Economic slump deepens in Japan as exports collapse

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The collapse of Japanese exports last month underscores how rapidly economic recession is turning into a full-blown depression—and not just in Japan.

The Japanese trade figures for January, released yesterday, registered a 45.7 percent fall in exports year-on-year and a 31.7 percent drop in imports—the largest declines since 1957. The plunge in exports was the fourth monthly decline in a row and followed a fall of 35 percent in December.

Japan also recorded a trade deficit of 952.6 billion yen ($US9.9 billion)—the worst since records began in 1979. The trade statistics come on top of growth figures released last week, which showed that the Japanese economy shrank by 12.7 percent on an annualised basis in the December quarter.

The trade figures provoked alarm in the international financial press. In a comment entitled "Depression in the east points the way for the rest of the world," *Guardian* economics editor Larry Elliott said that while Japan had been in and out of recession over the past two decades, "make no mistake, this drop in exports does not mean recession: it means depression".

The London-based *Times* concluded that Japan had become the "canary in the mine", a highly sensitive barometer of the global recession, adding that "the January figures showed that the crisis has dramatically extended its geographic reach".

The Japanese economy is heavily dependent on exports, not only of sophisticated consumer goods to the US and Europe, but also of capital goods, machine tools and hi-tech materials to Asia, particularly China. The economic slump in the US and Europe has rebounded directly on Japanese exports of cars and electronic goods, and indirectly through the collapse in demand for cheap consumer goods from China and other Asian countries.

Japan's exports to the US fell nearly 53 percent in January, year on year, and to the European Union (EU) by 47 percent. The plunge in car exports, which account for about a fifth of total exports, was the most spectacular. Overall auto shipments crashed by 69 percent with exports to the US down by 81 percent and to Europe by almost 70 percent. Demand for electronics and other consumer goods also slumped.

When the international financial crisis erupted in the US last year, Japan was regarded as well placed to weather the storm. However, as the turmoil began to affect consumer spending in the US and Europe, the export-dependent economies of Asia have been badly hit. In Japan, job losses and unemployment are mounting, along with corporate failures. On Monday, SFCG, a lender to small firms, filed for bankruptcy in what was the largest of 10 listed company collapses so far this year.

Japan's financial and banking system, previously thought to be largely immune to the global financial instability, has been undermined by falling share prices. The Nikkei share index is down by nearly a fifth since the beginning of the year. As a result the major Japanese banks, which are permitted to include share holdings in their capital base, are in an increasingly shaky position. The government is contemplating a plan to spend 25 trillion yen of public money to prop up the Tokyo share market.

Significantly, Japan's exports to Asia shrank by 47 percent. Japanese manufacturers have increasingly used Asian countries as cheap labour assembly platforms for the world market. But as global demand has shrunk for their products, exports from Japan to these countries have also fallen. This was reflected in Japan's export figures, including a 53 percent fall for semi-conductors and a 52 percent drop for car parts.

The plummetting Japanese trade figures are a sign of shrinking exports, declining manufacturing and recession across the region.

The latest economic data from **Taiwan** showed that the economy shrank by 8.36 percent, year on year, in the last quarter of 2008. The contraction was the second in a row, indicating that Taiwan is also formally in recession. The most recent trade statistics showed a 44 percent plunge in exports, year on year. Officials have revised their 2009 forecast from growth of more than 2 percent to a contraction of nearly 3 percent, with exports expected to fall by one fifth.

Figures released in **Thailand** on Monday recorded a 4.3 percent economic contraction, year on year, or 6.1 percent seasonally adjusted, in the December quarter of 2008. The country's National Economic and Social Development Board downgraded its growth forecast for 2009 from a 3-4 percent range to between zero and negative 1 percent. Last week the government announced that exports had dropped in January by 25.6 percent, year on year, led by electronics, electrical consumer goods, vehicles and plastic products.

In **South Korea**, exports fell by 32.8 percent in January, year on year, and factory output plunged by an unprecedented 18.6 percent in December. The economy is in recession and the finance minister is predicting a contraction of 2 percent for 2009. Last month, Samsung Electronics, the world's largest maker of memory chips, liquid-crystal displays and televisions, reported its first-ever quarterly loss. Overall, 103,000 jobs were destroyed in January—the highest monthly toll in five years.

Singapore is already in recession, having recorded two successive quarters of negative growth. Government officials have predicted a contraction this year of between 2-5 percent, its worst since 2001, when the economy contracted 2.4 percent. Non-oil exports shrank by 35 percent in January, year on year, the worst result since records began 30 years ago.

In **Malaysia**, analysts are forecasting a sharp reversal in economic growth. In the second quarter of 2008, the growth figure was 6.7 percent. Now forecasts point to only marginally positive growth for the December quarter of 2008 and a contraction of 0.5 percent or worse for 2009 as a whole. The latest monthly trade figures showed a 15 percent decline in exports.

In the case of **Hong Kong**, a Bloomberg survey of eight economists estimated that the economy shrank by a seasonally adjusted 2.1 percent in the final quarter of 2008. This followed negative growth of 0.5 percent in the third quarter. The latest trade figures show a decline of 11 percent in exports. Hong Kong has also been hit by the global financial turmoil, which has sent shares plunging by more than 50 percent since their high point last year.

Not all economies are experiencing negative growth—**Indonesia** and the **Philippines** grew by about 4 percent in the December quarter. While its economy is slowing from more than 7 percent, **India** is still predicted to grow by 5.5 percent this year. But the exceptions only prove the rule. All three economies have significant domestic markets and are less affected by falling exports.

All eyes are on **China**, which has functioned as a key economic motor for the region over the past decade. Raw materials and parts have increasingly been drawn into the world's preeminent cheap labour platform from across the Asia-Pacific region. Now, however, China's exports and growth rates are falling sharply—from 13 percent in 2007 to 9 percent last year. The figure for the final quarter for 2008 was just 6.8 percent, on an annualised basis, and predictions for 2009 are even lower.

In the case of Japan, the export of capital goods and hi-tech components to China has been a major source of growth since 2000. In another sign of the slowing Chinese economy, Japan's trade deficit with China shot up by 61 percent to 562.7 billion yen last month.

The rapid economic decline across the region has led the International Labour Organisation (ILO) to revise its estimated jobless figures. The ILO predicted that the number of unemployed would rise by as much as 23.3 million in 2009—three times higher than the 7.2 million forecast just one month before. Sachiko Yamamoto, ILO regional director, told a gathering of government, business and union leaders in Manila this month: "Asia-Pacific is not the epicentre of the current crisis. However, the speed and magnitude of the downturn has been astounding in this region."

The political implications are already giving rise to instability, not least in Japan where Prime Minister Taro Aso's approval rating has slipped below 10 percent and the ruling Liberal Democratic Party faces electoral defeat this year. The *Financial Times* sounded a warning in its Lex Column today about the region-wide consequences. "The last time financial crisis collided with political dissatisfaction was more than a decade ago. Then, economic pain morphed into mass protests. The odds of social unrest staging a reappearance no longer look so remote."