

# Japan's tsunami and earthquake - economic effects



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While the nation's industrial clusters in the south and west seemed to be spared the worst, the crisis at damaged nuclear plants north of Tokyo was threatening to cause an energy squeeze that could set back all sectors of Japan's economy. "The big question is whether this will seriously affect Japan's ability to produce goods for any extended period of time," said Edward Yardeni, an independent economist and investment strategist. The bleak outlook prompted a 6.2 percent plunge in the Nikkei 225 stock index in Tokyo on Monday, as companies from Sony to Fujitsu to Toyota scaled back operations.

The Bank of Japan, in an effort to preempt a further deterioration in the economy, eased monetary policy on Monday by expanding an asset buying program and poured money into the financial system

Economic activity in Japan contracted in the fourth quarter of 2010, and the country was overtaken by China as the world's second-largest economy, after the United States. Activity may well shrink for the first half of this year, Mr. Zandi said, though he predicted that the rebuilding efforts in the aftermath of the quake would help provide a rebound in the second half.

Rebuilding costs that could run in the tens of billions of dollars may require Japan to make tough decisions about government spending, economists say. Its ratio of government debt to the economy's annual output is already at 200 percent, the highest among industrialized nations. So reconstruction work may make cuts in government spending elsewhere a necessity.

Fukushima nuclear reactors 1 and 2 accounted for approximately 24% of electric power for Japan. Lack of electric energy will have a direct impact on

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industries that absorb a lot of electricity, such as steel and automotive industries. Due to its indirect occur in industrial derivatives, such as spare parts and other supplies, which come close due to upstream industries closed. Rolling blackouts are also done not only in areas affected by the earthquake, but in about 13 prefectures, which contributes about 42% of the GDP of Japan, and became Japan's leading industrial base, such as Sony, Toyota, Nippon Steel, etc.. In the worst case scenario, if the whole industry will reduce the capacity of its operations until several weeks after the disaster, its impact to GDP is estimated to be significant. This means that the Japanese economy will weaken.

But hope lies in Japan's post-disaster reconstruction efforts. The cost for rebuilding Japan is estimated to exceed 200 billion U. S. dollars. In fact some say up to 500 billion U. S. dollars. This figure is in addition to arise from an insurance claim, also from the cost of infrastructure development, such as bridges, highways, and buildings. It can withstand an economic slowdown in Japan's medium to long term. The total cost of reconstruction will be even greater when taking into account the cost recovery area around the nuclear reactor Fukushima. When the Three Mile Island reactor crisis alone, costs that appear almost reached 1 billion U. S. dollars for the cleanup of radiation for 14 years.

With the disaster, this year Japan will enter the double dip recession, or back again into the recession zone, with negative growth in the first quarter and second quarter of 2011, after also experiencing an economic contraction of 0.3% in the fourth quarter of 2010. The negative impact of the disaster will be felt fully in 2011, associated with a shortage of electric energy and

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distribution chain is disrupted. Subsequently, in 2012 until 2016, Japan is expected to do the reconstruction all areas affected by the earthquake.

On the other hand, Japanese imports, mainly associated with the fuel to compensate for the loss of nuclear power will increase.

## **How to repatriate money from outside Japan without appreciating the yen?**

The yen is expected to strengthen against the dollar, as Japanese investors bring money back from overseas to shore up their savings and provide money for the rebuilding campaign. Those financial flows back into Japan will drive up demand for the yen, increasing its value. After the Kobe earthquake in 1995, the yen rose about 20 percent against the dollar over a few months.

Important Notes: – 1) Japan is the largest manufacturer of LCDs and light weight chips for mobile phones and tablet PCs. Also it is a center of making electric cars which are required more in the scenario where Gasoline prices are increasing.

2) Japan economy has receded in late 2010 when China overtook Japan to become the 2nd largest economy in the world after USA. Japan was expected to re-grow from the second quarter of 2011, which most likely is going to get delayed to this fury of nature.

How to create a culture of consumption/ spending in Japan?

<http://theeconomiccollapseblog.com/wp-content/uploads/2011/03/Chart4.png>

How to reduce the Japanese Debt without jeopardizing the growth?

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Japan already had a national debt that was well over 200% of GDP. Could this be the “ tipping point” that pushes the Japanese economy over the edge and into oblivion?

How to decrease the gap between tax revenues and spending?

How to foster growth after the earthquake aftermath?

How to solve the aging population problem?

In graph format, it resembles a top-heavy skyscraper ready to fall.

Successive administrations have taken steps to boost the birth rate and introduce financial reforms to meet rising costs. Some of the strict regulations which will be placed are as follows:-

- a) a system that guaranteed women could get back to work after having a kid.
- b) Decreasing the cost of education by establishing more government funded schools and universities.
- c) tax rebates to incentivize couples to have children.
- d) longer compulsory maternity and paternity leaves can also help

### **How to redesign the Japanese ill design tax system?**

The foundation’s proposals state that Japan’s tax system requires fundamental reform in light

of:

- the need to fund a social security system that will support a declining and aging population;

- the desire to strengthen the potential for economic growth to maintain domestic business and

attract new investment from overseas; and

- the need to increase revenues to reduce the current high level of national debt.

With these factors in mind, the foundation set out seven actions as steps toward a solution:

- The consumption tax rate should be raised gradually after the economy recovers.

- The effective corporate income tax rate should be reduced, with a target of 30 percent, which

is in line with the rates of other countries worldwide.

- Significant reform of the income tax system should be undertaken, allowances (for example,

those for dependents) should be comprehensively reviewed, and " tax credits payments"

should be introduced.

- A taxpayer identification number system should be introduced to ensure fairness and

transparency in capturing income.

- To revitalize the financial capital markets, the scope for individual investors to offset each

year's finance-related income and losses should be enhanced, and they should have the

ability to carry forward any net losses (currently all types of finance-related income such as

interest and capital gains are subject to different tax treatment).

- Suggested changes to the inheritance tax system should be articulated so that people

understand the reasons for the changes and how they will work. This should reduce the

likelihood that individuals will be discouraged from making and accumulating assets. 1

- Any environmental taxes should be designed to encourage the development of new

technology and the spread of existing environmentally friendly technology and related goods.

New taxes should not be introduced that would encourage manufacturers to move to less

energy-efficient countries and thus reduce the industrial base in Japan.

**How to sell and repatriate the money invested in foreign countries debt without affecting the exchange rate?**

**Issue bonds requiring receiving yens at time 0 and paying dollars for the coupons and principal at maturity?**

**Monetary Policy:**

Continue pursuing expansive monetary policy

Quantitative Easing (Buy assets), Asset Repurchase Agreements

Fight deflation

Maintain interest rates close to 0.

Foster growth in the aftermath of the earthquake

Foster investment in R&D

<http://www.reuters.com/article/2011/03/18/us-japan-economy-boj-idUSTRE72H0ZH20110318>

<http://www.reuters.com/article/2011/03/19/us-japan-economy-roubini-idUSTRE72I1GA20110319>

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## **Fiscal Policy:**

Reform tax system: consumption, income and corporate tax.

“ On fiscal policy, the government has undertaken a series of supplementary budgets and special fiscal measures. The problem is that the Ministry of Finance basically doesn’t like these (measures),” he said.

“ When the government of Japan has announced these new fiscal measures,” Noland added, “ the Ministry of Finance has acted to offset those additional expenditures by cutting expenditures in other parts of the budget, or by raising taxes or fees elsewhere in the budget.” The government will have to take a strong stand of the implementation of the new Fiscal Policy so that it may have the impact on confidence and expectations about the future vitality of the economy among the people.

- Cap spending vs. Increase spending (earthquake effect)
- Reform pension plans
- Foster investment through reduction in taxes on capital gains

## **Labor markets reforms and Immigration policy:**

- Increase retirement age
- Give citizenship to foreign high skilled young people. / Soften immigration laws.
- Increase mobility in the market
- Increase number of women joining the work force
- Reduction lay off costs and privileges of regular workers.
- Increase productivity

## **Trade Policy (Including Exchange Rate Management)**

- Depreciate the Yen \_foster Japan competitiveness
- Open its domestic market
- Pro competition reforms / free trade agreements
- Incentives to foreign companies