

JAPAN: WHAT WILL THE FUTURE HOLD ?

There is widespread theory, making the rounds, these days, that Japan will recover from the devastation of March 11, 2011, much quicker than, hitherto, had been expected.

The world, one is led to believe, on reading reports, written by learned financial wizards, working at international merchant banks, will come to the aid of the world's third-largest economy with buckets of cash and so one should convert part of one's investment portfolio into Japanese yen.

The Japanese people, in the areas in and around many parts of the Fukushima Prefecture, a '*ken*', facing the Pacific Ocean at Northeastern Honshu, the largest of 4 main islands of Japan, will need to rebuild at least 85,000 homes, replace some 200,000 motor vehicles, rebuild most of the factories, repair port facilities as well as repair or replace other required infrastructure.

The cost of the damage, caused by the March 11, 2011 earthquake, measuring 8.90 on the Richter Scale, followed by a powerful tsunami that claimed about 30,000 lives, and, then, the horrific situation at the Fukushima Daiichi nuclear power plant, a power plant that is unlikely ever to be restored so as to be able to generate electricity, will cost between ¥16,000 billion and ¥30,000 billion (between about \$US195 billion and \$US366 billion).

The Government of Japan will have to pay this bill at a time that its finances are stretched almost to breaking point although it would never admit to that fact.

Even before March 11, 2011, the debts of the third-largest economy of the world were said to be equal to at least 200 percent of the **Gross Domestic Product (GDP)** – the total value of all goods and services, produced within a country in a year, minus net income from investments in other countries – in respect of the Current Fiscal Year.

Last Thursday, Japan time, it was announced that the Government of Prime Minister Naoto Kan had introduced a new, ¥4,100 billion (\$US50 billion) Emergency Budget to be used as disaster relief.

Japan's public debt, today, stands at about \$US10 trillion, a staggering figure, which is double the size of the entire economy, pre-March 11, 2011.

The new, ¥4,100 billion Emergency Budget is to be used to provide more than 100,000 temporary housing facilities for displaced victims of the earthquake and tsunami as well as repairing damaged infrastructure at Fukushima.

One is told, also, that, ultimately, the huge spending, required by the Government of Japan, will be a boon for Japan, bringing in foreign investment, the likes of which have not been seen in many decades.

TARGET () does not completely accept that Japan is about to experience a timely benefit; it would be nice if it were completely true, but it is highly unlikely to be an accurate scenario of the situation.

One is reminded of the Government of the Republic of India and of its avowed determination, some decades

ago, to bring an end to the poverty of many parts of the country and, to that end, it commissioned a well-respected economist from a leading university of The United States of America to visit the country and to advise as to the best course of action that the Government of the day should take.

After about 6 months of study of the situation, the economist, in the summation of his tome, said that there should be little to no poverty in the country because, inter alia, in an agrarian society, the population should strive to become self-sufficient and self-supporting and, in addition, there was a plentiful supply of bovine cattle, roaming the countryside and most of the major cities and that these animals were an excellent source of protein.

Years later, India, with a labour force of about 478.30 million people, of which about 52 percent is engaged in the production of agricultural products, still about one in 4 citizens of the second, most-populous country of the world was continuing to live below the poverty line.

The unemployment level of India, today, is about 11 percent, with inflation, running at about 12 percent per annum.

In short, the seeds of discontent continue to be sown among a large sector of the 1.20 billion human population of the country: They cannot be completely happy with their lot.

The successive Governments of India, since the early 1950s, have failed to ameliorate the plight of the downtrodden of the country; and, the teachings of Mohandas Karamchand Gandhi, other than the concept of passive resistance, have all but been forgotten, his spectacles, his bible and photographs of him, toiling away at his little spinning wheel at his humble dwelling, is all that is left of this internationally respected great leader of India up until his assassination in January of 1948.

One cannot, of course, equate the reasoning and lessons of Mohandas Karamchand Gandhi of his day with the reasoning that is required in trying to solve the many and varied problems of Japan, today.

Whereas Mohandas Karamchand Gandhi advocated truth and understanding, one ponders, inter alia, whether or not many of the high-ranking businessmen and politicians of Japan, today, understand the meaning of truth and understanding – and that is one of the biggest problems of this Asian country.

Also, accepting responsibility for acts of commission or omission is often seen as being an onerous task for the political muck-a-muck, who try to hide by alleging the incompetence of their underlings – many of whom were appointed by the muck-a-muck, themselves.

This was only too apparent when the senior officials of The Tokyo Electric Power Company Incorporated absented themselves, during the past few months when high levels of radiation leaked out of the crippled nuclear power plant at Fukushima, that publicly listed company, being the owner and operator of the plant.

A number of very senior officials of the Government of Japan, not knowing the full extent of the problems, went on record as stating that things were being portrayed as being worse than they, actually, were at the nuclear power plant.

This was far from the truth ... in fact, it was completely devoid of truth – and the world watched, aghast at the lie.

It was not until The Tokyo Electric Power Company Incorporated was forced to admit the naked truth that the world was shocked by the enormity of the situation: Shades of the Chernobyl nuclear power plant disaster of 1986.

One is told, today, that the problems at this nuclear power plant are unlikely to be resolved before the end of this year; and, that the situation in the surrounding area, up to 20 miles from the nuclear power plant, are unlikely to be returned to the status quo ante before the year 2115 ... or beyond.

Today, few people in the People's Republic of China (PRC) or any of its Special Administrative Regions want to eat foodstuffs, imported from Japan.

Because Japan has become associated with the concept of a pariah exporter of raw produce, rightly or wrongly.

It is estimated that at least 25 percent of all of the Japanese restaurants in the Hongkong Special Administrative Region (HKSAR) of the PRC will have to close as diners steer a course, 180 degrees away from these restaurants.

Tourism to Japan is abysmally low and, with aftershocks, still being felt in Tokyo, the Capital City of the country, foreigners think many times before venturing near this once-considered, premier tourist destination.

The tourist dollars, at least for the time being, have all but dried up.

Just 3 weeks ago, Mr Masaki Shirakawa, Governor of The Bank of Japan, The Central Bank of the country, went on record, stating, inter alia, that Japan should have no trouble in financing reconstruction of that part of the country that had been badly damaged by the earthquake of March 11, 2011, the tsunami that followed, and the problems, relating to the high radiation levels, the result of damage to the Fukushima Daiichi nuclear power station which cannot be repaired.

Mr Masaki Shirakawa said:

*'As long as Japan continues to work tirelessly towards rebuilding, it is unlikely that financing problems will arise ... Japan has shown resilience. The work of rebuilding has started to get underway gradually but steadily ... The first challenge is ensuring the necessary financing for rebuilding. In this regard, Japan has an excess of savings over investment for a protracted period. From a macro-economic perspective, this financing will not be difficult ... Japan's capacity for foreign-currency funding is extremely strong, given that the country is the biggest creditor nation in the world ... Japanese Government bonds have been issued quite smoothly ... Most private economists believe that Japan's **Gross Domestic Product (GDP)** growth rate will turn positive again from the third quarter of 2011...'*

Mr Masaki Shirakawa conceded, however, that Japan will have continuing problems with regard to the economic supply chain, power generation, tourism, and other important financial sectors of the economy.

The important aspects of Mr Masaki Shirakawa's speech to The Council of Foreign Relations in New York were:

- a. Japan must work tirelessly on the problems of rebuilding the country;
- b. Japan must show resilience;
- c. Japan must ensure the necessary financing to fund rebuilding; and,
- d. Japan must issue bonds and these bonds must be bought by foreign investors.

Thus spake Mr Masaki Shirakawa.

The Statistics

Japan has a population, approaching 127 million people.

The labour force is thought to be about 66 million people, representing about 52 percent of the entire population.

By occupation, the labour force is dominated by the Services Sector (about 70 percent), followed the Industrial Sector of the economy (about 26 percent).

Unemployment, prior to the March 11, 2011-catastrophe, stood at about 5.10 percent, with the number of people in the country, living below the poverty line, being about 16 percent.

Today, more than 20 million people are going hungry in the third-largest economy of the world and, only last Friday, it was announced, officially, that some 17,000-plus applications for unemployment benefits had been received by job-placement offices at Miyagi Prefecture.

Year-On-Year, the number of applications for unemployment benefits at Miyagi Prefecture represented an increase of about 300 percent.

An unnamed Labour Official went on record, stating, among other things: *'The number of applications (for unemployment benefits) will further increase ...'*

Growing unemployment in the country is but another major problem that the Government of Japan will have to address.

Japan has a major problem in that its population is ageing rapidly and the costs of caring for the aged is a continuous drain the country's financial resources.

Japan's Treasury has about \$US3-trillion worth of foreign assets on which to draw down if needs be such.

It is accepted, widely, that the human capital of Japan has been, over the past 4 decades, horribly under-utilised and this is especially true in the Services Sector of the economy, this single sector of the entire economy, employing the largest number of people in the entire workforce (about 46 million people).

Up until relatively recently, the youth of Japan looked to the zaibatsu as the one and only company for which to work – for life.

Loyalty to the senior management of one's zaibatsu was a given and no worker would ever think of leaving his *'Big Buddha'* in favour of another zaibatsu.

Things have changed over the past 4 decades, however, and, today, workers at one Japanese, multi-national conglomerate have learned that nothing is forever.

The way of the gaikoku-jin (literally, somebody from a foreign country) and the way of Western capitalism has usurped the traditional manner of the Japanese work ethic, an ethic that was taught, in the past, which was suggestive that working for a Sumitomo corporation, a Mitsui corporation, a Mitsubishi corporation, or a Yasuda corporation was the equivalent of being in possession of the iron rice bowl.

Those days are gone, never to return.

The thinking of the average Japanese worker, before and during World War II, who often lived beyond his financial means in the certain knowledge that his zaibatsu would protect him and would, always, feed him, regardless of erratic cycles of industry and the country's economy, still linger, with many a Japanese worker, continuing to wish for those days of yesteryear.

Those days are gone, never to return.

Only the aged still hang onto the dreams of yesterday; the youth of Japan, today, have come to the realisation that their superiors in their respective corporate entities are fallible, terribly fallible.

The Japanese public has learned that their government and their leaders, in whom they followed blindly in days of yore, have failed them, miserably, the Fukushima Daiichi nuclear power plant disaster, being an

example of this when its safety systems failed, putting their lives at risk, their homes, having to be vacated in order to escape to emergency shelters, outside the exclusion zone.

The Japanese people's public's faith in their government has been battered, badly; practical calm and self-discipline is fast being eroded; communities are beset with fragility.

Japan's treasure chest of \$US3 trillion can be depleted much faster than the present Government of the country would like the people of the country to believe.

As Governor Masaki Shirakawa made it only too clear, the Japanese Government will be trying to issue bonds in order to borrow from Peter to pay Paul.

The Japanese Government, no doubt, is counting on the future depreciation of the Japanese yen vis-à-vis other 'hard' currencies in order to cover the servicing of the new debt which will be absolutely necessary.

The Central Bank Chief knows, although he has not said as such, that he cannot deplete valuable resources to any great extent because they are the '*family jewels*' without which, the entire economy could be in a state of financial chaos in due course.

Today, Japan does not even have sufficient power to run electricity to many parts of the country and, without such power, the wheels of industry cannot turn.

Already, it has been made known that automotive spare parts for Japanese-produced motor vehicles are in short supply and, if the motor vehicles cannot be produced, then, obviously, they cannot be sold.

Toyota Motor Corporation announced, last week, that production cuts at its plants will last at least until the end of the year because, among other things, the company does not have a sufficiency of spare parts.

Japanese banks are, also, smarting from the disasters of March 11, 2011, with the country's largest banks, having to bite the proverbial bullet to the extent of at least ¥160 billion (about \$US1.95 billion) in respect of the banks' shareholdings in just one company: Tokyo Electric Power Company Incorporated, the owner and operator of the Fukushima Daiichi nuclear power plant.

This company is almost guaranteed to be nationalised – because it would be unable to pay adequate compensation for its gross negligence to the people of Fukushima Prefecture.

Its share price, thus far, has slumped more than 80 percent since March 11, 2011.

Stand by for losses at insurance companies in Japan and elsewhere due to the worst disaster to hit Japan since World War II.

Clearly, the situation in Japan is far from being transparent and the future, regardless of the waffle, oozing from the mouths of senior officials at certain international finance houses, is very questionable.

Japan will recover, somewhat, but it is highly unlikely that the country will, ever, be the same again.

People may have short memories for many things, but the catastrophe of Fukushima Prefecture on March 11, 2011, will be remembered for many decades to come.

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