

Japan's fragile economic recovery

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For the first time in 13 years, the Japanese economy has exhibited strong signs of economic growth. According to official government estimates released last month, the gross domestic product (GDP) increased by 1.7 percent for the last quarter of 2003, or an annualised rate of 7 percent. The figure was revised this week to 6.4 percent but is still the highest since the April-June quarter in 1990—just prior to the spectacular collapse of the country's speculative economic bubble.

Japan's better than expected result is not, however, an indication of any inherent economic strength. Rather it reflects a substantial growth in exports to neighbouring China, which is in turn heavily dependent on exports to the US. In 2003, Japanese exports to China rose by a record 44 percent to reach \$60 billion and were especially strong in steel, heavy machinery, mobile phones and automobiles.

China has now become Japan's biggest export market, replacing the US. Last year Japan-China trade accounted for more than a third of the 2.7 percent expansion in Japan's real GDP. Indicating the strength of export sector as a whole, data released on Wednesday showed that Japan's current account surplus had increased by 135 percent in January—the seventh straight monthly rise.

Economy Minister Heizo Takenaka told a parliamentary committee this week: "The economy is recovering steadily." Economic analysts have also pointed to a rise in consumer and business spending and a decreasing dependence on government stimulus packages as positive signs. Others, however, have warned about the fragility of the recovery, due to its heavy dependence on exports.

Jesper Koll, chief economist for Merrill Lynch in Japan, told the *New York Times*: "We reckon that 80 percent of the growth in exports in the last 12 months is due to Chinese demand. There is absolutely no question that here in Japan, all eyes are on China. If China slows

down, Japan will crash."

Cited in the *Australian Financial Review*, Morgan Stanley economist Takehiro Sato pointed out that the real danger to Japan was not so much China, but the US economy. "We think that the bulk of export growth to China and Hong Kong since 2001 is ultimately tied to the US market, other than a few exceptions such as steel materials.... If China catches cold, Japan will only catch a sniffle.... [I]f final demand in the US loses steam, the Japanese economy must be ready for another bout of pneumonia."

A recent *Businessweek* article headlined "Japan's Joyride on China's Coat Tails" highlighted more long-term problems. "China certainly seems destined to overtake Japan in economic output sometime in the next 10 years, and many of its companies may well knock their Japanese competitors from their thrones. And Japan's recovery is far from assured: It's still the land of sick banks, lousy productivity, and the highest government debt burden among the Group of Seven industrialised nations."

A comment in yesterday's *Australian Financial Review* entitled "Japan running on two cylinders" made similar points. Japan's gross public sector debt amounts to 160 percent of GDP as compared to 80 percent for the US and an average of 24 percent for developed nations. The article also pointed to low productivity in retail, construction, agriculture and transport. "Japan's cruising speed will steadily and inevitably slow," it concluded, unless these problems are fixed.

More immediately, any rise in the Japanese yen could cut into exports and thus economic growth. The Japanese government is spending heavily to prevent the yen from strengthening against the US dollar. Last year it intervened in the currency markets to buy \$172 billion worth of foreign currency to keep Japanese exports competitive. In January alone, it purchased

another \$67 billion.

According to the *New York Times*, Japanese investors accounted for about half of the purchases of US Treasury Bonds in 2003—four times the amount of the previous year. Despite these massive currency interventions, the yen remains at 105 to the US dollar—a three-and-a-half-year high. Moreover, Tokyo is under growing pressure from Washington to stop its currency interventions and to allow the yen to further strengthen against the dollar.

The “recovery” has provided no benefits for the Japanese workers. The official unemployment rate rose 0.1 percent to 5 percent last month. The jobless rate for men rose 0.2 percent from the previous month to 5.2 percent. Worst hit was the manufacturing sector, which has been described as the main engine of recovery.

Domestic consumer spending, which represents up to 60 percent of Japan’s GDP, rose minimally by 0.8 percent in the October-December quarter, reflecting the concerns of working people over unemployment, falling wages, increased medical costs and pension plans. Wages fell by 0.2 percent compared to the October-December quarter of 2002.

An article on the *Asia Times* web site entitled “Light at the end of Japan’s economic tunnel?” pointed to falling incomes and savings: “Once high rates of personal savings have almost collapsed. Household saving rates, once over 10 percent of income, have fallen to less than 3 or 4 percent, and perhaps into negative figures, with people drawing on savings to live.”

As of last December, workers covered by government health insurance now face increased contributions to medical costs of 30 percent, up from 15 percent. The rise has led to a decline in the number of people covered, which fell by 1.6 percent in December, the biggest drop since August. The fall is another indication of the deepening social crisis confronting broad layers of the population.

These inroads into health care, jobs and living standards demonstrate that any economic growth that does occur will not benefit working people. Rather, it will be at their expense as the government and corporations press ahead with restructuring plans in order to try to boost productivity and economic competitiveness.



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