37.1)
<b>Entry</b>	<b>1,133</b> (+6.7)	<b>1,244</b> (+1.6)	<b>1,268</b> (-1.5)	<b>1,123</b> (-5.1)

## (2) Monthly Developments

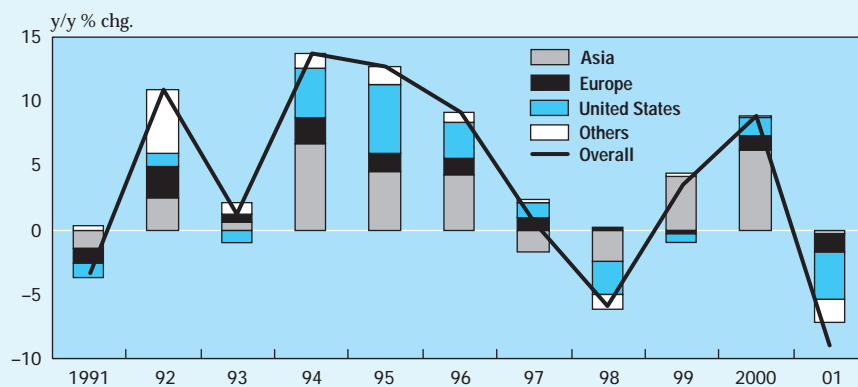
thous. people; figures in parentheses are % chg. from the same period of the previous year

	2001				
	Aug.	Sep.	Oct.	Nov. <sup>1</sup>	Dec <sup>1</sup>
<b>Departure</b>	<b>1,791</b> (+1.8)	<b>1,331</b> (-20.6)	<b>925</b> (-39.2)	<b>890</b> (-41.9)	<b>1,008</b> (-29.6)
<b>Entry</b>	<b>433</b> (+2.4)	<b>355</b> (-6.6)	<b>403</b> (-9.2)	<b>352</b> (-7.1)	<b>368</b> (+1.9)

Note: 1. Figures are preliminary.

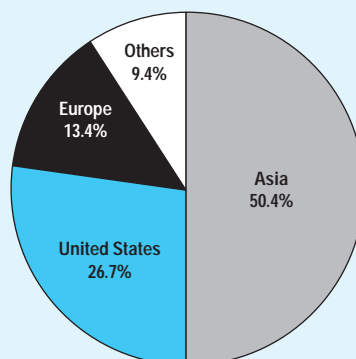
Source: Japan National Tourist Organization (JNTO).

**Chart 28**  
Year-on-Year Changes in the Number of Japanese Travelers Departing from Japan and Contribution to Overall Change by Destination<sup>1</sup>



Note: 1. Figures for 2001 are year-on-year percentage changes for January–November. Accordingly, the year-on-year change does not equal the total of figures for each area.

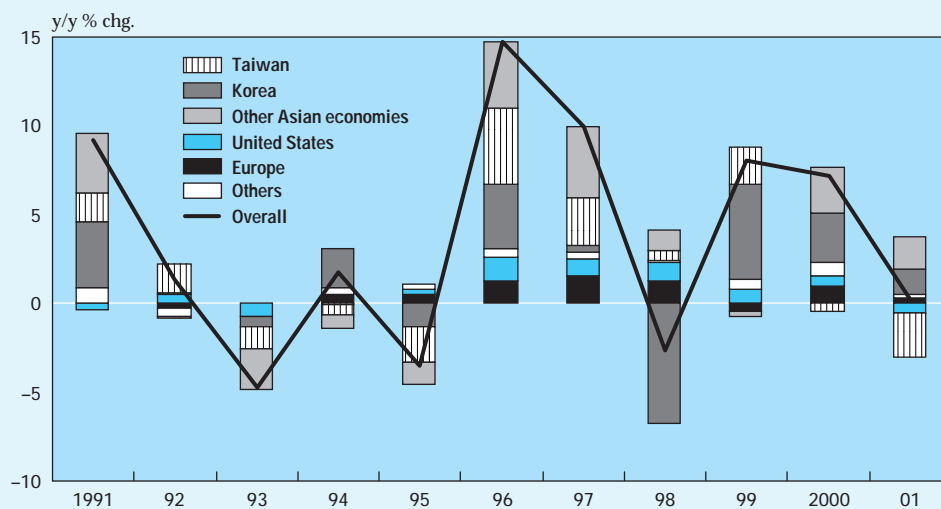
**Chart 29**  
Destination of Japanese Travelers Going Overseas<sup>1</sup>



Note: 1. Figures for January–November 2001. Figures from January to June are from “*Houmu Tokei Geppou* (Monthly Statistical Bulletin)” released by the Ministry of Justice. Those from July to November are calculations by the Bank of Japan.

Chart 30

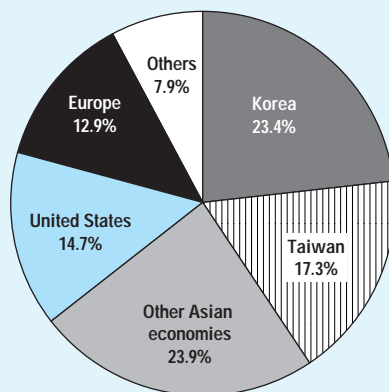
Year-on-Year Changes in the Number of Visitors to Japan and Contribution to Overall Change by Nationality<sup>1</sup>



Note: 1. Figures for 2001 are year-on-year percentage changes for January–October.

Chart 31

Nationality of Visitors to Japan<sup>1</sup>



Note: 1. Figures for January–October 2001.

Source: Japan National Tourist Organization (JNTO).

# Japan's Balance of Payments for 2001

Chart 32  
Other Services  
bil. yen

	2001	Changes from a year earlier	2000
<b>Other services</b>	<b>-1,491.7</b>	<b>-455.0</b>	<b>-1,036.7</b>
<b>Financial services</b>	<b>128.7</b>	<b>+22.8</b>	<b>105.9</b>
Credit	328.7	+20.0	308.7
Debit	200.0	-2.8	202.8
<b>Construction services</b>	<b>118.4</b>	<b>-80.0</b>	<b>198.3</b>
Credit	564.0	-65.7	629.6
Debit	445.6	+14.3	431.3
<b>Insurance services</b>	<b>-339.7</b>	<b>-140.1</b>	<b>-199.6</b>
Credit	-12.9	-31.5	18.6
Debit	326.7	+108.5	218.2
<b>Computer and information services</b>	<b>-148.8</b>	<b>+12.9</b>	<b>-161.6</b>
Credit	170.9	+1.7	169.1
Debit	319.6	-11.1	330.7
<b>Royalties and license fees</b>	<b>-83.0</b>	<b>+0.8</b>	<b>-83.8</b>
Credit	1,265.3	+162.8	1,102.4
Debit	1,348.3	+162.0	1,186.3
<b>Other business services</b>	<b>-924.6</b>	<b>-215.2</b>	<b>-709.4</b>
Credit	1,968.0	+59.2	1,908.8
Debit	2,892.5	+274.3	2,618.2
<b>Personal, cultural, and recreational services</b>	<b>-154.7</b>	<b>-29.7</b>	<b>-125.0</b>
Credit	14.3	+1.8	12.5
Debit	169.0	+31.5	137.5

Chart 33  
Other Services

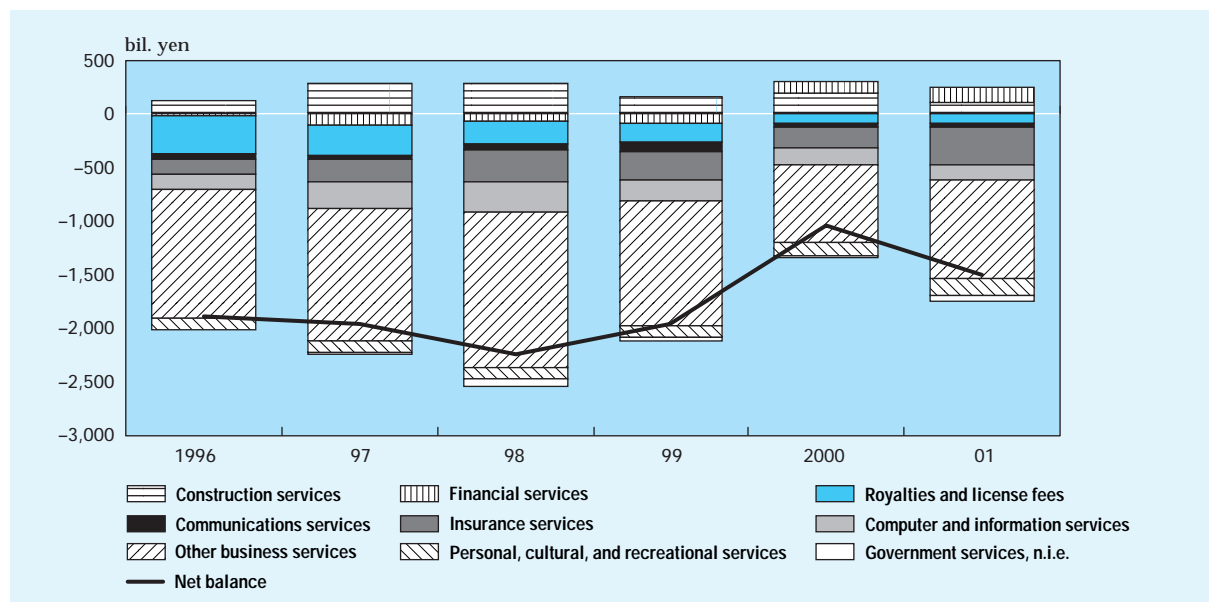


Chart 34  
Income

bil. yen

	2001	Changes from a year earlier	2000
<b>Income</b>	<b>8,825.8</b>	<b>+2,619.7</b>	<b>6,206.1</b>
<b>Direct investment income</b>	<b>1,545.5</b>	<b>+937.4</b>	<b>608.1</b>
Dividends and distributed branch profits	774.7	+77.3	697.4
Credit	1,050.5	+94.7	955.8
Debit	275.8	+17.4	258.4
Reinvested earnings	659.5	+840.3	-180.8
Credit	846.6	+1,037.3	-190.6
Debit	187.1	+197.0	-9.8
<b>Portfolio investment income</b>	<b>6,662.5</b>	<b>+1,849.2</b>	<b>4,813.3</b>
Bonds and notes	4,975.9	+1,014.0	3,961.9
Credit	6,086.4	+930.4	5,156.0
Debit	1,110.5	-83.6	1,194.1
Money market instruments and financial derivatives	1,134.7	+776.5	358.3
Credit	13,943.7	+1,454.3	12,489.5
Debit	12,809.0	+677.8	12,131.2
<b>Other investment income</b>	<b>622.8</b>	<b>-162.3</b>	<b>785.1</b>
Interest on loans	505.6	-253.1	758.7
Interest on deposits	88.7	+164.5	-75.8

# Japan's Balance of Payments for 2001

Chart 35  
Income

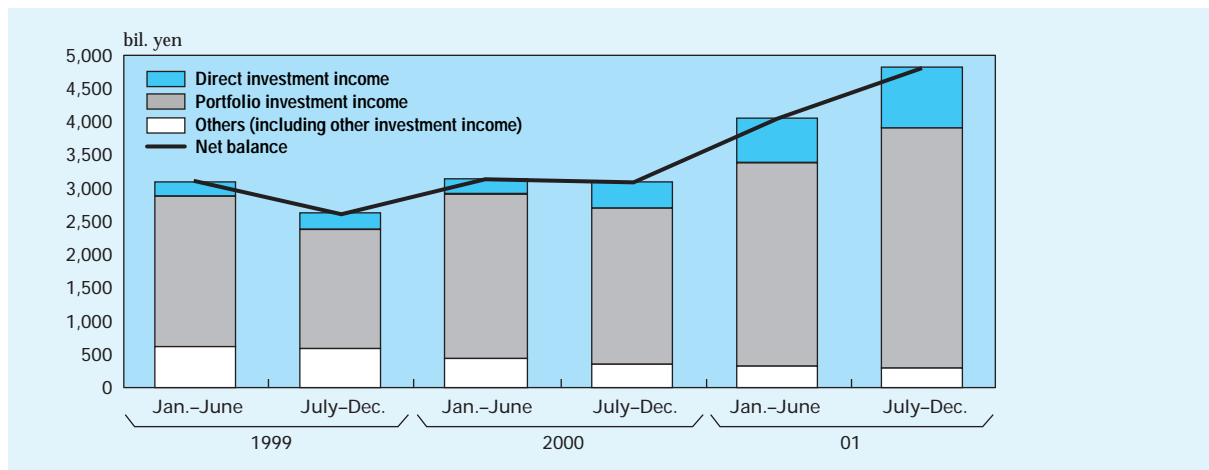


Chart 36  
Direct Investment Income

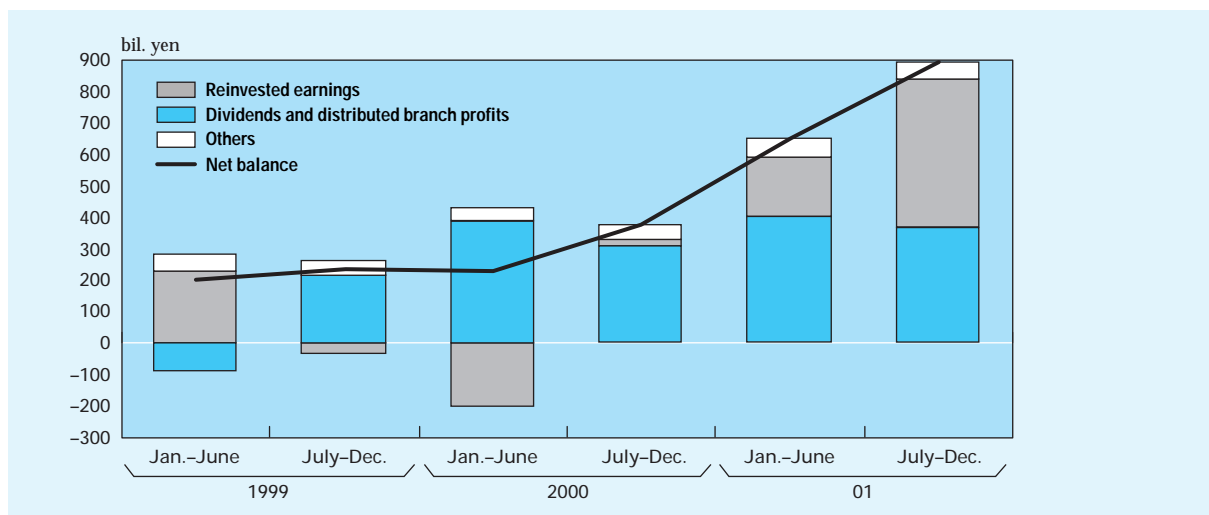




Chart 37  
Portfolio Investment Income

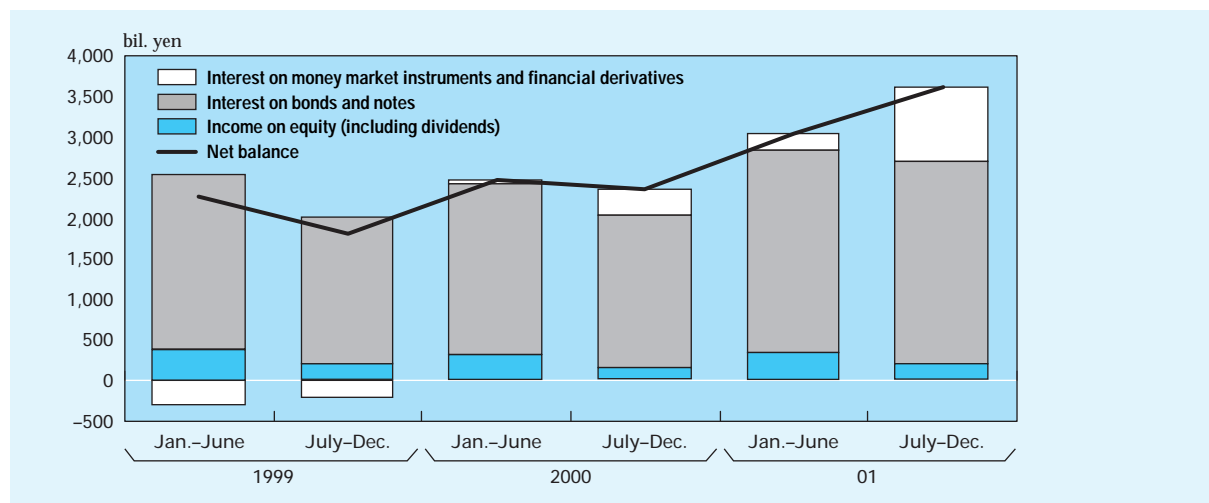


Chart 38  
Other Investment Income

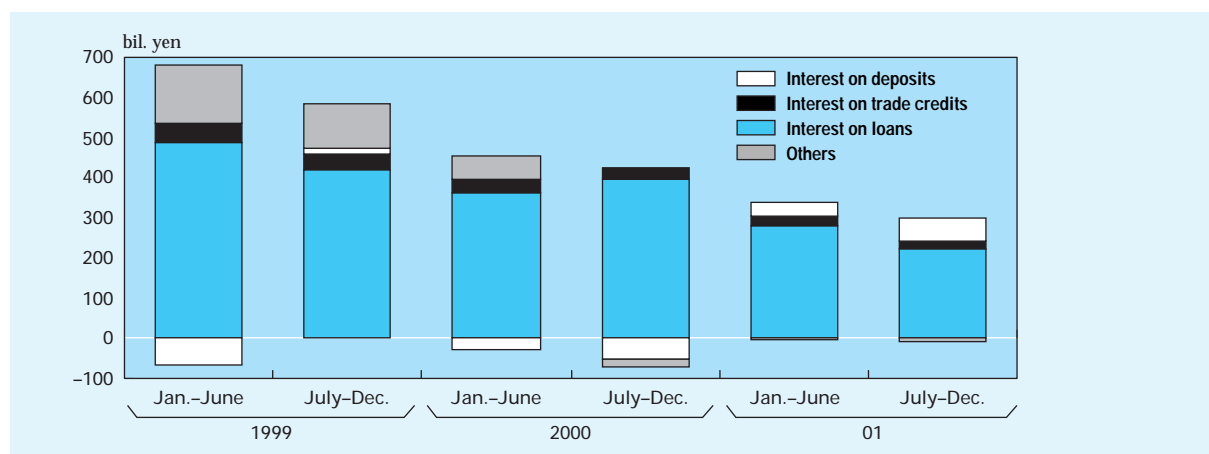


Chart 39  
Current Transfers

bil. yen

	2001	Changes from a year earlier	2000
<b>Current transfers</b>	<b>-968.5</b>	<b>+91.1</b>	<b>-1,059.6</b>
<b>Official sector</b>	<b>-262.3</b>	<b>+51.7</b>	<b>-314.0</b>
Credit	19.9	-0.2	20.1
Debit	282.2	-51.8	334.0
<b>Other sectors</b>	<b>-706.2</b>	<b>+39.4</b>	<b>-745.6</b>
Credit	721.9	-52.0	773.9
Debit	1,428.1	-91.4	1,519.5

# Japan's Balance of Payments for 2001

Chart 40  
Current Transfers<sup>1</sup>

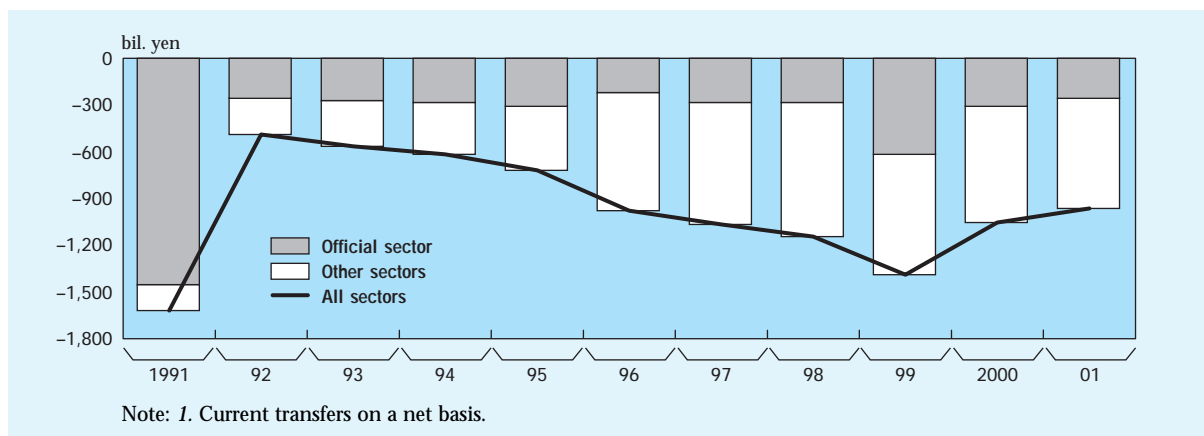


Chart 41  
Capital and Financial Account<sup>1</sup>

bil. yen

	2001 <sup>2</sup>			2000		
<b>Current account</b>	<b>11,063.3</b>			<b>12,576.3</b>		
<b>Capital and financial account</b>	<b>-7,022.6</b>	<b>Assets (outward investment)</b>	<b>Liabilities (inward investment)</b>	<b>-9,124.2</b>	<b>Assets (outward investment)</b>	<b>Liabilities (inward investment)</b>
<b>Financial account</b>	<b>-6,675.2</b>			<b>-8,129.5</b>		
<b>Direct investment</b>	<b>-4,068.4</b>	<b>-4,667.7</b>	<b>599.3</b>	<b>-2,503.9</b>	<b>-3,400.8</b>	<b>896.9</b>
<b>Portfolio investment<sup>1</sup></b>	<b>-7,857.7</b>	<b>-13,225.1</b>	<b>5,367.3</b>	<b>-4,546.2</b>	<b>-11,825.8</b>	<b>7,279.6</b>
Of which <b>Equity securities</b>	<b>2,636.8</b>	<b>-1,444.3</b>	<b>4,081.1</b>	<b>-2,581.2</b>	<b>-2,140.5</b>	<b>-440.7</b>
<b>Bonds and notes</b>	<b>-9,605.2</b>	<b>-11,080.4</b>	<b>1,475.3</b>	<b>855.3</b>	<b>-7,692.3</b>	<b>8,547.6</b>
<b>Money market instruments</b>	<b>-640.8</b>	<b>159.3</b>	<b>-800.1</b>	<b>-2,601.4</b>	<b>-1,677.5</b>	<b>-932.9</b>
<b>Other investment<sup>3</sup></b>	<b>5,241.5</b>	<b>4,805.6</b>	<b>435.9</b>	<b>-1,194.9</b>	<b>2,155.0</b>	<b>-3,349.9</b>
Of which <b>Loans</b>	<b>-5,057.2</b>	<b>-3,706.3</b>	<b>-1,351.0</b>	<b>4,425.8</b>	<b>8,661.3</b>	<b>-4,235.5</b>
<b>Currency and deposits</b>	<b>9,537.8</b>	<b>7,586.3</b>	<b>1,951.5</b>	<b>-4,315.5</b>	<b>-5,030.2</b>	<b>714.7</b>
<b>Capital account</b>	<b>-347.3</b>			<b>-994.7</b>		
<b>Changes in reserve assets</b>	<b>-4,936.4</b>			<b>-5,260.9</b>		
<b>Errors and omissions</b>	<b>895.7</b>			<b>1,808.8</b>		

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.

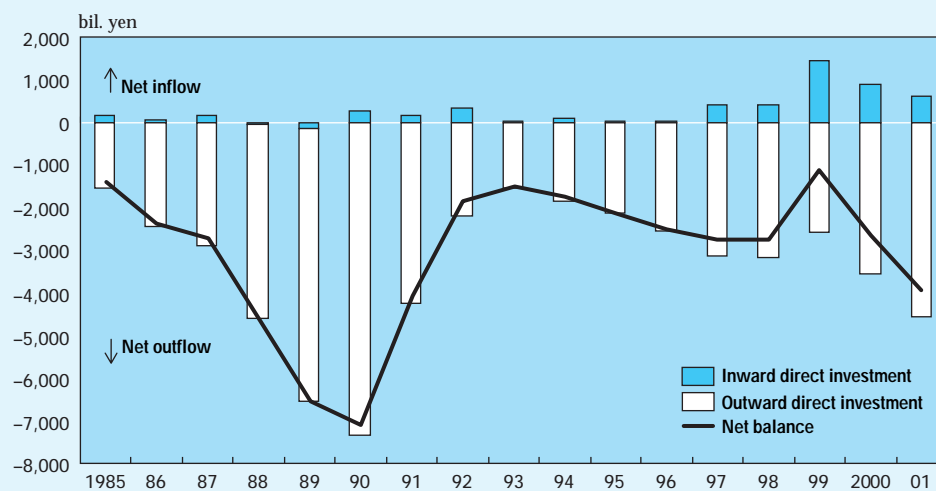
2. Figures are preliminary.

3. Figures exclude securities lending transactions. Figures for securities lending transactions 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.

Chart 42

## Outward and Inward Direct Investment

	1999		2000		01		01				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	Jan.-June		July-Dec.		Value (bil. yen)
							Value (bil. yen)	Percent changes from a year earlier	Value (bil. yen)	Percent changes from a year earlier	
Outward direct investment	-2,590.6	-18.1	-3,400.8	+31.3	-4,667.7	+37.3	-2,356.2	2.5 times	-2,311.5	-6.3	-3,077.9
Inward direct investment	1,451.3	3.5 times	896.9	-38.2	599.3	-33.2	380.6	Shift to a net inflow	218.7	-76.1	318.6
Inward/outward (percent)	56.0		26.4		12.8		16.2		9.5		10.4

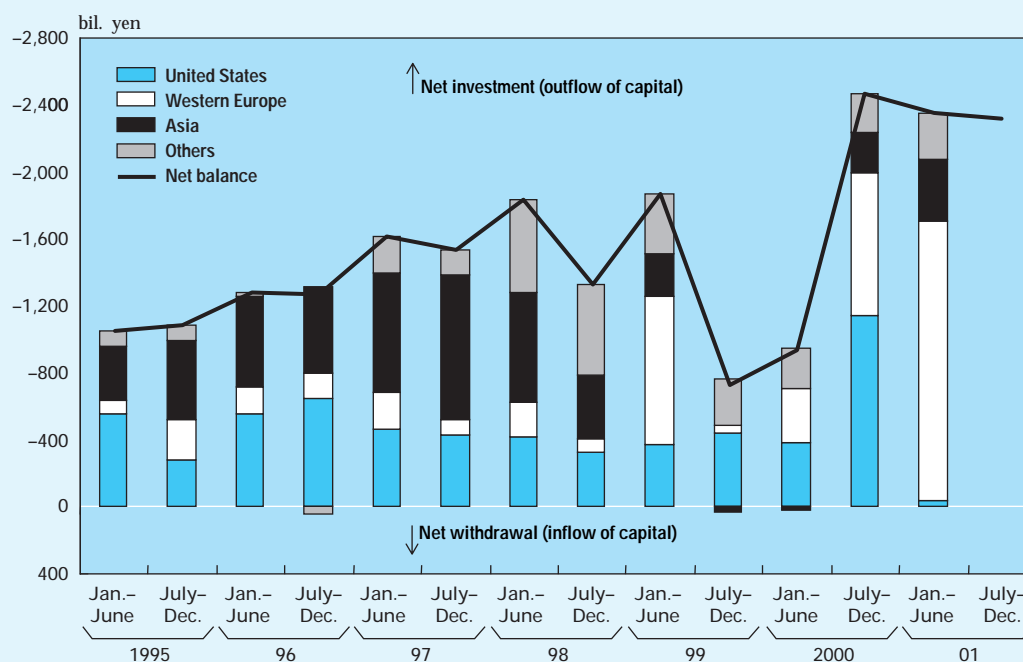


# Japan's Balance of Payments for 2001

Chart 43  
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.	-1,140.9	-850.5	-249.7	-226.7	-2,467.8
01	Jan.-June	-36.9	-1,670.4	-363.9	-285.0	-2,356.2
	July-Dec.	n.a.	n.a.	n.a.	n.a.	-2,311.5



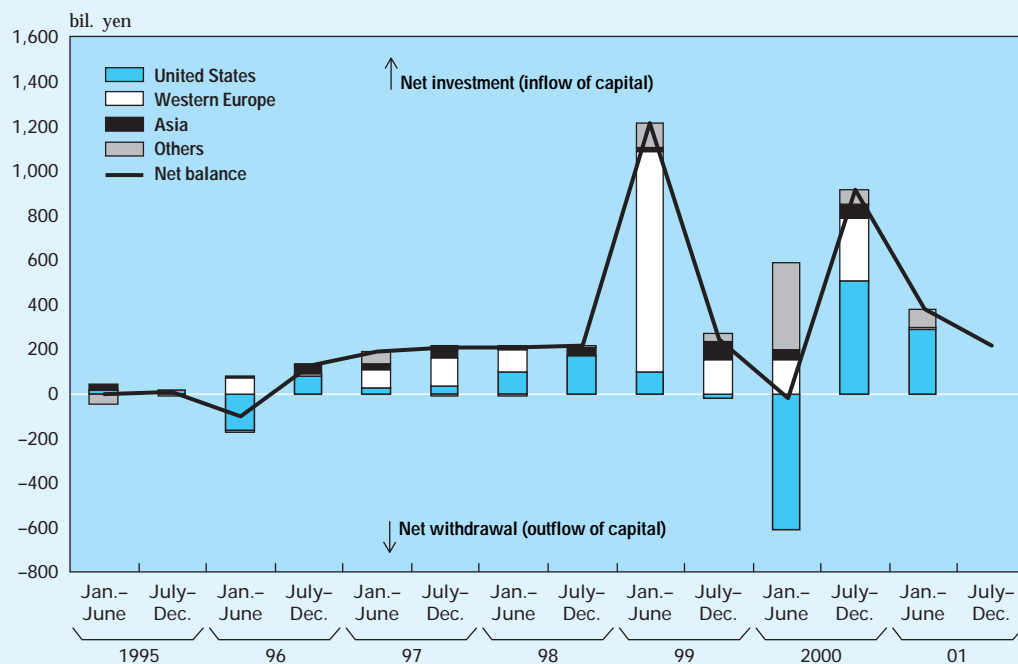
Note: 1. Detailed figures for the second half of 2001 are scheduled to be released in June 2002.  
Negative figures show a net outflow of capital.

Chart 44

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

bil. yen

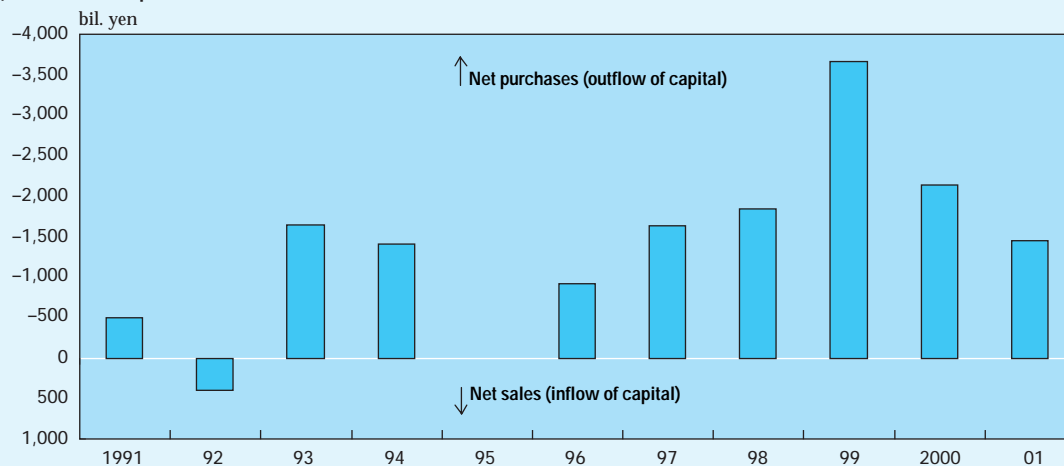
		United States	Western Europe	Asia	Others	Overall inward direct investment
1995	Jan.-June	15.1	0.0	29.2	-43.9	0.4
	July-Dec.	12.4	3.1	1.1	-13.1	3.5
96	Jan.-June	-165.7	69.4	7.8	-10.9	-99.4
	July-Dec.	80.7	8.3	40.4	-5.1	124.3
97	Jan.-June	25.9	78.8	28.6	50.0	183.3
	July-Dec.	37.5	119.2	58.5	-8.4	206.8
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.	502.3	280.9	61.7	70.5	915.4
01	Jan.-June	286.6	6.7	2.8	84.5	380.6
	July-Dec.	n.a.	n.a.	n.a.	n.a.	218.7



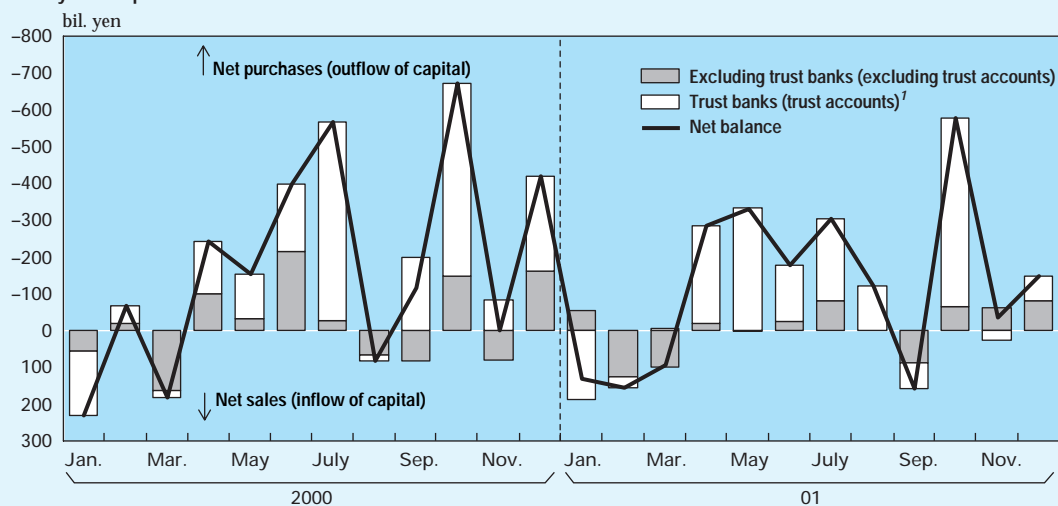
Note: 1. Detailed figures for the second half of 2001 are scheduled to be released in June 2002.  
Negative figures show a net outflow of capital.

Chart 45  
Investment in Foreign Equities by Residents

## (1) Annual Development



## (2) Monthly Development



Note: 1. Figures are based on "Securities Investment at Home and Abroad (compiled based on the value of transactions settled, hereafter settlement basis)," released by the Ministry of Finance.

Chart 46

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

bil. yen

	1998	99	2000	01
<b>Life insurance companies</b>	-611.3	-353.9	93.1	519.8
<b>Trust banks<sup>2</sup></b>	-881.4	-3,050.6	-1,883.7	-1,369.1
<b>Investment trusts</b>	-416.0	9.6	-282.5	-374.0
<b>Others<sup>3</sup></b>	84.7	-334.2	-52.2	-295.2

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

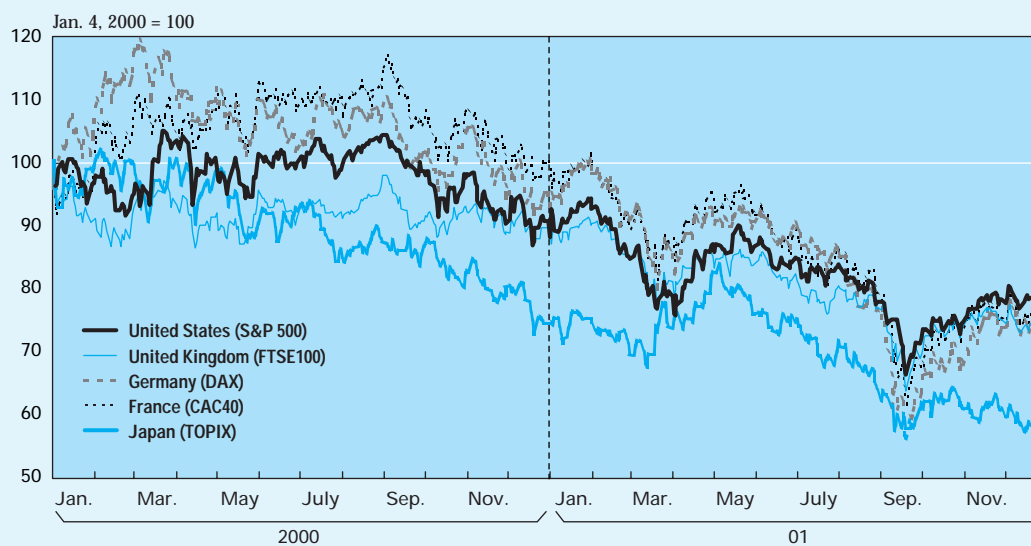
2. Excluding figures for bank accounts.

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

Source: Ministry of Finance, "Securities Investment at Home and Abroad (settlement basis)."

Chart 47

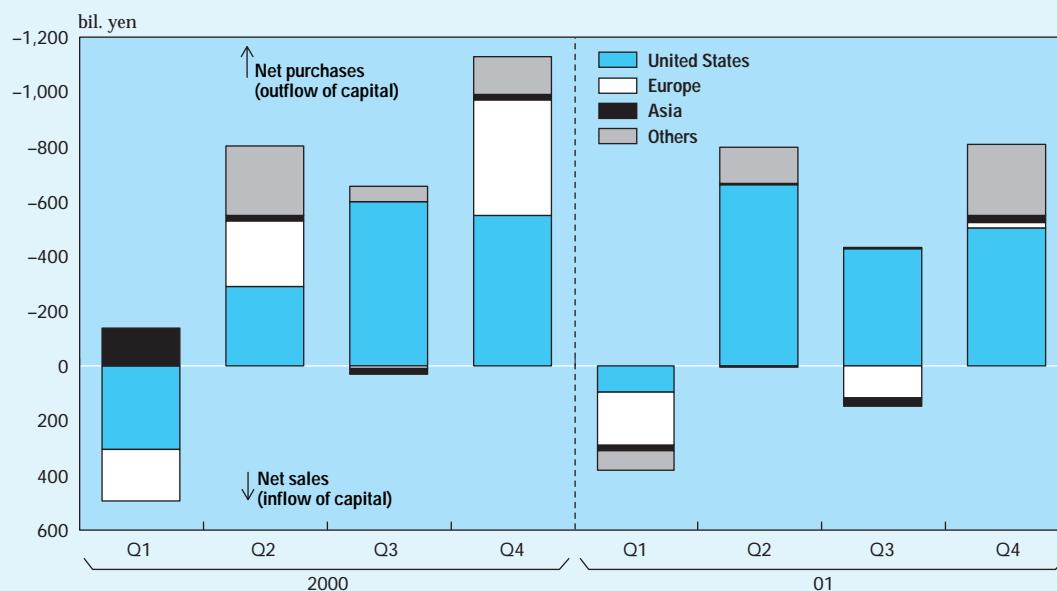
## Stock Prices in Major Industrial Countries



Source: Bloomberg.

# Japan's Balance of Payments for 2001

Chart 48  
Investment in Foreign Equities by Residents (By Area)<sup>1</sup>



	1998	99	2000	01	IIP <sup>2</sup> (end of 2000)
<b>United States</b>	-530.3	-1,462.2	-1,133.9	-1,499.7	15,408.4
<b>Europe<sup>3</sup></b>	-836.4	-1,020.5	-464.8	292.6	9,154.4
Of which					
Germany	-96.3	-154.5	95.8	174.6	1,183.5
France	-227.8	-246.8	-7.1	228.7	1,772.7
United Kingdom	-137.7	-368.7	-344.9	-131.8	3,604.1
<b>Asia<sup>4</sup></b>	198.7	-218.7	-156.0	29.2	827.9

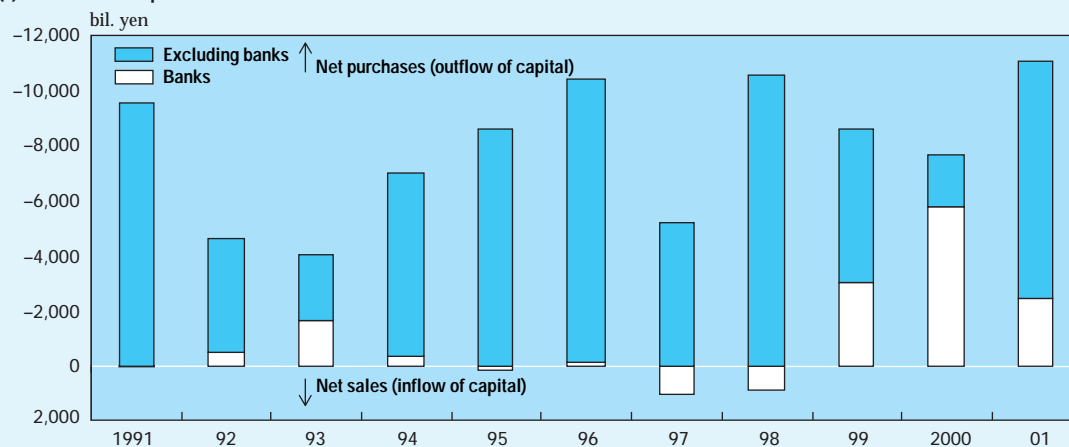
Notes: 1. Negative figures show a net outflow of capital.  
2. International investment position (IIP) includes figures for securities lending transactions.  
3. Figures are the total for Germany, France, the United Kingdom, the Netherlands, Luxembourg, and Switzerland, except for IIP, which includes 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 (settlement basis)."



Chart 49

Investment in Foreign Bonds and Notes by Residents<sup>1</sup>

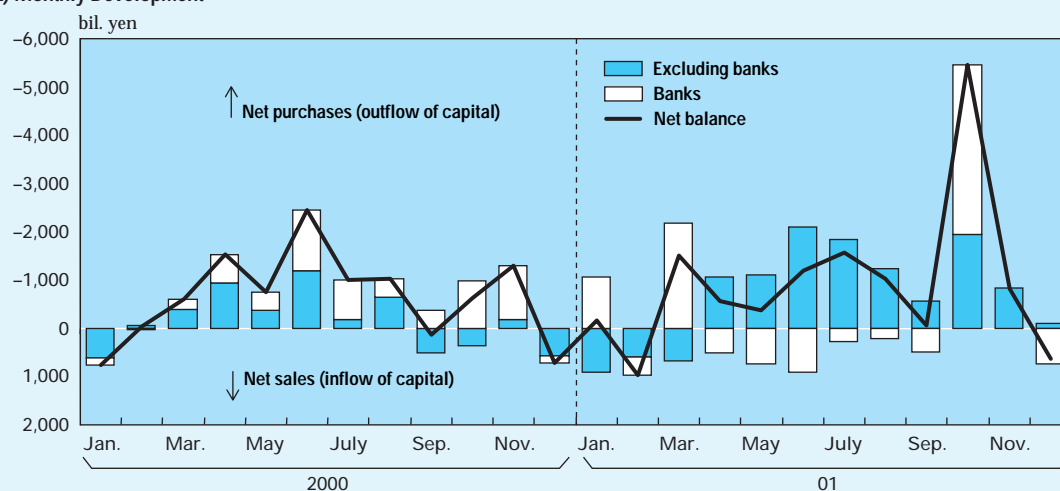
## (1) Annual Development



bil. yen

	1998	99	2000	01	IIP <sup>2</sup> (end of 2000)
<b>Overall investment</b>	-9,728.2	-8,648.2	-7,692.3	-11,080.4	105,013.0
<b>Banks</b>	853.5	-2,995.3	-5,783.2	-2,475.2	29,441.0
<b>Other sectors</b>	-11,015.8	-6,188.1	-2,326.9	-10,114.5	67,854.0

## (2) Monthly Development



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

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

# Japan's Balance of Payments for 2001

Chart 50

Investment in Foreign Bonds and Notes by Residents by Sector<sup>1</sup>

bil. yen

	1998	99	2000	01
Life insurance companies	-2,721.5	106.5	-48.0	-4,579.2
Nonlife insurance companies	185.1	364.1	341.4	-86.7
Trust banks <sup>2</sup>	-3,498.8	-3,095.7	-919.3	-550.4
Investment trusts	-561.3	856.7	1,419.3	-1,340.6
Banks	918.1	-3,314.3	-6,085.1	-4,568.6
Others <sup>3</sup>	-3,786.1	-3,481.6	33.1	888.0

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

2. Excluding figures for bank accounts.

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

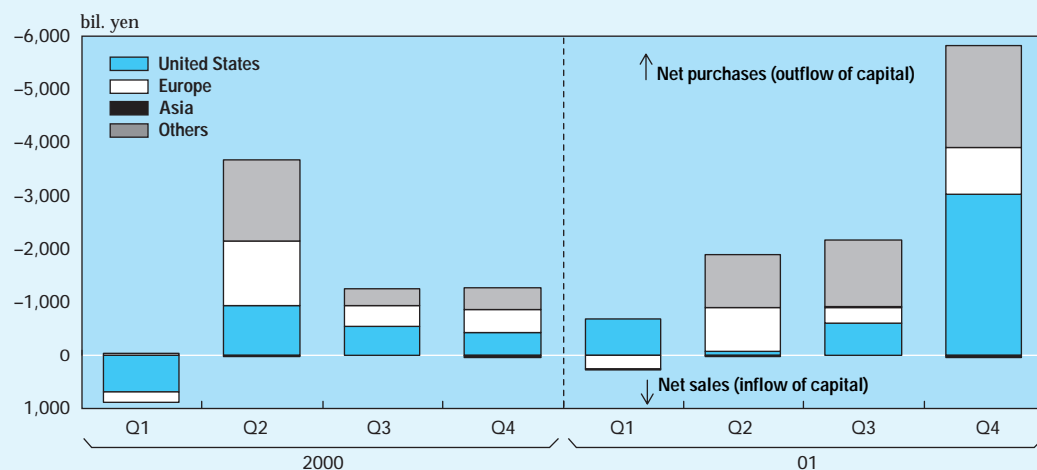
Source: Ministry of Finance, "Securities Investment at Home and Abroad (settlement basis)."

Chart 51

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



Chart 52

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

bil. yen

	1998	99	2000	01	IIP <sup>2</sup> (end of 2000)
United States	-3,309.8	38.5	-1,240.1	-4,395.3	32,662.2
Europe <sup>3</sup>	-7,270.1	-5,406.3	-1,825.5	-1,734.5	32,739.7
Of which					
Germany	-3,967.6	-2,074.4	-1,309.2	-122.7	12,052.8
France	-1,456.8	-1,424.1	-603.7	-1,363.6	5,032.3
United Kingdom	-853.5	-336.5	358.1	162.1	6,444.5
Asia <sup>4</sup>	69.9	74.7	58.3	62.8	1,409.5

[Reference] Comparison of the Definitions in the Balance of Payments and Securities Investment at Home and Abroad<sup>5</sup>

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

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

2. International investment position (IIP) includes figures for securities lending transactions, and those for 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, which includes Belgium in addition to these countries.

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

5. Outward and inward portfolio investment is classified by the nationality of the issuer of securities in the *Balance of Payments*, and by the denominated currency in *Securities Investment at Home and Abroad*. For example, in the *Balance of Payments*, a purchase from a resident by a nonresident of securities denominated in yen (*samurai* bonds) issued by a nonresident (in other words, a sale by a resident to a nonresident) is recorded under "outward portfolio investment" as a sale by a resident of securities issued by a nonresident. In *Securities Investment at Home and Abroad*, the same transaction is recorded under "inward portfolio investment" as a purchase by a nonresident of securities denominated in yen.

Source: Ministry of Finance, "Securities Investment at Home and Abroad (settlement basis)."

Chart 53  
Issuance and Redemption of Bonds and Notes Issued in Japan by Nonresidents

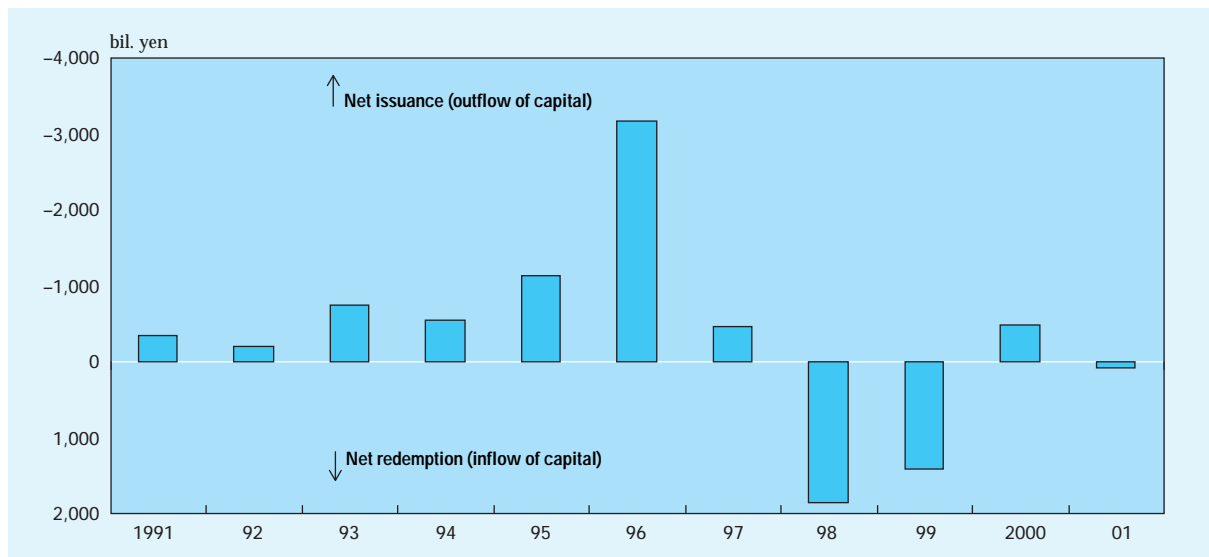


Chart 54  
Issuance of Yen-Denominated Bonds and Notes in Japan by Nonresidents

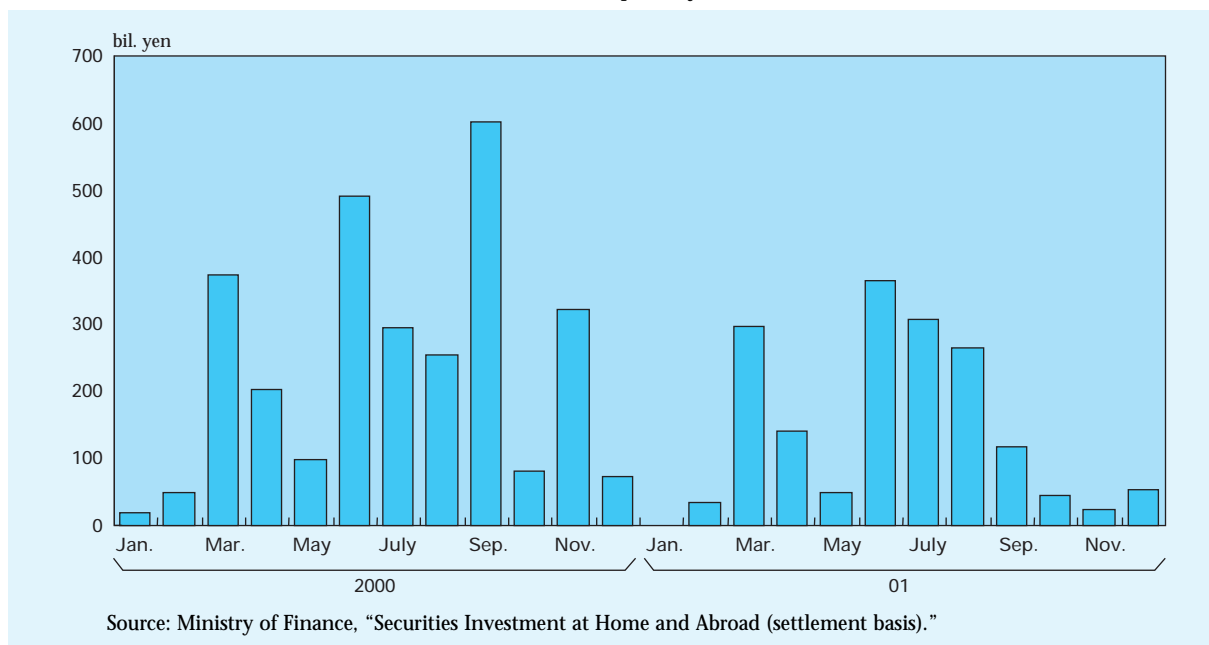


Chart 55

Issuance of Yen-Denominated Bonds and Notes in Japan by Nonresidents in 2001<sup>1,2</sup>

Month of issuance	Issuer	Value (bil. yen)	Month of issuance	Issuer	Value (bil. yen)
Mar.	Deutsche Telekom AG (4)	160.0	July	Merrill Lynch & Co., Inc. (3)	105.0
Apr.	Federative Republic of Brazil	80.0	July	Republic of South Africa	60.0
May	The Bear Stearns Companies Inc. (2)	50.0	July	The Korea Development Bank (KDB)	50.0
June	Brazilian Development Bank (BNDES)	90.0	Aug.	Federative Republic of Brazil	200.0
June	International Business Machines Corporation (IBM)	50.0	Sep.	Morgan Stanley Dean Witter & Co.	50.0
June	Bank of America Corporation	50.0	Sep.	Renault	50.0

Notes: 1. Total issuance value of 50.0 billion yen or more.

2. Numbers in parentheses are the number of times the issuer raised funds in the Japanese market in the month concerned.

Source: Japan Securities Dealers Association.

Chart 56

## Investment in Foreign Money Market Instruments by Residents

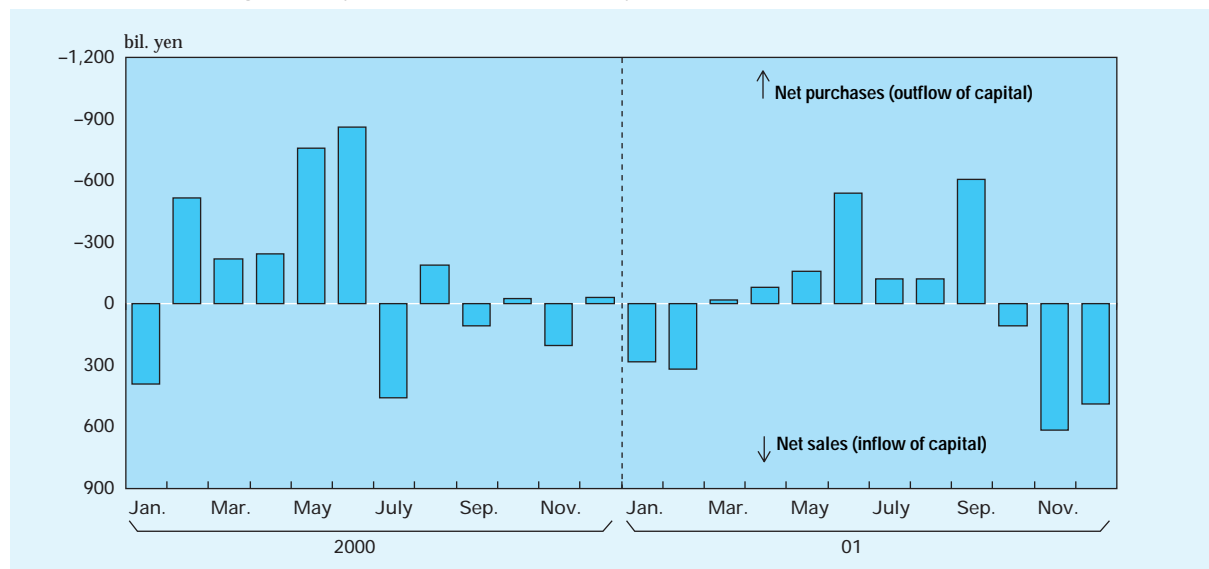


Chart 57  
Investment in Japanese Equities by Nonresidents

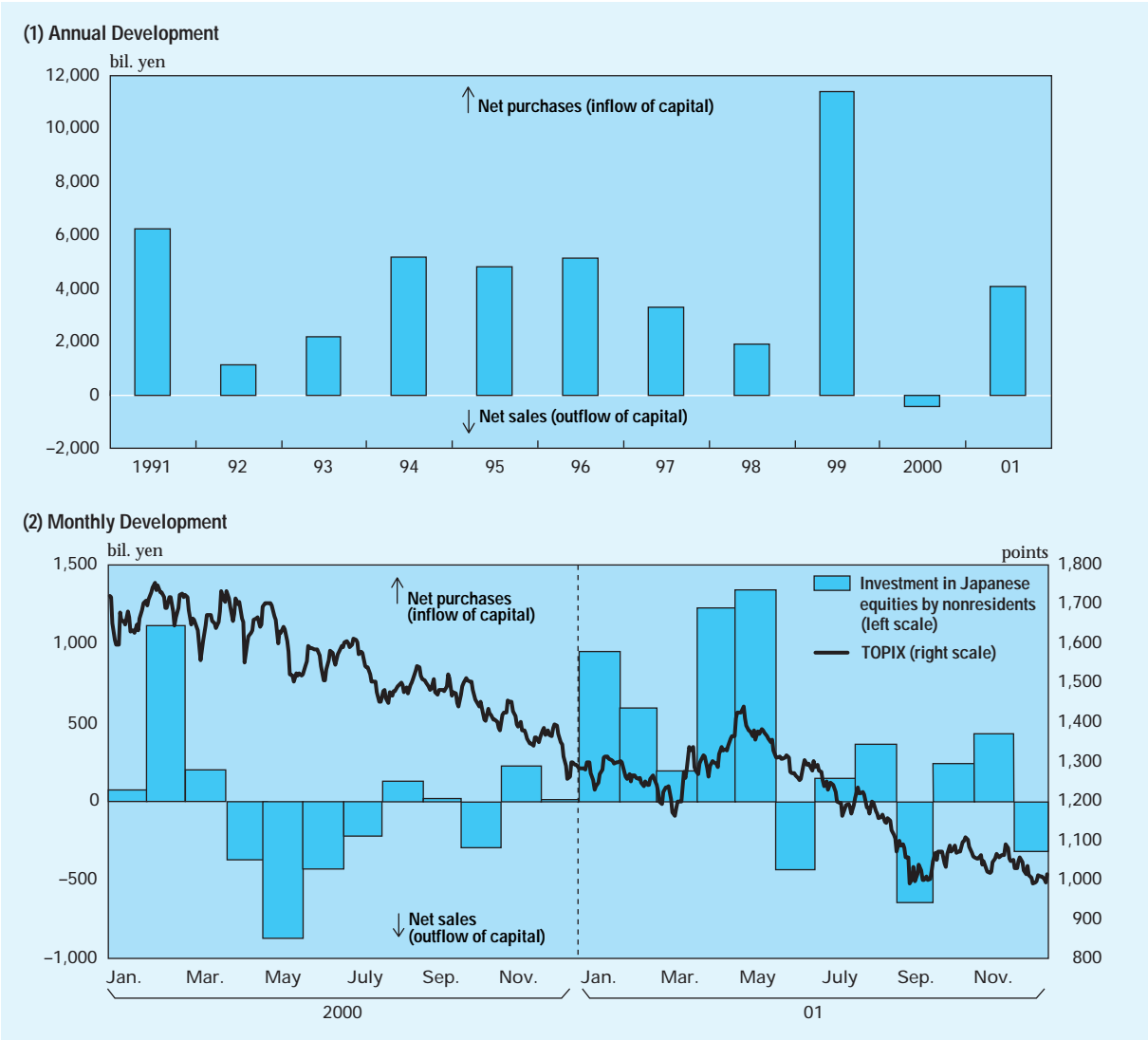
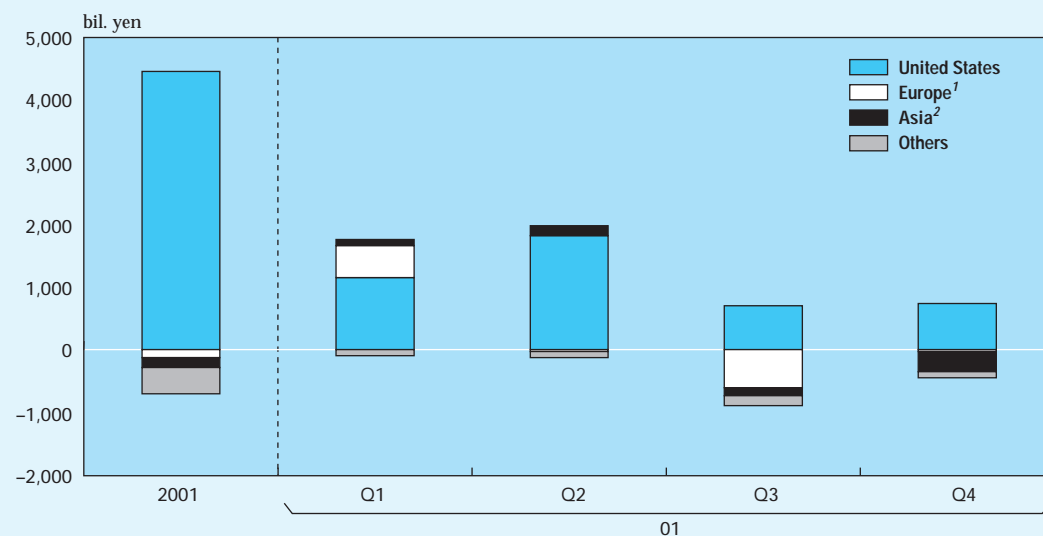


Chart 58

# Investment in Japanese Equities by Nonresidents (By Area)



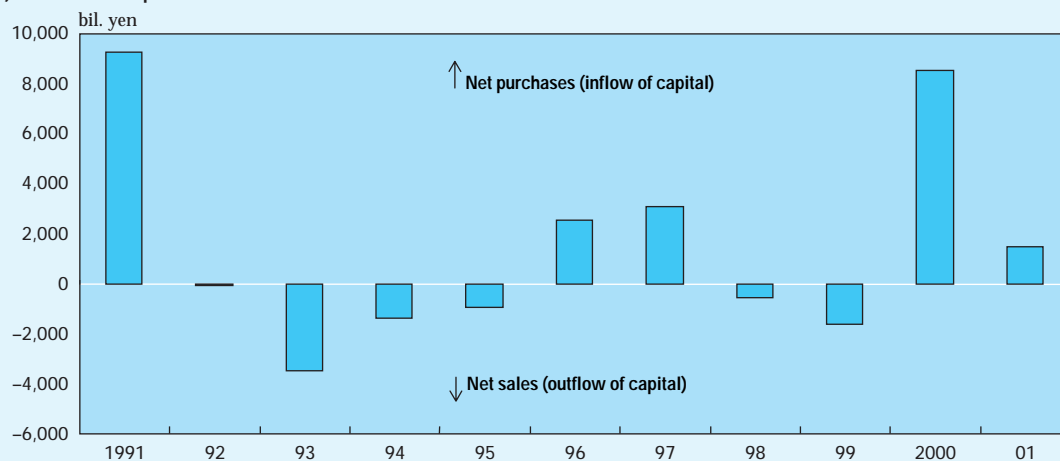
Notes: 1. Figures are the total for the United Kingdom, Germany, France, Italy, Switzerland, Belgium, the Netherlands, Luxembourg, Norway, Sweden, and Denmark.

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

Source: Ministry of Finance, "Securities Investment at Home and Abroad (settlement basis)."

Chart 59  
Investment in Japanese Bonds and Notes by Nonresidents

## (1) Annual Development



## (2) Monthly Development

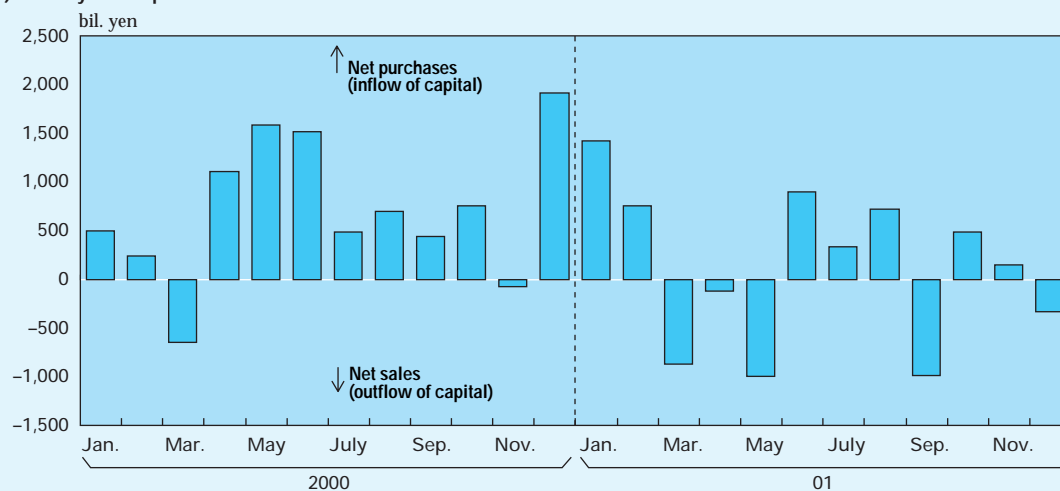
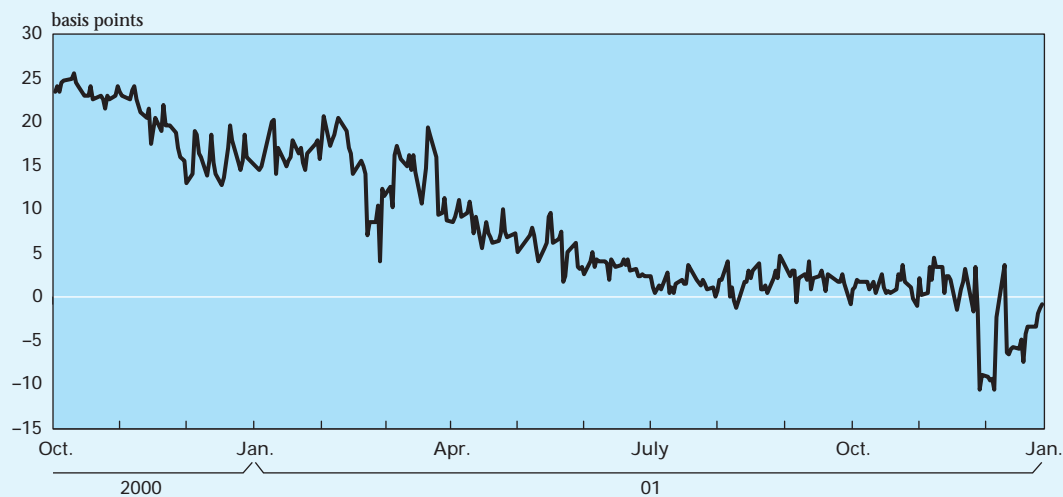


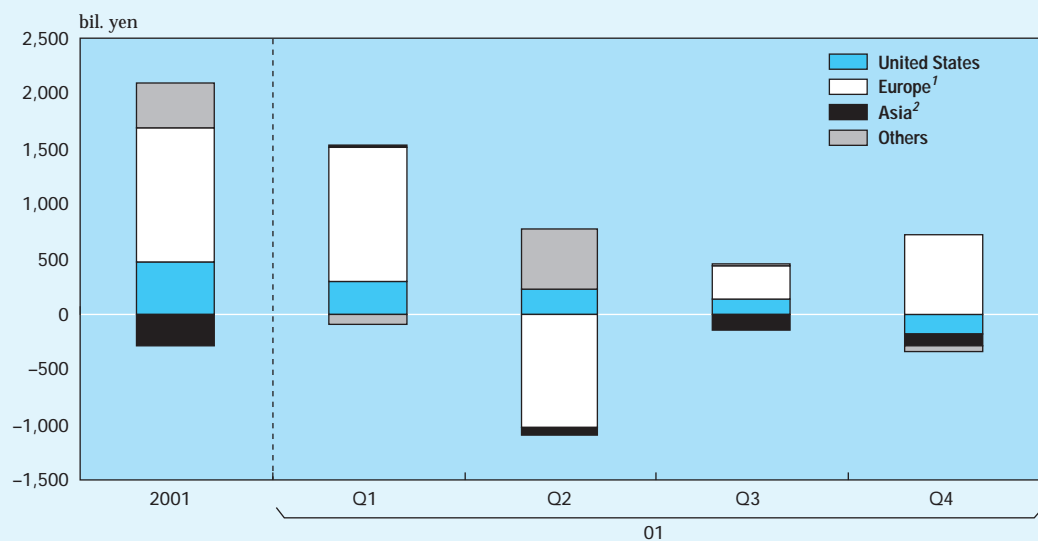


Chart 60  
Swap Spread<sup>1</sup>



Note: 1. Swap spread = 10-year swap rate – yields on 10-year government bonds.  
Source: Bloomberg.

Chart 61  
Investment in Japanese Bonds and Notes by Nonresidents (By Area)



Notes: 1. Figures are the total for the United Kingdom, Germany, France, Italy, Switzerland, Belgium, the Netherlands, Luxembourg, Norway, Sweden, and Denmark.  
2. Figures are the total for Hong Kong, Korea, Singapore, and Thailand.  
Source: Ministry of Finance, "Securities Investment at Home and Abroad (settlement basis)."

# Japan's Balance of Payments for 2001

Chart 62  
Investment in Japanese Money Market Instruments by Nonresidents

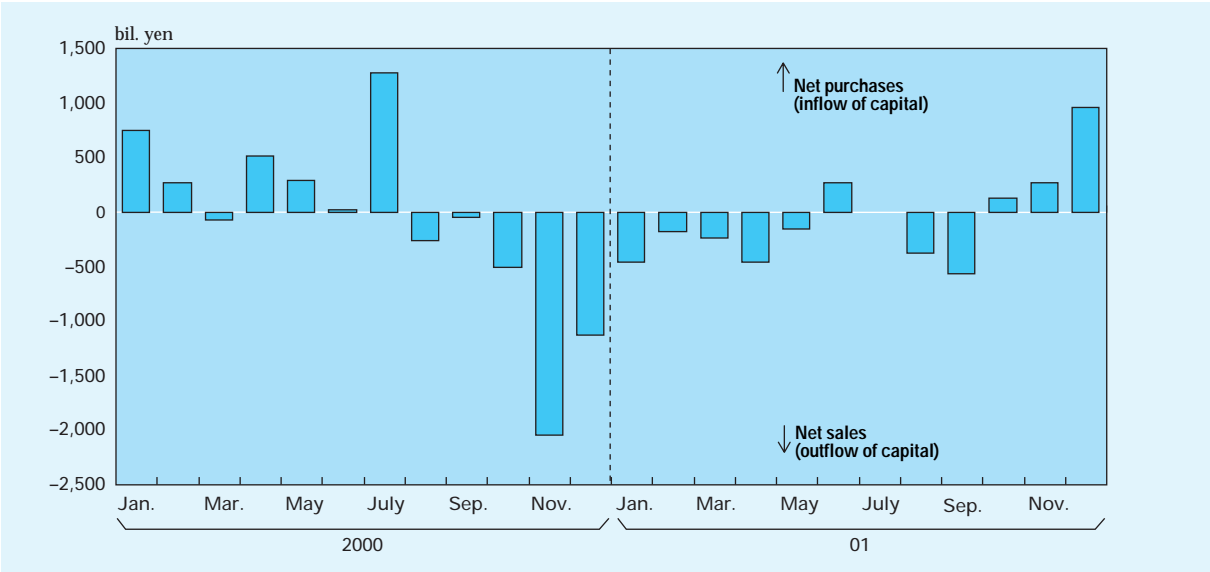
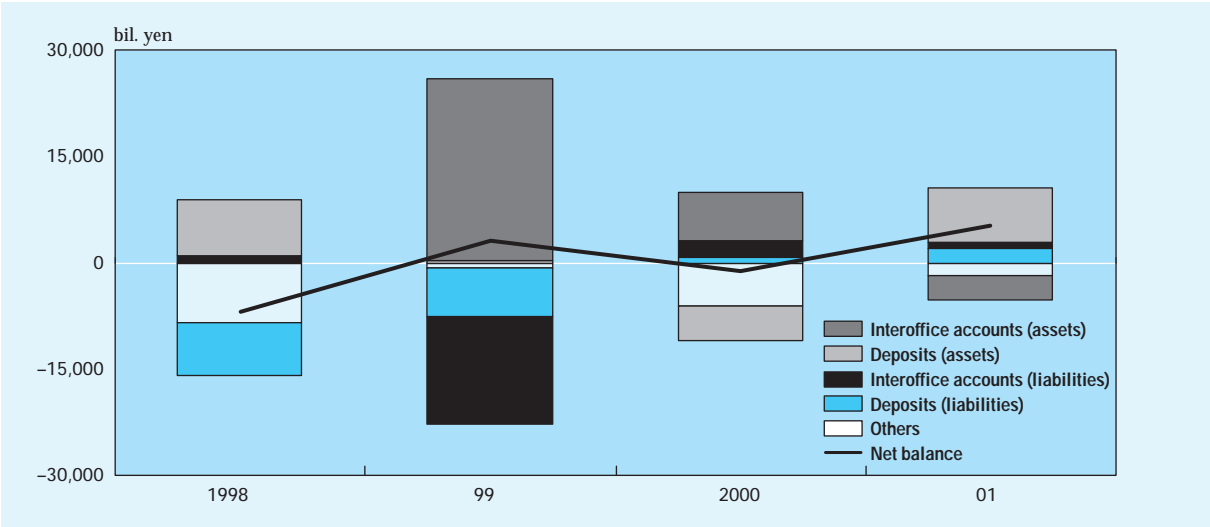


Chart 63  
Other Investment



### Box 1 Trade between Japan and China, and Japan's Direct Investment in China

#### 1. Overview of Japan's Trade with China

In 2001, exports to and imports from China expanded from the previous year (Chart 1 for Box 1). The growth in exports, however, narrowed to 15.0 percent from 23.2 percent in 2000, due to a decrease in demand reflecting the economic slowdown worldwide and the terrorist attacks in the United States. Imports of machinery, textiles, and foodstuffs increased following the shift of Japanese manufacturers' production bases to China, and the growth in the value of imports was 18.3 percent in 2001 against 21.9 percent in 2000. As a result, Japan's trade deficit with China reached almost 3 trillion yen in 2001.

#### 2. China Became Japan's Largest Trade

##### Partner in Terms of Imports to Japan

In August 2001, China became the largest importer to Japan, with the value of imports from China exceeding those from the United States for the first time (Chart 2 for Box 1). On an annual basis, the gap in value between imports from China and those from the United States to Japan narrowed. The value of imports was 7 trillion yen for imports from China compared to 7.7 trillion yen for those from the United States. The volume of imports from China grew steadily in 2001, while that of imports from other Asian economies, such as NIEs and ASEAN countries, started to decline from the middle of the year (Chart 3 for Box 1).

#### 3. Items Exported to and Imported from China

The contribution to overall exports to China declined for metal products with a low degree of processing, while it rose considerably for machinery, such as transportation equipment, general machinery (including office machinery), and electrical machinery (Chart 4 for Box 1). Contribution to overall imports decreased for raw materials and mineral fuels, while it increased for manufactured goods, such as textiles and machinery (Chart 5 for Box 1). An increase in imports of manufactured goods partly reflected advances in Chinese manufacturing industry stimulated by the shift of Japanese manufacturers' production bases to China.

Many Japanese manufacturers have chosen China as their production base because (1) the cost of labor and production is significantly lower than in Japan and (2) the Chinese market has a potential for high growth (Chart 6 for Box 1).

As a result of such developments, Japan's direct investment in China has been steadily increasing. Investment had been concentrated in the textile industry in the past, but recently it has been directed to a wider range of industries such as electrical machinery, general machinery, chemicals, and pharmaceuticals (Chart 7 for Box 1).

Chart 1 for Box 1 Trade between Japan and China (Customs-Clearance Basis)

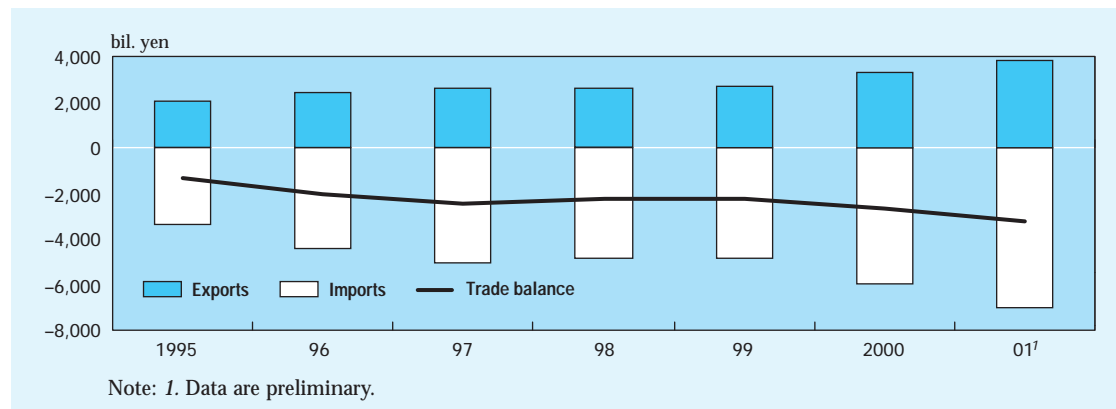


Chart 2 for Box 1 Value of Imports from the United States and China (Customs-Clearance Basis)

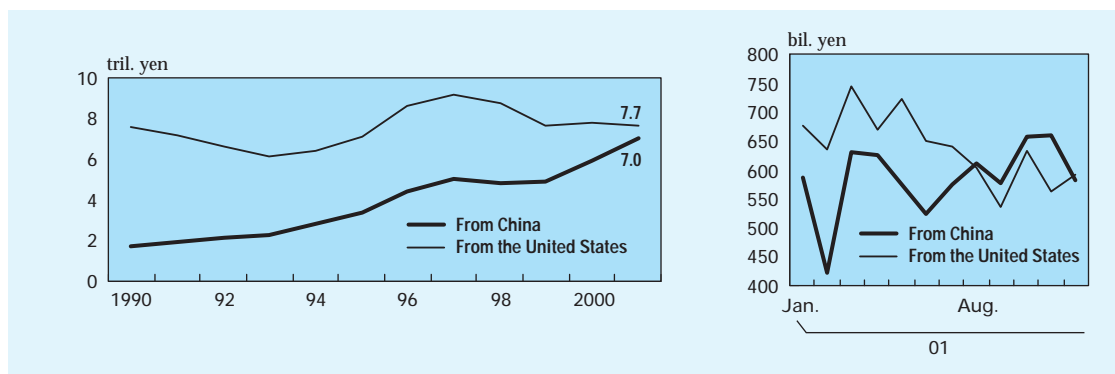


Chart 3 for Box 1 Quantum Index of Imports from Asia (Customs-Clearance Basis)

## (1) By Area

% chg. from the same period of the previous year; figures in parentheses are percentage share of each area in the total value of imports in 2000

		2000				01			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Asia</b>		+22.2	+22.0	+19.0	+16.1	+8.5	+2.3	-3.3	-3.7
NIEs <sup>1</sup>	(29.4)	+25.7	+23.5	+22.7	+13.4	+5.2	-7.2	-16.8	-19.7
ASEAN <sup>2</sup>	(37.6)	+8.9	+9.6	+9.9	+10.3	+5.8	+0.8	-5.4	-9.6
China	(34.8)	+28.2	+28.7	+22.6	+21.2	+14.3	+9.3	+5.4	+6.1

## (2) By Item

% chg. from the same period of the previous year; figures in brackets are percentage share by item in the total value of imports in 2000; figures in parentheses are percentage share by area for each item

		2000				01			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Machinery</b>	[37.6]	+35.1	+36.2	+33.8	+27.4	+11.1	+0.4	-11.1	-10.0
	NIEs <sup>1</sup>	(43.3)	+39.9	+35.8	+35.9	+21.6	+5.2	-9.4	-23.4
	ASEAN <sup>2</sup>	(39.6)	+18.2	+23.0	+20.9	+22.6	+9.6	-2.5	-13.3
	China	(24.2)	+34.3	+36.6	+28.7	+27.1	+15.6	+12.3	+6.5
	<b>Textiles</b>	[13.4]	+27.8	+25.3	+21.5	+20.6	+12.2	+2.7	+1.0
	NIEs <sup>1</sup>	( 8.6)	+3.9	-6.6	-12.8	-17.5	-19.9	-16.1	-13.4
	ASEAN <sup>2</sup>	( 9.6)	+12.9	+9.6	+8.9	+7.5	+7.1	+2.1	-4.6
	China	(78.8)	+32.5	+30.1	+25.4	+25.3	+16.7	+6.6	+2.7
<b>Miscellaneous<sup>3</sup></b>	[13.3]	+19.1	+17.4	+16.4	+19.4	+10.3	+7.4	+7.2	+3.1
	NIEs <sup>1</sup>	(23.8)	+12.4	+9.9	+10.0	+9.0	-4.5	-6.6	-7.1
	ASEAN <sup>2</sup>	(33.3)	+8.1	+4.9	+13.3	+16.5	+8.5	+8.1	+0.8
	China	(45.3)	+26.4	+28.0	+21.0	+24.2	+18.4	+11.4	+14.5

Notes: 1. Figures are the total for Korea, Taiwan, Hong Kong, and Singapore.

2. ASEAN comprises Singapore, Thailand, Malaysia, Brunei, the Philippines, Indonesia, Vietnam, Laos, Myanmar, and Cambodia.

3. Includes furniture, handbags, shoes, plastic products, toys, exercise machines, and records.

Chart 4 for Box 1 The Share of the Major Items in Japan's Exports to China (Customs-Clearance Basis)

	1990	95	2001
<b>Metal products</b>	19.4	14.2	10.8
<b>Machinery</b>	44.6	53.9	50.7
<b>Electrical machinery and office machinery</b>	23.8	24.0	30.8

Chart 5 for Box 1 The Share of the Major Items in Japan's Imports from China (Customs-Clearance Basis)

	1990	95	2001
<b>Raw materials</b>	9.1	3.8	2.3
<b>Mineral fuels</b>	23.9	5.8	3.5
<b>Textiles</b>	26.7	34.6	29.1
<b>Machinery</b>	4.3	14.4	28.4

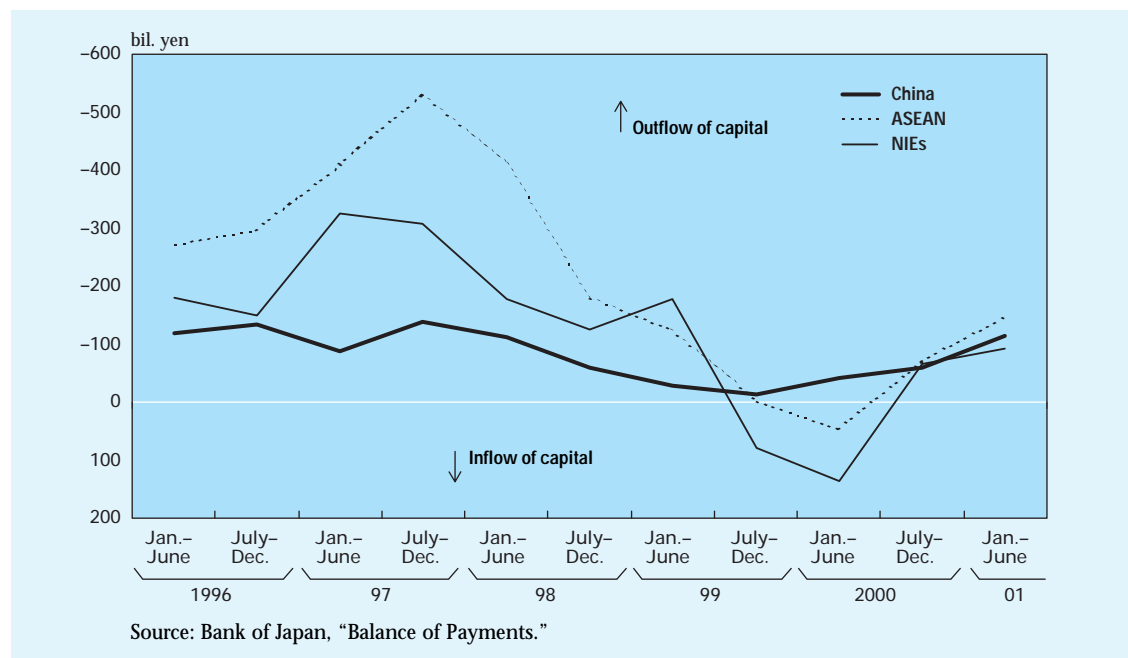
Chart 6 for Box 1 Countries Considered Promising as Destinations for Investment in the Medium Term, and Reasons<sup>1</sup>

	China	Thailand	Indonesia	India
<b>Present market size</b>	16.7	12.5	5.4	20.0
<b>High market growth potential</b>	81.2	49.0	50.0	76.0
<b>Low labor cost</b>	71.3	55.2	73.2	46.0
<b>Low-cost parts and raw materials</b>	29.3	14.6	28.6	16.0
<b>Base for exporting to Japan</b>	22.5	24.0	16.1	0.0
<b>Base for exporting to other countries</b>	22.8	34.4	46.4	12.0
<b>Supply base for final assembly manufacturers</b>	20.7	27.1	10.7	16.0
<b>Policies favorable to investment, including deregulation policy</b>	7.4	5.2	3.6	0.0

Note: 1. The result of a survey conducted by Japan Bank for International Cooperation (JBIC) in fiscal 2001. In the survey, Japanese manufacturers were asked which countries they viewed as promising destinations for overseas business operations in the next three years and the reasons for their view.

Source: Japan Bank for International Cooperation (JBIC), "JBIC FY 2001 Survey—The Outlook of Japanese Foreign Direct Investment."

Chart 7 for Box 1 Japan's Direct Investment in Asia



## Box 2 Factors Determining Portfolio Investment Income

The exchange rate, net asset position, and rate of return on investment (such as earnings of companies invested, yields on bonds, and interest rates on loans and deposits) are the three main determinants of the income balance.<sup>1</sup>

The long-term trend of the income balance shows that income surplus expands with an increase in the net asset position. In other words, the size of the net asset position determines the level of the income balance in the long term (Chart 1 for Box 2).

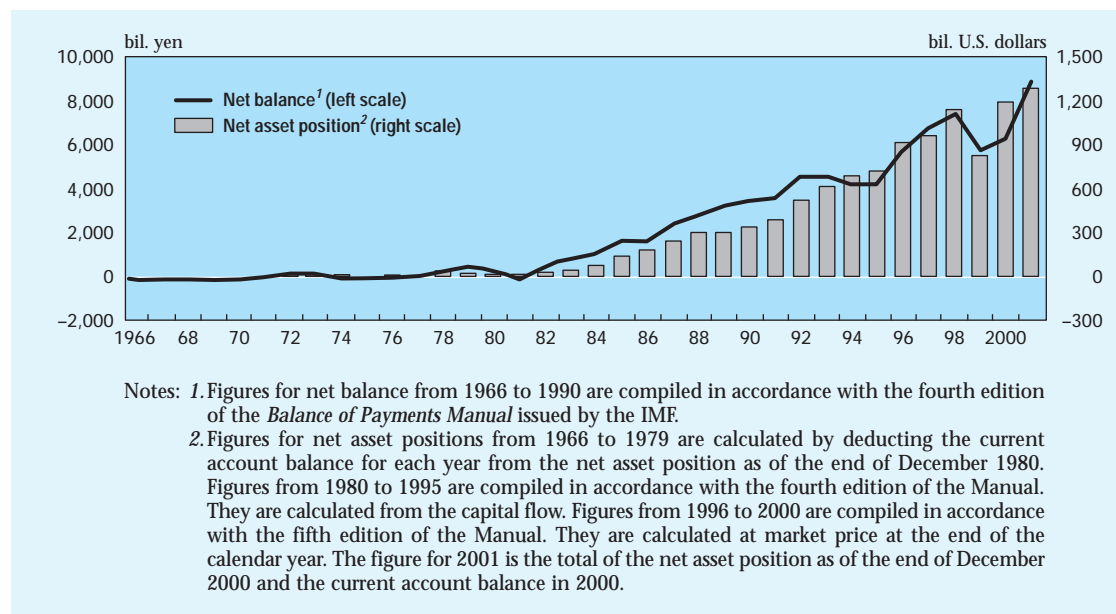
However, in the short term, the exchange rate greatly affects investment income. For example, in 2001, investment income on bonds and notes classified under portfolio investment income (which includes dividends on shares of listed companies, yields on bonds, and interest received on financial derivatives<sup>2</sup>) accounted

for 75 percent of income surplus, and such income expanded from the previous year both in terms of yen and U.S. dollars, reflecting the increase in the net asset position (calculation by the Bank of Japan; Chart 2 for Box 2). The growth, however, was considerably higher on a yen basis due to the depreciation of the yen.

The ten-year trend in portfolio investment income receipts (credit) has generally been in line with the exchange rate of the yen against the U.S. dollar during the decade (Chart 3 for Box 2).

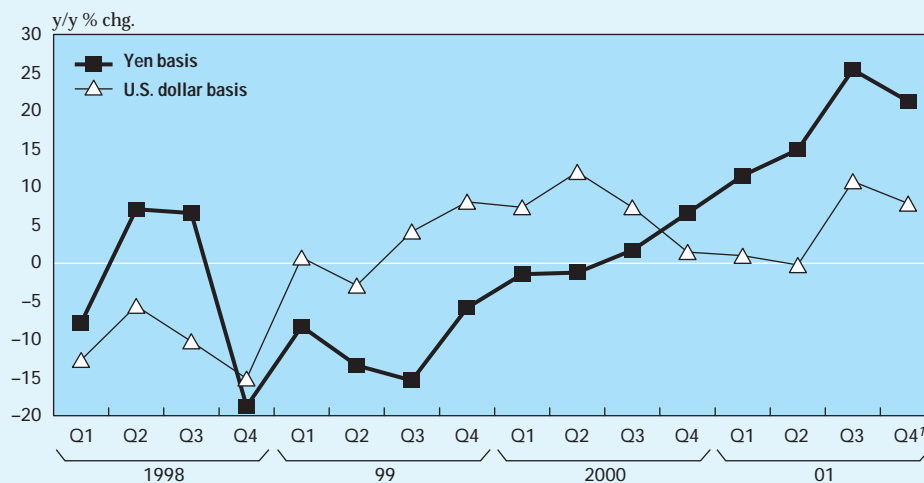
The record surplus in portfolio investment income marked in 2001, therefore, was the result of the accumulated net asset position as a consequence of the current account surplus registered over a long period and the depreciation of the yen.

Chart 1 for Box 2 Income



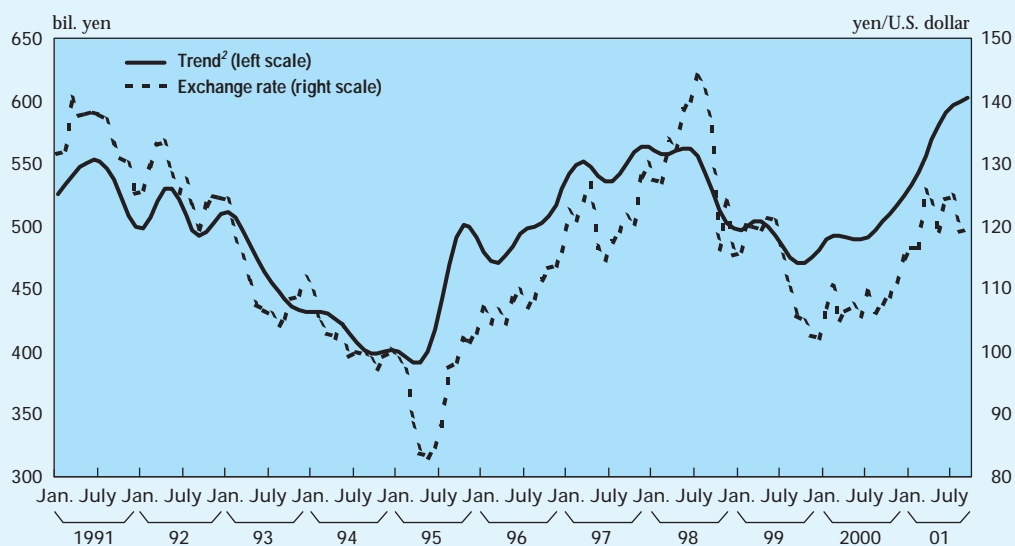
1. Income comprises compensation of employees (compensation paid by nonresident/resident employers to resident/nonresident employees) and investment income (receipts/payments of return on outward/inward investment). The share of the compensation of employees in overall income, however, is less than 1 percent. Developments in the income balance, therefore, are in effect determined by investment income alone.
2. From the figures for January 2002 released in March, the accounting method for interest received on financial derivatives in the balance of payments statistics has been changed in accordance with the amendment to the fifth edition of the *Balance of Payments Manual* issued by the International Monetary Fund (IMF). After the change, interest received on financial derivatives is included in the capital and financial account instead of the current account.

Chart 2 for Box 2 Portfolio Investment Income Receipts on Bonds and Notes



Note: 1. Data are preliminary.

Chart 3 for Box 2 Portfolio Investment Income Receipts<sup>1</sup>



Notes: 1. Figures are on a yen basis and exclude interest rate swaps.  
2. Calculated using the 13-term Henderson moving average based on the Bureau of Census X-12-ARIMA method.



Box 3 The Effects of the Terrorist Attacks in the United States on the Balance of Payments

1. The Current Account (Services Account)

As shown in Chart 4 on page 84, the terrorist attacks in the United States in September 2001 triggered a drop in the number of Japanese travelers departing from Japan, causing a contraction in the deficit in the transportation and travel accounts in services. In contrast, the deficit expanded for insurance services, which is one of the accounts in other services, due to a rise in reinsurance premiums.

(1) Transportation account

The deficit in the transportation account narrowed significantly by 98.2 billion yen in the period from September to December in 2001 from the same period in the previous year. This was mainly due to the sharp fall in payments of passenger fares for air transport after the terrorist attacks, which fell by 128.9 billion yen in the September–December period of 2001 against the same period in the previous year. Freight charges for sea transport were less affected by the terrorist attacks on a net basis.

(2) Travel account

The deficit in the travel account contracted by 319.2 billion yen in the September–December period of 2001 from the same period in the previous year. This was due to a sharp fall in payments (debit in the travel account) after the terrorist attacks in September, producing a fall of 312.9 billion yen during the September–December period of 2001 from the same period in the previous year. Monthly developments since September 2001 show clearly that payments (debit in the travel account) have deviated considerably from the seasonal pattern of an increase in the summer holiday season and a gradual return to the usual level in autumn (Chart 1 for Box 3).

The sum of the year-on-year change in payments (debit) in travel and passenger fares for air transport shows that the deficit in services contracted by 520.6 billion yen from the previous year, to a level far below the trend before the terrorist attacks. This can be attributed to the decline in the number of Japanese travelers departing from Japan (Chart 2 for Box 3).

(3) Other services (of which insurance services)

In other services, the deficit in insurance services started to expand from October 2001, reflecting an increase in reinsurance premiums paid by Japanese insurance companies, and was 125.0 billion yen higher during the October–December quarter of 2001 than the 59.2 billion yen in the same period in the previous year. Reinsurance premium payments increased to cover possible future loss and damage caused by terrorist attacks: (1) reinsurance premiums were raised as the risk of loss due to terrorist attacks has increased, and (2) Japanese insurance companies paid additional premiums to overseas reinsurance companies after October 2001.

2. The Capital and Financial Account  
Inward portfolio investment by nonresidents in September and October was affected only marginally by the terrorist attacks in the United States. Hardly any panic selling was observed among overseas investors.

Direct investment and other investment, on the other hand, were affected by the terrorist attacks to a certain extent. Following the attacks, foreign companies in Japan and Japanese banks provided short-term loans as on-hand liquidity to their parent companies in the United States and to their branches in New York, respectively. They collected some of the loans in October. Investment in foreign equities by residents and investment in foreign bonds and notes by residents were also affected by the terrorist attacks, although only indirectly. Some Japanese investors sold U.S. stocks in anticipation of a decline in stock prices after the terrorist attacks while others purchased foreign stocks as part of adjustment of their portfolios. In October, Japanese banks invested aggressively in foreign bonds and notes, in anticipation of a fall in interest rates in the United States and Europe.

There were hardly any effects of the terrorist attacks in the capital and financial account after November, except when short-term loans extended by foreign companies in Japan to their parent companies were repaid in December.

Chart 1 for Box 3 Debit in the Travel Account

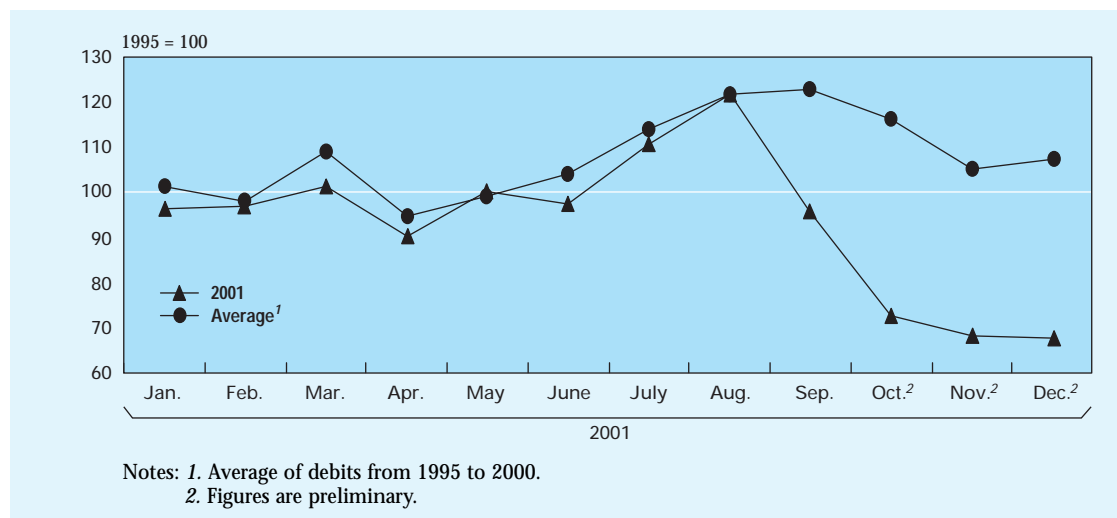
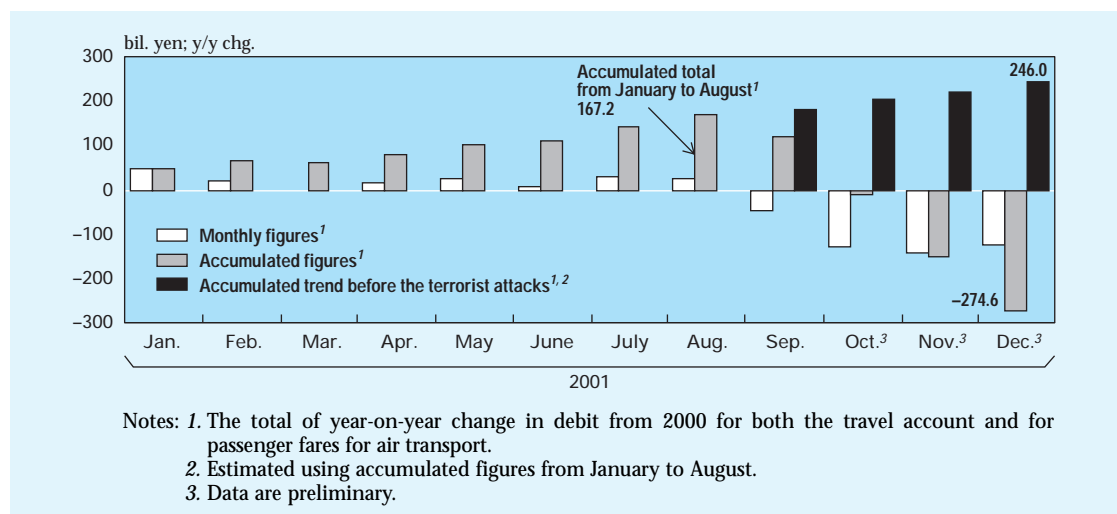


Chart 2 for Box 3 Debit in the Travel Account and in Passenger Fares for Air Transport



# Symbols and Abbreviations Used in This Article

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