Japan plunges into recession

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The global implications of the Asian economic meltdown have begun to reveal themselves in Japan. The world's second largest economy, accounting for nearly one-fifth of the world's production, has officially entered recession, with output dropping for two quarters in a row.

After years of stagnation, since the Tokyo property and share markets crashed in the early 1990s, the disintegration of the Asian "tiger" economies is sending Japan into a deep slump, threatening a financial and banking collapse.

Figures released last week show that Japan's Gross Domestic Product fell by 0.7 percent in the October-December quarter of 1997, the second consecutive quarter of decline. Economists predict that the economy will shrink for a full fiscal year for the first time in 23 years. Even the government's Economic Planning Agency has been forced to admit the possibility.

The last time such a result occurred was 1974, a product of the world oil price shock. Today's slump is far more deeply rooted. It is bound up with the turn to Asia that Japanese companies began to undertake in the wake of the 1974-75 global recession, and the current breakdown of the Asian economies. Unlike 1974, the present crisis is combined with falling domestic prices. Economists in Japan and worldwide are warning of a deflationary spiral of falling prices, profit margins, incomes and investment.

Some of the indicators of Japan's emerging slump are staggering. Sales of imported automobiles fell 39.8 percent from February 1997 to February 1998. Total new vehicle sales in February dropped 22.4 percent, compelling each of the major domestic producers-Nissan, Honda, Toyota and Mazda-to cut their daily output by between 10 and 20 percent, often standing down entire work forces in the process.

Crude steel production-a key measure of industrial activity-is expected to decline by 14 percent in the April-June quarter, falling below 23 million metric tons for the first time since 1971. In January, retail sales fell 2.6 percent, household spending by salaried workers declined 5.9 percent and housing starts were down 16.3 percent, the thirteenth consecutive decline.

Over the past year, corporate bankruptcies rose 30 percent. Failed firms left one trillion yen ($7.75 billion) in debt in February alone. The pre-tax profits of major companies-excluding the even more troubled banks and stock brokerage houses-are projected to fall 2.2 percent this fiscal year. As a result, business sentiment has dropped to record lows and capital investment is expected to decline by 4.6 percent in 1998.

Many corporate economists-both Japanese and American-have expressed shock at how quickly the Japanese economy has contracted over the past six months. Japan is sliding into recession despite the lowest official interest rates in the industrialized world, 0.5 percent, and lower production costs caused by an 8.4 percent fall in import prices over the past year.

"The biggest concern now is deflation," said Russell Jones, chief economist for Asia at Lehman Brothers Japan Inc. "Prices are falling. Wages are falling. Profits are falling. They are classic symptoms of the deflationary spiral. The spiral is gathering momentum."

Jones warned that the impact of the Asian crisis would be protracted. "The pain has just begun in Asia. These economies will be very depressed for the next 12 months. Japan's pain is also just beginning. There's no prospect for any improvement in exports to Asia until 1999."

SRIC Corp., a think tank affiliated with Sanwa Bank, estimates that wholesale prices will fall 5.8 percent and consumer prices by 2.2 percent in fiscal 1998. This would exceed the deflation experienced in 1986-87, when the US forced up the value of the yen.

During the 1990s, successive Japanese governments have spent 75 trillion yen-about $580 billion at the present exchange rate-on economic stimulus packages that failed to spur on the economy. The ruling Liberal Democratic Party led by Prime Minister Ryutaro Hashimoto is about to announce yet another 10 trillion yen ($77.5 billion) package. However, capitalist commentators are predicting that it will fail just as miserably as the four previous packages released by the government in the five months since last October.

Hashimoto has attempted to boost his corporate cronies, backers and rural interests by devoting most of his packages to failed public works projects, such as unused farm roads and fishing ports, and measures to prop up the banks.

A widening crisis

The Asian meltdown has brought to a head a financial disaster that has been gathering pace since the early 1990s. In that time, the Nikkei stock index has tumbled from 39,000 to today's level of 16,000 to 17,000. Billions of dollars have been wiped off of land and stock prices.

Since the middle of last year the banks have begun to face even greater losses arising from bad debts and failed investments throughout the Asian region, where Japan has been the largest source of finance and investment over the past decade.

After years of cover-up, the Ministry of Finance has admitted that Japanese banks have bad debts of $600 billion-about 15 percent of GDP. This financial crisis has now begun to undermine the entire economy. The debt-ridden banks have imposed a credit crunch, making it impossible for small and medium-sized businesses to raise funds, despite the record low interest rates.

In its latest monthly economic report, the central bank, the Bank of Japan, has warned of severe economic and financial problems ahead.

"A conspicuous recovery in domestic final demand is hardly foreseeable for some time," it said. Instead "a further deterioration in domestic demand" was likely. "In addition, downside risks such as adjustments in other Asian economies and the financial developments in Japan should be carefully monitored."

Already, Japanese workers face worsening job and income insecurity, emerging mass unemployment and declining living standards. Many large companies have hesitated to implement mass retrenchments and abandon the system of lifetime employment, fearing social unrest in a country where social security benefits barely exist.

Nevertheless, the number of workers fired or laid off climbed 130,000 in January, compared to a year earlier, the fourth consecutive month of year-on-year increases. The number of unemployed rose by 160,000 to 2.38 million, an official seasonally-adjusted rate of 3.5 percent, a record high for January.

Japan's slump is, in turn, deepening the crisis throughout Asia. With a GDP that makes up 65 percent of the entire Asia-Pacific output, Japan's recession is having a severe impact. Trade figures already show a dramatic fall in Japanese imports from the region.

Japanese imports from Indonesia, China, Thailand, Malaysia and Taiwan each fell more than 15 percent in February. For the Association of South East Asian Nations (ASEAN) as a whole, exports to Japan slumped 21 percent. These shifts occurred despite lower prices brought by devalued currencies-because of falling consumption in Japan.

Simultaneously, Japanese companies have boosted exports to the US and Europe, aided by a fall in the yen's value over the past two years. Exports to these centers rose sharply in February, while imports from them fell, resulting in dramatic increases in Japan's trade surplus.

In the case of the US, Japan's exports rose 7.2 percent in February, while imports fell 7 percent, leaving a Japanese trade surplus of 539 billion yen, up 33 percent from the corresponding period last year. Exports to Europe soared 19 percent, but imports fell 8.5 percent, resulting in a Japanese trade surplus of 365 billion yen, up 84.5 percent.

In total, Japan's trade surplus rose 88 percent in February. Its foreign currency reserves increased by $1.61 billion, to $223.14 billion-the fifty-second consecutive month that Tokyo has held the largest reserves in the world.

In retaliation, both Washington and the European powers are stepping up an already aggressive campaign against Japan, demanding that the Hashimoto government reduce the trade gap, break open Japanese markets, and slash corporate and personal taxes with the aim of fueling domestic spending on Asian and other imports.