

A macroeconomic analysis of japan and south korea



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Economic performance of country can be measured using several variables or data. The most common measure used these days is the GDP. In this report we analyze the economies of SOUTH KOREA & JAPAN. South Korea falls under the category of “ Newly Industrialized Nations” while Japan is considered as a developed country. Throughout the report & charts plotted, current recession effects can be noted. Recovery measures & challenges that these economies adopted are also highlighted.

This report begins with an overview of South Korean & Japanese economies comprising of facts & figures. In the second phase, we analyze the major variables of macroeconomics. This report concludes with brief comments on both the economies.

INTRODUCTION

South Koreans get carried away with the victories in soccer games and figure skating over the Japanese, but a significant point to note is that the economic gap between them has shortened significantly over the past 20 years.

The gross domestic product of Japan was more or less 11 times greater than Korea before 20 years. These days it has narrowed down to 5.3 times. There was a similar impact on their countries' stock market also, it fell from 10 times to 4.5 times during the same period.

According to LG Economic Research Institute, these changes occurred due to the fast economic growth of South Korea Vs Japan's Sluggishness.

” The difficulty the Japanese economy is facing now is not a short-term cyclic recession, nor a long-term downturn of finance and manufacturing. It is chronically low economic growth” It said.

Japan’s economy still claims to be bigger than Korean. Japanese are much wealthier than Koreans. A Korean’s average personal income (\$19, 231/-) was less than half of a Japanese citizen (\$39, 726/-) in 2008. Back in 1990, a Korean’s income was \$6, 303/- but in Japan this figure was already \$24, 471/-. Korean showed a significant progress when compared to Japanese.

Japanese companies status declined from the list of top 500 global firms. Japan’s listed companies in 2000 was 77 which reduced to 49 in 2009. In the year 2000, none of Korean companies made it to the list but managed have 6 listed in 2009.

Korea’s foreign exchange reserves rised from 14. 8 billion in 1990 to 264. 1 billion last year. It accounts for a quarter of Japan’s reserve.

Korea’s strong growth increased inflation. E. g. Korean CPI rose by 12. 8 % during the period 2005-2009 while for the same year , Japanese CPI was only 0. 3%.

The growth of Korean was evident with it Incheon International Airport, with in 5 years of its opening it surpassed the cargo handling of Narita International Airport. In 2006 , Narita handled 1. 8 million tons cargo but Korean surpassed this figure handling 2. 3 million tons cargo.

Flight connectivity to Incheon is slightly better than Narita. Narita still handles more passengers than Incheon as of now.

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MAJOR MACROECONOMIC VARIABLES

GDP

REAL GDP GROWTH

UNEMPLOYMENT

RATE OF INFLATION

GROWTH RATE OF EXPORTS

BALANCE OF PAYMENTS

GDP

GDP – CONSTANT PRICE (PERCENTAGE CHANGE)

2005

2006

2007

2008

2009

2010

JAPAN

1. 934

2. 039

2. 363

-1. 193

-5. 197

1. 896

SOUTH KOREA

3. 957

5. 197

5. 106

2. 298

0. 196

4. 514

NOTE : Shaded cells reflect IMF estimates.

SOURCE :

[http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/weorept.aspx?
sy= 2005&ey= 2010&scsm= 1&ssd= 1&sort= country&ds=.&br= 1&pr1. x=
76&pr1. y= 14&c= 542&s= NGDP_RPCH&grp= 0&a=](http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/weorept.aspx?sy=2005&ey=2010&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=76&pr1.y=14&c=542&s=NGDP_RPCH&grp=0&a=)

[http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/weorept.aspx?
sy= 2005&ey= 2010&scsm= 1&ssd= 1&sort= country&ds=.&br= 1&pr1. x=
78&pr1. y= 7&c= 158&s= NGDP_RPCH&grp= 0&a=](http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/weorept.aspx?sy=2005&ey=2010&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=78&pr1.y=7&c=158&s=NGDP_RPCH&grp=0&a=)

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GDP – SECTOR WISE CONTRIBUTION FOR JAPAN

Agriculture: 1. 6%

Industry: 23. 1%

Services: 75. 4% (2009 est.)

SOURCE: http://www.theodora.com/wfbcurrent/japan/japan_economy.html

GDP – SECTOR WISE CONTRIBUTION FOR JAPAN

Agriculture: 3. 0%

Industry: 39. 4%

Services: 57. 6% (2009 est.)

SOURCE: http://www.theodora.com/wfbcurrent/korea_south/korea_south_economy.html

Comments & Reviews

Japan still continues to be a bigger economy than South Korea when looking at the GDP figures. Japan's declining GDP only helped other countries reduce their economy gap they had with Japan. While considering the growth rate pace South Korea leads Japan.

South Korea was successful in just reducing the big gap they had in their economies. The large GDP held by Japan proved a challenging task for South Korea to beat.

Japan has been one of the countries seriously affected by most recent recession period. Japan's GDP started to decline from 2008 as their exports to US was affected. US demand reduction had big impact on countries depending on their exports & it varied from country to country depending on comparative advantage.

REAL GDP

The below table represents GDP growth of South Korea & Japan on an yearly basis, Inflation adjusted & expressed as a percent.

2005

2006

2007

2008

2009

2010

JAPAN

2.90

2.6

2.2

2.2

-0.7

-5.70

SOUTH KOREA

4. 60

4. 0

4. 80

5. 00

2. 20

-0. 80

NOTE : Shaded cells reflect IMF estimates.

Sources:

http://www.indexmundi.com/japan/gdp_real_growth_rate.html

http://www.indexmundi.com/south_korea/gdp_real_growth_rate.html

Comments & Reviews

Considering the Real GDP , South Korea growth rate is significant. Japan Real GDP growth rate indicates a negative value these days.

The real GDP growth rates for both countries are declining due to the present recession period. South Korea still maintains some growth (Indicates +ve value) even though it declined from the previous years.

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UNEMPLOYEMENT RATE – PERCENTAGE OF TOTAL LABOR FORCE

2005

2006

2007

2008

2009

2010

JAPAN

4. 427

4. 133

3. 849

3. 990

5. 076

5. 078

SOUTH KOREA

3. 733

3. 467

3. 250

3. 175

3. 650

3. 500

NOTE : Shaded cells reflect IMF estimates.

Sources

<http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/weorept.aspx?sy=2005&ey=2010&scsm=1&ssd=1&sort=country&ds=.&br=1&c=542%2C532%2C158&s=LUR&grp=0&a=&pr1.x=66&pr1.y=5>

UNEMPLOYMENT RATE

Comments & Reviews

Japan

Japan recorded a unemployment rate 5.10% as of Apr, 2010. Labor force can be defined as

Employed people + Unemployed people not looking for a job.

Japan's economy being dependent on exports spurred employment, increasing consumer spending.

Japan's unemployment rose in the year 2009 & further expected to rise in 2010. This is often triggered by the low US demand & competitiveness faced from countries like china etc.

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South Korea

South Korea's unemployment rate rose from 3.175% in the year 2008 to 3.650% in the year 2009.

South Korea's dependency on their exports accounts for change in their employment rate. The recession has also affected them but impact is much less than that of Japan.

RATE OF INFLATION – Average Customer Prices as Percentage

2005

2006

2007

2008

2009

2010

JAPAN

-0.299

0.300

0

1.396

-1.377

-1. 407

SOUTH KOREA

2. 754

2. 242

2. 535

4. 674

2. 757

2. 900

NOTE : Shaded cells reflect IMF estimates.

Source

<http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/weorept.aspx?sy=2005&ey=2010&scsm=1&ssd=1&sort=country&ds=.&br=1&c=542%2C532%2C158&s=PCPIPCH&grp=0&a=&pr1.x=55&pr1.y=16>

Comments & Reviews

BALANCE OF PAYMENTS AS PERCENTAGE OF GDP

2005

2006

2007

2008

2009

2010

JAPAN

3. 640

3. 907

4. 819

3. 214

2. 795

2. 840

SOUTH KOREA

1. 773

0. 566

0. 560

-0. 620

5. 125

1. 607

NOTE : Shaded cells reflect IMF estimates.

SOURCE: [http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/weorept.aspx? sy= 2005&ey= 2010&scsm= 1&ssd= 1&sort= country&ds=.&br= 1&c= 542%2C158&s= BCA_NGDPD&grp= 0&a=&pr. x= 39&pr. y= 4](http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/weorept.aspx?sy=2005&ey=2010&scsm=1&ssd=1&sort=country&ds=.&br=1&c=542%2C158&s=BCA_NGDPD&grp=0&a=&pr.x=39&pr.y=4)

RATE OF GROWTH OF EXPORTS

2007

2008

2009

2010

JAPAN

(Figures In Billion Yen JPY)

272283. 1

77335. 0

50857. 1

20765. 6

SOUTH KOREA

(Figures in Millions USD)

371625. 5

422007. 3

363533. 6

179799. 6

NOTE: Shaded figures are estimates.

Comments

According the latest reports , as of April, 2010, Japan's Exports are valued 5577. 1 billion Yen JPY. It is a known fact that the main factor increasing their GDP over the past few years has been their exports. Their exports consist of

Electronics – Consumer

Optical Fibres

Optical Media Material

Optical Electronics

Copy Machines & Facsimile

Japan's Trade partners are Taiwan, Korea, EU , US etc.

According the latest reports , as of May, 2010, South Korea's Exports are valued 39099. 1 Million USD. It is a known fact that the main factor increasing their GDP over the past few years has been their exports. Their exports consist of

LCD panel

Mobile Phones

Household appliances

Automobiles

Steel

Ships

Petrochemicals etc

South Korea's Trade partners are Taiwan, Japan, EU , US etc.

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SOURCES:

<http://www.tradingeconomics.com/Economics/Exports.aspx?Symbol=KRW>

<http://www.tradingeconomics.com/Economics/Exports.aspx?Symbol=JPY>

CONCLUSION

In this paper we have verified through productivity analysis whether Japan's stagnant economic growth rate since the 1990s is attributable to loss of competitiveness. A macro-level analysis of growth factors shows that the

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declining rate of economic growth since the 1990s is greatly impacted by a drop in labor input and also, to a certain extent, by a drop in the TFP growth rate. Furthermore, an international comparative analysis of productivity suggests that East Asian countries such as China, South Korea, and Taiwan are catching up to Japan and that the gap between Japan and the U. S., where productivity was much higher from the outset, is widening. Analysis results regarding innovation were presented as the determinants of productivity. Results suggest that recent slowdown of economic growth in Japan is due to the declining growth rate of R&D investment. In addition, it is also found that the contributions of IT to productivity are limited due to the ineffective utilization of IT in Japanese firms.

Further analysis of the relationship between productivity and IT, which is strongly related to service and organizational innovation, is required from the perspective of the impact of innovation on the macroeconomy. The environment for innovation is rapidly improving, with service innovation utilizing IT including the increasing efficiency of distribution and upgrading of services through radio frequency identification (RFID), expansion of Internet transactions in the banking and securities sectors, and the spread of electronic money. Moreover, in terms of organizational reform it is necessary to conduct a more detailed analysis concerning the strengths and weaknesses of Japanese firms by comparing them to both U. S. firms, the top runners in IT use, and South Korean firms, which have enjoyed remarkable progress with recent organizational reforms.

A comparative look at the national debt figures against GDP will reveal that South Korea's debt is at a mere 34%. The US debt figure is at 60. 8%, <https://assignbuster.com/a-macroeconomic-analysis-of-japan-and-south-korea/>

Canada is at 62.3%, Italy is at 103.7%, France is at 67%, UK is at 47.2%, Germany is at 62.5%, Japan is at 170.4% and India is at 78%. Of course, South Korea did not come out of the 2008 global downturn, despite having survived the Asian financial crisis of 1998 due to various economic reforms and further opening up of trade and foreign investment.

In 2008, South Korea GDP dipped to 2.2% and then to 0.8%. The current forecasts for 2010 are projected at 5% by the South Korean Finance Ministry. If the country stays firm with this figure, they will retain their position as the 15th largest economy in the world.

The world's second-largest economy only after the US and Asia's largest economy, Japan is a powerful country. It is the only member of G8 from Asia and also a member of the UN Security Council on a temporary basis. The wages in Tokyo are the highest in the world, according to the Big Mac Index. Japan's swift economic growth from the 1960s to the 1980s is called the Japanese post-war economic miracle, with a growth rate of 10%, 5% and 4%. It was in the late 1980s that Japan's economy overheated due to falling stock and real estate prices, a phase called the Japanese asset price bubble. However, the situation turned bad in 1989, with the crashing of the Tokyo Stock Exchange. Even in the 1990s the country's economic growth remained slow. During that period there was only a 1.5% rise in the GDP annually. Moreover, in the 2000s, Japan's GDP rose at 0.8% annually. The economy rose at an average of 2.1% a year from 2003 to 07, and shrank by 1.2% in 2008 and by 5.0% in 2009.