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Recent Economic Relations between Russia and Japan

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1. Russian Recent Economic Performance

In August 1998, Russia had a big monetary shock. Before the monetary shock, the exchange rate was \$1 = 6 rubles and after that the rate became \$1 = 24 rubles. After that shock, Russia suffered with drastic ruble fall, inflation, decreasing in output, increasing unemployment, increasing private company bankrupt and so on. It seemed that the Russian economy might go down in the sea of collapse. But, as time passed, an import decreased with a ruble fall. A decrease of import caused an increase of domestic production as the substitute of import goods. Therefore, it was seemed that the Russian economy unexpectedly recovered quickly. The table 1 shows the Russian recent economic performance.

Table 1 Russian Recent Economic Performance (%)

	1997	1998	1999						
			Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.
Industries & Mining	1.9	-5.2	-4.9	-3.7	1.4	1.5	6.1	9.0	12.8
Agriculture	0.1	-12.3	-5.6	-5.6	-5.2	-3.1	-2.1	-2.2	2.4
Investment	-5.0	-6.7	-19.0	-14.0	-11.9	-14.2	-13.5	-12.3	—
Housing	-5.0	-7.3	9.1	21.6	-2.1	11.7	7.0	6.0	—
Retail Sale	2.5	-4.5	-19.0	14.0	-11.9	-14.2	-13.5	-12.3	—
Real Income	3.5	-18.2	-29.1	-28.0	-26.6	-26.8	-24.0	-22.8	-27.3
CPI	11.0	84.4	8.5	4.1	2.8	3.0	2.2	1.9	—
Unemployment	9.0	11.8	12.4	12.4	12.4	14.2	14.2	14.2	—

(Source :Goskomstat, 「National Economy of the USSR」, 「 Russian Statistical Yearbook」、 monthly publications in 1992-1998)

The Russian economic performance recovered quickly from its collapse in August 1998. The growth rate of industries & mining rapidly fell down in 1998, but in March 1999 the growth rate had a positive value and in July 1999 the growth rate was 12.8%. It was the highest after the Russian economic reform in 1992. The agriculture production also fell down in 1998. But after 1 year, the agriculture production had a positive growth rate in July 1999. The housing investment sharply increased in 1999. The CPI was 84.4% in 1998 with the ruble shock, but it calmed down in 1999 and the CPI became only 1.9% in July 1999. The inflation calmed down rapidly.

But, on the other hand, Russian economy holds many factors of economic stagnation. The retail sale has been continuing minus double-digit growth rate in 1999. The real income also continued negative growth (more than -20%). A decrease of real income causes a fall of private consumption. The unemployment ratio increased in 1999. The economic problem. The unemployment ratio in Japan was nearly 4.6% at the end of 1999. Therefore, 14.2% is an important economic problem. The continuing minus growth rate of investment is the most important economic problem. The equipment and machines in Russia are too timeworn. New investment makes an effective demand in short period and increases output capacity

in long period. Therefore, investment is the most important factor of economic development. But unfortunately, Russia has been scarce of new investment.

2. Economic Prospect in Short Period

In this section, we predict the Russian economic performance in the near future. As the section 1 mentioned, the current Russia has some optimistic factors and many pessimistic factors at the same time.

- (1) The difference of living standard in Moscow citizens and that in local towns' citizens became so big. The centralization in Russia will go on in the near future.
- (2) Russian people obtained "Glasnost" , the freedom of speech. Now, the Russian press has no inspection. The Russian people can criticize Russian politicians freely and can get all kinds of information. This trend will surely go on.
- (3) Russia exports oil, gas, steel, aluminum, gold, fish, timber, and so on. That is, Russian export items are almost natural resources. Russia has no industrial goods which can be exported except weapons. In 1998, Russian weapons export was \$ 2.9 billion. It was 16 % growth rate.
- (4) The Russian domestic production is increasing, but very few goods can be exported.
- (5) The amount of barter trade is increasing. In April 1999, the amount of barter trade was 50.6 %. Therefore, it is very hard for the government to collect tax from companies.
- (6) In 1999, the government budget had a huge debt. That is, the government revenue was 473.7 billion rubles and the government expenditure was 575.1 billion rubles. This government debt will increase.
- (7) The possibility of increasing in investment is very low. Therefore, the possibility of Russian economic recovery will be very low in the near future.
- (8) After the economic reform, the income difference became so large. This trend will go on.
- (9) The possibility of increasing of new business is very low. On the other hand, many old state companies wants to decrease workers in order to cut the cost down. Therefore, the possibility of increasing

in employment is very low.

- (10) Just after the monetary shock, the foreign investment stopped to inflow in Russia. But, after the while, it is seemed that the inflow of foreign capital will increase and the foreign companies will only invest in resource, monetary and service industries.
- (11) The IMF conducts Russia to have a tight monetary policy. Therefore, after the while, the amount of unpaid salary will de continued.
- (12) The saving at home is seemed \$20-30 billion. They can not be invested in private new investment.
- (13) The amount of capital flight is seemed \$30-40 billion. It is said that the amount of capital inflow from foreign countries a year is nearly equal to the amount of capital flight.
- (14) Many big companies are former state companies. In many industries, the industry structure is monopolies. Free competition is very hard in main industries in Russia.
- (15) In Russia, the political corruption is continued. Many politicians are conspiring with many bureaucrats and managers of big companies. They are only seeking their own profit.
- (16) After the monetary shock, the Russian import is decreasing. But, the export also is decreasing. The international trade is decreasing. The table 2 shows the amount of export and import.

Table 2 Russian Export and Import (\$100 million)

Year	1998							1999					
	6	7	8	9	10	11	12	1	2	3	4	5	6
Export	64	62	57	60	61	60	72	47	48	61	64	51	54
Import	57	54	51	30	30	30	35	30	30	35	37	31	34
Balance	7	8	6	30	31	30	37	17	18	26	27	20	20

(Source: Japan Association for Trade with Russia & Central-Eastern Europe, 「Monthly Bulletin on trade with Russia & East Europe」 , monthly publications in 1998-1999)

According to our above forecast about Russian economy in the near future, it is very hard to get an optimistic perspective. But, the many

Russian people are high-educated and Russia has a lot of natural resources. Therefore, in the long run, it is seemed that Russia will has an optimistic perspective.

3. Trade between Russia and Japan

In 1998, the total amount of Russian trade with Japan was 3.85 billion US dollar, and it was -23.3 % growth rate. The Russian export to Japan was \$2.87 billion and the Russian import from Japan was only \$0.98 billion. The export in 1998 rapidly decreased in -28 % growth rate.

The weight of Russian trade is too light to Japanese international trade. The weight of Japanese export to Russia was only 0.25 % in the total Japanese export. On the other hand, the export ratios to the U.S.A. and China were 30.5 % and 5.2 % respectively in 1998. Therefore, the ratio of Japanese export to Russia was too small.

The ratio of Japanese import from Russia was also small in the total Japanese import. The ratio was only 1.04 %. The ratio of Japanese import from the U.S.A. and China were 23.9 % and 13.2 % respectively.

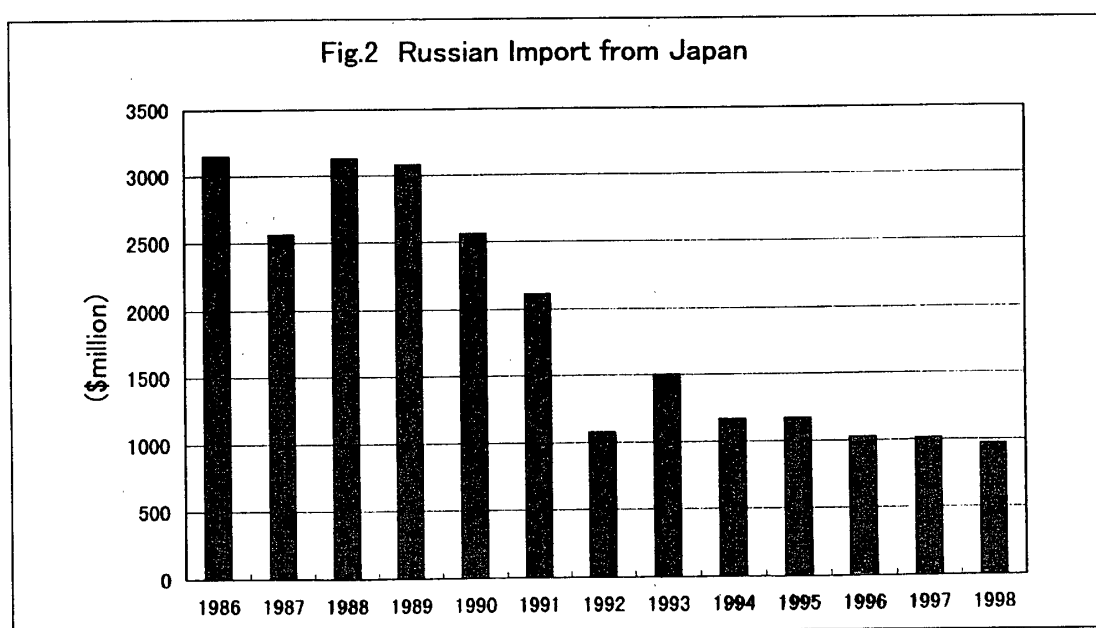
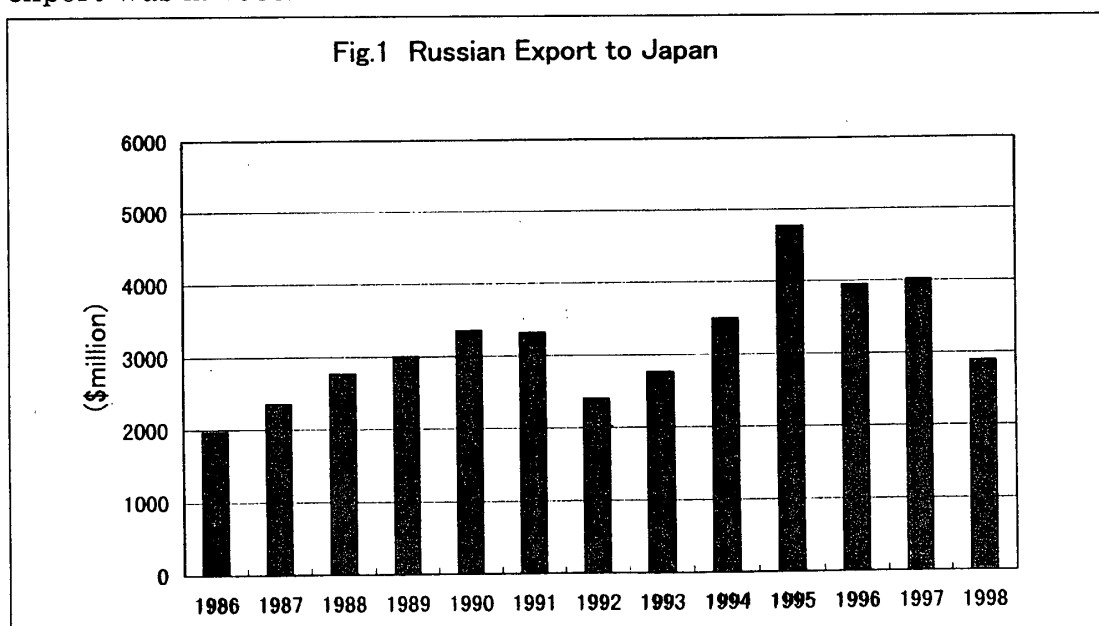
The table 3 shows the Russian export to Japan.

Table 3 Russian Export to Japan (\$100 million, %)

Year	1994	1995	1996	1997	1998
Total (\$100Million)	34.9	47.6	40.0	40.1	28.7
Fish (%)	29.4	27.7	30.9	25.7	30.9
Iron (%)	0.1	0.1	0.2	0.2	0.1
Timber (%)	17.7	16.1	17.4	19.6	15.0
Coal (%)	6.1	5.5	6.7	5.9	6.6
Machines (%)	0.2	0.1	0.2	0.3	0.5
Platinum (%)	8.7	8.4	8.1	3.0	4.5
Nickel (%)	1.7	4.1	2.0	2.4	0.9
Aluminum (%)	13.9	17.0	17.5	23.2	18.5
Gold (%)	1.7	3.2	-	0.3	0.1

(Source: Japan Association for Trade with Russia & Central-Eastern Europe, 「Monthly Bulletin on Trade with Russia & East Europe」, April, 1999.)

In 1998, the main items of Russian export to Japan were fish, aluminum, timber, coal, platinum. The Russian monetary shock was in August 1998 and the exchange rate of ruble went down. But, the Russian export did not increase. This is the reason why the Japanese economy is in the sea of depression and the import from Russia is not so profitable to Japan. In the long run, the Russian export to Japan is showed in figure 1. The trend of Russian export to Japan is decreasing. The top of Russian export was in 1988.



The table 4 shows the Russian import from Japan. In 1998, machines & equipment was the most important item of Russian import from Japan. The ratio was 84.0 %. They were automobiles, electronic machines, loading machines, mining machines, building machines, heating machines, refrigerators, textile machines, valves, ships and so on. But, it seemed that these figures did not include the amount of Russian import goods which Japan exported to the third countries. For example, it was said that Russia imported 10 million Japanese color TV from the third countries. This figure did not include in table 4. The figure 2 shows the long run trend of Russian import from Japan. The Russian import increased from 1986 to 1995. During this period, the Russian import suddenly went down in 1992 and 1993 by the economic reform. After 1995, the Russian import from Japan gradually decreased.

Table 4 Russian Import from Japan (\$100 million, %)

Year	1994	1995	1996	1997	1998
Total (\$100 million)	11.7	11.7	10.3	10.2	9.7
Light industries (%)	6.7	7.8	10.8	12.0	9.9
Textile (%)	0.6	0.8	1.0	1.1	0.8
Heavy industries (%)	87.4	87.6	83.5	82.8	84.0
Chemical goods (%)	3.1	2.5	2.7	2.4	1.6
Steel (%)	20.8	8.4	6.2	4.3	3.8
Machines (%)	63.5	76.8	74.6	76.1	78.5
Others (%)	5.9	4.6	5.7	5.2	6.1

(Source: Japan Association for Trade with Russia & Central-Eastern Europe, [Monthly Bulletin on Trade with Russia & East Europe] , April, 1999)

The trade between Russia and Japan is an important economic factor for Russia, but it is not so important for Japan. It seemed that the trade between Russia and Japan will not increase in the near future.

4. Trade between China and Japan

In the next section, we analyze the comparison the Russia-Japan trade with the China-Japan trade. In this section, we investigate the China-

Japan trade. The table 5 and the table 6 show the Chinese export to Japan and the Chinese import from Japan respectively in 1996.

Table 5 Chinese Export to Japan (billion yen, %)

Total (billion yen)	1268
Cloths (%)	22.8
Machines (%)	15.0
Fish (%)	5.2
Oil (%)	4.1
Foot wear (%)	3.8
Vegetables (%)	3.4
Bags (%)	2.6
Precision machines (%)	2.4
Toys (%)	2.4
Furniture (%)	1.6
Meet (%)	1.5

(Source: Nihon kanzei kyokai, 「Foreign Trade」 ,1997)

Table 6 Chinese Import from Japan (billion yen, %)

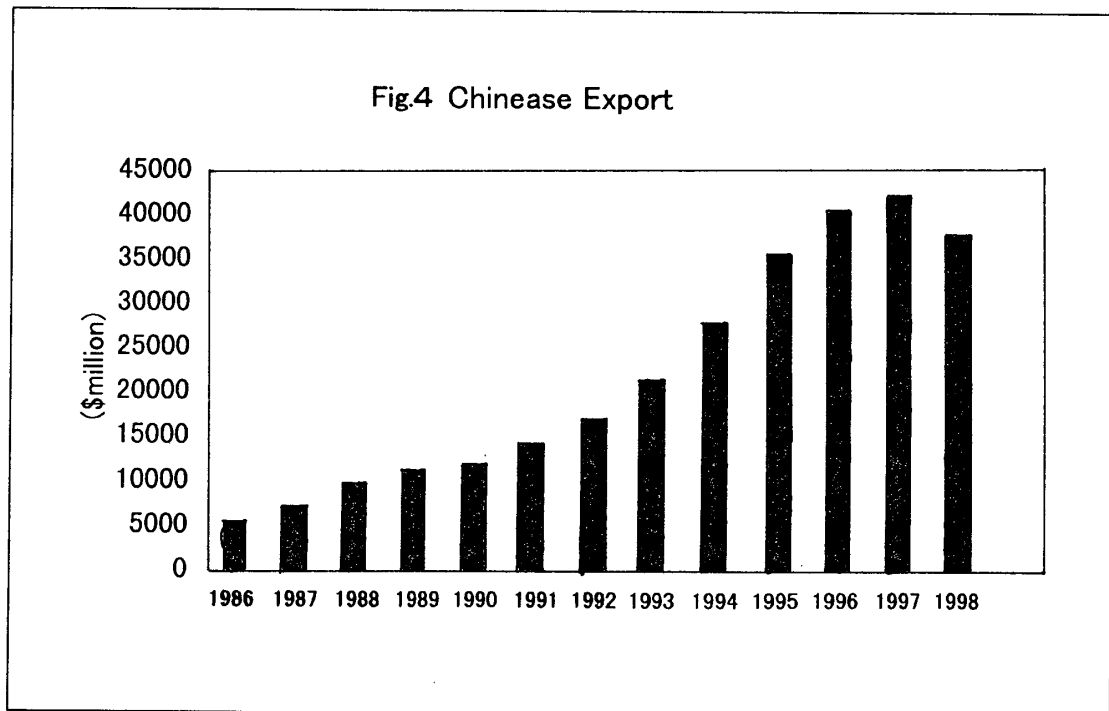
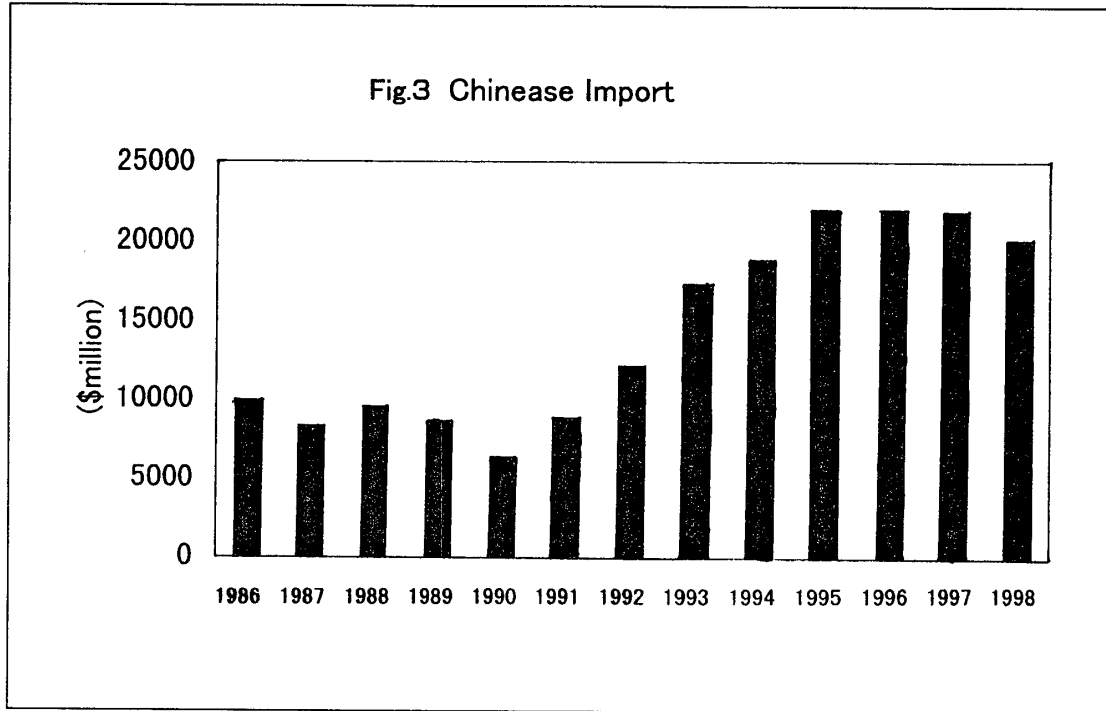
Total (billion yen)	1199
Machines (%)	50.3
Steel machines (%)	4.0
Electronic machines (%)	3.5
Textile machines (%)	2.7
Textile (%)	7.9
Steel (%)	7.6
Medicine (%)	3.6
Plastic (%)	3.5
Precision machines (%)	2.4
Automobiles (%)	2.0
Oil product (%)	1.7

(Source: Nihon kanzei kyokai, 「Foreign Trade」 ,1997)

The Chinese-Japan trade is the type of trade , that is, China exports the light industrial goods and imports machines from Japan. But, the Russia-Japan trade is the different type of trade, that is, Russia exports natural resources and imports machines from Japan. It seemed that the Chinese light industries have an international competitive power, but on the other hand the Russian industries do not have an international competitive power except the weapon industries. China imports machines which promote the Chinese productivity in the future. Russia imports

machines which are almost automobiles.

The figure 3 and 4 show the Chinese export and import from Japan.



5. Comparison the Russia-Japan Trade with the China-Japan Trade

In this section, we analyze the difference between the Russia-Japan trade and the China-Japan trade. We assume that the growth rate of trade depends upon the rate of growth of each country' GDP. The table 7 shows the rate of growth of the Russian trade, the Russian GDP and the Japanese GDP. All figures are in US dollar and are calculated in standard of previous year value = 100.

Table 7 Growth Rate of Russian Export, Import ,GDP and Japanese GDP

	Russian Export	Russian Import	Russian GDP	Japanese GDP
1986	138.0	114.5	103.1	103.3
1987	119.3	81.4	104.8	102.9
1988	117.6	122.1	106.0	105.5
1989	108.6	98.5	104.4	103.0
1990	111.5	83.2	105.5	97.5
1991	99.0	82.5	102.9	95.0
1992	72.4	50.9	100.4	85.5
1993	115.2	139.4	100.5	91.3
1994	126.0	77.8	100.6	87.4
1995	136.5	100.3	102.8	96.0
1996	82.9	87.6	103.2	94.0
1997	101.8	99.0	99.6	100.8
1998	72.0	95.5	98.0	95.4

(Source: Goskomstat, 「Russian Statistical Yearbook」 , monthly publications in 1992- 1998)

(1) Russian Export

We assume that the change of Russian export depends upon the growth rates of Russian GDP and Japanese GDP. The regression equation of Russian export is as follows,

$$\begin{aligned} \text{GREX} = & 2.898241 \text{ GJGDP} + 0.6963 \text{ GRGDP} - 256.519. \\ & (0.957674) \quad (0.588291) \quad (-0.98299) \\ & (9.360807) \quad (0.569384) \quad (0.348796) \end{aligned}$$

GREX... Growth Rate of Russian Export to Japan

GRGDP... Growth Rate of Russian GDP

GJGDP... Growth Rate of Japanese GDP

The upper () is t value, the lower () is P value.

(2) Russian Import

We assume that the change of Russian import depends upon the growth rates of Russian GDP and Japanese GDP. The regression equation of Russian import is as follows,

$$\begin{aligned} \text{GRIM} = & -2.35896 \text{ GJGDP} + 2.158211 \text{ GRGDP} - 127.7072. \\ & (-0.77563) \quad (1.814441) \quad (0.486967) \\ & (0.455919) \quad (0.099677) \quad (0.636779) \end{aligned}$$

GRIM... Growth Rate of Russian Import from Japan

Next, we analyze the economic relation between the China trade and the Chinese GDP and Japanese GDP. The table 8 shows the rate of growth of the Chinese trade, the Chinese GDP and the Japanese GDP.

Table 8 Growth Rate of Chinese Export, Import, GDP and Japanese GDP

	Chinese Export	Chinese Import	Chinese GDP
1986	87.2	79.0	108.8
1987	130.9	83.7	111.6
1988	133.2	114.9	111.3
1989	113.1	89.9	104.1
1990	108.1	72.0	103.8
1991	117.9	140.2	109.2
1992	119.3	139.1	114.2
1993	121.3	144.6	113.5
1994	134.0	108.2	112.6
1995	130.3	117.4	110.5
1996	112.9	99.8	109.6
1997	103.7	99.5	108.8
1998	87.7	91.9	107.8

(Source: Japan MOF, 「Japan Custom's Clearance Statistics 」 , monthly publications in 1986-1999)

(3) Chinese Export

We assume that the change of Chinese export depends upon the

growth rates of Chinese GDP and Japanese GDP. The regression equation of Chinese export is as follows,

$$\begin{aligned} \text{GCEX} = & 3.707233 \text{ GJGDP} + 3.453133 \text{ GCGDP} - 643.157. \\ & (2.622495) \quad (3.176418) \quad (-2.98541) \\ & (0.025488) \quad (0.009879) \quad (0.013681) \end{aligned}$$

GCEX ... Growth Rate of Chinese Export to Japan

GCGDP ... Growth Rate of Chinese GDP

(4) Chinese Import

We assume that the change of Chinese import depends upon the growth rates of Chinese GDP and Japanese GDP. The regression equation of Chinese import is as follows,

$$\begin{aligned} \text{GCIM} = & -1.10786 \text{ GJGDP} + 4.776453 \text{ GCGDP} - 304.201. \\ & (0.02709) \quad (0.65435) \quad (0.42515) \end{aligned}$$

GCIM ... Growth Rate of Chinese Import from Japan

According to the above regression analysis, we got the following conclusion.

- (1) The change rate of Russian export to Japan depends upon the growth rate of Japanese GDP more than the growth rate of Russian GDP. That is, when the Japanese economy becomes better, then the Russian export to Japan will be better.
- (2) The change rate of Russian import from Japan does not depend upon the growth rate of Japanese GDP. The coefficient of GJGDP of regression equation is minus.
Therefore, when the Japanese economy becomes better, then the Russian import from Japan decreases.
- (3) The Chinese export to Japan strongly depends upon the Japanese economy. The Japanese GDP' effect on the Chinese export is more effective than on the Russian export.
- (4) The Chinese import from Japan strongly depends upon the Chinese economy and has an inverse correlation to the Japanese economy. When the Japanese economy becomes better, the Chinese import

from Japan decreases.

- (5) The correlation between the Russian trade with Japan and the both GDP is not so strong as the correlation between the Chinese trade with Japan and the both GDP. Therefore, the economic relation between Russia and Japan does not depend upon the both countries' economies strongly, but maybe depends strongly upon other factors, for example political factors.

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