

Japanese disaster's economic fallout spreads globally

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Japan's earthquake, tsunami and nuclear meltdown emergency have begun not only to destabilise the world's third-largest economy, but deepen the slump and financial fragility afflicting global capitalism as a whole. Widespread production halts, rising sovereign debt, disruptions to investment flows and soaring energy prices are delivering shocks to Japan's economy, with profound international implications.

With large numbers of ports, airports, highways and manufacturing plants shut down, the Japanese government predicted "considerable impact on a wide range of our country's economic activities." Yesterday, Japanese stocks closed down more than 7.5 percent, wiping out \$US287 billion in market capitalisation in the biggest one-day fall since the eruption of the global financial crisis in 2008.

Shares of Tokyo Electric Power Co. led the declines, plummeting 23.6 percent after two explosions hit the company's nuclear reactors in Fukushima Prefecture. Shares in Japanese vehicle-makers fell by about 10 percent after they largely suspended domestic manufacturing because of factory damage and power outages. Sony shut eight factories and there were closures reported by Kirin, Asahi and Sapporo breweries, Fuji Heavy Industries, GlaxoSmithKline and Nestlé.

Stocks plummeted despite the Japanese central bank pumping a record amount of liquidity into financial markets in a bid to "pre-empt a deterioration in business sentiment". The Bank of Japan yesterday made 21.8 trillion yen (\$US265 billion) available to financial institutions and doubled its asset-buying program to 10 trillion yen in a bid to calm markets.

"What we were most concerned about was the possibility that increases in anxiety and risk-aversion moves would negatively affect the real economy, so we

judged it appropriate to mainly boost purchases of risk assets," Bank of Japan governor Masaaki Shirakawa said.

The bank's board boosted its purchases of riskier financial assets such as corporate debt, exchange-traded funds and real-estate investment trusts by a total of 3.5 trillion yen. It also will buy an additional 1.5 trillion yen of government debt. The bank left its unsecured overnight call loan rate unchanged in a range of 0.0 percent-0.1 percent, but after two decades of stagnation, the rates were already so close to zero that cutting them further would not have led to any increase in lending.

The *Financial Times* reported: "Economists generally welcomed the central bank's move as a measure to quell potential panic over access to funds in the wake of a major disaster. But some said the liquidity injection was not likely to be enough to counter the negative impact of the quake and tsunami on the Japanese economy, already weakened by a strong yen and deflationary pressures."

Analysts commented that the cash injection did not match the amounts that the US Federal Reserve had pumped into US markets via its similar "quantitative easing" program. Mitsumaru Kumagai, chief economist at Daiwa Institute of Research, told the financial newspaper: "It can be judged positive, but compared to the 50,000 billion yen the US pumped into its market in six months, the BoJ hasn't done enough so far (to stimulate the economy), so eventually it will have to take stronger measures."

Kumagai expected the earthquake and accompanying power cuts to reduce Japan's gross domestic product by 0.6 percentage points, but forecasted that reconstruction investment would eventually claw back a large part of the decline. Other market economists took an even dimmer view, warning that reconstruction

spending would exacerbate Japan's public debt crisis, with government debt already standing at 228 percent of GDP, the highest in the industrialised world and twice the level of 1995, when the Kobe earthquake hit.

Ken Curtis, formerly vice-chairman of Goldman Sachs in Asia and now a founding partner of China-based Themes Investment Management, told the *Sydney Morning Herald*: "This earthquake symbolises the gravity and extent of the larger crisis facing Japan."

Until Friday's disaster, Japan had been labouring under the triple burdens of debt, deflation and an aging population. "Unless it can produce a decisive program for deep reform, Japan's slow decrepitude will quicken under the added burden of reconstruction spending," Curtis stated. "I have not been able to put together a credible scenario for Japan to solve its debt problem."

Globally, as the *Wall Street Journal* noted, the Japanese disaster intensified "the ripple effects of the weekend euro-zone debt accord and the continuing crisis in Libya." Credit Suisse strategist Shun Maruyama in Tokyo told the *Journal*: "We possibly cannot ignore the impact that this quake will have in terms of geographical span and scale—as well as the psychological impact."

Because of the closely intertwined character of global production, the shutdowns in Japan will have knock-on effects throughout Asia and the world. Japan remains a critical part of the Asian and global economy despite recently losing its place as the world's second largest economy after the US to China. It is the biggest source of foreign direct investment for some parts of Asia and a major purchaser of the iron ore, coal, natural gas and other commodities produced in Indonesia, Australia and elsewhere.

In China, on which world capitalism increasingly depends for markets and cheap labour, government officials said they believed the country's economy would be only marginally affected, but they admitted that any protracted downturn in Japan could create problems. The economies of China and Japan are interconnected in numerous industries, including automobile and electronics manufacturing.

China has increasingly become a final-assembly hub for Japanese electronics in recent years, as Japanese firms have sought cheaper manufacturing operations. China is Japan's largest export destination and Japan is the third-largest destination for Chinese exports,

according to a report by Bank of America Merrill Lynch.

Global financial and energy markets could be severely affected. In 2010, Japanese savers invested \$166 billion in other countries, the International Monetary Fund estimated. Japan was also one of the largest buyers of US Treasury bonds. The *Wall Street Journal* warned: "As Japan's government and companies bring home the resources needed to rebuild, those capital flows could wane, pushing down the dollar and increasing US borrowing costs at a time when that country's government debt level is also a matter of global concern."

Japan is also the world's No. 3 oil importer, after the US and China. Disruptions in production may limit Japan's short-term demand for energy, but over time the shut nuclear plants could lead to increased imports of oil, natural gas and coal. Analysts estimate that replacing all of Japan's nuclear capacity with oil would mean importing 375,000 more barrels a day on top of the current demand of about 4.25 million barrels.



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