

# **Japan Analysis Report #1:**

## **"Is the cancer spreading?"**

Written by: [Vincent Musumeci](#) UMAC class of 1999 BEc major.

Japan is in the midst of an economic recession and social depression that has not been experienced by the Japanese since the end of World War II. The population is caught up in a cancerous negative sentiment that is propelled by the indecisiveness of the leaders of the nation. Thriftiness is now the key to survival for many families who have seen their breadwinner go from owning and running his own business to being a taxi driver. The social strain is enormous, especially for the young who feel that they have irrevocably had their futures condemned by the current vicious cycle of negativity and bleakness.

Economically, the trade account is positive due to dropping imports that are a sign of a weakening not growing economy. With regard to the USA, this could again cause the perennial problem of protectionism gaining support within the American congress. Domestic private consumption remains stagnant although the government's efforts via the special tax rebate (compulsory consumption coupons) will have a considerably delayed effect. The business community is suffering due to the acute unavailability of funds from the financial sector. This is due to the Banks attempting to repair their capital base by restructuring bad loans while also being unable to confidently determine corporate credit risk. Unemployment is increasing, setting new record highs while at the same time those in employment are finding that their incomes are being cut via the variable bonus component of the Japanese salary system. The budget deficit is also at record levels (over 100% of GDP) and the goal of reducing the budget deficit to three percent of GDP by 2005 seems like wishful thinking to say the least. On current trends the Japanese Government Bonds (JGB) will become the most issued form of government debt paper in the world, surpassing the US T-Bonds which are decreasing in number. As the value of the total debt increases, the quality of the JGB will decrease and in turn increase the spread between the JGB and US T-Bond.

In current economic malaise the Japanese government continues to offer the same stock solutions. The fiscal stimulus packages have failed to revive the

economy but have probably kept Japan from entering into a deflationary spiral. Yet still the government continues to only use conventional policy to solve an economic problem that is governed by much more than economic factors.

Confidence or the lack thereof is the key issue on the micro side. For business it is a daily struggle to obtain access to funds for even the most basic of transactions. Paranoia throughout the business community regarding the true fiscal condition of debtors makes most forms of credit inaccessible. ([see data](#))

Realistically the only type of debt accessible to small business is that offered by Yakuza loan sharks. While for consumers the bleak environment of unemployment, uncertainty and the resulting social dysfunction around them continues to prolong their negativity. A current joke in Japan that eerily reflects reality is,

"The only businesses in the black are the loan sharks that prey on entrepreneurs with nowhere to turn. And the wine shops that help entrepreneurs to drown their sorrows in cheap Chilean wine while the loan sharks celebrate with bottles of 1993 Chateaux Margot."

Regardless of the improvement in some indicators Japan's economic cancer continues to grow, and the world watches hoping that it's deflationary condition can be quarantined.