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## **Tremor Effect: Economic Impact of Japan's Earthquake**

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The earthquake of March 11 which rocked Japan also shook the world economy.

Although Japan was beaten by China early this year to third place in the list of world's largest economies, it still ranks as one of the most innovative nations.

High productivity based on admirable work ethics and technological superiority have made Japan leap forward in the post-war years. The vivid images on TV of the way the citizens conducted themselves with such high standards of discipline and stoic courage will never be forgotten.

Economic historians have written volumes about how the resilient Japan recovered after the 1923 Kanto earthquake which devastated Tokyo, killing 140,000 people and how Japan again rehabilitated itself two decades later, when American B29s dropped atomic bombs in March 1945, killing 100,000 people in one night.

The undaunted Japanese with their disciplined attitudes to life, sheer persistence and hard work, made the country Number 1 in the 1970s.

So too, after the 1995 Kobe earthquake, which, besides killing 6,400 people and leaving 300,000 homeless caused damage estimated at 10 trillion yen (US\$100 billion), Japan recovered fast.

### ***World Development Partner***

The post-war modern Japan committed to democratic values, became a natural partner with the US and the West. It has been playing a major role in world development. It is the largest donor to Asian Development Bank, a multilateral bank. It has also emerged as one of the leading bilateral donors to developing countries, including Fiji and other Pacific island countries.

The latest disaster is a combination of three: the earthquake in the industrial areas, tsunami and destruction of power plants following the nuclear meltdown with fears of radiation. This triple disaster has also come at the worst of times.

It is the time of world economic downturn of unprecedented proportions.

For Japan, which contracted at the end of last year, it is a big blow to its economy.

Production has been totally destroyed in the north-east of the country which suffered the brunt of the quake. The areas of Japan affected by the triple disaster contribute 4 percent of the country's GDP. The companies include electronics giant Sony with six factories, Toyota with three plants and Nissan with four factories and Honda with two plants. Additionally, the port in the nearby city of Yokohama was also damaged.

### ***Rebuilding the economy***

The losses estimated are around 10-16 trillion yen (US\$125-US\$200 billion). As the estimates came in, world stock market reacted: Japanese stocks suffered most, their worst, since the 1987 crash on Monday and Tuesday, losing US\$626 billion in value, before rebounding 5.7 percent on Wednesday.

A quick estimate done by economists in the region is that in the short term, the loss would be around 1% of the country's GDP. With rebuilding exercise, it would balance out as it could turn positive in about 12 months. Past experiences have shown that rehabilitation work following major incidents had stepped up demand and helped the economy bounce back.

Rehabilitation expenditure has to be incurred by the government. That would add to its already large debt. Japan's public debt is twice the size of its US\$5.3 trillion economy, the highest ratio of any large developed country in the world.

But unlike debt ridden countries like Greece, only five percent of Japan's debt is held by foreign investors. Hence, the risks of a funding crisis are limited.

Soon after the earthquake and tsunami, the central bank of Japan decided to pump in more liquidity. The Bank of Japan has pumped in all 23 trillion yen (US\$ 188 billion) into the country's banking system for promoting investment by private sector. It is difficult to expect immediate results from this, as the interest is low. However, symbolic efforts do matter.

### ***Rise in the yen***

As Japanese public and insurance companies buy back their home currency in order to fund the country's reconstruction, demand for the yen would go up. Now with massive inflows of donations from families and friends overseas and aid money rushing in, the yen has already risen. Soon after the Kobe earthquake in 1995, the yen soared to an all time high against the dollar as Japanese firms pulled funds home.

The dollar plunged to 76.53 yen late Wednesday in New York — far below the previous all-time low of 79.75 yen set in April 1995. The rise in yen's value will hurt exports of Japan. .

### ***Impact on Nuclear energy industry***

The meltdown of nuclear power plants with explosions, causing widespread fears of radiation would also impact the nuclear energy industry. European nations are now doing some re-thinking.

However, China and India announced that they would go ahead with their nuclear energy plans. Nearly 40 percent of India's 1.2 billion people do not have regular access to electricity. India has 20 nuclear reactors and would be adding two dozen which would increase power generation by tenfold. China will add 10 new reactors a year to its 11 reactors now.

As of now, two companies in America, General Electric and Westinghouse, the makers of nuclear reactors, have no worries!

### ***Implications for Fiji***

Pacific islands, including Fiji, would have to face in the short-run some steep fall in tourist arrivals from Japan. The FDI flows to developing countries may also decrease in the short run. However, decrease in official assistance is not likely, as Japan would maintain its committed levels of aid programs.

### ***Japan will rise again.***

Noting that Japanese culture has long-prized fragility, impermanence and transience, Hugh Levinson of BBC observed that the cherry blossom is the most prized of all expressions of nature because it achieves such a brief perfection before falling.

Same time, it is the flexibility, in the context of fragility, which gives greater strength to get up and go.

Levinson rightly recalls the Zen teaching which praised the way the bamboo's flexibility gives it a special strength.

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