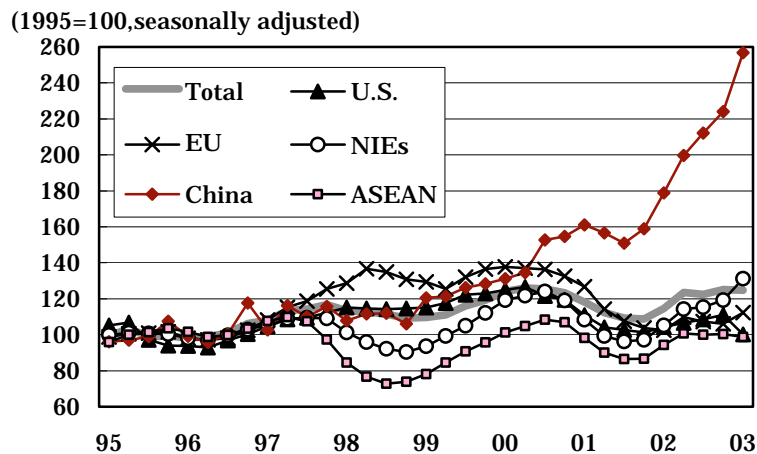


# Medium-term Forecast for Japan's Exports to China<sup>1</sup>

Japan's exports to China keep growing, and their share of Japan's exports is expanding. As a result, exports to China are an increasingly important factor for the total performance of Japan's exports. The volume of exports to China in the first quarter of 2003 was 2.6 times as large as in 1995, while exports to other regions have either remained unchanged since 1995, or have grown by no more than 30%: The growth of exports to China is outstanding.

Japan's export volume by region



Source: MOF

The increase in exports to China is due primarily to the following two factors: First, China has become an important production base. With the accelerating trend among Japanese companies to shift production to China, exports of machinery and equipment to build production bases have risen. Then, once production begins, exports of parts and materials surge. Second, with the economic development of China, domestic demand has grown, and imports from Japan have followed. Exports of machinery to China have increased, as the Chinese government has promoted building infrastructure and houses. In addition, as the income level of Chinese households has risen as a result of rapid economic growth, demand for consumption goods, such as autos, has increased.

<sup>1</sup> This is an English summary of a report originally published on June 3, 2003. The full report is available only in Japanese, but the author will answer questions regarding the topic by e-mail.

In 2002, exports of producer goods, such as parts and materials, to China totaled ¥3.6 trillion, accounting for more than 70% of total exports to China. Exports of capital goods, such as machinery and equipment, and consumer goods amounted to ¥1.0 trillion (20.6%) and ¥0.3 trillion (6.3%), respectively. The rapid growth in exports to China is primarily a result of the increase in exports of producer goods.

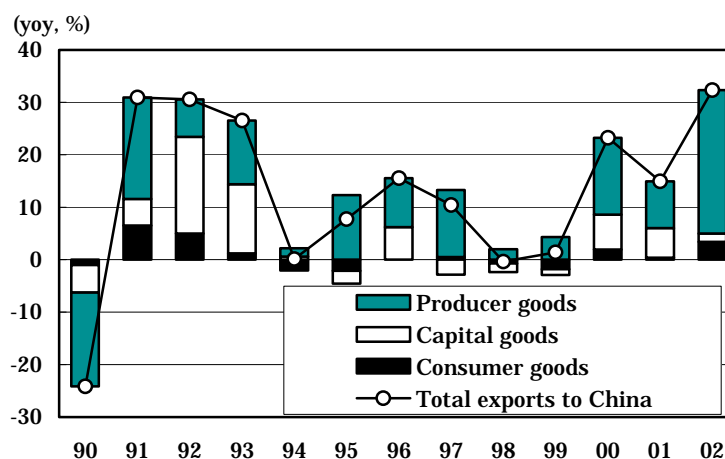
Exports to China by goods (2002)

	value (trillion yen)	share (%)
Total	5.0	100.0
Final demand goods	1.3	26.9
Consumer goods	0.3	6.3
Durable	0.3	5.2
Non-durable	0.1	1.1
Capital goods	1.0	20.6
Producer goods	3.6	73.1
Parts	1.8	36.6
Materials	1.8	36.4

Note: Aggregate numbers may vary from those added up due to rounding off.

Source: MOF, METI

Growth of exports to China and contribution by goods



Source: MOF

In the medium-term, exports of consumer goods to China are expected to slow, as Japanese companies transplant their production bases there. In contrast, exports of capital goods will likely grow by 5 to 10% per year, assuming that fixed asset investment expands by about 10% per year in China.<sup>2</sup> In addition, exports of producer

<sup>2</sup> UFJ Institute, Global Watch February 2003 special issue, "CHINA 2015: The size of GDP will be about 90% of Japan's GDP."

goods are expected to increase by 10% and more each year, in keeping with the expansion of production capacity in China. In total, exports to China may grow by 11.1% per year through 2007.

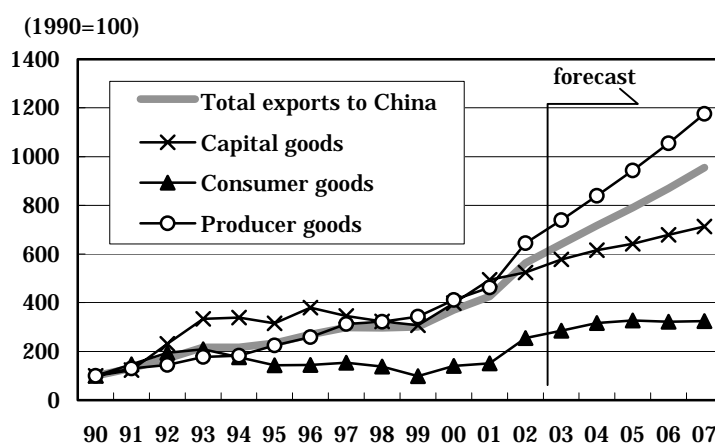
The risk is that Japan's exports of producer goods are highly related to China's exports to other countries, primarily to the U.S. If China's exports slow, due to a slowdown in the global economy, Japan's exports to China may be affected. Nevertheless, as long as Chinese products maintain their competitiveness, their exports should continue to grow at a relatively fast pace, and Japan's exports to China will also keep growing.

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**Medium-term forecast for Japan's exports to China by goods**

year	forecast					
	2002	2003	2004	2005	2006	2007
Total exports (trillion yen)	5.0	5.7	6.3	7.0	7.7	8.4
year-on-year growth rate (%)	32.3	13.6	11.9	10.3	10.0	9.8
Consumer goods (trillion yen)	0.3	0.4	0.4	0.4	0.4	0.4
year-on-year growth rate (%)	69.4	11.6	11.2	3.3	-1.6	0.7
share (%)	6.3	6.2	6.2	5.8	5.2	4.7
Capital goods (trillion yen)	1.0	1.1	1.2	1.3	1.3	1.4
year-on-year growth rate (%)	6.1	10.4	6.7	4.1	5.7	5.1
share (%)	20.6	20.0	19.1	18.0	17.3	16.6
Producer goods (trillion yen)	3.6	4.2	4.7	5.3	6.0	6.6
year-on-year growth rate (%)	39.3	14.7	13.4	12.4	11.9	11.4
share (%)	73.1	73.8	74.8	76.2	77.5	78.7

Source: own estimates.



Source: MOF and own estimates.

\*The information and the views contained herein are subject to change without notice.

Translation and editing: Mariko Noda.