Controversy in Japan over record corporate bailout

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The announcement earlier this month of a bailout of the Japanese department store operator Sogo Co Ltd has provoked such a storm of opposition that the Mori government is now considering an about turn on the deal.

The proposed bailout of Sogo, which operates more than 30 department stores around the country, involves the government's Deposit Insurance Corp taking over around 200 billion yen ($1.90 billion) of loans held by the Shinsei Bank. The Shinsei Bank emerged from the now defunct Long Term Credit Bank of Japan, which was sold in March to US investment group, Ripplewood Holdings.

Half of the loans held by Shinsei will be covered by their loan-loss reserves, which will then leave the government and taxpayers with a potential loss of around 100 billion yen (almost $1 billion) if the company folds.

Many analysts are predicting this is the likely outcome. According to Minoru Nakano, an economic researcher with the Teikoku Data Bank: “The chances are very low that Sogo will succeed in rehabilitating itself. Even after the debt forgiveness, it will still have excess liabilities.”

The bailout is Japan's biggest ever of a non-financial corporation. It is also dependent on 72 other creditor banks writing off 631.9 billion yen in loans to Sogo.

The deal has drawn widespread criticism and opposition. A number of analysts believe that if the bailout goes ahead it will set a precedent and open the floodgates for other troubled companies to seek similar government assistance. Among those considered candidates are general contracting companies Kumagai Gumi Co Ltd and Hazama Corp, which are also said to be troubled borrowers on Shinsei's loan portfolio.

Sogo's group debt stands at 1.7 trillion yen. Last month it reported that its liabilities exceeded its assets by 580 billion yen.

Warning of the possibility of other companies seeking state-sponsored bailouts, Konoshin Taira, senior researcher at Tokyo Shoko Research, said: “There are more troubled companies out there which may become the next Sogo. This is the kind of company that should not be allowed to survive artificially.”

The bailout has also drawn criticism from the money markets and international investors, which have been demanding the restructuring of the Japanese economy and the reduction of the public debt. These concerns are reflected in the comments of Standard and Poors director of Asian sovereign ratings, Takahira Ogawa.

“If the Sogo case turns out to be only a special circumstance,” he said, “then the impact on Japan's public debt would be marginal. However, if the Japanese government fails to deal appropriately with this situation and begins to transfer more funds to failing non-bank companies, then that could risk the quality of Japan's sovereign debt as a whole.”

Rising public opposition to the deal led to demands from opposition parties that the Sogo issue be debated in a special three-day session of parliament this week. The Democratic Party, the Liberal Party, the Communist Party and the Social Democratic Party have demanded that the bribery scandal involving former Construction minister Eichi Nakao also be placed on the agenda. Nakao was arrested last week on suspicion of accepting 30 million yen in bribes from a Tokyo construction firm in exchange for helping it to win public works building contracts.

Denouncing the proposed bailout, Democratic Party chief Yukio Hatoyama said it was “totally unacceptable for the government to use public money to rescue a

private company like Sogo." Last week the party's secretary general told a news conference: "Unless the government cleans up this situation, it will become an international joke. We will lose the world's trust."

According to opinion polls more than 50 percent of the population oppose the bailout deal. In an endeavour to deflect criticism, the Mori government and Sogo management have raised the possibility of calling on former Sogo Chairman Hiroo Mizushima to provide his personal assets and share holdings in the Sogo group to help cover its debts, along with a commitment from management to restructure the company.

The main reason for the collapse of the Sogo group appears to have been an aggressive program of expansion during the period of the "financial bubble" at the end of the 1980s.

Since the collapse of the bubble, the Japanese economy has stagnated with consumer spending declining every month. Increasing unemployment and cuts in the pay have had a significant impact.

Figures published in May by the Japanese Management and Co-ordination showed a record annual decline in salaried workers' disposable income of more than 2 percent over the past year.

In May, retail sales declined for the 37th consecutive month and the unemployment rate is at a post-war high of 4.9 percent, with predictions it will rise further due to corporate restructuring and a decline in public spending.