

# Share markets slide in response to Japan disaster

Nick Beams  
16 March 2011

Japanese equity markets have experienced their worst fall since the global share market crash of October 1987 in the wake of the earthquake, tsunami and nuclear disaster that struck last Friday. On Tuesday, Tokyo's Nikkei index plunged 10.5 per cent—at one point as much as 14 percent—bringing the total decline over three days to more than 18 percent. There was something of a bounce back as trading opened on Wednesday, with the index up by more than 6 percent.

Tuesday's fall came despite the Bank of Japan pumping \$183 billion into financial markets on Monday, a record for a one-day operation.

Because of their heavy investment in industrial shares, banks were among the hardest hit in the selloff. Mitsubishi MUFG, the country's biggest lender by market value, and Mizuho Financial Group, were down by as much as 20 percent during the day. Sumitomo Mitsui Financial Group, the second-biggest bank, fell 17 percent in its biggest decline since it began trading in 2002.

Sell-offs took place all around the world as fears spread of the economic and financial implications of the Japanese crisis. While the Asia-Pacific region was hardest hit—the Australian market fell more than 2 percent—there were significant falls in Europe, where the German index dropped by more than 3 percent and the US, with the Dow down 1.37 percent.

There are two main causes for the fall: the deepening crisis at the Fukushima nuclear power plants, where, despite all official reassurances, the situation continues to worsen, threatening the spread of radiation far beyond the 20km evacuation zone currently set in place; and growing concerns about the cost of reconstruction and its implications for Japanese government finances.

If the nuclear crisis is not brought under control, and

increased nuclear fallout reaches Tokyo and the surrounding industrial region, the impact will be disastrous. Yesterday Deutsche Bank fund managers told clients that “under a worst case scenario we have to assume that an area representing 40 percent-plus of Japan's GDP could be affected.”

Significant production cuts have already been made as power outages are imposed across the country. Major manufacturers, including Sony, Toyota, Honda and Mazda have announced such cuts. Mazda said it was suspending production until March 20, even though most of its plants are in the west of the country.

Tokyo Power and Electric Company (Tepco), which operates the stricken nuclear power plants and is Japan's largest electricity producer, has said power shortages will continue at least until the end of April. But given the company's long history of cover-ups and outright falsifications, there have been warnings that this could be a significant underestimation and the power outages could continue until the end of the year.

Aside from the immediate impact of the crisis on production, there are concerns that the cost of reconstruction may prove to be a “tipping point” for the Japanese financial system.

Even before the disaster struck, government debt was \$12.2 trillion, equivalent to more than 220 percent of Japan's Gross Domestic Product (GDP) and around 20 times the government's annual revenue of \$587 billion.

Last January, the credit rating agency Standard and Poor's downgraded Japanese debt, saying the government lacked a coherent strategy to deal with its growing fiscal problems. Moody's has threatened to take the same action.

So far the Japanese government has been able to finance its mounting debt through internal borrowing, as Japanese banks, insurance companies and pension

funds gather up deposits and then invest them in government bonds, returning about 1.5 percent in interest. But the escalation of debt cannot continue indefinitely, under conditions where the population is not only ageing but declining, and older Japanese will be drawing on their pension funds, not investing in them.

In this context, the raising of funds for reconstruction, at this stage estimated to be anywhere between 2 percent and 10 percent of GDP, may provoke a financial crisis, forcing the government to either lift interest rates or to have the central bank print money by buying up government bonds.

There are also concerns in financial circles that the government may have to sell off its holdings in US Treasury debt to finance reconstruction. Such a move would lead to a fall in the price of US bonds and an increase in market interest rates. Japan is the second largest foreign investor in US bonds, holding \$882 billion at the end of 2010, compared to China's \$1.16 trillion.

US Treasury Secretary Timothy Geithner was quick to downplay any suggestion of a sale of US Treasury debt. "Japan is a very rich country and has a high savings rate," he said. It had the "capacity to deal not just with the humanitarian challenge but also the reconstruction challenge they face ahead."

Notwithstanding Geithner's assurances, a movement of Japanese finance out of American markets is already underway, as the country's insurance companies repatriate funds in order to meet claims. This has led to the apparently perverse situation where, despite the magnitude of the earthquake crisis, the value of the yen, already regarded as somewhat over-valued, has risen, rather than fallen, in financial markets against the US dollar.



To contact the WSWWS and the  
Socialist Equality Party visit:

**[wsws.org/contact](http://wsws.org/contact)**