# Quake disaster shakes Japanese economy

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The full economic consequences of the March 11 earthquake and tsunami that officially left more than 28,000 people dead or missing, displaced at least 139,000 and destroyed towns and businesses throughout much of Japan's northeastern Tohoku region are still being calculated.

The Japanese government and the International Monetary Fund (IMF) this week provided upbeat assessments, stressing that recovery is likely later this year or next year. Other economic analysts are not so optimistic, pointing to the potential impact of ongoing electricity shortages and disruptions in supply chains.

Japan's Cabinet Office report for April released on Wednesday blandly declared that the economy had "shown weakness" due to the influence of the Great East Japan Earthquake—the first downgrade in its assessment for six months. Although Japan was not in recession, a Cabinet Office official explained, recovery was "now a thing of the past."

Economy Minister Kaoru Yosano put the best possible face on the report, insisting that any economic impact would be short-term and that recovery could be expected to start by the end of year. However, he was compelled to concede: "The biggest factor that will bring uncertainty is whether there will be enough electricity, in other words whether the ongoing nuclear crisis can be settled without further deterioration in the situation."

Even by the most optimistic estimates, the crippled Fukushima Dai-ichi nuclear plant owned by Tokyo Electric Power Company (TEPCO) will take months to stabilise, and four of its six reactors will be scrapped. Thirteen of the company's 17 nuclear reactors are now offline, along with half of its oil-fired thermal plants and both of its coal-fired plants. TEPCO alone supplies 29 percent of Japan's electricity to more than 2 million businesses and 26 million households in the Tokyo metropolitan area.

Amid widespread public outrage over the nuclear disaster, the government has ordered nuclear power plant operators to ensure emergency power supplies in the event of further aftershocks. Some plants are taking measures to strengthen the quake resistance of structures before coming back on line. While certainly necessary, all of these measures will lead to electricity shortages that are likely to peak at between 20 to 25 percent in the coming summer months.

Power problems in Tokyo have also been compounded by Japan's poorly planned grid that stemmed from the introduction of electricity in the $19^{th}$ century. In fact, the country has two incompatible power grids: Tokyo and areas to the northeast operate on 50-hertz electricity installed initially by German engineers, whereas Osaka and southwestern Japan use an American 60-hertz system. As a result of limited converter stations, Tokyo and the stricken Tohoku region cannot rely on power from the rest of the country.

Asked about the impact of the loss of nuclear-generated power, Yosano bluntly admitted: "I can't figure out the nuclear plant issue."

The IMF World Economic Outlook released this week also assessed the economic impact of the earthquake as minimal, downgrading this year's growth forecast for Japan of 1.6 percent, prior to the disaster, to 1.4 percent. IMF deputy managing director Naoyuki Shinohara did acknowledge that there was "very high uncertainty" associated with the prediction that assumed "power shortages and supply chain disruptions will be resolved in two to three months from now."

Other economists are more pessimistic. A survey of 43 economists conducted by Japan's Economic Planning Association survey and release on Tuesday predicted, on average, a 2.8 percent contraction in the current April to June quarter compared to the previous year. For the fiscal year ending March 2012, the estimate was a gloomy 0.44 percent.

The devastation caused by the earthquake and tsunami is evident in the many photographs showing entire towns and villages that have been completely obliterated. Government estimates put direct material damage as high as 25 trillion yen or about $US300 billion, or roughly double the cost of the Kobe earthquake in 1995.

The impact on tourism is already evident in the March figure for the number of foreign visitors, which fell by more than 50 percent compared to a year ago—its biggest ever decline. Auto sales plunged by 37.2 percent in March year-on-year, likely reflecting both a fall in consumer demand and a sharp decline in production due to plant closures.

The globally integrated character of production has led to concerns internationally about the disruption caused by the lack of specialised components—including semi-conductors and auto parts—to supply chains in Japan and internationally. Speaking New York yesterday, Bank of Japan governor Masaaki Shirakawa warned: “The impact of supply constraints will be serious in the short term.”

A *Financial Times* feature article examining the broader vulnerability of the world economy to supply chain disturbances noted that the issue had first emerged after the 1995 Kobe earthquake. “Today, however, the potential disruption to global manufacturing from single large shocks is much bigger. Products are more complex, with components made in many more countries.”

Production at large plants in northeastern Japan is only beginning to resume. Nippon Steel announced on Wednesday that it had restarted production of wire rods at its Kamaishi plant in Iwate Prefecture. Renesas Electronics, a chip-manufacturer, said it was preparing to restart its three closed plants.

The major auto producers, Toyota, Honda and Nissan, announced this week that they would begin to resume production at their affected Japanese plants, but only at 50 percent capacity. Toyota, however, will suspend production at five vehicle and engine manufacturing plants in Britain, France, Turkey and Poland for several days in April and May because of parts shortages.

None of the economic assessments deals with the immense social cost of the disasters for the tens of thousands of people who have lost their homes, possessions and livelihoods. An article by Christopher Johnson on the *Asia Times* web site noted that prior to the disaster, northeastern Japan “was already the poorest region of the country, with incomes roughly half of Tokyo, and two job seekers for every job offer.”

The article continued: “The National Police Agency estimates that 200,000 buildings were obliterated, meaning many small and medium-sized businesses were destroyed with them. An estimated 500,000 people lost homes, savings, businesses, and everything but the clothes on their backs. A month after the disaster, many of these people still have no money, not even 100 yen—or a little over a dollar. In the charred remains of Kesennuma city, for example, many parents, teachers and seafood industry workers have become scavengers, a new breed of dumpster divers desperate to find anything of value which they might be able to hawk for some food.”

Fears about nuclear contamination have already had a serious impact on agriculture in the Tohoku region. Despite the lifting of an initial ban on milk and vegetables from most northeastern areas, and a government campaign to promote the products as safe, it is likely that sales will only slowly recover. Likewise the fishing industry, which was devastated by the tsunami, will continue to suffer as a result of concerns about contaminated fish.

More broadly, unemployment is expected to rise sharply from a two-year low of 4.6 percent in February. Japan Research Group economist Hisashi Yamada commented: “The labour situation will probably worsen as production is sure to fall and the adverse impact will gradually come into view in the jobs market.” He predicted that the jobless rate could rise to its post-war high of 5.5 percent in July 2009.

The government’s reconstruction plans are directed at reviving business at the expense of working people as a whole. Officials have already made clear that the 4 trillion yen emergency budget will not be financed by raising more loans as Japan’s huge public debt is already around 200 percent of Gross Domestic Product. As a result, the burden will fall on the working class, either through increased taxes or social spending cutbacks. The government has already mooted an increase of 2 percent in the country’s regressive sales tax.

At the same time, the government is considering how best to bail out TEPCO, which *Financial Times* commentator David Pilling recently described as “to big to fail.” The Nikkei business daily yesterday reported that plans were being drawn up for a state-backed nuclear insurer to facilitate compensation for the disaster at the Fukushima nuclear plant, which could run up to more than 1 trillion yen or about $12 billion.