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# Japan

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## *Change in 2003 from 2002:*

**U.S. trade deficit: Decreased by \$3.4 billion (5 percent) to \$69.6 billion**

**U.S. exports: Increased by \$589 million (1 percent) to \$48.9 billion**

**U.S. imports: Decreased by \$2.8 billion (2 percent) to \$118.5 billion**

- The U.S. trade deficit with Japan fluctuated but trended downward over the past 5 years, slipping from being the largest with any individual trade partner in 1999 to the third-largest behind China and Canada in 2003 (see table US-3). In 2003, the deficit with Japan narrowed from the previous year's amount, as imports declined and exports increased (see table JAPAN-1). Bilateral trade trends in 2003 were affected by the 9.8-percent appreciation of the yen against the dollar.<sup>1</sup>
- Trade trends also reflected the revival of Japan's economy since March 2003, attributed to the Bank of Japan's expansionist monetary policy to fight persistent deflation, dating back to the 1989 real-estate and stock-market crashes.<sup>2</sup> Although of debatable sustainability,<sup>3</sup> the upturn in the Japanese economy appears broader-based than the three previous ones that relied extensively on public-works spending and exports to the United States.<sup>4</sup> Key distinctions of the upturn in 2003 are reduced saving by households,<sup>5</sup> rising corporate profitability, reduced indebtedness, fewer bankruptcies, and upturn of capital investment;<sup>6</sup> as well as stronger global exports, enhanced by China's robust growth (see China).<sup>7</sup>

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<sup>1</sup> Based on yen per dollar rates of 107.13 on Dec. 31, 2003, and 118.75 on Dec. 31, 2002. Compiled from official statistics of the U.S. Federal Reserve Bank of New York, historical data release H.10 "Foreign Exchange Rates."

<sup>2</sup> "Japan's Economy," *Economist.com*, Feb. 20, 2004, found at <http://www.economist.com/research/backgrounders/displayBackgrounder.cfm?bg=532400>, retrieved Feb. 23, 2004.

<sup>3</sup> See e.g., "Japanese Recovery, Growth Built Mainly on Exports and Investment May Not Last," *Financial Times*, Feb. 24, 2004, p. 21.

<sup>4</sup> "Japan's Economy, Learning to Love a Growing China, from Threat to Opportunity," *Economist*, Nov. 29, 2003, pp. 38-39.

<sup>5</sup> "A Saving Grace, Japanese Households Have Lost Their Appetite for Thrift," *Economist*, July 5, 2003, p. 67.

<sup>6</sup> "Japanese Corporate Debt, an End in Sight," *Economist*, Feb. 14, 2004, pp. 67-68; "Japan, Flying Again, This Time the Economic Recovery Looks Sustainable," *Economist*, Feb. 14, 2004, p. 10; and "Japan's Economy, Surprise, Surprise, Japan Grows Its Fastest in a Decade," *Economist*, Feb. 21, 2004, p. 73.

<sup>7</sup> Japan's exports grew roughly 10 percent in 2003, of which China accounted for two-thirds during the first 3 quarters of that year. "Japan's Economy, Surprise, Surprise," *Economist*; and "Japan's Economy, Learning to Love a Growing China," *Economist*.

Table JAPAN-1

Japan: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by major industry/commodity sectors, 1999-2003<sup>1</sup>

Item	1999	2000	2001	2002	2003	Change, 2003 from 2002	
						Absolute	Percent
<i>Million dollars</i>							
U.S. exports of domestic merchandise:							
Agricultural products	11,984	12,573	11,342	10,416	10,845	429	4.1
Forest products	2,847	3,004	2,497	2,017	1,887	-130	-6.4
Chemicals and related products	5,575	6,267	6,105	5,762	6,176	414	7.2
Energy-related products	1,435	1,527	1,239	1,609	1,513	-96	-6.0
Textiles and apparel	731	777	644	568	546	-22	-3.9
Footwear	92	85	70	39	24	-15	-38.7
Minerals and metals	1,890	2,344	1,919	1,590	1,654	64	4.1
Machinery	3,618	5,190	4,133	3,328	3,493	165	5.0
Transportation equipment	8,458	7,825	6,812	8,099	8,402	304	3.7
Electronic products	14,906	17,795	15,393	11,810	11,348	-462	-3.9
Miscellaneous manufactures	1,598	2,057	2,007	1,686	1,604	-82	-4.9
Special provisions	1,179	1,308	1,386	1,348	1,369	20	1.5
Total	54,310	60,751	53,546	48,273	48,862	589	1.2
U.S. imports of merchandise for consumption:							
Agricultural products	482	487	441	461	482	21	4.6
Forest products	610	652	542	600	610	10	1.6
Chemicals and related products	8,869	9,563	8,601	9,099	10,121	1,022	11.2
Energy-related products	305	302	306	207	333	126	60.6
Textiles and apparel	711	767	710	724	815	91	12.5
Footwear	2	2	1	2	2	( <sup>2</sup> )	27.4
Minerals and metals	5,159	5,339	4,634	4,123	4,036	-87	-2.1
Machinery	13,230	16,537	14,286	12,689	14,013	1,324	10.4
Transportation equipment	49,425	54,226	52,200	55,583	53,274	-2,309	-4.2
Electronic products	44,018	49,888	35,676	30,745	29,177	-1,569	-5.1
Miscellaneous manufactures	4,179	3,946	4,732	3,399	1,992	-1,407	-41.4
Special provisions	3,961	4,035	4,011	3,629	3,630	1	( <sup>3</sup> )
Total	130,951	145,742	126,139	121,262	118,485	-2,777	-2.3
U.S. merchandise trade balance:							
Agricultural products	11,502	12,087	10,901	9,955	10,362	408	4.1
Forest products	2,237	2,352	1,955	1,417	1,278	-139	-9.8
Chemicals and related products	-3,294	-3,296	-2,496	-3,337	-3,945	-608	-18.2
Energy-related products	1,130	1,226	933	1,402	1,180	-222	-15.8
Textiles and apparel	19	10	-66	-156	-269	-113	-72.2
Footwear	90	83	69	37	22	-16	-41.6
Minerals and metals	-3,270	-2,995	-2,716	-2,534	-2,382	152	6.0
Machinery	-9,613	-11,347	-10,153	-9,361	-10,520	-1,159	-12.4
Transportation equipment	-40,968	-46,400	-45,388	-47,484	-44,872	2,612	5.5
Electronic products	-29,113	-32,093	-20,283	-18,935	-17,829	1,107	5.8
Miscellaneous manufactures	-2,581	-1,890	-2,724	-1,713	-388	1,325	77.4
Special provisions	-2,782	-2,727	-2,625	-2,280	-2,261	19	0.8
Total	-76,641	-84,991	-72,593	-72,989	-69,623	3,367	4.6

<sup>1</sup>Import values are based on customs value; export values are based on f.a.s. value, U.S. port of export.<sup>2</sup>Less than \$500,000.<sup>3</sup>Less than 0.05 percent.

Note.—Calculations based on unrounded data.

Source: Compiled from official statistics of the U.S. Department of Commerce.

**Table JAPAN-2**  
**Leading changes in U.S. exports to and U.S. imports from Japan, 1999-2003**

Sector/commodity	1999	2000	2001	2002	2003	Change, 2003 from 2002	
						Absolute	Percent
<i>Million dollars</i>							
<b>U.S. EXPORTS:</b>							
<b>Increases:</b>							
Aircraft, spacecraft, and related equipment (ET013) . . .	4,557	3,252	2,648	3,768	4,757	989	26.3
Cattle and beef (AG002) . . . . .	1,720	1,776	1,534	975	1,331	357	36.6
<b>Decreases:</b>							
Computers, peripherals, and parts (ET035) . . . . .	3,681	4,457	3,780	2,498	2,246	-252	-10.1
Transportation equipment:							
Aircraft engines and gas turbines (ET001) . . . . .	979	1,216	1,394	1,230	1,043	-187	-15.2
Internal combustion piston engines, other than for aircraft (ET002) . . . . .	510	485	375	815	639	-176	-21.6
Certain motor-vehicle parts (ET010) . . . . .	986	1,312	1,095	1,156	990	-166	-14.3
<b>All other</b> . . . . .	41,878	48,251	42,719	37,831	37,855	24	0.1
<b>TOTAL</b> . . . . .	54,310	60,751	53,546	48,273	48,862	589	1.2
<b>U.S. IMPORTS:</b>							
<b>Increases:</b>							
Printing and related machinery (MM081) . . . . .	401	428	313	409	1,913	1,504	367.5
Transportation equipment:							
Certain motor-vehicle parts (ET010) . . . . .	4,550	5,359	5,173	6,321	7,052	732	11.6
Construction and mining equipment (ET004) . . . . .	1,646	1,449	1,212	1,259	1,526	267	21.2
Medicinal chemicals (CH025) . . . . .	1,894	2,243	2,266	2,536	3,166	630	24.8
Television receivers and video monitors (ET022) . . . . .	409	732	1,280	1,678	2,229	551	32.8
<b>Decreases:</b>							
Motor vehicles (ET009) . . . . .	32,116	34,508	33,020	35,847	33,061	-2,785	-7.8
Electronic products:							
Computers, peripherals, and parts (ET035) . . . . .	13,645	14,540	10,200	8,734	6,977	-1,756	-20.1
Telephone and telegraph apparatus (ET017) . . . . .	3,210	3,896	2,488	1,815	1,477	-339	-18.7
Semiconductors and integrated circuits (ET033) . . . . .	6,401	8,045	4,531	2,809	2,505	-304	-10.8
Games (MM060) . . . . .	2,525	2,179	3,264	2,084	726	-1,358	-65.2
Machinery:							
Semiconductor manufacturing machinery (MM087A) . . . . .	1,392	2,714	2,406	1,750	1,292	-458	-26.2
Electric motors, generators, and related equipment (MM091) . . . . .	1,174	1,161	1,588	1,362	959	-403	-29.6
<b>All other</b> . . . . .	61,587	68,487	58,398	54,659	55,601	943	1.7
<b>TOTAL</b> . . . . .	130,951	145,742	126,139	121,262	118,485	-2,777	-2.3

Note.-Calculations based on unrounded data.

Source: Compiled from official statistics of the U.S. Department of Commerce.

## U.S. exports

- Among leading export shifts in 2003 (see table JAPAN-2), the largest increase was for aircraft, spacecraft, and related equipment, as air carriers in Japan took delivery of the same number (14) of new large civil aircrafts (LCAs) from Boeing Co. as in the previous year,<sup>8</sup> but with a higher proportion of more expensive 777-model than 767-model LCAs (see Aircraft, Spacecraft, and Related Equipment in Transportation Equipment).<sup>9</sup> New aircraft deliveries also reduced the need for replacement components, as exports of aircraft engines and gas turbines to Japan declined in that year (see Aircraft Engines and Gas Turbines in Transportation Equipment).
- Japan continued as the largest foreign market for U.S. exports of cattle and beef (see Agricultural Products), shipped predominantly as bone-in cuts but also as fresh or cold whole or half carcasses. U.S. exports to Japan rebounded in 2003 from the previous year's lower level. In 2001-02, 2 events led consumers in Japan to question the safety of both domestic and imported beef products. "Mad cow disease" (bovine spongiform encephalopathy, BSE) was detected in herds in Japan in September-November 2001. Further, in January 2002, the integrity of the Japanese meat distribution system was questioned after a major producer in Japan reportedly mislabeled foreign beef as being of Japanese origin to gain eligibility for a BSE buy-back credit.<sup>10</sup>

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<sup>8</sup> Boeing Co., "Boeing Commercial Airplanes Orders and Deliveries," found at <http://active.boeing.com/commercial/orders/usersdefinedselection.cfm>, retrieved Apr. 2, 2004.

<sup>9</sup> Base prices in 2002 for Boeing's 777s range from \$153.5 to \$231.5 million, compared to \$101.0 to \$138.5 million for 767s. See: Boeing, "Boeing Commercial Airplane Prices," at <http://www.boeing.com/commercial/prices>.

<sup>10</sup> Kakuyu Obara, *Japan, Livestock and Products Semi-Annual 2002*, U.S. Department of Agriculture, Foreign Agriculture Service, Global Agriculture Information Network report JA2008, Mar. 1, 2002.

## U.S. imports

- Among leading import shifts in 2003 (see table JAPAN-2), the largest increase was for printing and related machinery, particularly multifunction digital devices (MFDs) that also scan and transmit documents, unlike stand-alone computer printers (see Printing and Related Machinery in Machinery). As a preeminent global supplier, Japan benefitted from the rising popularity of MFDs over stand-alone printers in U.S. homes and offices.<sup>11</sup>
- Motor vehicles exhibited the largest import decline, primarily for passenger vehicles. Although combined sales volume for the 11 Japanese brand-names sold in the U.S. market rose 3.3 percent in 2003,<sup>12</sup> apparently production by transplant assemblers increased at the expense of imports from Japan (see Motor Vehicles in Transportation Equipment). The shift in favor of domestic transplants was further reflected in increased imports of certain motor-vehicle parts for incorporation into larger components (see Certain Motor-Vehicle Parts in Transportation Equipment).
- Imports (and exports) of computers, peripherals, and parts continued to decline in each of the past 3 years, concurrent with rising U.S. imports from other Asian countries (especially China). This decline reflects both ongoing shifts of production to lower cost locations and cautious business spending on information technology worldwide in 2003 (see Computers, Peripherals, and Parts in Electronic Products).<sup>13</sup>
- Reduced imports of games from Japan (see Miscellaneous Manufactures), such as video game consoles, with corresponding increased imports from China, reflected the shifting of production by Nintendo and Sony out of Japan, as their new generation of video games entered the maturity phase of the product cycle in 2003.<sup>14</sup>

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<sup>11</sup> Sales of MFDs (“all-in-ones”) rose from 25 to 42 percent of the U.S. market for inkjet printers between second and third quarters 2003. Olga Kharif, “Printing a Record of Growth,” *BusinessWeek Online*, Feb. 17, 2004, found at [http://www.businessweek.com/technology/content/feb2004/tc20040217\\_8510\\_tc055.htm](http://www.businessweek.com/technology/content/feb2004/tc20040217_8510_tc055.htm), retrieved Apr. 6, 2004.

<sup>12</sup> John H. Teahen, Jr., “2003: Records for Import Brands, Record Low Share for Big 3,” *Automotive News*, Jan. 19, 2004, p. 49.

<sup>13</sup> Standard & Poor’s, *Industry Surveys, Computers: Hardware*, Dec. 11, 2003, p. 20.

<sup>14</sup> The GameCube was initially released in Nov. 2001, but Nintendo recently recorded lower sales and cut the suggested retail price. “Nintendo 2<sup>nd</sup>-Half Net May Fall One-Third as GameCube Sales Drop,” *Bloomberg.com*, May 21, 2003, found at <http://quote.bloomberg.com/apps/news?pid=71000001&refer=japan&sid=acLBGfHWHP3M>, retrieved Apr. 5, 2004.