

**A HARD LOOK AT JAPAN:
THE ECONOMIC SUN HAS SET**

Detroit, Michigan, used to be the traditional home of The Big Three – the largest manufacturers of motor vehicles in the world: General Motors Corporation; Chrysler LLC; and Ford Motor Company.

Detroit was toppled off its perch, long ago, when Japan took over as the world's largest producer of motor vehicles.

Very soon, now, the People's Republic of China (PRC) will take over the reins from Japan as the world's largest manufacturer of motor vehicles.

Detroit will never recover its former glory.

Japan will never recover its former glory.

Japan, up until December 2008, was the second-largest economy of the world.

The PRC replaced Japan as the world's second-largest economy – and it is almost a guarantee that Japan will never again recover its former glory in this regard.

Even the mighty German exporting machine will, soon, be replaced by the PRC as the world's largest exporting country.

You snooze; you lose.

The world is in transition and the powerhouses of yesteryear are being toppled, one after another.

Japan, today, is, still, a financial powerhouse, of course, but it faces such monumental problems that it is difficult to see how it can ever find the solutions to its present conundrums without heart-rending changes, politically, changes that will upset many a Japanese purist in The Land of The Rising Sun.

It was only yesterday that The (Central) Bank of Japan announced that it fully expected the economy of the country to contract by about 3.40 percent, during the 12 months, ending March 31, 2010.

Previously, The Central Bank has stated that it expected the economy to shrink by about 3.10 percent.

The Bank of Japan, however, stated that Japan's economy had '*stopped worsening.*'

Japan is a country of about 127 million people, but the country's financial and social successes have, today, returned to haunt it and, in some cases, bite it on its proverbial arse.

The population of Japan is living longer and longer useful lives: The life expectancy for males is about 78.80 years; the life expectancy for females is about 85.62 years.

About 22.20 percent of the human population of Japan is 65 years and older.

About 64.30 percent of the population of Japan is between the ages of 15 years and 64 years.

The infant mortality rate, compared with many Asian countries, is low, at about 2.79 deaths per 1,000 live births.

The labour force is about 66.15 million people, equivalent to about 52 percent of the entire population.

The economy is in shambles.

The real **Gross Domestic Product (GDP)** was a negative 0.40 percent in 2008.

That compared with a real growth in the GDP of about 2.40 percent in 2007 and about 2 percent in 2006.

The GDP per capita was about \$US34,200 in 2008, a slight drop from about \$US34,300 in 2007.

The unemployment rate was about 4.20 percent in 2008, up from about 3.80 percent in 2007.

The public debt of the country was about 170.40 percent of the GDP in 2008 and, in 2009, it is known to be rising, fast.

Within the next year, the public debt of Japan is quite likely to be at about 200 percent of GDP ... or even higher.

The latest financial stimulus packages, proposed and, then, endorsed by the Japanese Government, are guaranteeing this.

Even if the Japanese economy is able to emerge from its current recession, the next financial time bomb is just around the corner.

That time bomb will centre on Japan's sovereign debt.

If Japan's burden of debt continues to outpace the country's GDP, by 2020, the level of debt will be about 300 percent of GDP.

Unlike the United States of America, most of Japan's sovereign bonds have been held by the residents of Japan, nearly all of whom are ethnically Japanese.

The Japanese love to save money; it is the national pastime, one could state.

Favourable financing conditions and a low, interest-rate policy, coupled with the propensity of the majority of the Japanese population to save money, all conspired to keep the lid on interest payments in spite of successive Japanese Governments' record-breaking debt burden.

But the days of the Japanese to save a large proportion of their income appears to be coming to an end.

And the question is, of course: Where will the bees look for their honey?

Over the past few years, it has been noted that fewer and fewer Japanese households are saving a large proportion of their earnings.

It is a fact that, in most developed countries of the world, workers plan to save money, during their working lives, and, then, spend most of it in retirement.

In the case of Japan, however, due to the long lifespan of the average male and female, the rate of savings is falling off – because the elderly are not gainfully employed.

If this situation continues – and it is almost a guarantee that it will – private consumption will outpace household consumption income long before 2020.

This will have an effect on international trade, too.

Recently, as **TARGET** () reported, Japan recorded a negative Current Account balance.

It was the first such negative Current Account balance of the past 25 years.

It is worrying to the present Government of Japan.

And rightly so, too.

Sovereign Debt

As Japan's sovereign debt rises, closer to 300 percent of GDP, it will have very serious consequences.

The present financing system will have to change.

It may be retained for a couple of years, but, sooner, rather than later, artificially low interest rates will have to be replaced by a more-realistic approach to the economy, one that will enable it to be part of the 21st Century.

The 20th Century is relegated to history; the emerging politicians of Japan will have to come to this realisation.

A great deal of the sovereign debt of Japan is held by Japanese Government institutions.

Japanese households do not invest, directly, in sovereign debt, but, usually, become willing investors in the Japanese-Government's Japan Post.

These households appear to be happy with their low rate of return.

In order to alleviate the present situation, no doubt, Japan will be forced to take a page out of the book of the Government of the United States of America by trying to seduce investments from foreigners.

Over the past 5 years or so, in fact, foreign investment in Japan has more than doubled, but it is, still, only about 7 percent.

The coming generation of Japanese will be inheriting a heavier debt/interest burden, coupled with smaller pensions and far less wealth.

The Japanese Government may be forced to increase taxes in order to restore financial health.

This is a real probability because the ever-growing numbers of elderly folk will weigh more and more heavily upon the economy.

It is estimated that there will soon be 2 workers, paying into the social security system, for every Japanese pensioner.

Reforming the mountains of bureaucracy in the country will, undoubtedly, be a priority ... and a must.

There has been, for a number of years, a cross-over of Japanese Government entities, causing rapid rises in the debt in the country.

Japan Post will play a large role in any reform programme.

This has to be the case because, in the past, it was this agency that provided vast amounts of capital to the Japanese Government.

Due to its large deposit base, which came about because of the Japanese households' propensity to save a goodly proportion of their income, Japan Post had the wherewithal to supply this capital.

Japan Post is an inter-dependent, Japanese-Government entity, one must remember.

Japan Post was able to finance, cheaply, budgetary deficits over the past few decades.

Already, there is widespread dissatisfaction over successive reforms of pension plans, the end result of over-spending by the previous Japanese Governments.

A loss of confidence in the old order has emerged.

Japan is suffering from failing economic output; deflationary tendencies have raised their heads.

If a large number of the youth of Japan determines that there are better climes '*out there*', an exodus of that youth could result in a brain drain in Japan, the likes of which the country has not witnessed for generations.

The situation in Japan, today, is critical.

The former, second-largest economy of the world is unlikely, ever, to achieve that status again.

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