Japan gets credit downgrade as recession tendencies grow

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Two major announcements within the space of a week point to the deepening problems of the Japanese economy.

Last Friday the international credit-rating agency Standard and Poor's announced it was downgrading Japan's AAA sovereign debt rating.

Then on Wednesday, in response to falling production figures and a sharp decline on the stock market, the Bank of Japan (BOJ) announced it was cutting the overnight call rate to 0.15 percent. The BOJ statement made clear that in its view Japan was heading for recession.

"The pace of ongoing economic recovery in Japan has been slowing further against the background of deceleration of overseas growth and decline in domestic stock prices," it said. "Uncertainty over economic prospects has also increased. At the same time, prices have been displaying weak developments, and there is renewed concern that downward pressure on prices stemming from weak demand might intensify."

The Standard and Poor's decision amounted to a vote of no confidence in the Japanese government to undertake the policies demanded by international capital. In a statement accompanying the decision, the agency said it reflected the government's diminished fiscal flexibility, rising debt levels and its "protracted approach to structural reform."

"The Government of Japan's diminished fiscal flexibility will likely persist because of political reluctance to address rigidities in the economy more effectively. While the nation will be able to restructure its economy, as the US and UK have done in recent decades, a heavy and rising public sector debt burden will make the adjustment process more difficult."

Standard and Poor's warned that it expected Japan's government debt to soar from its current position of 134 percent of GDP to 165 percent in five years. The government debt level is already the highest of any major industrialised nation.

Every Japanese economic indicator is pointing towards a recession. On Wednesday, the Tokyo stock market's Nikkei 225 index fell to 12,784.17, its lowest level since December 1985, before recovering slightly. The Nikkei has lost 38 percent of its value in just 10 months.

Analyst Garry Evans of HSBC Securities commented: "It's a very bleak number. The risk of Japan going back into outright recession is a very real risk."

Japan's gross domestic product for the third quarter of 2000 contracted by 0.6 percent and it is widely believed that the figures for the fourth quarter, due for release later this month, will show a further contraction.

In an indication of the impact of the slowing world economy, Japan posted its first trade deficit for four years in January. Overall exports fell 5.1 percent in January with exports to the US down by 12.1 percent.

January also saw the bankruptcy of 1,358 companies with record liabilities of 969 billion yen ($8.2 billion). While the number of companies that folded actually decreased by 5.8 percent from the previous month, their debts rose a massive 60.6 percent to a post-war record high.

Further job cuts

The increased bankruptcy rate means further unemployment for Japanese workers. But it is welcomed by the international finance. "The higher level of bankruptcies in January," the *Financial Times* noted, "may indicate that reform and restructuring of unhealthy Japanese companies is starting to take root."

The paper reported that next month the Japanese government will introduce tough measures to encourage banks to deal with their bad debt problems, which are estimated at around 34,000 billion yen or $291 billion. This is one of the demands being made by international capital for the “restructuring” of the Japanese financial and corporate sectors.

Announcing the new plan, Finance Minister Kiichi Miyazawa said the banks had to “put an ogre in their hearts and get rid of long standing practices.” Among those practices is the policy pursued by the major banks of sustaining indebted corporations instead of sending them to the wall.

The institution of harsher banking policies will add to the recessionary forces already at work in the Japanese economy. Industrial production recorded its biggest decline in more than six years in January. Factory production fell 3.9 percent as domestic consumption remained stagnant and exports declined.

Particularly hit were the auto industry and computer chip production. The Ministry of Economy, Trade and Industry also raised concerns about swelling inventories among electronic makers. Stockpiles of electrical machinery rose for 10 straight months to December 2000. Overall inventories in January rose 0.6 percent from December up 2 percent from a year earlier.

In a recent report on the Japanese economy, the Bloomberg news agency commented: “If demand keeps withering, that raises the chance manufacturers will cut production even more to clear their warehouses.”

This process has already begun. In the auto industry Mitsubishi, following a restructuring plan engineered by its largest shareholder Daimler Chrysler, has announced thousands of layoffs and retrenchments.

Mitsubishi announced earlier this week that it would cut 9,500 jobs or 14 percent of its workforce across Japan and close its major plant, the Oe factory, in Nagoya. Mitsubishi is set to cut its production capacity by at least 20 percent from 1.3 million vehicles to 1 million.

Mazda Motor Corporation has also announced major job cuts. It is looking at cutting 1,800 jobs from its 10,000 strong clerical and sales staff through offering early retirement packages for staff aged 30 and over.

In the computer industry, Sega Corporation is seeking to stop production of its Dreamcast game console and is seeking to axe 300 jobs.

In the retail sector, the FamilyMart Co, Japan's third largest convenience store chain operator, is planning to close 500 of its unprofitable shops across the country. While no job loss figures have been announced, the total will run into the hundreds.