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# The Structure of Japan's External Imbalance since the 1980s until the Collapse of the Bubble

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The aim of this article is to clarify the mechanism underlying Japan's external imbalance, i.e., the current account balance-of-payment surplus, which became conspicuous in the 1980s and expanded again with the bubble collapse occurred in Japan in the early 1990s. The saving-investment balance approach (=absorption approach) is used to analyze the causes that gave rise to the rapid expansion of the United States-Japan current account imbalance in the middle 1980s and its subsequent fluctuation, i.e., the contraction toward the end of 1980s and the recurrent upsurge after the beginning of 1990s. Based on macro-economic data, it is shown that U.S.-Japan current account imbalance was initially caused by the divergence of their fiscal policy stances in the 1980s and subsequently fluctuated with the time lag of domestic business cycle phases between the two nations.

Analyzing Japan's capital account balance-of-payment data, it is also concluded that the structural change on capital movement occurred in Japan since the beginning of 1990s, i.e., the decrease of net long term capital outflow and the increase of net short term capital outflow, is due to the weakening of the financial intermediary ability in Japan's financial instutions as a whole after the bubble crash, and is not at all contradictory to the saving-investment balance explanation for the expansion of external imbalance although it appears to be the contrary at first sight.