Japan adopts restructuring plan amid signs of recession

Joe Lopez
3 July 2001

Amid further signs of slowdown in the Japanese economy, the government of Prime Minister Junichiro Koizumi last week officially adopted a far-reaching economic restructuring plan which will make deep inroads into the living standards of working people. The decision was made on the eve of Koizumi's first visit to the US where the Bush administration has been pressing for Japan to push ahead with market reforms.

The restructuring plan calls for the elimination of bad debt from the banking sector within two to three years, a major program of privatisation of public enterprises, an overhaul of the country's social security and taxation systems, and large cuts to public spending. The Koizumi administration is particularly seeking to cut subsidies to local governments, public works programs and medical costs for the elderly.

One of the plan's main architects was Finance Minister Masajuro Shiokawa, one of Koizumi's most trusted advisers. In a recent interview he commented: "Our agenda can be compared to what Margaret Thatcher did in the 1980s in Britain. People say she cured the British disease. I hope to cure Japan's sickness."

Details of the measures have yet to be released. Within the ruling Liberal Democratic Party (LDP), there are concerns about a voter backlash if specific proposals are announced prior to the upper house elections on July 29.

Economic and Fiscal Policy Minister Heizo Takenaka has warned, however, that the plan would slash Japan's economic growth to between zero and one percent for at least the next two to three years. He predicted that between 100,000 to 200,000 people would lose their jobs as banks focus on cleaning up their books and clearing bad debts.

According to other sources, these figures are a gross underestimate. Recent research carried out by the Nippon Life Insurance and Dai-Ichi Mutual life insurance companies predicted that as many as 1.1 million people could be thrown out of work if the banking sector is forced to write off the worst 13 trillion yen ($US109 billion) in bad debts.

While Koizumi's plans have generally drawn praise, some economic analysts have warned of the potential for a severe recession in the world's second largest economy.

The *Financial Times* commented in early June: "It seems a terrible time to attempt a Thatcherite revolution in Japan. While the outside world has applauded the political upheaval in Tokyo, Japan's economy is slipping towards recession... Mr. Koizumi has attempted to prepare the electorate by warning sporadically of looming 'pain'. But it remains unclear whether the government fully grasps the potential scale of any downturn."

Statistics released last week pointed to a further deterioration of the Japanese economy.

* Unemployment rose in May back to the historic high of 4.9 percent recorded at the beginning of the year. Industrial production slumped in May for the third successive month—by 3.9 percent year on year, and by 1.2 percent on a monthly basis. Inventories rose 5.9 percent year on year and 0.8 percent as compared to the previous month.

* Figures on corporate bankruptcies released by the research institute Teikoku Databank showed a rise for the second consecutive month—up in May to 1,724 for firms with debts of more than 10 million yen. The figure was the largest since the beginning of the year and the fourth largest since the end of World War II.

* Japan's trade surplus for May plunged by 86 percent as compared to last year mainly due to slowing global demand for Japanese exports. In the key US and Asian markets, exports fell by 3.6 percent from the previous quarter. Exports fell by 10 percent in volume terms on a year on year basis, despite a relatively weak currency that made Japan's exports more competitive.

The *Australian Financial Review* commented that the

© World Socialist Web Site

fall was “far worse than the most pessimistic forecasts and it appears inevitable that the Japanese government will revise its growth outlook for this financial year from 1.7 percent to zero.” The trade figure came just over a week after Japan announced a 0.2 percent economic contraction for the March quarter.

Jeffrey Young, an economist at Nikko Salomon Smith Barney, commented: “This presents a challenge for the new government because it’s promising structural reform that won’t do a lot to resuscitate the economy in the near term. In fact, they’re trying to prepare people for even worse, but it’s hard to see how they can stick to a program of fiscal consolidation and banking reform if the economy is already contracting.”

Yesterday, the Bank of Japan’s “Tankan” survey of business sentiment fell to an index level of negative 16 from negative five in the previous quarter. Though marginally better than expected, the Tankan result is a further indication of economic contraction. Thomson IFR analyst George Worthington commented that “recession looks increasingly likely to turn into depression.” He said that Japan was now in its fourth recession in a decade, “a shocking record that no other major economy has come even close to touching.”

Falling growth and exports in Japan are fueling trade tensions, particularly with China. Japanese producers are demanding greater tariff protection for the weakest and most regulated sectors of the economy, such as agriculture and textiles. In late April, prior to Koizumi’s inauguration, the LDP government raised tariffs on the import of leeks, shiitake mushrooms, spring onions and straw for tatami mats.

The Chinese government retaliated by imposing 100 percent tariffs on the import of automobiles, mobile phones and air conditioners from Japan. China, which is seeking membership to the World Trade Organisation, has stated that Japan’s actions contravene WTO rules because the tariffs selectively penalise products mainly imported from China.

Talks between trade officials of the two countries are due this week but there appears to be little sign of a resolution. Japanese Trade Minister Takeo Hiranuma warned that Tokyo would not back down insisting that the Japanese tariffs were within WTO rules. “China is about to join the WTO and Japan supported that. If it is joining the WTO it should follow WTO rules,” he said.

Trade between China and Japan has risen rapidly to reach $85.73 billion last year and, according to the Japan External Trade Organisation, is expected to go over $100 billion this year. Japan last year had a huge deficit of nearly $25 billion with China. In part the rise of Chinese exports to Japan is fueled by growing Japanese investment in China. As *BusinessWeek* commented: “The irony of the trade flap is that most cheap ‘Chinese’ goods flooding Japan are made by Japanese companies.”

While the government is maintaining the tariffs against China to appease rural voters in the leadup to upper house elections, sections of big business are warning of the dangers of such measures. “Any move to block free trade will end up hurting Japan,” commented Honda CEO Hiroyuki Yoshino.

A recent article in the *Yomiuri Shimbun* entitled “Is our economic power fading” argued that economic restructuring was what was required to maintain Japan’s economic position. “The current gradual decline of Japan’s trade surplus portends the fall of the nation, which does not want true reforms, from the status of an economic superpower to that of a fifth rate economic has-been.”

Citing a survey late last year of 25 major cities in Asia, it blamed labour and infrastructure costs in Japan. “Overall labour cost of local employees in Singapore was one sixth of the cost of Japan, salary of engineers was one-third, land prices in industrial complexes were half, electricity costs were also half and basic telephone charges were one third. In China, labour costs and land prices were even lower—one sixth to one tenth of those in Singapore.”

Speaking on behalf of big business, the article gave tentative support for the government’s restructuring plans, calling on its readers to “keep a strict eye on the Koizumi administration”. As the figures indicate, any attempt to implement the so-called reforms and make Japan competitive will have a devastating impact on the living standards of the Japanese working class.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site