Japan's economy suffers record contraction

Peter Symonds
22 May 2009

The Japanese economy shrank by 4 percent in the first quarter of 2009 or an annualised rate of 15.2 percent, according to government data released this week. The plunge in Gross Domestic Product (GDP) was the worst since records began in 1955 and the largest of any major industrialised country.

Virtually every sector was sharply down. Exports fell by 26 percent compared to the previous quarter. Household consumption was down by 1.1 percent—larger than the 0.8 percent decline in the fourth quarter of 2008. Corporate capital spending shrank by 10.4 percent—worse than the 6.7 percent drop in fourth quarter.

The 4 percent contraction was more than double the shrinkage of 1.6 percent in the United States and higher than the 2.5 percent decline in the euro zone. The latest result in Japan follows bleak figures for the fourth quarter of 2008, which were revised downward to minus 3.8 percent or an annualised 14.4 percent decline.

While the global economic turmoil did not begin in Japan, the country has been badly hit by the worldwide fall in demand that has devastated its crucial export sector. Significantly, Germany, the other major economy dependent on manufacturing exports, suffered a first quarter contraction of 3.8 percent or 14.4 percent annualised. Other Asian export-oriented economies have suffered, with Taiwan reporting an annualised first quarter decline of 10.2 percent and Singapore 10.1 percent.

Prime Minister Taro Aso's government attempted to put the best possible face on the figures. Finance Minister Kaoru Yosano declared: "I think we are now past the worst period, but a great deal of effort will still be needed in order to get back on a real upward trend." A poll of 40 economists by the government-affiliated Economic Planning Association forecast an annualised growth of 1.1 percent in the second quarter.

Economic commentators have pointed to an increase in manufacturing output of 1.6 percent in March as a sign of recovery. The rise—the first since September—followed a fall of 9.4 percent in February. Exports also rose in March compared to the previous month and consumer confidence hit a 10-month high in April.

However, improved economic prospects in the current quarter hinge almost entirely on huge stimulus packages, which amount to almost 5 percent of GDP. The government's ability to sustain high levels of public spending is compromised by Japan's huge public debt, which the Organisation for Economic Cooperation and Development (OECD) predicted in March would reach 197 percent of GDP by 2010.

The International Monetary Fund's prediction this week that Japan will enter "a sustained recovery" in 2010, after a record 6.25 percent contraction this year, assumes an improving global economy that will provide markets for Japanese exports. Apart from the possibility of increased exports to China, the prospects, to use the IMF's own phrase, "remain uncertain". Whatever the short-term ups and downs in Japan's economic fortunes, the latest statistics reflect the far-reaching character of the global economic breakdown.

The British-based *Economist* warned: "The trouble is, if the world economy does not rebound strongly, it is hard to see where the final demand [for Japan's manufactures] will come from to stimulate production, exports and investment on a sustainable basis... Banks such as Nomura, HSBC and the Royal Bank of Scotland believe the recovery will not be sustainable. Goldman Sachs, among others, points to the risk of a 'double dip': that the economy sinks again in the first half of 2010. What the source will be of Japan's long-term economic growth—not least as the population shrinks and ages—is even more uncertain."

Japan's severe recession is compounding the country's political turmoil. With a lower house election due by

September, the ruling Liberal Democratic Party (LDP)-led coalition has again fallen behind the opposition Democratic Party of Japan (DPJ) in the polls.

Tokyo-based analyst Minoru Morita told the *Washington Post* that the latest economic statistics "were a very serious blow to [Prime Minister] Aso. He has been postponing the election, claiming he needed time to enact an economic stimulus. But the general public's perception is: 'These numbers are so bad. What is Aso doing?'"

The opposition Democratic Party of Japan (DPJ) is also trying to claw back its standing after party leader Ichiro Ozawa was compelled to resign amid a scandal over corporate fundraising. His replacement as DPJ president—Yukio Hatoyama—defeated rival Katsuya Okada in an internal ballot on Saturday. Polls released this week by the *Yomiuri Shimbun* found that 41 percent of voters intended to vote for the DPJ—up by 11 percentage points from the newspaper's previous survey and well ahead of the 27 percent for the Liberal Democratic Party (LDP).

The DPJ remains an unstable amalgam of ex-LDP and social democratic party members. Like Ozawa, Hatoyama was a former LDP legislator who quit the party in the 1990s. He comes from a long line of conservative political figures—his grandfather was a prime minister, his father served as foreign minister and his brother Kunio is part of the current Aso ministry.

With the prospect of the DPJ ending the LDP's virtually unbroken half century of rule, there are serious concerns in ruling circles in Japan and internationally about the viability of the DPJ in government. Hatoyama has put on a show of unity by appointing rival Okada to the powerful post of party general secretary and Ozawa as election campaign manager. The second appointment has immediately resulted in government accusations that Hatoyama was simply Ozawa's puppet.

More broadly, concerns have been raised about the capacity of either the government or the opposition to address the economic crisis. In an editorial on Wednesday, the *Financial Times* condemned both sides for their lack of ideas. "Japan's politicians are failing," it declared. "Both parties have certain, specific pledges and have targetted narrow interest groups. Neither, however, have told enough to let them predict how the parties would respond to the country's grand challenges or to unforeseen events."

It is not the general voter that the *Financial Times* is speaking for, but the business elites in Japan and internationally that are dissatisfied with the failure of the government and the opposition to elaborate a strategy to accelerate the restructuring of Japanese capitalism and impose the brunt of the economic crisis on working people.

Both the LDP and DPJ are well aware that to do so would risk provoking popular opposition and have shelved promises to rein in the budget deficit. Already there is widespread disaffection and hostility, particularly among young people, toward the political establishment as a whole—one reason why opinion polls tend to be highly volatile. Significantly, more than 30 percent of respondents in *Yomiuri Shimbun* poll were uncommitted to either party.

As the economic crisis worsens, along with unemployment and social inequality, public alienation will only widen. While some corporations increased production last month, others are preparing to shed to jobs. Panasonic, for examples, confirmed plans last week to close about 20 factories and proceed with 15,000 job cuts announced in February. Pointing to the underlying dilemma, Credit Suisse economist Hiromichi Shirakawa told *Bloomberg.com*: "There is a huge problem of over-capacity."

Finance Minister Yosano warned this week that unemployment, which is currently 4.8 percent, was likely to grow. Japan's official jobless statistics mask a broader social crisis. After a decade of economic restructuring, low-paid, temporary workers constitute about a third of the workforce and are particularly vulnerable to dismissal. Many more workers have already had their pay and bonuses cut—one of the factors that has reduced consumer spending.

As in other countries, what is building up in Japan is a confrontation between the ruling elites and the working class on a scale not witnessed for decades.