



Did divine wind rescue Japan out of the lost decade?



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ABSTRACT

Strong external demand and micro-level productivity-enhancing efforts are key determinants of export. This study gives empirical evidence on the relative importance of these two factors in generating exports. Specifically we investigate Japanese export growth in the 2000s that helped Japan exit the severe decade-long stagnation known as the lost decade. Estimating the firm-level export function, we uncover quantitatively the source of the export surge during this period. Evidence shows that firms' efforts to enhance productivity were more important than the so-called "divine wind" or exogenous external demand.

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1. Introduction

The main objective of this paper is to evaluate quantitatively the relative importance of sources of Japanese export growth. Ample of evidence shows that a surge of exports in the 2000s helped Japan get out of the so-called lost decade of the 1990s. The Japanese GDP growth rate (blue bars in Fig. 1) averaged 1.4% during 2002 to 2007 before it turned negative in the 2008–2009 global financial crisis. More than eighty percent of this growth were due to growth in exports (red dotted bars in Fig. 1). This is a distinct contrast from the period between 1992 and 2001, where the GDP growth rate averaged 1.1% and only one third of this growth was due to growth in exports.

The question is what has led to this export growth in the 2000s. One view is that the "divine wind" or a surge of exogenous external demand, especially from China and other emerging markets in Asia, was the source of export growth. Indeed, Japanese exports to China and Asian NIEs (Hong Kong SAR, Korea, Singapore and Taiwan Province of China) accelerated from the early 2000s (Fig. 2). The average export growth rate to China during 2001 to 2007 almost doubled from that during 1991 to 2001 (Table 1). Sim-

ilarly, Japanese exports to Asian NIEs increased sharply from 1.7% during 1991 to 2001 to 10% during 2001 to 2007.¹ Such evidence alone however cannot verify whether the export growth was indeed driven by exogenous forces.

The other competing argument is that the productivity gain of exporting firms has resulted in a surge of exports. Following the seminal work of Bernard and Jensen (1995), a positive relationship between productivity and exports is well documented for many countries and Japan is no exception.² A rapid growth in productivity of Japanese firms in the 2000s is also well evidenced, for example Kwon et al. (2008). These findings together could imply that the productivity gain of Japanese firms in the early 2000s had led to the export surge to China and Asian NIEs.

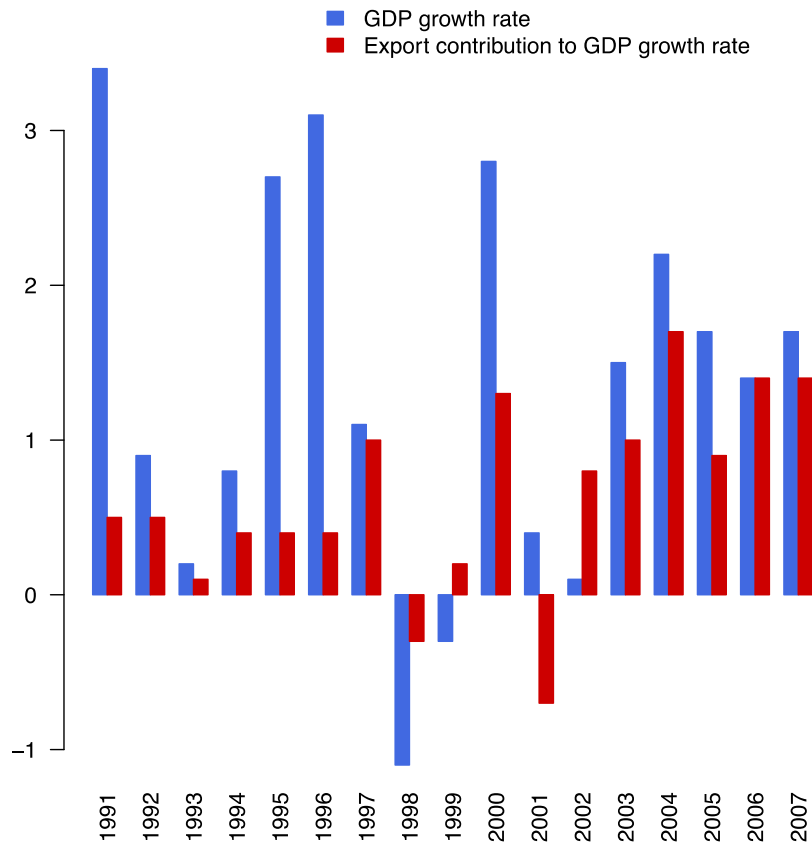
The rapid growth observed in China and other emerging markets in Asia and their demand for Japanese products is an exoge-

¹ There is little difference in the GDP growth rate between the two periods for both regions: the average GDP growth rate of China and Asian NIEs is 10.4% and 5.6% during 1991 to 2001, and 11.2% and 5.2% during 2002 to 2007, respectively.

² For example, positive relationship between productivity and export has been found in the United States by Bernard and Jensen (1995, 1999, 2004a, 2004b) and Bernard et al. (2007), in Canada by Baldwin and Gu (2003), in European countries by Bernard and Wagner (2001) and Mayer and Ottaviano (2007), in Colombia, Mexico and Morocco by Clerides et al. (1998), in Asian countries by Aw et al. (2000) and Hallward-Driemeier et al. (2002) and in Japan by Kimura and Kiyota (2006), Tomiura (2007), Wakasugi et al. (2008), Todo (2011) and Yashiro and Hirano (2010).

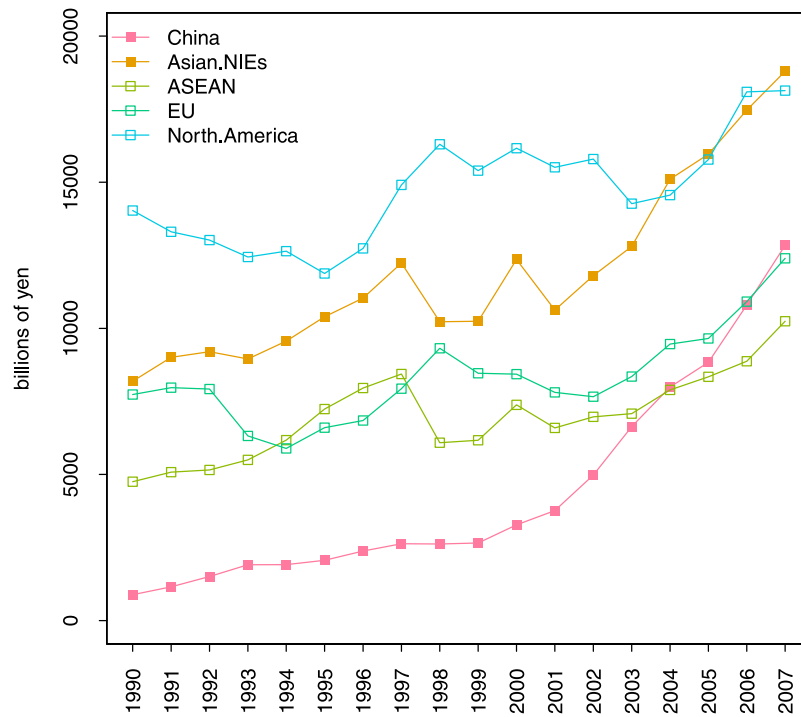
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Data source: Annual Report on National Accounts, Cabinet Office

Fig. 1. Export contribution to GDP growth rate. (For interpretation of the references to colour in this figure text, the reader is referred to the web version of this article.)



Data source: Trade Statistics of Japan, Ministry of Finance

Fig. 2. Japanese export by destination.

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