

Section 5 Primary income balance trend in Japan and international comparison of outward investments

1. Primary income balance trend

The primary income balance has continued to register a surplus mainly because of investment income. As for trends in the primary income balance since 2000, although the balance deteriorated at the time of the global economic crisis, both direct investment income and portfolio investment income have been increasing year after year in line with the growth in the outward investment position, and in 2013, the primary income balance registered a surplus of approximately 16.47 trillion yen, the second largest after the record surplus (approx. ¥16.48 trillion) registered in 2007 before the global economic crisis. In Japan, portfolio investment income accounts for a large proportion of the primary income surplus (Figures I-2-5-1 and I-2-5-2).

Below, direct investment income and portfolio investment income are further broken down. Direct investment income are comprised of “dividends and withdrawals from income of quasi-corporations” that are obtained from overseas subsidiaries, etc., “reinvested earnings,” which refers to retained earnings at local companies which have accepted investment from Japan, and “interest income,” which refers to interest from loans and bonds. Until 2007, the amount of “reinvested earnings” tended to be larger than the amount of “dividends and withdrawals from income of quasi-corporations,” but since 2008, the amount of “dividends and withdrawals from income of quasi-corporations” has tended to grow more than the amount of “reinvested earnings.” In particular, in 2013, although the amount of “reinvested earnings” decreased, the amount of “dividends and withdrawals from income of quasi-corporations” increased by approximately 1.3 trillion yen, making significant contributions to the expansion of direct investment income (a surplus of approx. 5.3 trillion yen, an increase of approx. 1.3 trillion yen from the previous year) (Figure I-2-5-3).

Portfolio investment income comprises “investment income on equity and investment fund shares” and “interest on bonds.” While the amount of “interest on bonds” still accounted for a large proportion of the portfolio investment income in 2013, its growth has been stagnant since falling steeply due to the impact of the global economic growth trends. On the other hand, although the amount of “dividends” is smaller than the amount of “investment income on equity and investment fund shares,” it has continued to grow steadily since 2010, and the surplus from interest on bonds in 2013 was approximately 3 trillion yen, more than double the level in 2007 (Figure I-2-5-4).

Figure I-2-5-1 Trends in primary income balance (2000-2013)

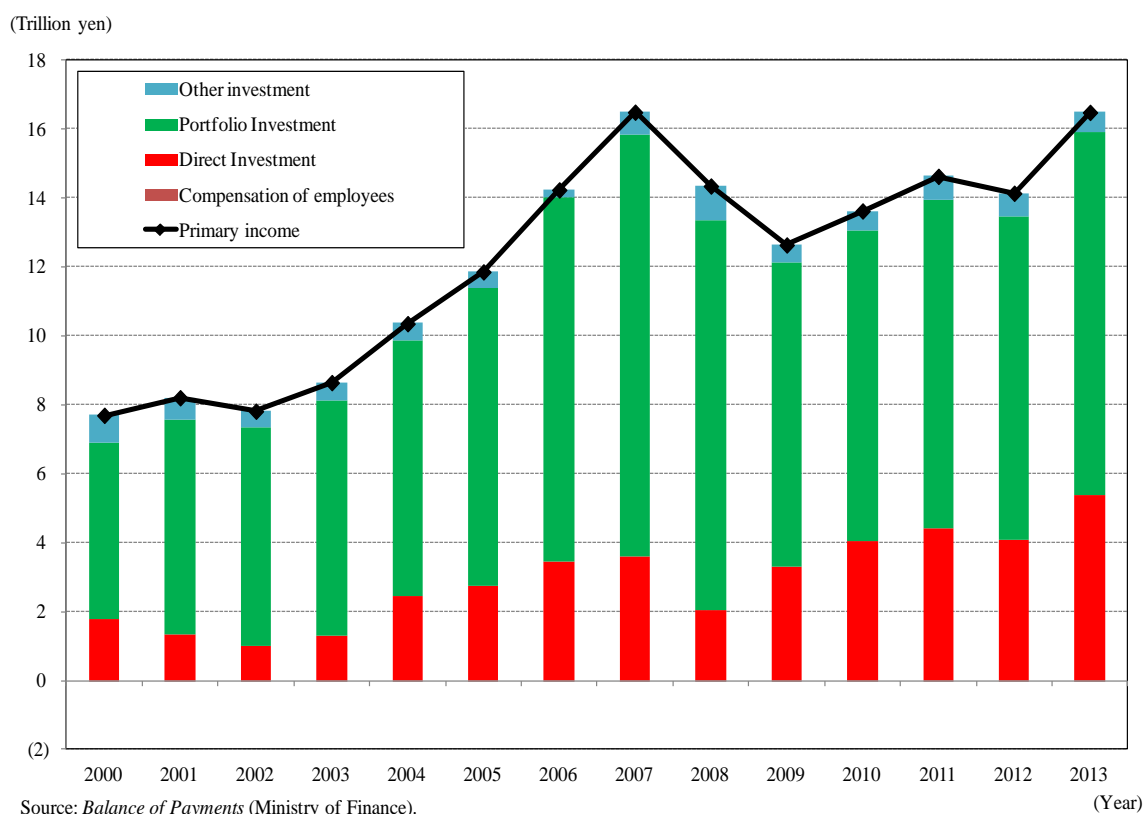


Figure I-2-5-2 Trends in balance of outward investment positions (2000-2012)

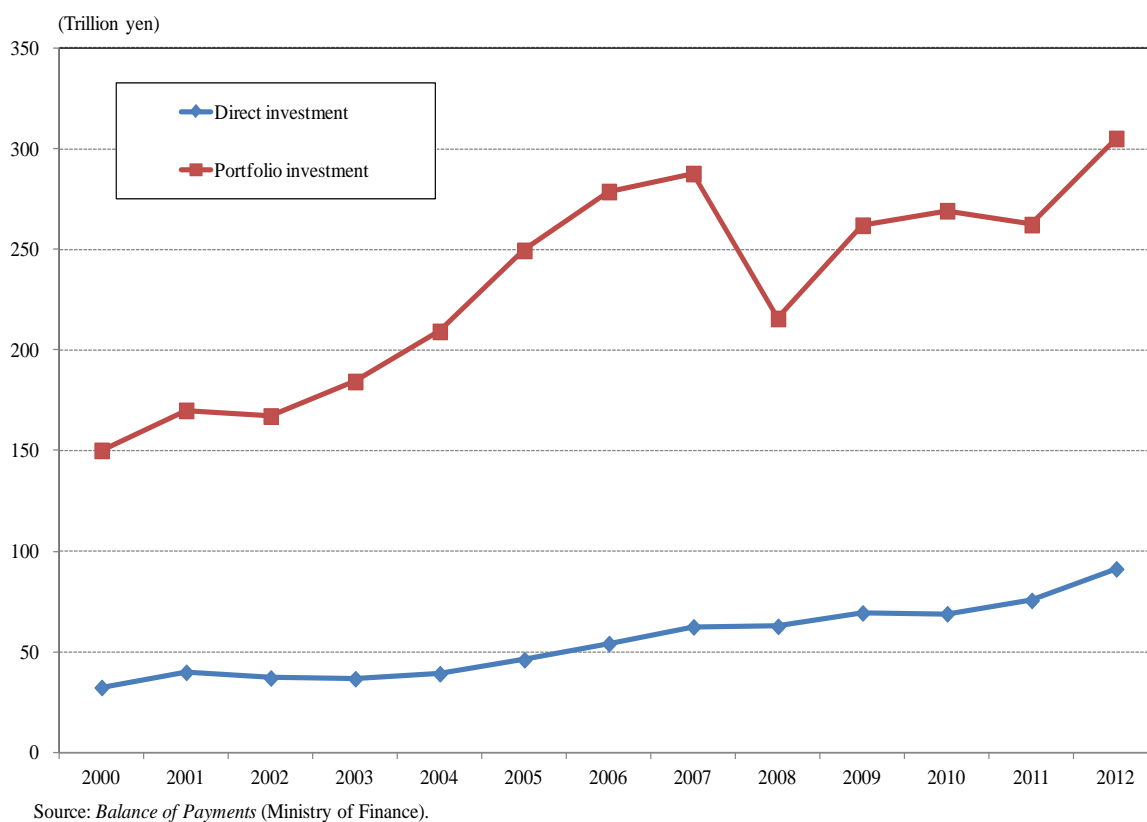
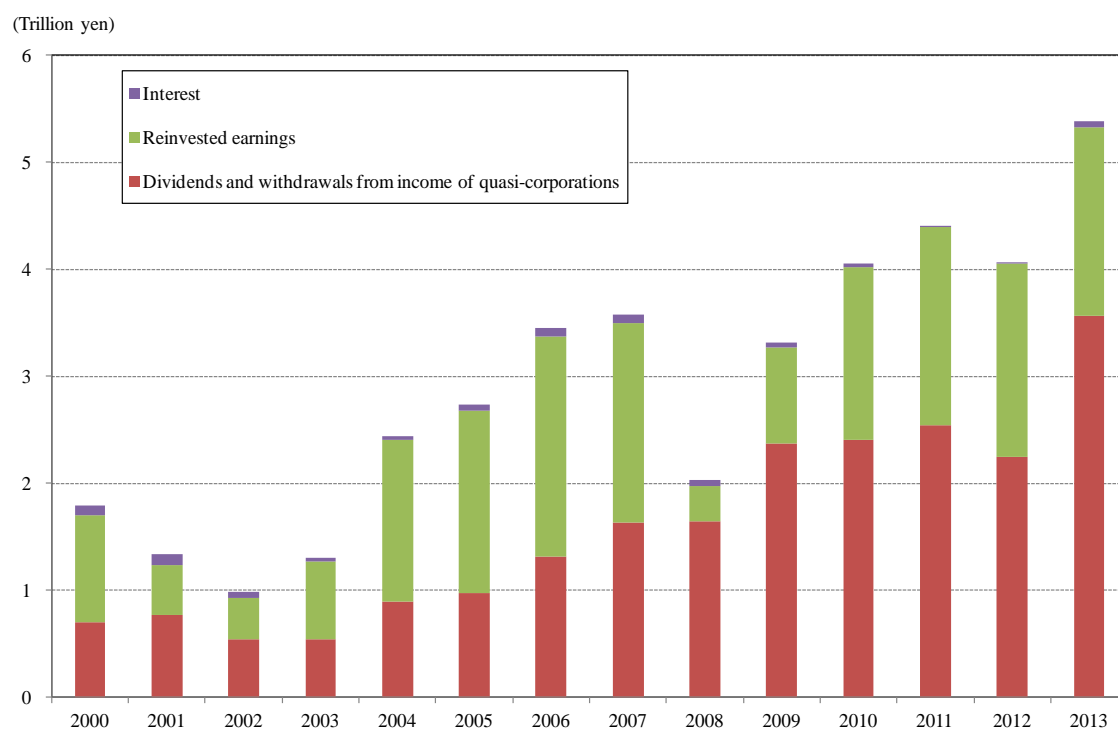
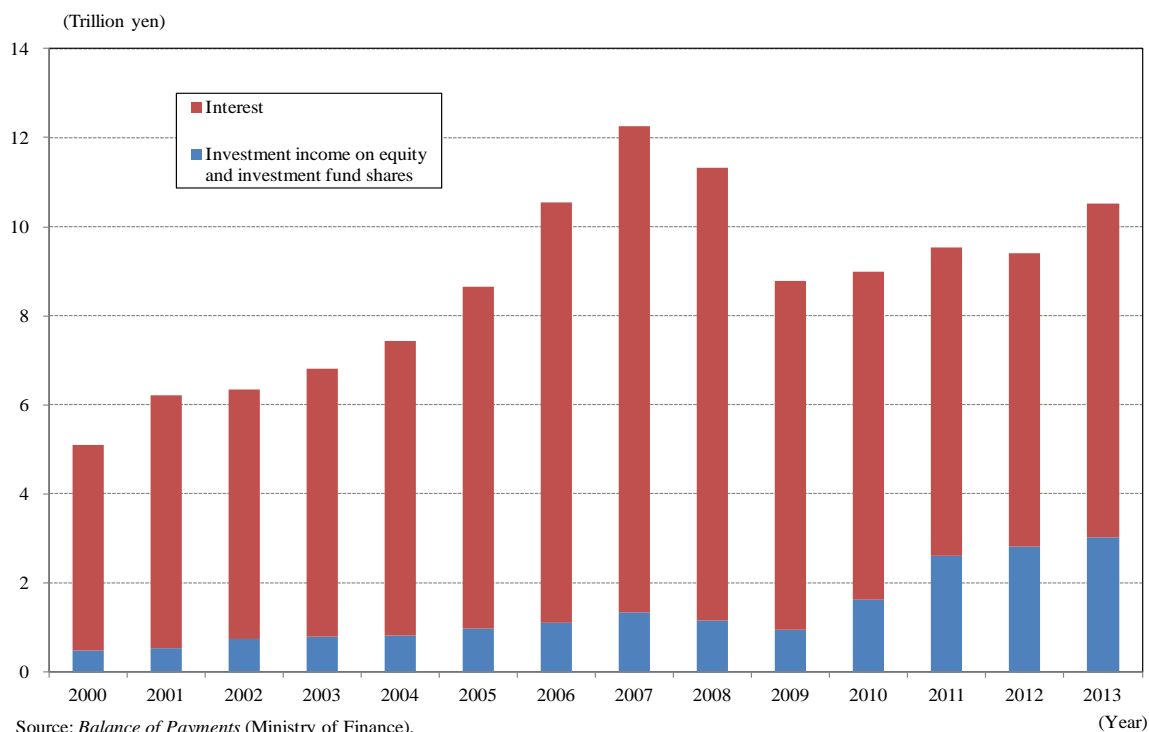


Figure I-2-5-3 Trends in direct investment income (2000-2013)



Source: *Balance of Payments* (Ministry of Finance).

Figure I-2-5-4 Trends in portfolio investment income (2000-2013)



Source: *Balance of Payments* (Ministry of Finance).

2. International comparison of outward investments

First, a look at the outward direct investments shows that the direct investment position of the United States has been growing year after year and is much larger than the ones of other countries. Although the direct investment position of Japan has been growing moderately, it is at a relatively low level (Figure I-2-5-5).

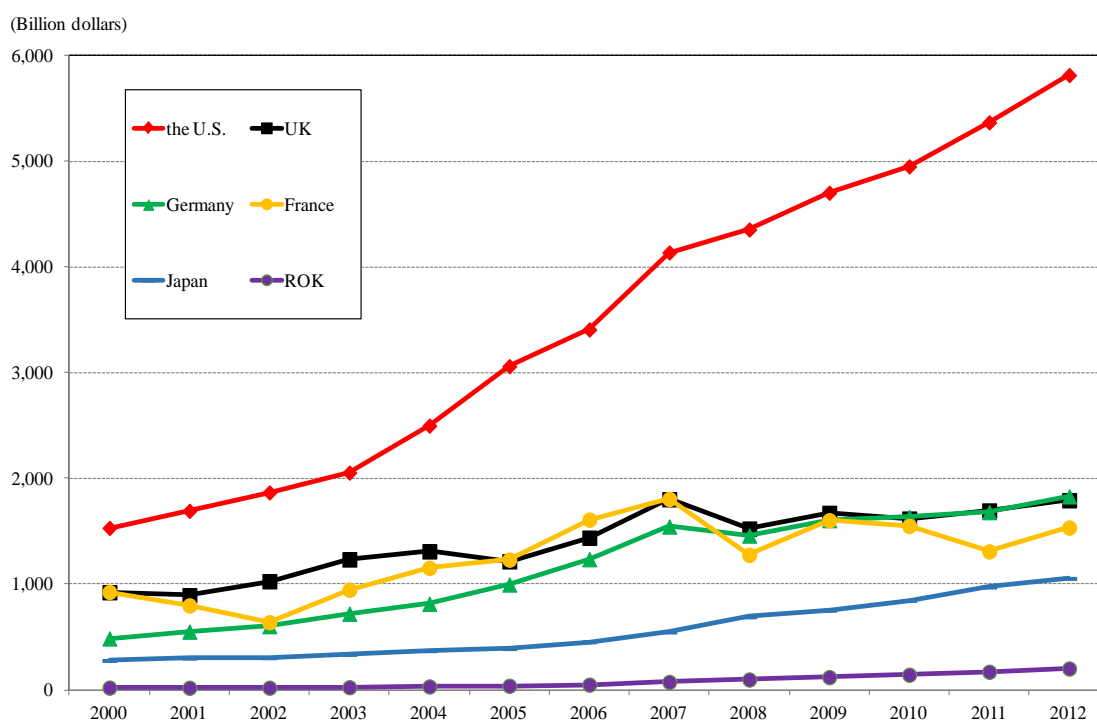
As for outward direct investments by industry, the manufacturing industry accounts for the largest proportion in Japan, ROK and Germany, while the services industry, mainly the financial industry, accounts for the largest proportion in the United States, the United Kingdom, and France (Figure I-2-5-6).

Regarding the rate of return on outward direct investment, the rate for Japan tends to be higher than the rates for Germany, France, and ROK, but lower than the rates for the United States and the United Kingdom (Figure I-2-5-7).

Next, regarding outward portfolio investments, the portfolio investment position fell at the time of the global economic crisis but has been on an uptrend in most countries. However, as in the case of outward direct investments, the portfolio investment position in the United States is by far the largest. The portfolio investment position in Japan has been increasing and has surpassed that of the United Kingdom to become the second largest of the five countries, after that of the United States (Figure I-2-5-8).

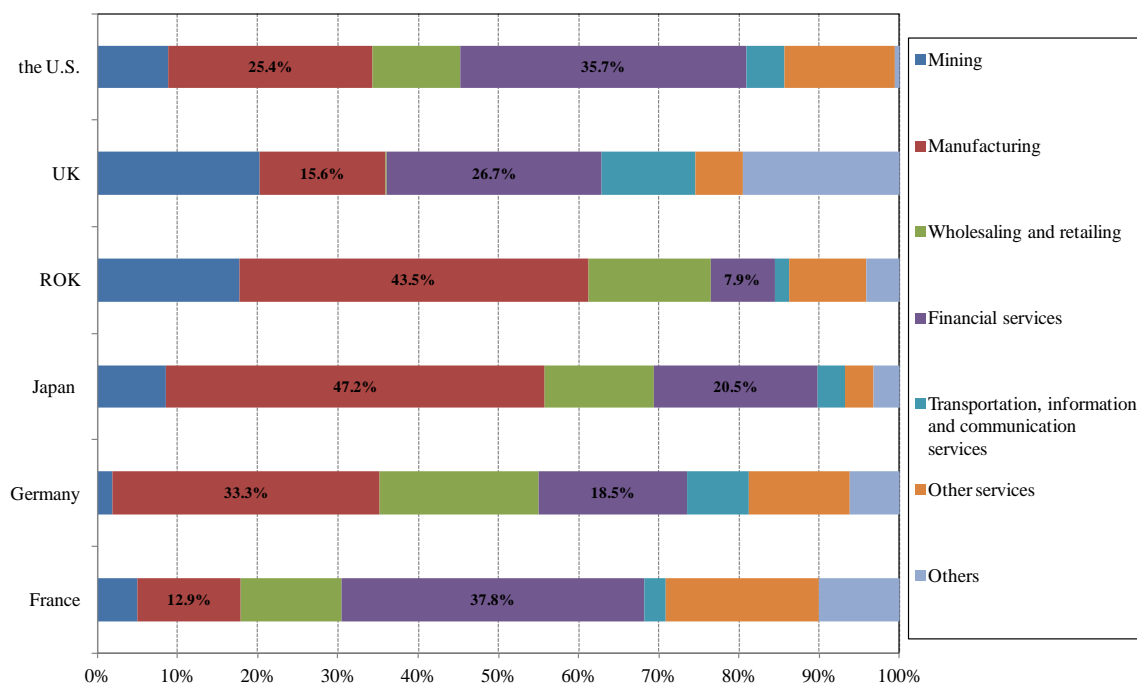
As for the rates of return on outward portfolio investments, the rates for the United States and the United Kingdom, whose rates of return on outward direct investment are high, are low, while the rate for Japan is the highest of the five countries (Figure I-2-5-9).

Figure I-2-5-5 Trends in balance of outward direct investment position by country



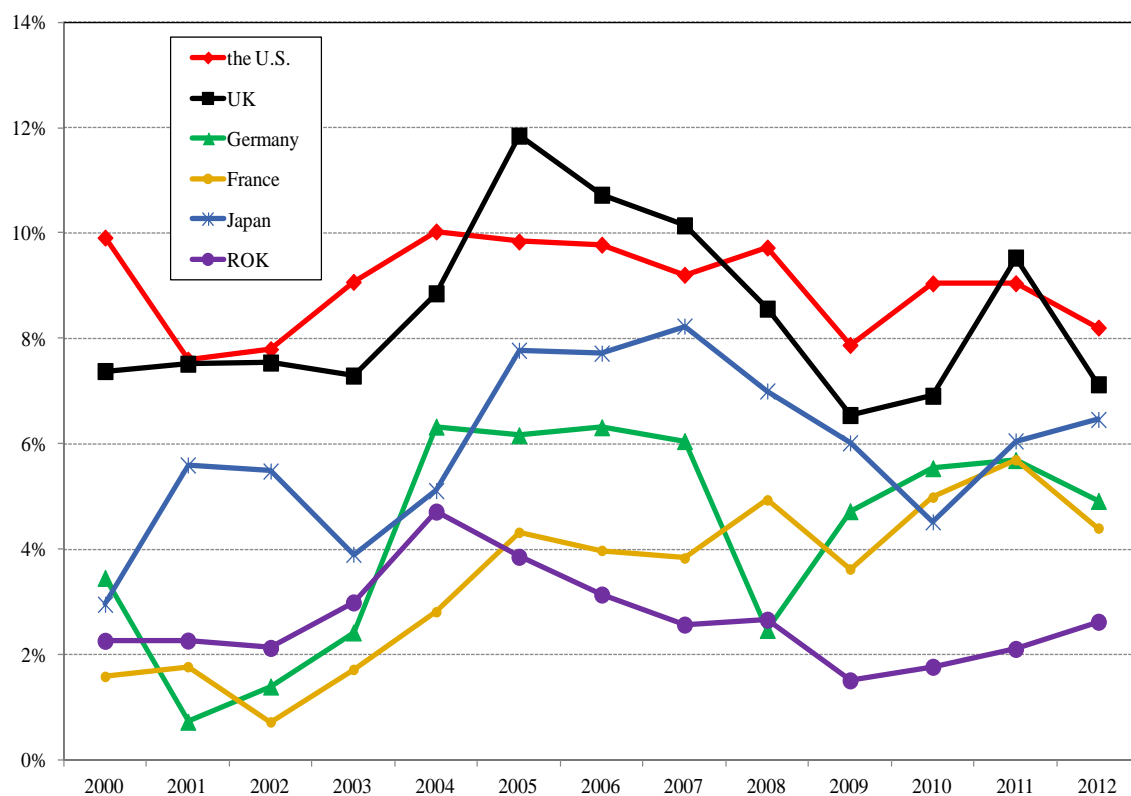
Source: BOP (IMF).

Figure I-2-5-6 Ratios of balance of outward direct investment positions by industry in countries (2012)



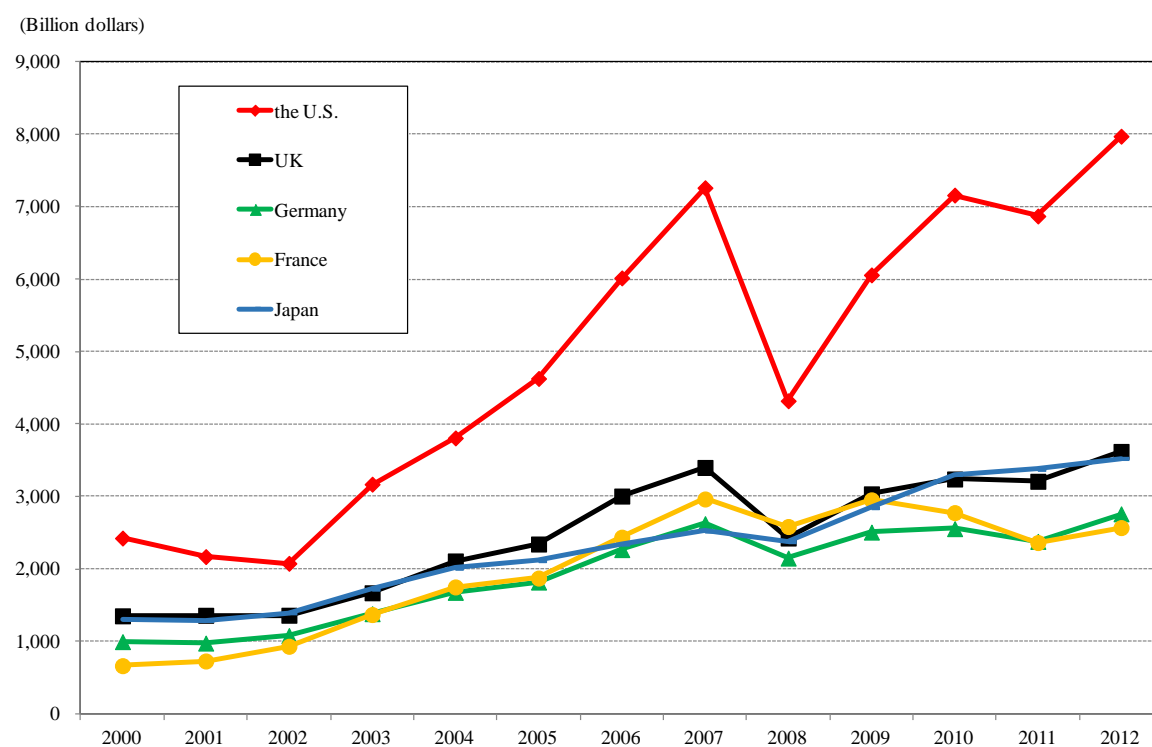
Notes: Due to the limitation of publication data, values in Germany are data in 2011.
Source: OECD Stat.

Figure I-2-5-7 Trends in rate of return on outward direct investment by country



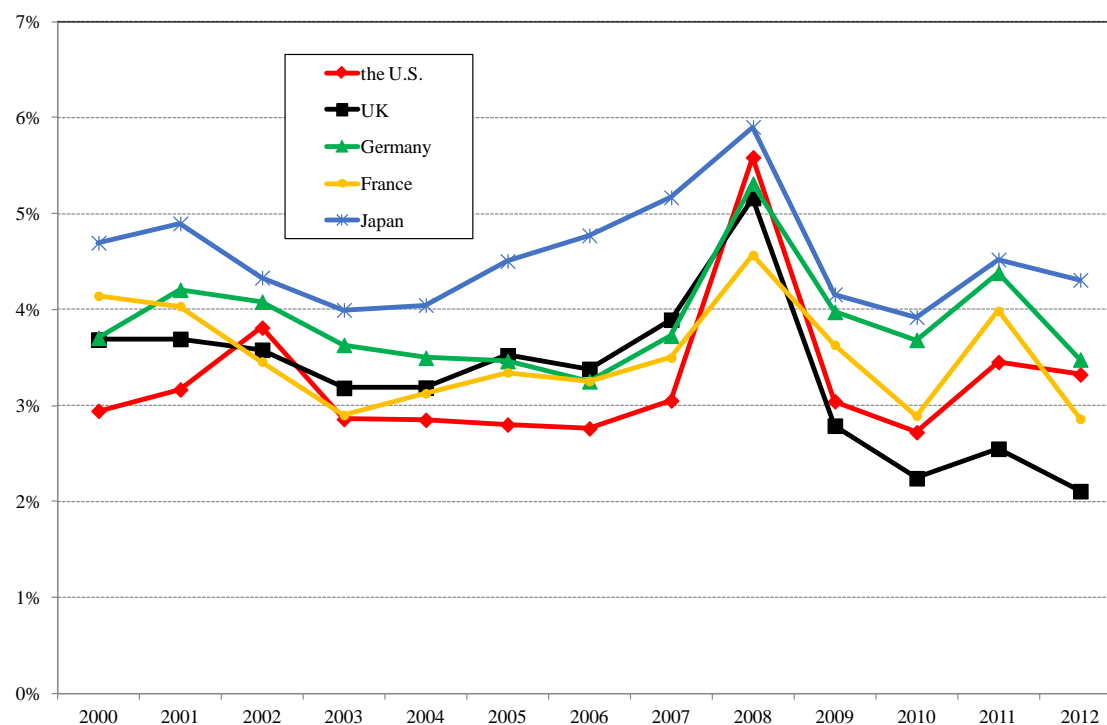
Source: BOP, IIP (IMF).

Figure I-2-5-8 Trends in balance of outward portfolio investment position by country



Source: BOP (IMF).

Figure I-2-5-9 Trends in rate of return on outward portfolio investment by country



Source: BOP (IMF).