

Who is to blame for Recession in Japan?

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After making steady progress for the last seven years, Japan finally lapsed into recession.

Last Monday, its government announced that the earlier forecasts of economic growth of 1.3% this year, and 1.6% in 2009 will have to be adjusted. After dropping by 3.7% in the second quarter, growth rates declined 0.4% in July-September. Technically, two consecutive negative figures mean economic recession.

As distinct from the upheavals of the 1990s, when Japan's economic bubble popped for strictly domestic reasons, this time the world's second largest economy has been hit by the global crisis, showing its dependence on consumers abroad.

In the past several years, Japan began to rely almost completely on exports of cars and electronics. Its expansion was increasingly aggressive because of steadily declining domestic consumption. According to economic analysts, Japan's GDP grew by 2.1% in 2002-2007, with 40% of this increase achieved with exports. In other words, having improved its financial system, Japan began to depend on the fluctuations of the demand in the world markets.

A sharp drop in corporate investment in the third quarter due to the financial crisis and the strengthening of the yen in relation to the dollar made a bad situation worse.

Minister of State on Economic and Fiscal Policy Kaoru Yosano expressed apprehensions about the prospects for the Japanese economy next year. He said they could not find anything which would turn a minus into a plus.

We are honest in assessing the situation, and right now we cannot describe our economic prospects as positive, he summed up.

Yosano said that in the third quarter GDP went down by 0.1%, which is an annualized drop of 0.4%.

It goes without saying that the banking system in Japan is much better off than in the United States or Europe, but many specialists predict negative dynamics for the Japanese economy for next year. Toyota has already reduced profit expectations in the current fiscal year to 550 billion yen (\$5.5 billion), which is a third of its last year's profits, while Sony has settled for a 59% decrease.

The government's assessment of economic prospects, which is made every December, is the foundation for drafting the budget. These prospects have never been expressed in negative figures; but if this happens in December, tax revenue will drop and the debates on

the budget will be strongly affected.

Prime Minister Taro Aso has twice spoken about the required economic measures. His recent proposal was to earmark 27 trillion yen (about \$270 billion) to extend credit deadlines and channel 2 trillion yen (about \$20 billion) into lump sum payments to families with medium and low incomes, although few people believe this will help.

Japanese economists point out that the situation has been deteriorating since 2007, before the current crisis when contrary to expectations taxes remained high, while the country was shaken by scandals over disarray in pension records and regulation of major construction contracts. They said that the easiest thing would be to curse impudent America or awkward Europe, but the current situation was caused by domestic mistakes and miscalculations, which have been aggravated by external factors.

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