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Japan's Record High Trade Deficit of 4.4 Trillion Yen and Energy Problems

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Japan's FY2011 trade deficit hit a record high of 4,410.1 billion yen, far exceeding the previous high of 3,127.8 billion yen in FY1979, the Ministry of Finance reported in its preliminary trade statistics on April 19. In the year to March 2012, Japan's exports declined 3.7% from the previous year to 65,281.9 billion yen and imports expanded 11.6% to 69,692.0 billion yen. FY2011 was the first fiscal year seeing a Japanese trade deficit in three years, since FY2008 when the trade deficit stood at 764.8 billion yen.

Behind the substantial trade deficit that surpassed the level for FY1979 when crude oil prices shot up amid the second oil crisis, there were major characteristic background factors regarding both imports and exports.

Affecting Japan's exports in the second half of FY2011 were a global economic slowdown amid the European crisis and the Japanese yen's appreciation. In the first half, a vehicle production fall after the March 2011 Great East Japan Earthquake affected exports. The disaster, the world economy's slowdown and the yen's appreciation had exerted significant adverse effects on Japan's FY2011 exports.

The substantial growth in imports resulted directly from energy problems. As is well known, Japan increased its dependence on thermal power generation to secure electricity supply amid a decline in nuclear generation. As a result, fuel imports for thermal power generation expanded substantially. Symbolizing the fuel import growth was a large increase in liquefied natural gas imports. Japan's FY2011 LNG imports swelled 12.65 million tonnes or 17.9% from the previous year to 83.18 million tonnes. Since January, particularly, monthly LNG imports remained at as much as 8 million tonnes, indicating that Japan has been making nearly maximum use of its LNG thermal power generation capacity.

Meanwhile, crude and feedstock oil imports in FY2011 decreased 2.4% from the previous year to 209.85 million tonnes. Overall crude and feedstock oil imports declined on a downward trend in Japan's oil demand. But we must pay attention to the fact that the trend of overall oil imports has been far different from that of oil imports (crude and fuel oil) for power generation. While import statistics fail to specify oil for power generation, Japan's crude and fuel oil consumption for power generation in FY2011 scored a sharp rise of 12.56 million kiloliters, or 2.1-times the previous year, to 23.53 million kl or 405,000 barrels per day. In the second half of FY2011, monthly consumption almost or far more than tripled year-earlier levels. This apparently indicates that Japan rapidly increased its dependence on oil thermal power generation as the "last resort", as LNG thermal power generation rose close to its capacity.

Energy problems' impact on imports is not limited to quantitative changes in fossil fuel imports. FY2011 saw a crude oil price spike on growing geopolitical risks including the "Arab Spring" destabilization and the rising Iranian tensions. As a result, crude and feedstock oil imports, though declining 2.4% from the previous year in volume, scored a sharp increase of 21.9% in value. LNG import prices, which are basically linked to crude oil import prices in Japan, soared as crude oil prices shot up. As a result, LNG imports posted a substantial increase of 1,853.0 billion yen in value or 52.2% from the previous year to 5,402.2 billion yen. Import value increases for LNG, crude and feedstock oil, and petroleum products aggregate 4,627.5 billion yen close to the overall trade deficit of the year.

This means a huge outflow of national wealth triggered by domestic and foreign energy problems. An additional problem is Japan's deteriorating performance regarding the return of such outflow. Amid the first and second oil crises where Japan saw a substantial outflow of national wealth on a steep rise in oil import value, exports of Japanese products to oil-producing countries receiving the outflow increased in a manner to lead some of the national wealth outflow to return to Japan. This means that Japanese manufacturers and exporters then had strong international competitiveness. According to a report by the Financial Times on April 17, Japan has become more vulnerable than earlier to oil price hikes and oil import value growth as the rate of return of national wealth outflow has declined. On a historical average basis, Japan's manufactured products exports have allowed 43 cents out of every $1 in national wealth outflow on oil imports and the like to return to Japan. In 2011 alone, however, the return was limited to 14 cents. This reflects the fact that Japan's benefits (national wealth return) from exports to oil-producing countries have declined as China has remarkably expanded its export capacity and its benefits from such exports, the newspaper reported.

The Japanese economy has been put into a difficult situation regarding international trade. An important factor behind the situation is energy problems. As explained above, the urgent key problem is the increase in fossil fuel imports to meet growing thermal power generation to make up for a decline in nuclear generation. At the same time, an indispensable challenge for Japan is to secure and provide electricity/energy supply stably and at competitive prices to maintain and enhance the international competitiveness of Japan's economy and industry. Appropriate energy measures are indispensable for the Japanese economy to compete for survival. This point may have to be subject to the ongoing discussions on Japan's energy policy reform.

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