

# The Impact of the Japanese Yen on the Global Value Chain

Pengfei Dan<sup>1,\*</sup>, Yixuan Zhai<sup>2</sup>

<sup>1</sup> Chongqing No.1 Foreign Language School, Chongqing, China

<sup>2</sup> Zhengzhou No.7 Senior High School, Zhengzhou, China

\* Corresponding author: zhengfanmin@ldy.edu.rs

**Abstract.** The depreciation of the Japanese yen has had a huge impact both domestically and internationally, and the decrease in the number of tourists from various countries traveling to Japan is mainly due to the depreciation of the yen. The depreciation of the Japanese yen is one of the key research topics today, and scholars have extensively explored the depreciation of the yen from different perspectives. However, there is a research gap on the impact of yen depreciation on the global economic chain. Therefore, this study will explore the effect of yen depreciation on the construction of global value chains based on the following three aspects. Firstly, this article will explore the basic situation of the Japanese yen. Secondly, this article will explore the reasons for the depreciation of the Japanese yen from two perspectives: domestic and international. Thirdly, this article will explore the impact of the depreciation of the Japanese yen from two perspectives: domestic and international. Research has found that the depreciation of the Japanese yen is unreasonable and cannot fundamentally save the Japanese economy. The current global economic downturn has not yet shaken off the predicament. In a situation where the economies of various countries are still very fragile if the yen continues to depreciate significantly, it may trigger another financial crisis.

**Keywords:** Yen depreciation, supply chain, value chain, global.

## 1. Introduction

With the continuous depreciation of the Japanese yen in recent years, the yen's exchange rate has once again reached another new low. The Japanese exchange rate has fluctuated greatly in recent years. In 2024, the Japanese yen exchange rate fell to 161.83 yen per US dollar, reaching its lowest since 1986. In May 2024, according to survey data from the Japan Tourism Organization (JNTO), the number of tourists visiting Japan reached 3.0429 million, exceeding 3 million for three consecutive months. Of course, the attractiveness of Japanese assets has increased, while the attractiveness of other Asian assets has relatively weakened. Currently, real estate investment in Japan is slowly gaining momentum. In the long run, the export advantage of products has significantly increased after the significant depreciation of the Japanese yen. This is a positive phenomenon for the development of Japan's manufacturing industry. Suppose the yen exchange rate continues to depreciate for several years. In that case, the price advantage of Japan's manufacturing exports will gradually become apparent and may even impact the export of some domestic products [1]. However, the depreciation of the Japanese yen will also harm the Japanese economy. For example, on July 16th, the IMF released its World Economic Outlook report, which predicted that Japan's economy would grow by 0.7% in 2024, a 0.2 percentage point decrease from previous expectations. The Japanese government has also lowered its economic growth forecast for 2024. On July 19th, the Cabinet Office announced that the expected growth rate of Gross Domestic Product (GDP) for 2024 is 0.9%, a decrease of 0.4% compared to the expected growth rate of 1.3% announced in January. Once the United States lowers interest rates, the situation will reverse and still have many negative impacts on the long-term development of the Japanese economy. The Fed's interest rate hike has had a huge impact on the Japanese exchange rate, and whether the yen can break free from its predicament and achieve rapid development remains an unknown variable [2]. At present, academic discussions and research on the depreciation of the Japanese yen mainly focus on the impact of exchange rates on the Japanese economy, while little attention is paid to the impact of exchange rates on the world economic chain. The exploration of the impact of yen depreciation on the global value chain is of great significance

for both Japan's economic development and the economic development of Asia and even the world. Firstly, this article will explore the basic situation of the Japanese yen. Secondly, this article will explore the reasons for the depreciation of the Japanese yen from two perspectives: domestic and international. Thirdly, this article will explore the impact of the depreciation of the Japanese yen from two perspectives: domestic and international.

## 2. Analysis of the Fundamental Situation of the Japanese Yen

### 2.1. Economic Growth Status

In recent years, Japan's economic situation has faced a series of challenges and shocks, showing an overall recovery trend. However, this phenomenon indicates that the volatility of the Japanese yen is volatile. At the same time, as a link between the economies and trade of various countries, exchange rates not only reflect a country's economic level but also reflect that exchange rates are the economic carrier of a country. The exchange rate not only affects the balance of a country's current account, capital account, and financial account, but also affects the debt situation between countries, domestic price levels, and foreign trade activities with other countries. Under the interaction of these factors, there is still uncertainty in the future trend of exchange rates [3]. According to the data from the Japanese Cabinet Office for 2024, the actual growth rate of the Japanese yen exchange rate is 0.9%, which is a decrease from 1.03% at the beginning of the year. However, with the marginal recovery of the economy in the second quarter, the economic outlook of the service and manufacturing industries has improved, and the improvement in machinery orders and export data also shows a certain potential for an economic downturn.

### 2.2. The Japanese Yen Exchange Rate Has Fallen to a Historical Low Since 1986

**Table 1.** Periodic Changes in the Real Effective Exchange Rate of the Japanese Yen [4]

| stage        | date                         |                              | numerical value |                  | change           |                       |
|--------------|------------------------------|------------------------------|-----------------|------------------|------------------|-----------------------|
|              | Starting date                | End Date                     | The peak        | The lowest point | Within the cycle | Historical high point |
| first round  | April 1995 August 1998       | April 1995 August 1998       | 143.17          | 89.84            | -37.25%          | -37.25%               |
| Second round | September 2000 February 2002 | September 2000 February 2002 | 120.70          | 95.52            | -21.03%          | -33.42                |
| Third round  | October 2003 July 2007       | October 2003 July 2007       | 100.17          | 74.03            | -26.10%          | -48.29%               |
| Fourth round | January 2012 December 2014   | January 2012 December 2014   | 108.14          | 71.37            | -34.00%          | -50.15%               |
| Fifth round  | May 2020 July 2022           | May 2020 July 2022           | 82.48           | 60.04            | -24.16%          | -58.06%               |

On April 13th Beijing time, the exchange rate of the Japanese yen against the Chinese yuan also hit a multi-year low, with a rate of only 21.1782-yuan, equivalent to 100 yen to 4.72 yuan. It should be noted that the long-term weakening trend of the yen since the collapse of Japan's "foam economy" in the early 1990s has been further worsened by the current downward trend of the real effective exchange rate of the yen. Despite five downward cycles from 1995 to 1998, 2000 to 2002, 2003 to 2007, 2012 to 2014, and 2020 to present, the real effective exchange rate index of the Japanese yen still reached its highest point in July 2022, as shown in table 1 [5].

## 3. Reasons for the Depreciation of the Japanese Yen

### 3.1. Indirect Impact of Monetary Policy

The policy of the Bank of Japan is one of the main factors affecting the depreciation of the yen. In March 2024, the Bank of Japan ended its negative interest rate policy and raised interest rates for the first time in 8 years, implementing a normalized monetary policy. What is even more surprising is that the recent sharp decline in the Japanese yen occurred against the backdrop of the Bank of Japan's

interest rate hike. The first-interest rate hike in 8 years has ended the long-standing negative interest rate policy, and the ultra-loose monetary policy has begun to normalize. According to economic laws, the Japanese yen will gradually appreciate to normal levels after the central bank raises interest rates, but the interest rate will still approach zero after the rate hike. On April 29th, the exchange rate of the US dollar against the Japanese yen briefly broke through the 1:160 mark, depreciating by nearly 14% compared to the beginning of the year [5]. On the other hand, the market's expectation of a US interest rate cut within the year has weakened, which has kept the US-Japan interest rate differential at a relatively high level, thus causing the Japanese yen exchange rate to continue to decline.

### **3.2. Foreign Exchange Direct Factors**

The supply and demand in the international foreign exchange market determine the trend of the Japanese yen exchange rate, with the most important being the level of interest rate differential between these two currencies. Since the Federal Reserve began its interest rate hike cycle in March 2022, the benchmark US dollar interest rate has reached a high level, but it still lacks effectiveness in achieving "inflation control", leading to the Federal Reserve's current hegemony and dominant position in the international monetary system. On May 1, 2024, the Federal Reserve announced at its monetary policy meeting that it would maintain the target range for the federal funds rate between 5.25% and 5.5% unchanged [6]. Former US Treasury Secretary Mnuchin recently stated in an interview with Bloomberg that the current strong performance of the US dollar, with its position as the world's reserve currency, will help alleviate the financing pressure caused by the huge fiscal deficit in the United States. Faced with the strong US dollar, since April this year, the exchange rates of Asian currencies such as the Japanese yen, Thai baht, and Indonesian rupiah have collectively plummeted amidst the strengthening of the US dollar, with the Japanese yen being the most noteworthy [7]. Associate Professor Shinhiko Higara from Waseda University School of Business in Japan said, "The biggest reason for the depreciation of the yen is not Japan, but the high interest rates in the United States. The main pressure for the depreciation of the Japanese yen comes from the Federal Reserve's high-interest rate policy and high inflation. The strong growth and rising hegemonic position of the US economy have also put considerable financial pressure on countries around the world, including Japan.

### **3.3. Impact of the Depreciation of the Japanese Yen on the Domestic Market**

It is undeniable that the depreciation of the Japanese yen has had a significant negative impact on Japan's domestic economy. The depreciation of the Japanese yen has led to the rapid development of the tourism industry in Japan. For the real estate industry, data released by the Japan Institute of Real Estate Economics on October 16, 2023, showed that thanks to the successive sales of high-priced houses in the center of Tokyo, the overall housing prices in the 23 wards of Tokyo have jumped to 157.2 million yen, exceeding 100 million yen for the first time since surveys began in 1973. Nevertheless, overseas investors still have their enthusiasm. A large number of tourists have chosen to travel to Japan due to the depreciation of the yen, which has injected a shot in the arm into the Japanese tourism industry. But for residents and businesses, the impact of the depreciation of the yen cannot be underestimated. The current situation of sluggish consumption is happening in Japan in large numbers. A man working in Tokyo said that although his salary has increased, the uncertainty about the future still makes him hesitate about consumption, after all, he needs to prepare for the future in advance. The quality of life of the Japanese people has also been affected by the depreciation of the yen. For example, the prices of imported food have risen. The prices of imported beef and pork at a supermarket in Wakaba Yasu District, Sendai City have both increased by 10% -20% compared to last year, and the price of pomelo has also increased by 30%. For enterprises, it has increased a significant amount of operational pressure. According to the survey data released by the Nihon Keizai Shimbun on the 17th, 63.9% of enterprises said that the continuous depreciation of the yen hurt their profits; 35% of companies reported that the continued depreciation of the yen has harmed sales. More than 30% of companies reported negative impacts on both profits and sales. Some medical companies

have stated that due to the use of a lot of imported materials, they have no choice but to accept price increases. Some real estate companies have stated that they are unable to transfer the high costs of imported materials and energy to prices, and their profits are declining. The adverse impact of the depreciation of the Japanese yen on enterprises can be seen from this [8].

### 3.4. The Impact of Yen Depreciation on Foreign Countries

The depreciation of the Japanese yen also has an impact on some Asian countries, which is reflected in multiple aspects. Since the beginning of 2022, some currencies of Asian countries have experienced depreciation one after another. For example, in South Korea and Thailand, the exchange rate of the US dollar to the Korean won rose from 1082 Korean won at the beginning of January to 1337.6 Korean won at the beginning of August. At the same time, the exchange rate of the US dollar to the Thai baht rose from 29.9 Thai baht to 36.7 Thai baht. Due to the depreciation of the Japanese yen, countries in Asia that have trade relations with Japan will also adjust some of their domestic policies. On the other hand, the Japanese yen itself is an important currency in the region. As Japan depreciates, domestic funds in Japan tend to flow to overseas markets for higher security and returns, and the pressure of capital outflows from Asian financial markets will increase [9]. It is worth noting that the huge interest rate differential between Japan and the United States is the "driving force" behind the depreciation of the yen. As of now, the overall pattern of a strong US dollar and a weak Japanese yen is difficult to change, but it is also unlikely to experience a significant decline [10].

## 4. Conclusion

This article analyzes the impact of the depreciation of the Japanese yen on the global supply chain and explores the fundamental analysis of the depreciation of the yen and the important reasons and effects behind its decline to a low point. To sum up, the depreciation of the yen is uncertain. Japan's foam economy experienced a long-term economic downturn after its collapse. Despite the government's attempts to formulate policies, the economy continues to be depressed. Secondly, the reasons for the deep depreciation of the Japanese yen exchange rate are diverse, with the most significant being the change in the interest rate differential between the Bank of Japan and the US dollar/yen. The Bank of Japan's long-term manipulation and the contradiction between domestic interest rate pricing and international exchange rates have led to the current depreciation. This phenomenon will have multiple impacts on the Japanese economy, including the real estate industry, stimulating the tourism industry, cost-push inflation, and challenges to financial markets and global economic stability. Finally, the economic phenomenon of the violent depreciation of the Japanese yen indicates that developed countries still face challenges. Looking ahead, although Japan's long-term economic weakness has led to a decline in its economic status in the world even its advantage as a manufacturing powerhouse may be replaced by China and other countries. In summary, if Japan wants to achieve long-term stable development in the future, it needs to confront the underlying reasons behind the sharp decline in exchange rates and undergo a genuine economic structural transformation. By looking at the essence of the phenomenon, such economic issues can also become a reference for China's development and avoid economic risks.

## Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

## References

- [1] Liu Jingyin, Yan Hao, Li Yuan, et al. Research on economic issues reflected by the decline of the Japanese yen. *Business Development Economics*, 2023, (06): 166 - 168.
- [2] Chen Yitong. The depreciation of the Japanese yen has dragged down the Japanese economy. *Economic Daily*, 2024, 4.

- [3] Wu Danlu, Wang Qingxuan. How to view the instability of the Japanese yen exchange rate. Liberation Daily, 2024, (002).
- [4] Xu Kun. Reflections on the current vicious depreciation of the Japanese yen. Price Theory and Practice, 2022, (11): 64 - 68+210.
- [5] Wu Danlu, Wang Qingxuan. How to View the Instability of the Japanese Yen Exchange Rate. Liberation Daily, 2024, (002).
- [6] Ji Xiaoli. What is the impact of the "double-edged sword" of the Japanese yen exchange rate hitting a 34-year low? China Economic Herald, 2024, (004).
- [7] Han Xuemeng. The depreciation of the Japanese yen has led to a surge in interest among buyers investing in Japanese real estate. Financial Times, 2023, (008).
- [8] Pan Xiaoduo, Wang Xu. The depreciation of the Japanese yen puts pressure on consumers and businesses. Global Times, 2024, (011).
- [9] Zhang Weiwei. The underlying reasons and impacts of the depreciation of the Japanese yen. Chinese Finance, 2022, (19): 75 - 76.
- [10] JIang Feng, Ni Hao, Yan Ge. How big will the impact be if the Japanese yen suddenly changes its situation? Global Times, 2024, (007).