

China edges Japan as No. 2 economy

AP, KYODO

Japan lost its place to China as the world's No. 2 economy in the second quarter as receding global growth sapped momentum and stunted a shaky recovery.

The nation's gross domestic product grew at an annualized 0.4 percent, far below the annualized 4.4 percent expansion in the first quarter and adding to evidence the global recovery is facing strong headwinds, the government said Monday.

The figures underscore China's emergence as an economic power that is changing everything from the global military and financial balance to how cars are designed. It is already the biggest exporter, auto buyer and steel producer, and its worldwide influence is growing.

Meanwhile, the pace of recovery for the Japanese economy slowed in the quarter on weak consumer spending.

The economy grew an annualized real 0.4 percent amid the diminishing effects of fiscal stimulus, considerably below the average market forecast of 2.3 percent in a Kyodo News survey.

The sluggish outcome could amount to pressure on the administration of Prime Minister Naoto Kan to consider fresh measures to help sustain the

nascent recovery from the global financial turmoil, as well as on the Bank of Japan to further ease its monetary policies.

The latest annualized GDP — or the total value of the nation's goods and services — is equivalent to a 0.1 percent quarter-on-quarter increase, also lower than the average market forecast of 0.6 percent.

The data sent the Tokyo Stock Exchange immediately lower, with the key Nikkei 225 index temporarily losing nearly 1.7 percent.

China has been a major force behind the world's emergence from deep recession, delivering much-needed juice to the United States, Japan and Europe.

Tokyo's latest numbers, however, suggest Chinese demand alone may not be enough to sustain Japan or other economic giants.

"Japan is the canary in the gold mine because it depends very much on demand in Asia and China, and this demand is cooling quite a bit," said Martin Schulz, senior economist at Fujitsu Research Institute. "This is a warning sign for all major economies that just focusing on overseas demand won't be sufficient."

China has surpassed Japan in quarterly GDP figures before, but this time it's unlikely to relinquish the lead.

China's economy will al-

most certainly be bigger than Japan's at the end of 2010 because of the big difference in each country's growth rates. China is growing at about 10 percent a year while Japan's economy is forecast to grow between 2 percent and 3 percent this year. The gap between the size of the two economies at the end of last year was already narrow.

Japan's nominal GDP, which isn't adjusted for price and seasonal variations, was worth \$1.286 trillion in the April-June quarter compared with \$1.335 trillion for China.

The figures are converted into dollars based on an average exchange rate for the quarter.

Japan has held second place to the U.S. since 1968, when it overtook West Germany.

From the ashes of World War II, the country rose to become a global manufacturing and financial powerhouse. But its "economic miracle" turned into a massive real estate bubble in the 1980s before imploding in 1991.

What followed was a decade of stagnant growth and economic malaise from which the country has never really recovered. Kan now faces a long list of daunting problems: a rapidly aging and shrinking population, persistently weak domestic demand, deflation, a strong yen and slowing growth

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in key export markets.

In contrast, China's growth has been spectacular, its voracious appetite fueling demand for resources, machinery and products from the developing world as well as rich economies like Japan and Australia. China is Japan's top trading partner and has been key in Japan's recovery from the global recession.

But China's rise has produced glaring contradictions.

anything about it."

People in Japan appear resigned to the power shift. A national poll conducted earlier this year by the Asahi Shimbun showed a roughly equal split between those who believed Japan's fall to No. 3 posed a major problem and those who did not. More than

The wealth gap between an elite who profited most from three decades of reform and its poor majority is so extreme that China has dozens of billionaires while average income for the rest of its 1.3 billion people is among the world's lowest.

Japan's people still are among the world's richest, with a per capita income of \$37,800 last year, compared with China's \$3,600. For Americans it was \$42,240, and the U.S. econo-

half of the 2,347 respondents said Japan doesn't need to be a global superpower.

The weak GDP data came as consumer confidence slumps and companies cut investment, although robust exports have underpinned a recovery that started in April 2009 after the economy was battered by the

my is still by far the biggest.

"We should be concerned about per capita GDP," said Kyohei Morita, chief economist at Barclays Capital in Tokyo. China overtaking Japan "is just symbolic," he said. "It's nothing more than that."

But the symbolism may be exactly the "wake up call" Japanese leaders need, said Schulz of Fujitsu Research Institute. "Japan is always strangely inward looking," he said. "And nobody is doing

global financial crisis, the Cabinet Office said.

Consumer spending, which accounts for about 60 percent of GDP, was flat from the previous quarter, the figures showed. Capital spending by companies rose 0.5 percent, while public investment fell 3.4 percent.

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