

Japan's recession deepens

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Japan's economy, the second-largest in the world, has recorded its worst performance in more than three decades.

The economy shrank at an annual 12.7 percent pace in the last three months of 2008, the government said Monday.

Exports during the quarter dropped a record 13.9 percent, as global demand evaporated for Japanese cars and electronics. Major companies such as Toyota and Sony have posted record losses, halted production in many factories and ordered widespread layoffs.

"There's no doubt that the economy is in its worst state in the postwar period," said Kaoru Yosano, minister of economic and fiscal policy.

The economy is falling faster here than in the United States or most other industrialized countries because of Japan's extraordinary dependence on exports for growth. Yosano said sales of autos, electronics and capital goods have been "severely hit" by the global downturn.

The yen's 18 percent gain against the dollar in the past year raised the worldwide price of Japanese exports just as demand for them fell off a cliff.

The pace of decline here has exceeded even the gloomy predictions of market experts polled by the Kyodo news service. They had forecast an annual fall of 11.6 percent. The 12.7 percent figure announced Monday marks the steepest slide since the 1974 oil crisis.

The grim numbers are likely to increase popular pressure on the government to do more to stimulate economic recovery. But there may be little that the current government can do.

The public appears to have lost faith in the leadership of Prime Minister Taro Aso, who has been in power less than six months. His approval rating fell below 10 percent in the most recent national poll.

Aso has championed a stimulus plan built around a cash handout of between \$130 to \$220 per person. But the public does not want the money and does not believe the handout will do much to revive the economy, polls show.

The plan has also been questioned by former prime minister Junichiro Koizumi, who stepped down in 2006, but remains perhaps the most influential voice in the ruling Liberal Democratic Party, which has controlled the government, with only one brief interruption, since World War II.

Koizumi's unusually harsh words -- he has called some of Aso's comments "laughable" and has questioned his competence to contest an election -- suggest that the prime minister may be forced to resign.

The ruling party must call a national election by September and polls suggest that it could be defeated by the opposition Democratic Party of Japan.

The size of any stimulus package in Japan is limited by its obligation to service the world's most onerous public debt burden (more than 155 percent of gross domestic product) while meeting the mushrooming pension and medical needs of the world's oldest population.

The Bank of Japan, meanwhile, has virtually no room for cutting interest rates. It has already cut a key rate to 0.1 percent, while pumping money into the financial system and buying corporate debt.

The head of research at the central bank, Kazuo Mommo, said last week that surging bankruptcy numbers and sharply falling orders for machinery show that the Japanese economy is far from reaching a bottom.

"We have to consider the possibility that there could be even greater decline between January and March," he said.

The ability of the Aso government to cope with the troubled economy took an unexpected blow over the weekend when Finance Minister Shoichi Nakagawa appeared to be drunk at a press conference in Rome.

Japanese television repeatedly broadcast close-up images of his slurred answers to reporters' questions after a meeting of finance ministers from the Group of Seven leading industrial countries.

Nakagawa apologized to the prime minister's chief of staff, Takeo Kawamura, for causing anxiety, according to the Kyodo news agency.

He later told reporters that he had had a few drinks over the weekend, but he denied being drunk.

"I took a larger-than-usual portion of cold medicine," he said Monday. "I feel sorry for my behavior."

He said that he would not resign unless asked to do so by the prime minister.

A leader of the opposition Democratic Party said Nakagawa had embarrassed Japan. "Damage to the national interest is immeasurable," said Yukio Hatoyama, according to Kyodo.

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