

Recovery in Japan

Panel Detail:

Tuesday, May 3, 2011 11:00 AM - 12:15 PM

Speakers:

[Robert Dekle](#), Professor of Economics, University of Southern California

[Teisuke Kitayama](#), President, Sumitomo Mitsui Financial Group Inc.

[Allen Miner](#), Founder, Chairman and CEO, SunBridge Corp.

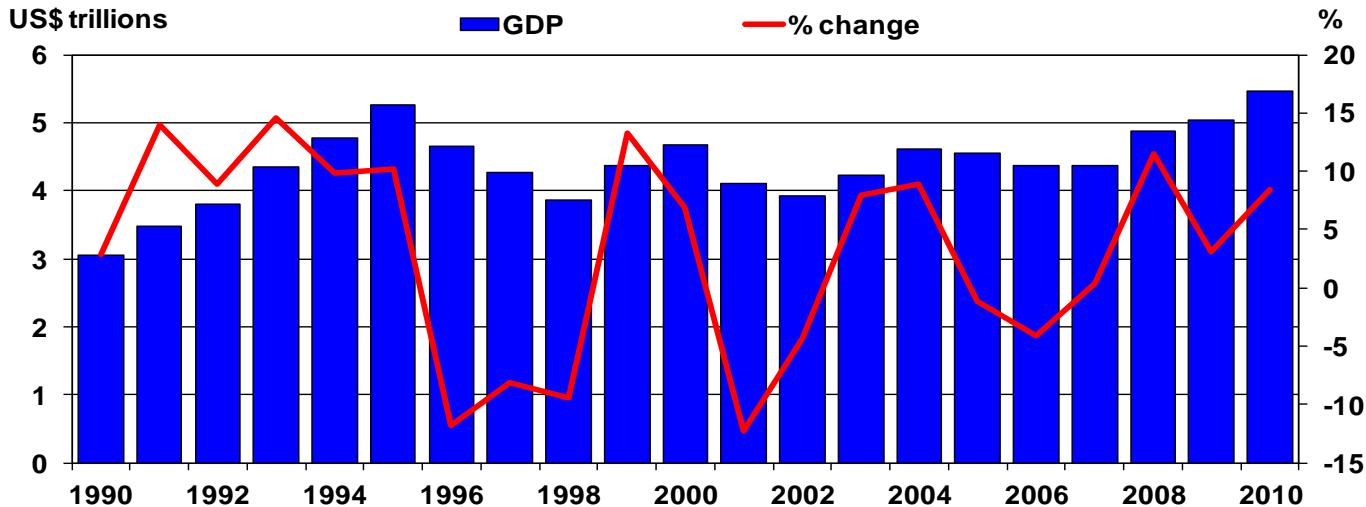
[Koji Omi](#), Founder and Chairman, STS forum; former Minister of Finance, Japan

[Kotaro Tamura](#), Former Senator and Parliamentary Secretary for Economic and Fiscal Policy, Japan; Senior Fellow, Yale University; and Research Associate, Harvard University

Moderator:

[Mark Cutis](#), Chief Investment Officer, Special Situations, Abu Dhabi Investment Council

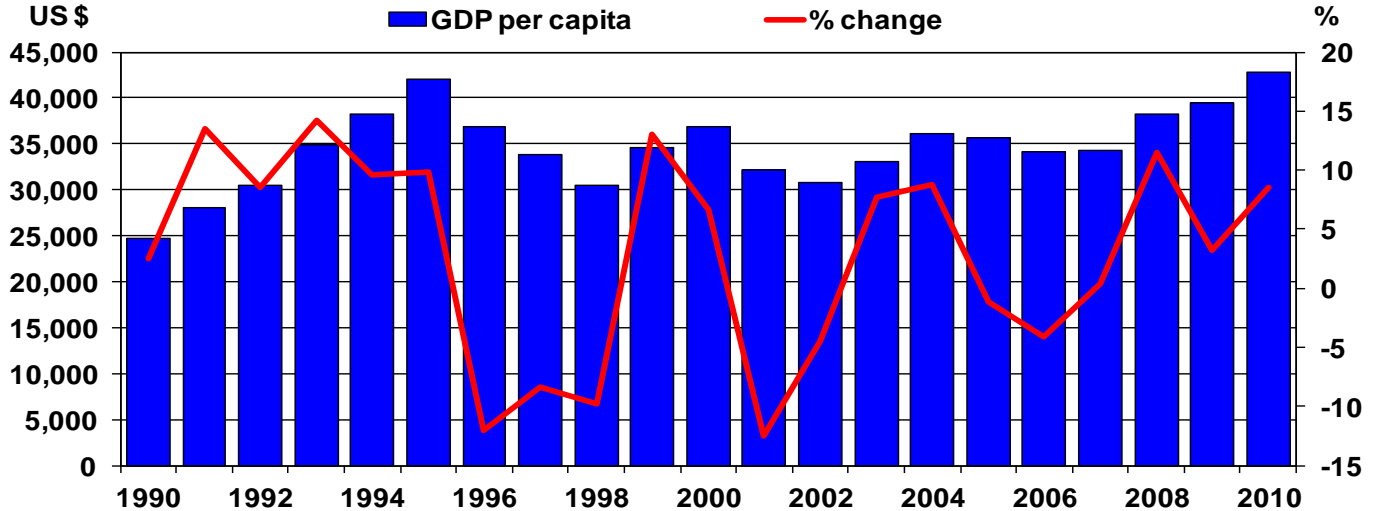
Japan's nominal GDP



Source: World Economic Outlook, International Monetary Fund, April 2011 update.

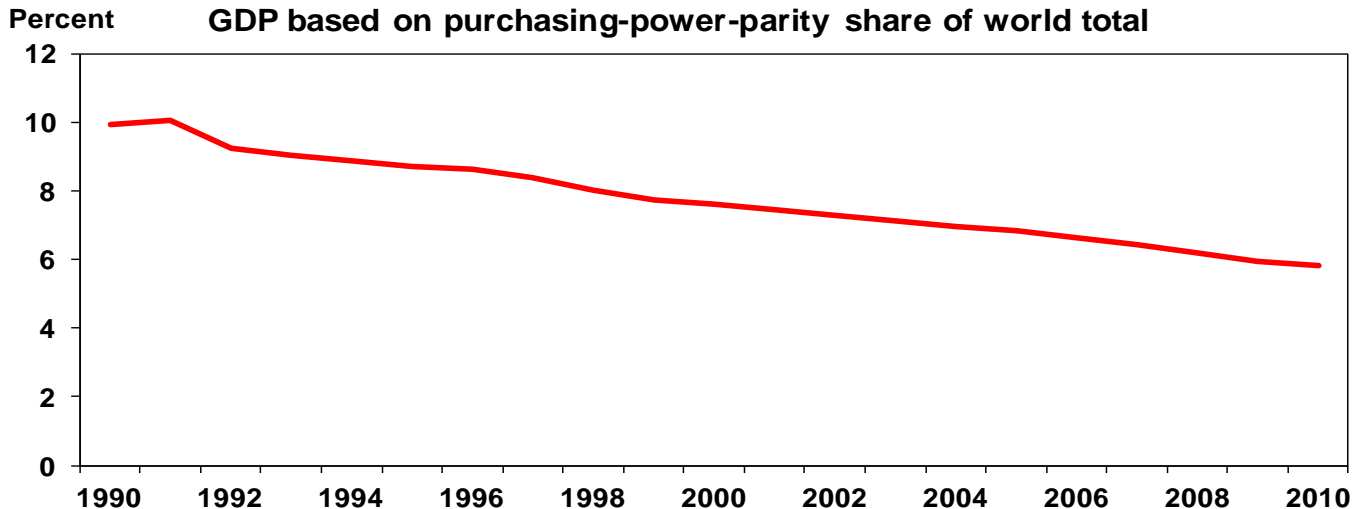


Japan's GDP per capita



Source: World Economic Outlook, International Monetary Fund, April 2011 update.

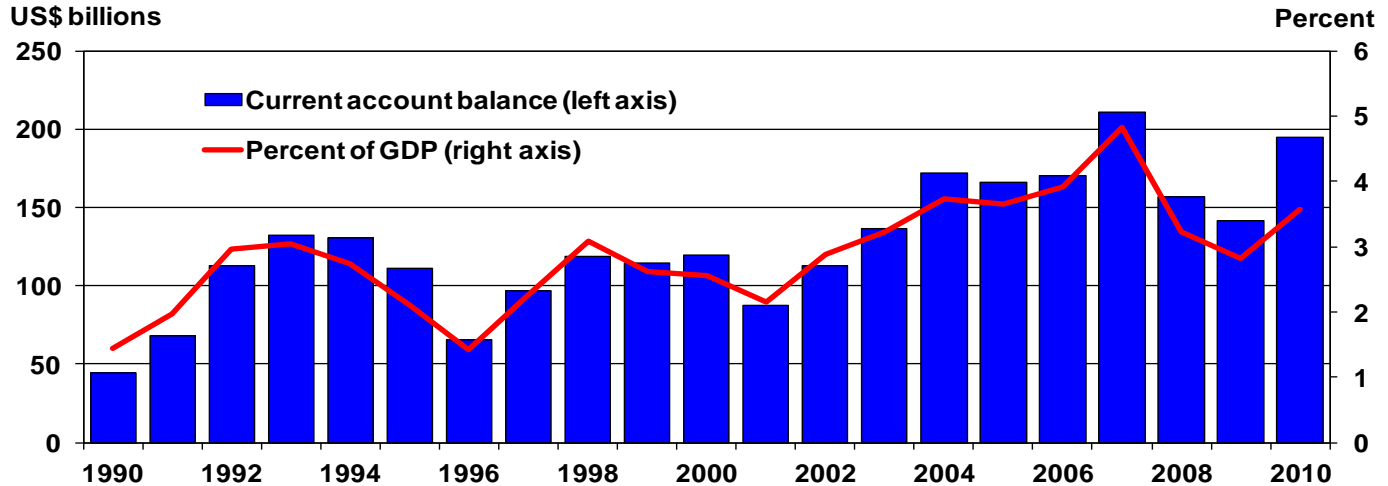
Japan's share of world GDP declines



Source: World Economic Outlook, International Monetary Fund, April 2011 update.

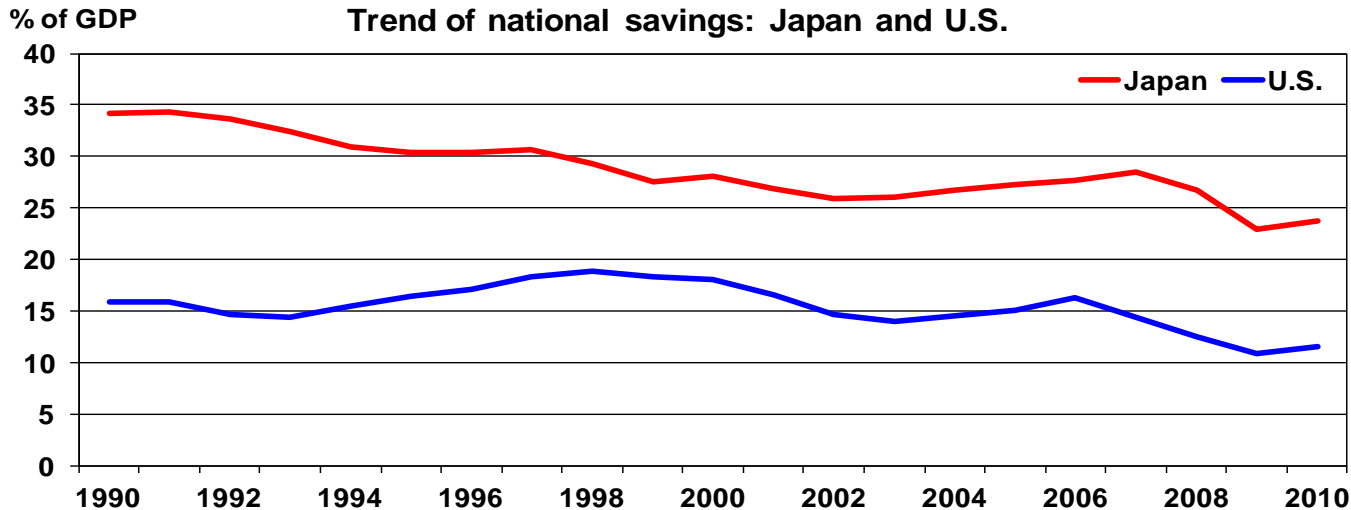


Japan's current account balance



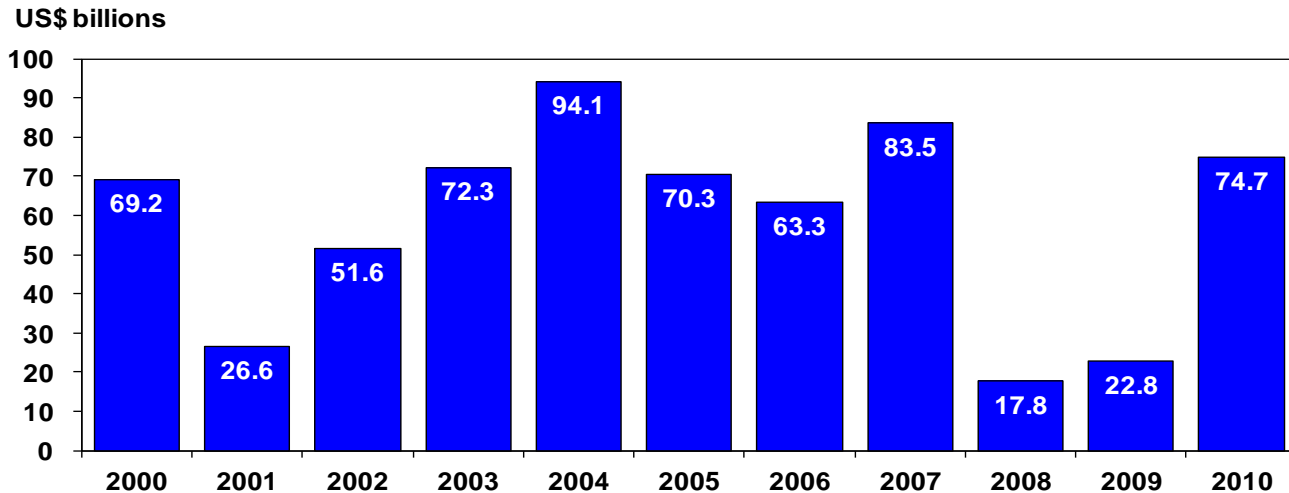
Source: World Economic Outlook, International Monetary Fund, April 2011 update.

Japanese save far more than Americans



Source: World Economic Outlook, International Monetary Fund, April 2011 update.

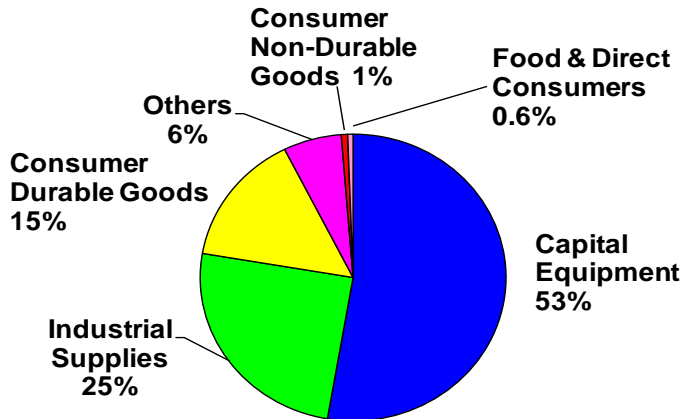
Japan's trade balance



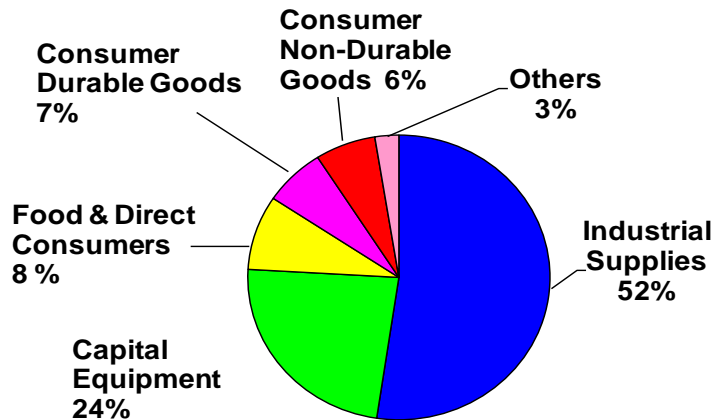
Source: Japan External Trade Organization.

International trade with Japan by special classification of commodity

Exports 2010

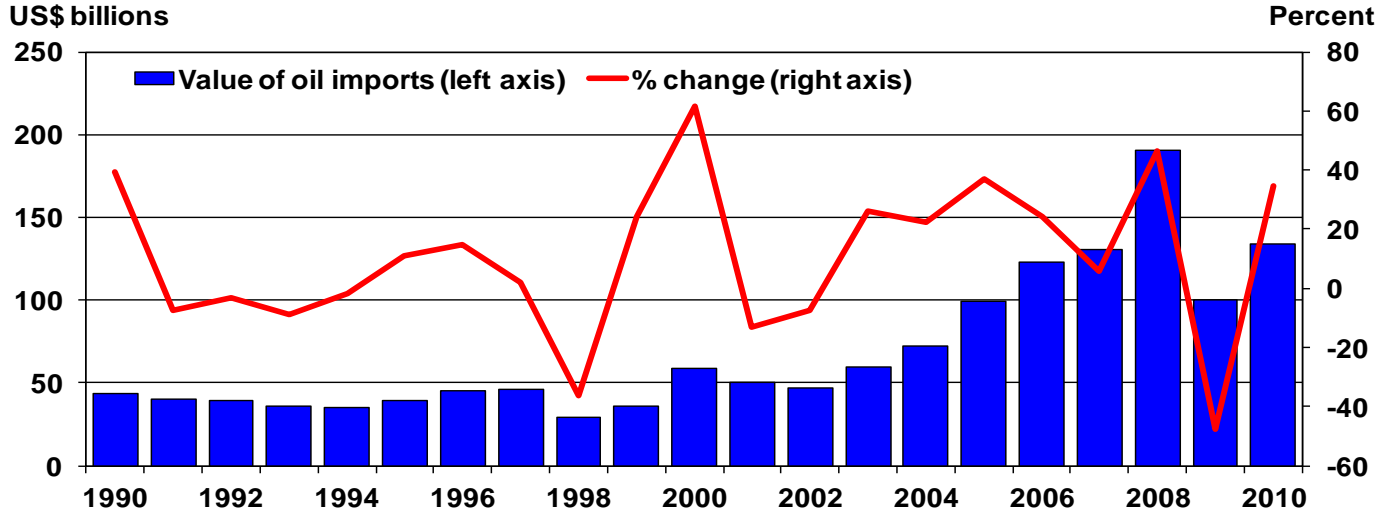


Imports 2010





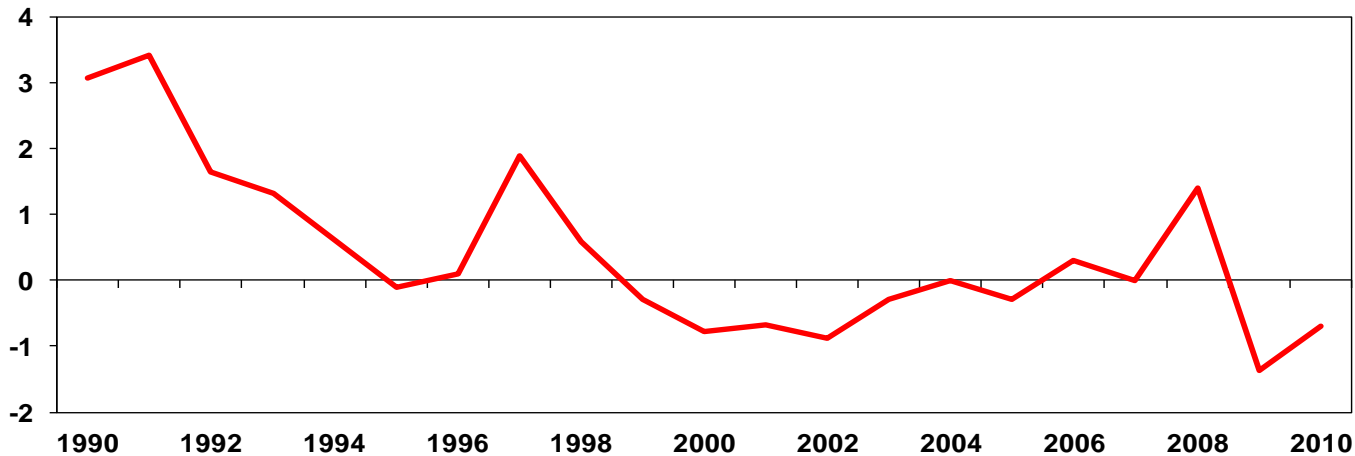
Japan's imports of oil



Source: World Economic Outlook, International Monetary Fund, April 2011 update.

Japan has low inflation level

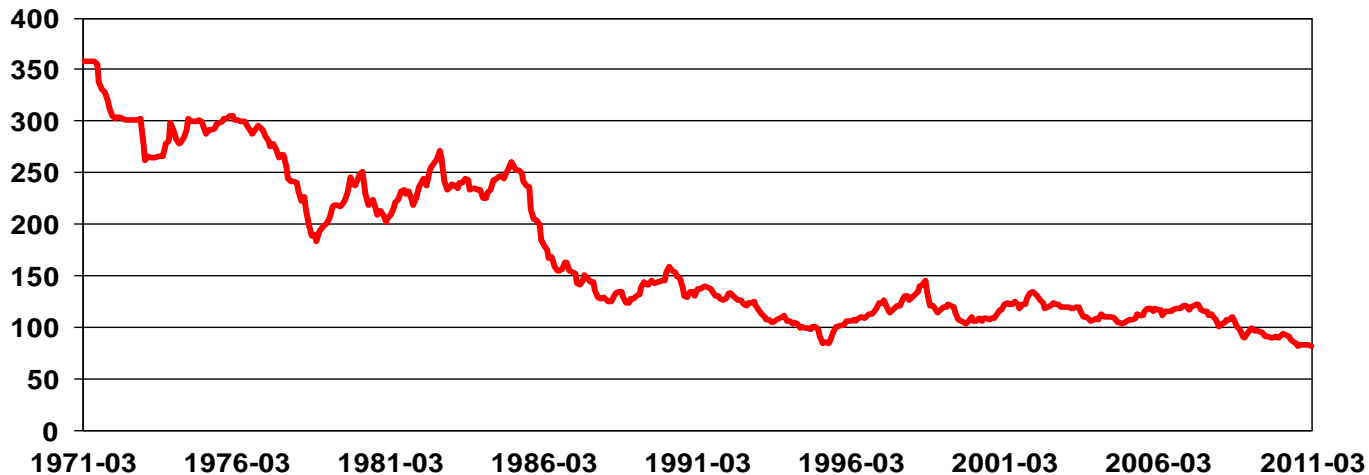
Percent



Source: World Economic Outlook, International Monetary Fund, April 2011 update.

Yen at record high against the dollar

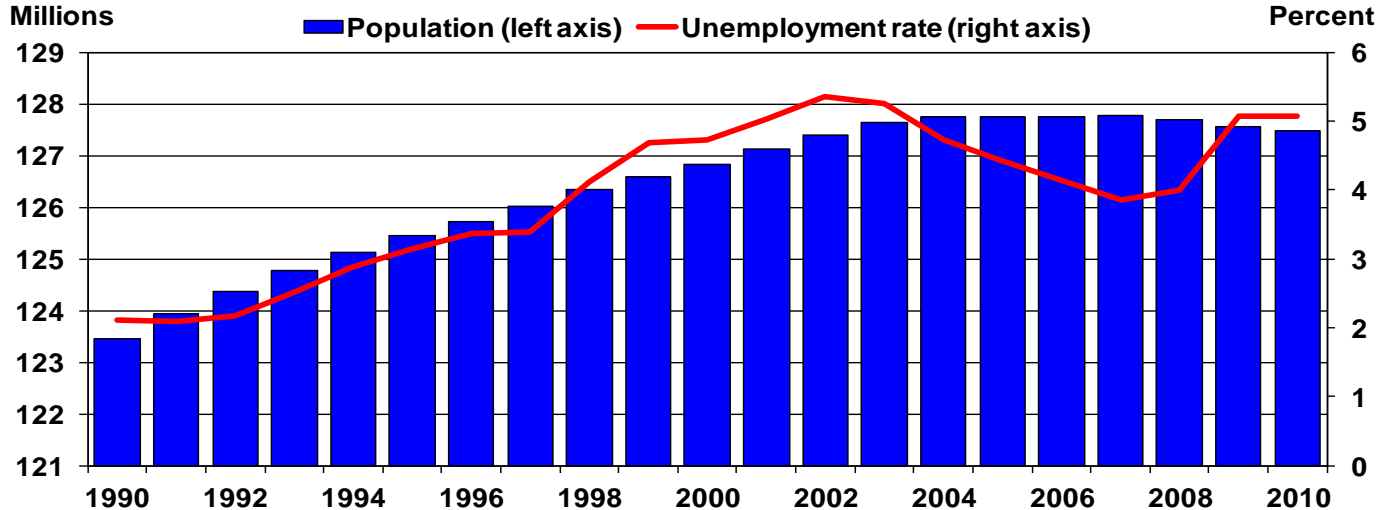
Yen to U.S. Dollar



Source: Board of Governors of the Federal Reserve System , April 2011 update.



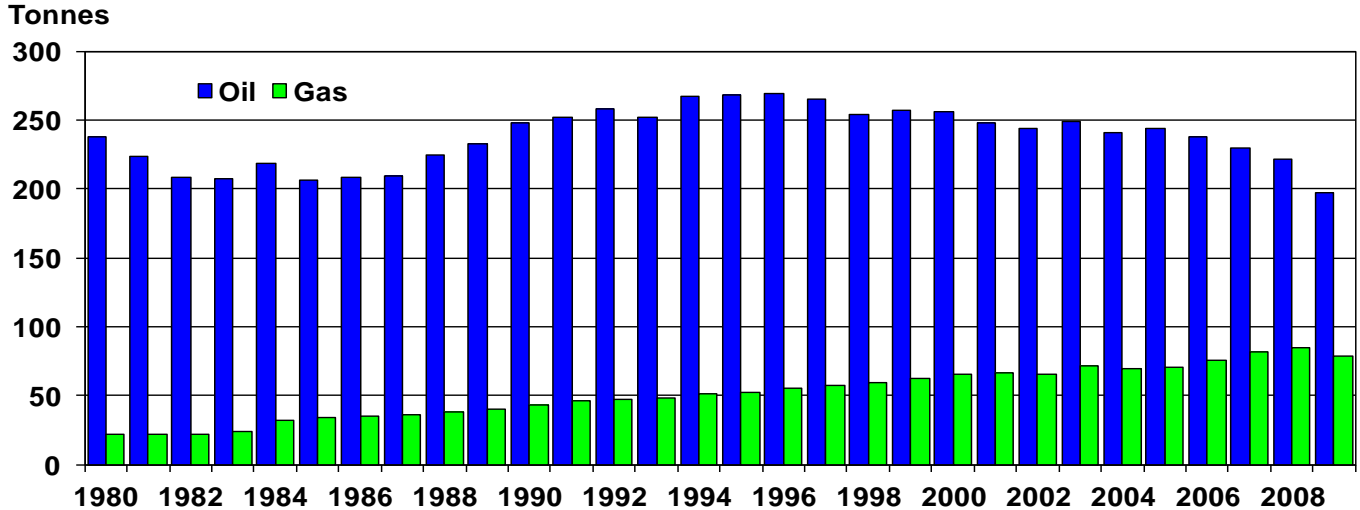
Japan's population and unemployment rate



Source: World Economic Outlook, International Monetary Fund, April 2011 update.



Japan's daily consumption of oil and gas



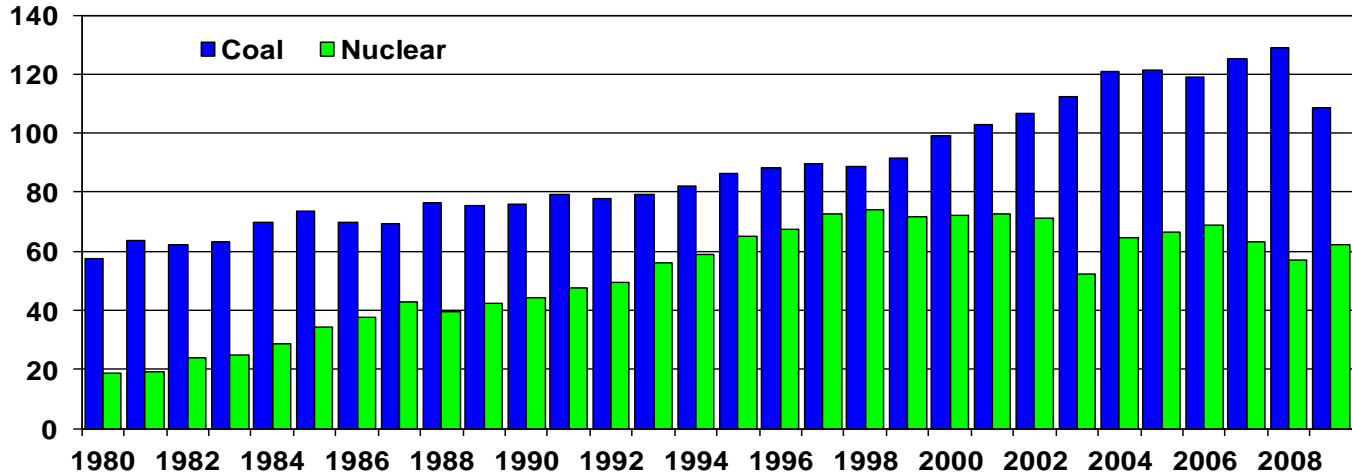
Source: BP: Statistics Review of World Energy, 2010.

Japan's daily consumption of coal and nuclear energy



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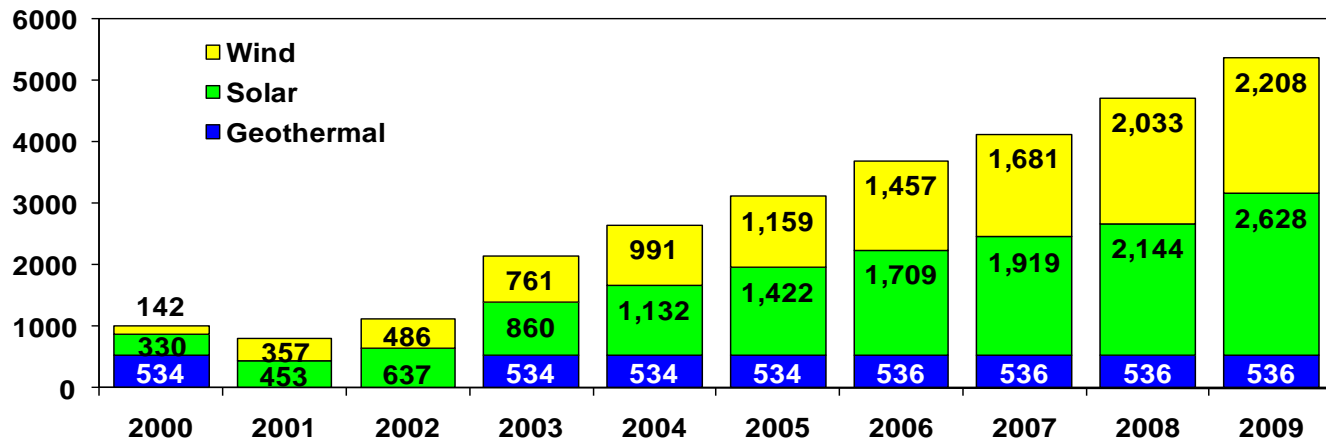
Million tonnes oil equivalent



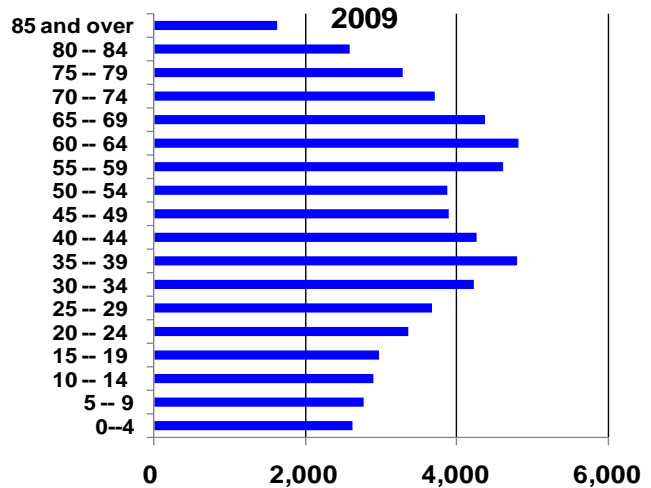
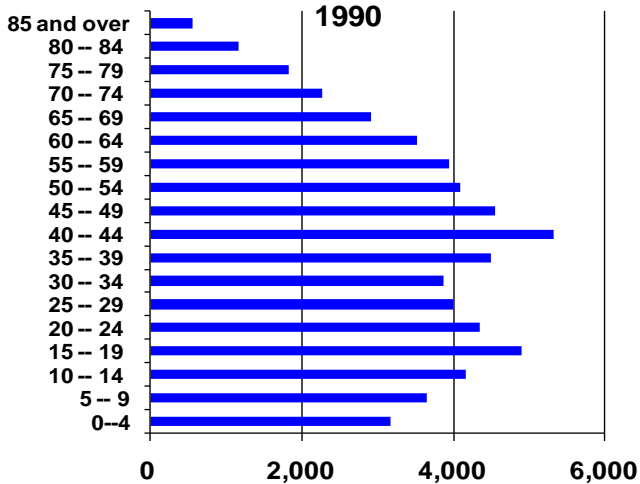
Source: BP: Statistics Review of World Energy, 2010.

Japan's renewable energy: Cumulative installed power capacity

Megawatts

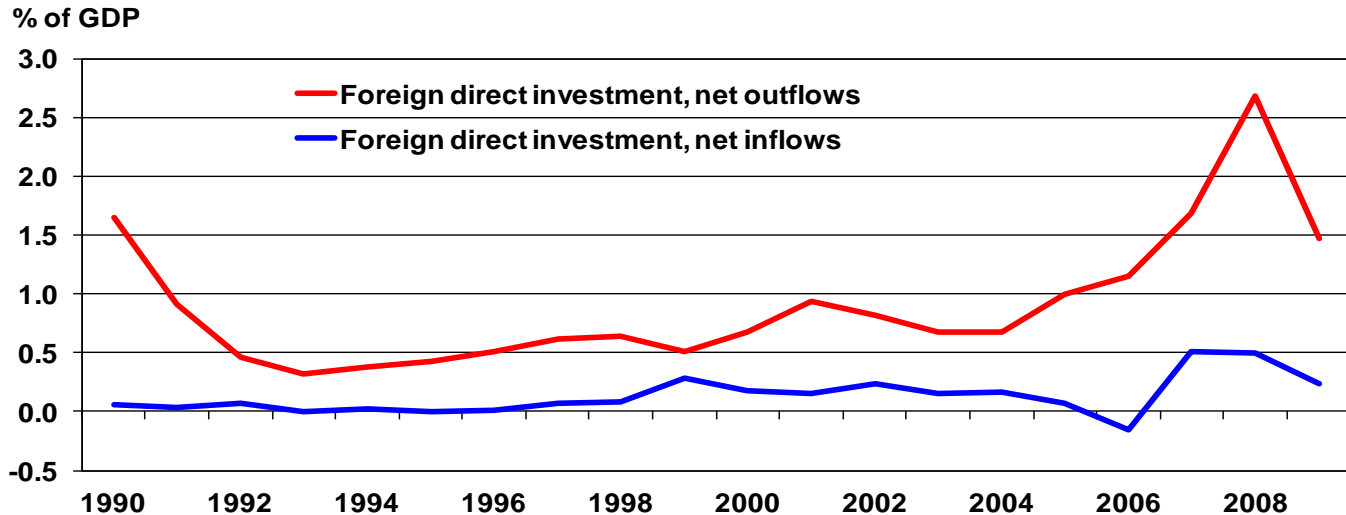


Japan's has aging population



Source: Statistics Bureau.

Foreign direct investment: outflows and inflows



Source: World Bank.

Japan's market capitalization roller coaster



Source: World Bank.

Impacts of tsunami on Japanese economy



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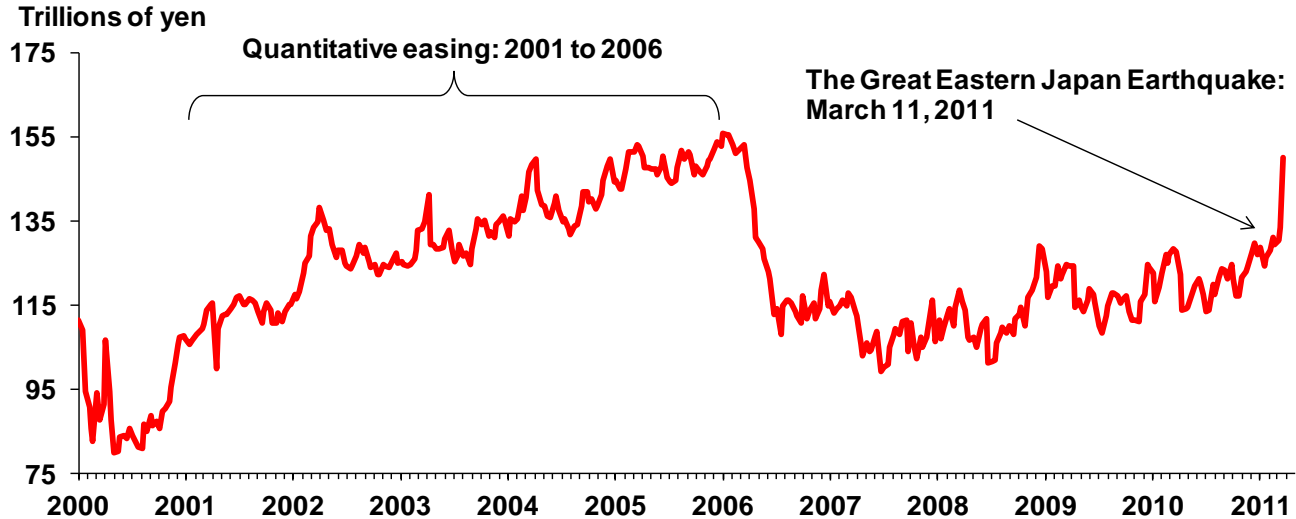
- **GDP level could drop 13%, reducing growth by 3%**

Assuming economic activity in all affected regions—Tohoku, Hokkaido, 9 prefectures managed by Tepco—is reduced an average 25% over the coming months.

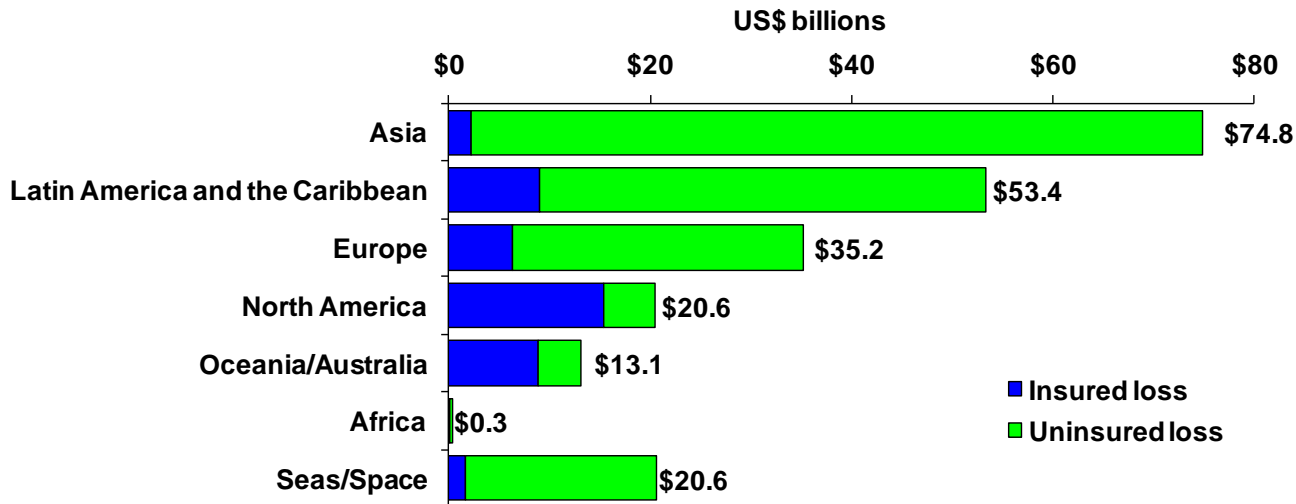
- **Rolling blackouts could impact 40.1% of GDP**

Rolling blackouts instituted by Tepco (in wake of the shutdown of damaged nuclear power plants) will weigh on economic activity in the 9 prefectures affected: These nine prefectures account for 40.1% of GDP.

Bank of Japan injected liquidity into the economy after the earthquake



Disaster-related economic losses total \$218 billion, of which \$43 billion was insured





Its Not-So-Dismal: Predictions for Japan from a Dismal Scientist

Robert Dekle

Department of Economics

University of Southern California



Earthquake will raise Japanese GDP growth by 2012

- The Great Tohoku Earthquake destroyed 4-5 percent of the Japanese capital stock.
- This capital stock destruction will raise capital productivity, capital expenditures and GDP growth.



Japanese debt problem will disappear in 5 to 7 Years

- Earthquake will create political consensus for consumption tax increases, and entitlement cuts.
- The combination of fiscal restraint, higher real growth, and especially higher inflation will lower the Japanese debt-GDP ratio in the medium-run.



Japan will become an export powerhouse again

- Japanese government policies to promote export oriented industries such as Medical Tourism and Green Industries will bear fruit.
- With higher inflation depreciating the yen, Japanese exports will increase, fueling stronger GDP growth.



Teisuke Kitayama's slides



1. Japanese Economic Outlook after the Earthquake

The impact of supply shock caused by the Earthquake will be serious in the short term. But Japan's economy will get back on its steady recovery track from 2011Q3 with "rebuilding" demand rising.

2. Financing for Reconstruction

Additional government bond issuance to finance for reconstruction activities may be inevitable. In this case, keeping fiscal discipline will be more important.

3. Fiscal Policy Management

For the time being, Japan's sovereign crisis is unlikely. But Japan must show their strong will and ability to keep fiscal discipline.

4. Aging Society

Activating the labor power of female and retirees and improving productivity of domestic service industries are key solutions to overcome the negative effect of the aging population.



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岩手県宮古市 閉伊川をさかのぼった津波が堤防を越え海辺の街に襲いかかったー閉伊川河口付近で、11日午後3時21分、狩野智彦撮影

Japan's Restoration

Disaster as a mother of reform

Kotaro Tamura May 2011



Dartmouth and Japan

- Kanichi Asakawa
1873 Born in Fukushima
1899 Graduated from
Dartmouth
1902 Obtain PhD from
Yale
1937 Became First
Ivy league Professor
Struggled to stop Pacific War





Super Quake

- 1 M9.5 Chile 1960
- 2 M9.3 Sumatra 2004
- 3 M9.2 Alaska 1964
- 4 M9.1 East Japan 2011
- 5 M9.0 Kamchatka 1952

- M7.9 Sichuan 2008
- M 7.8 San Francisco 1906
- M7.0 Haiti 2010



Japan's quake is 1000 times bigger than that of Haiti



Explosive Wave

- Height Max 37.9m=125ft. Av 15m=50ft.
- Speed 10m/second=36Km/h=22.4mile/h
- Pressure Max=50t/m² Av20t/m²



LOST



- Dead 13,498 (1,800)
- Missing 14,734
- In Shelter 139,115 (800,000)
- Demolished houses 59,923
- Partially demolished 158,271 (200,000)
(Katrina)





Losing power

1•Electric Power

Still 25% less power in Tokyo

2•Purchasing Power

Continuing after-shocks and coordinated save energy mind-set kill consumption

3•Production Power

Supply-chain hit



Radiation



- Harmful rumors damage production and consumption
- “Stay at home” alert
- Relocation of people and businesses out of Tokyo megalopolis creates deflationary spiral inside Tokyo
- Asset price plunge in Tokyo damages balance sheets of large financial institutions
- Abolition of Nuke PPs increases burden





Canceling Japan trips

- More than 50% less tourists
- 90 % decrease in sales in Asakusa Nakamise
- 5 tourists ride on average per Hato-bus
- No insurance covers business trips to Japan from UK





Directly hit area's GDP accounts for
no more than 7% of Japan's total

BUT

Indirectly hit area's damage is **HUGE**

TOKYO MAGALOPOLIS

- more than 30% of total population
- more than 40% of total GDP





Good News: We are more resilient?

- Production comes back in 15 months
- All department stores re-open in 18 months
- Express way reconstructed in 21 months
- Port system comes back in 26 months



People said it will take more than
10 years to restore Kobe right after the Quake



Bad News: We become POOR!

1•Nominal GDP (Y trillion)

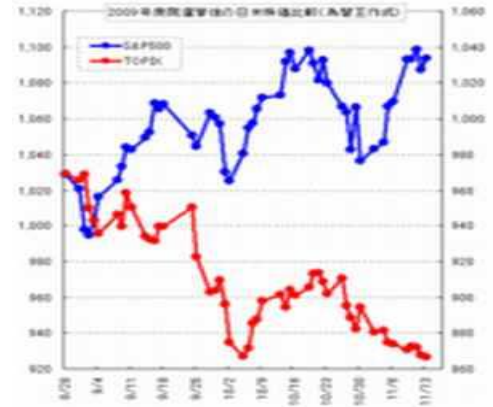
495 in 1995 ↓ 477 in 2010
7,414 (US\$ billions) 14,624

2•National Debt(Y trillion)

550 in 1995 ↑ 1000 in 2010

3•stock price (Y)

19,000 in 1995 ↓ 9,500 in 2011
5,117 (US\$ billions) 11,577



We may seem rich, but we are just heavily indebted.



Fiscal stimulus needed: How do you finance?

- Tax raise in the midst of deflation? Good idea?
- More JGB issuance is OK? Already **200% compared to GDP**
- Reallocation of budget spending?

More than **70%** of our spending is on social insurance

- How much? 10 trillion for Kobe
- This time? Probably more than three times bigger than Kobe's amount

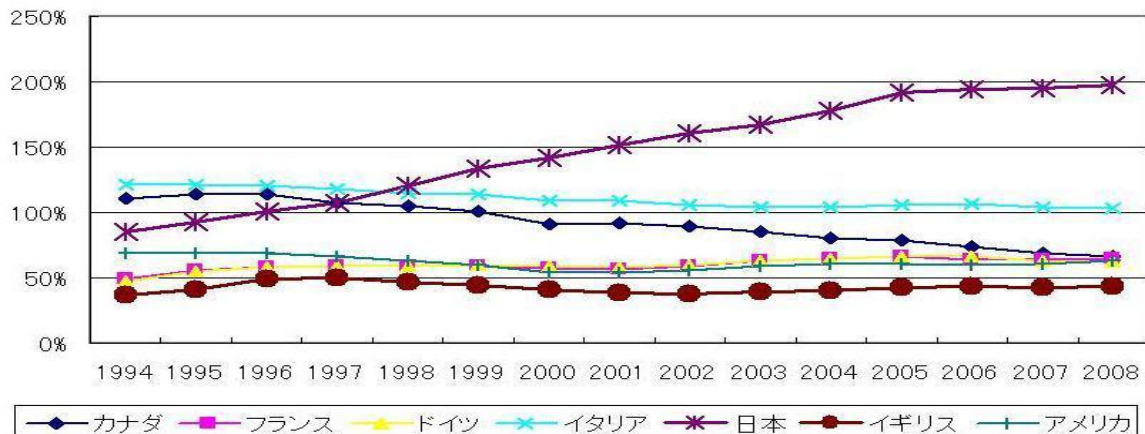




Like Chinese blizzard: Japan's fiscal problem

- ▶ No wake-up call from market
- ▶ Quietly escalating crisis
- ▶ Stuck to existing strategy (problem was not cyclical but structural)

If it did not work, double dose!



Japan is wonder land?-JGB bubble

- Why interest rate never go up?
- Why money flow-in to JGB constantly?

1 Current Surplus

2 Savings both held by households and corporations

3 No other investment opportunity

4 Preference to super long term bond, (especially insurance companies)

Does this sustainable?

No wake-up call from the market is good?



Worst news: Largest after-shock is coming

- Historically, size of the after-shock is around 90% of the main quake.
- M9.1 ~~X~~ 90%= M8+
- Team of geophysical scientists at University of Kyoto announced that largest after-shock might come one month from now
- The team observed crustal plate movements by using special GPS
- Rainy season, hot humid summer without AC

Solutions





Delegation of more power to Local G

- 1 • Spread risks
- 2 • Improve policies through competition
- 3 • Regain fiscal health
- 4 • Foster leadership
- 5 • Trigger for presidential system in Japan

Only local autonomy can produce responsible democracy in Japan.
Only responsible democracy can change the political and economic landscape of Japan.



Restoration fund

- ① Government seed money
- ② Government insurance
- ③ Preferential tax
- ④ Invest in future cities
 - More than technology (renewable energy, energy saving, food production, etc.)
 - Integrated total solution for city rebuilding
 - Plus more local autonomy



Japan's SWF

- Better balance sheet management
- Invite more capital to Japan
- Attract more talent to Japan
- Make more strategic investments in energy and commodities
- Change corporate governance of J companies
- Country becomes largest shareholder activist

ありがとうございました



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In the middle of difficulty lies opportunity.

Never give in, never give in, never, never, never, never.

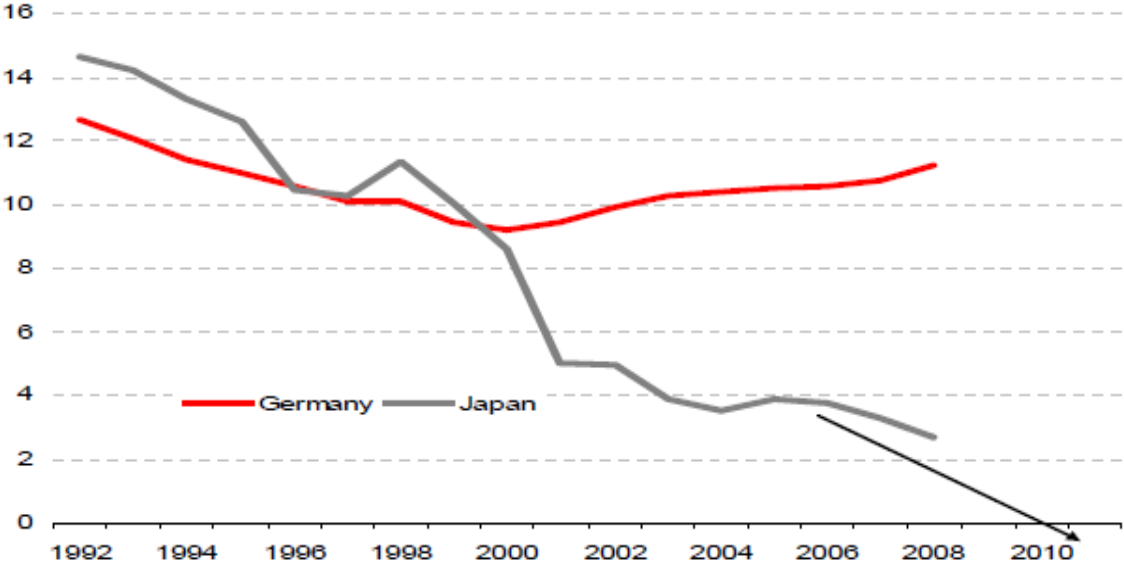
Winston Leonard Spencer Churchill



Japan awakens

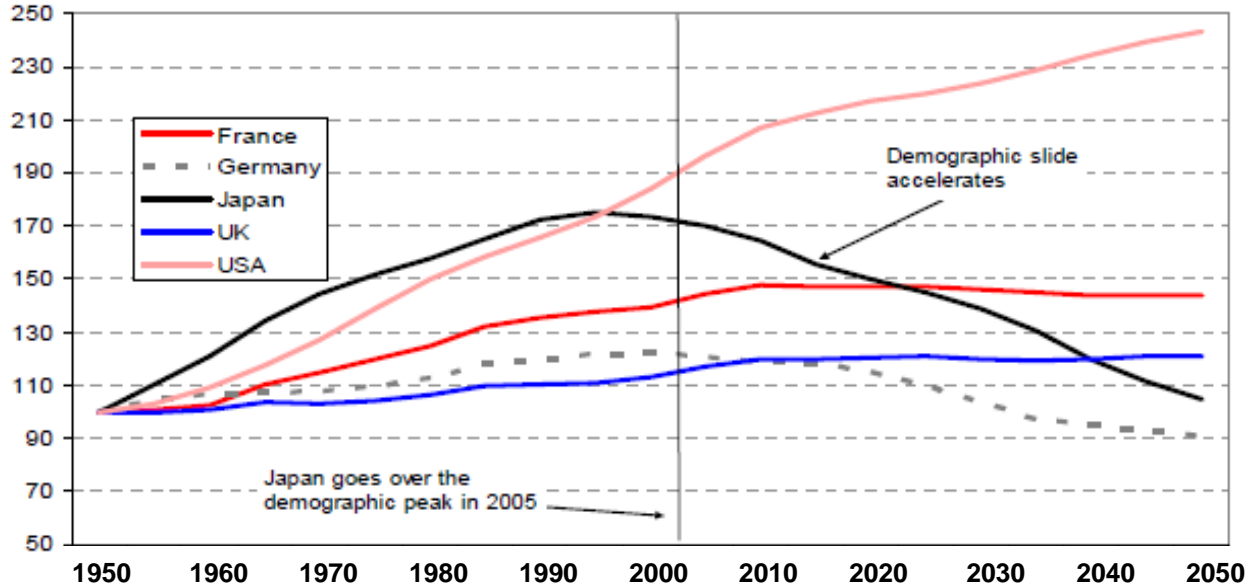
Mark Cutis

Household savings as % of disposable income



Source: OECD and SocGen.

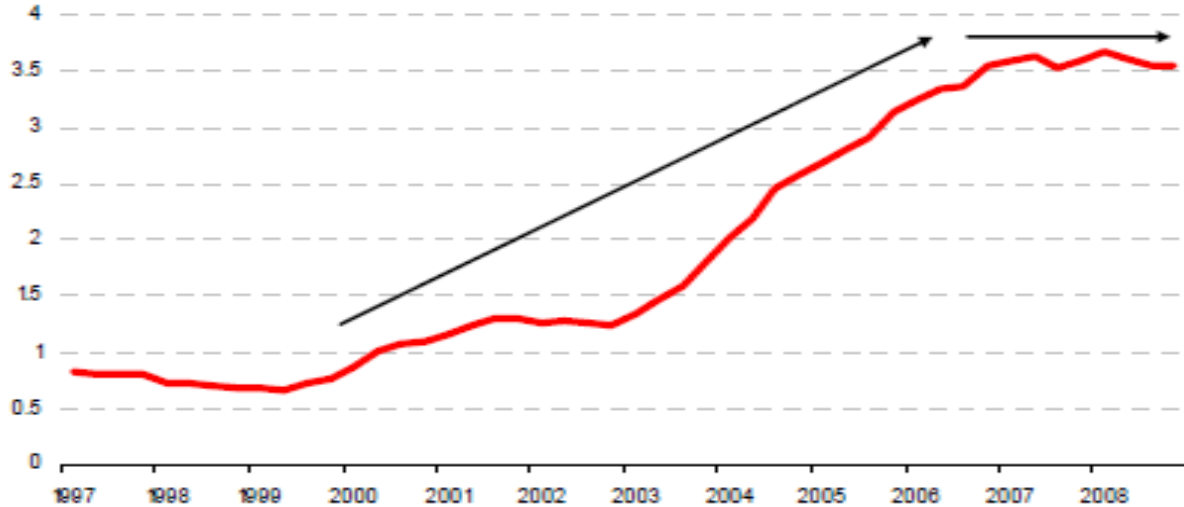
Japanese demographic decline



Japanese household holdings of JGB's

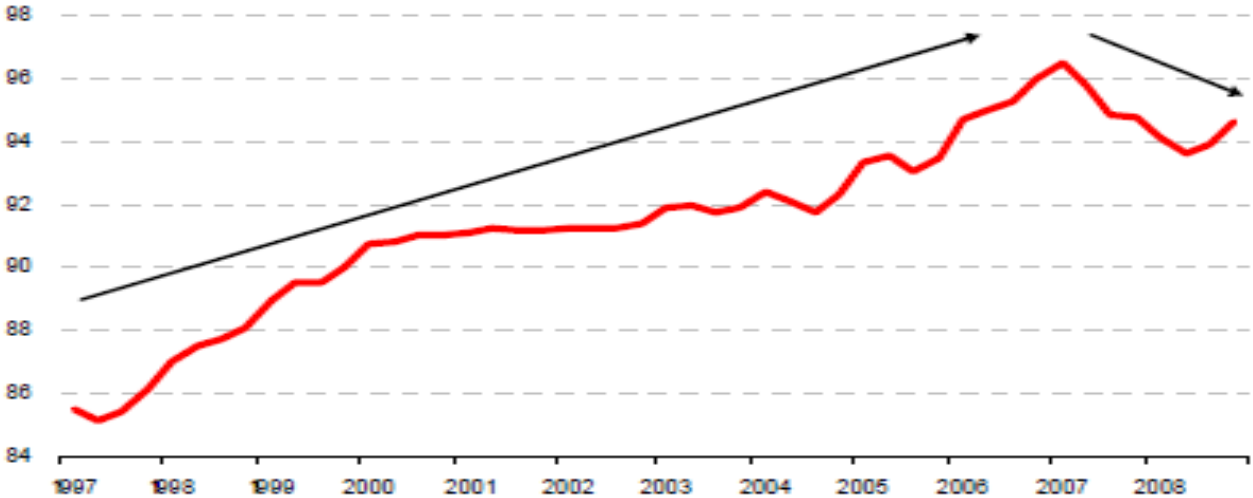


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Source: SG Cross Asset Research.

Japanese Household Wealth

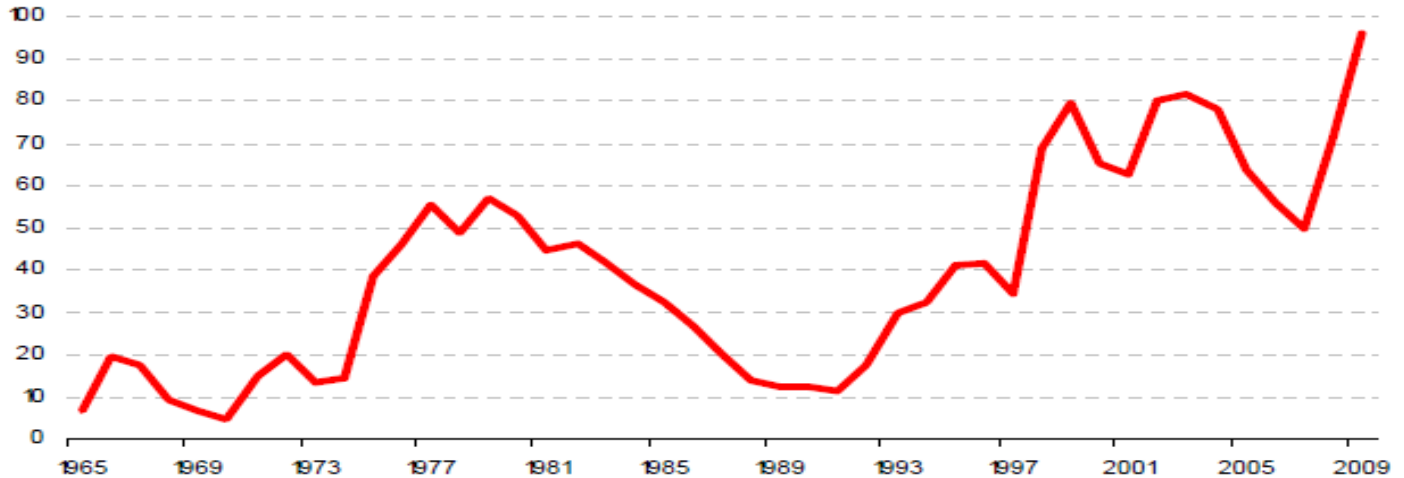


Source: SG Cross Asset Research.

Japanese bond issuance as share of tax revenue

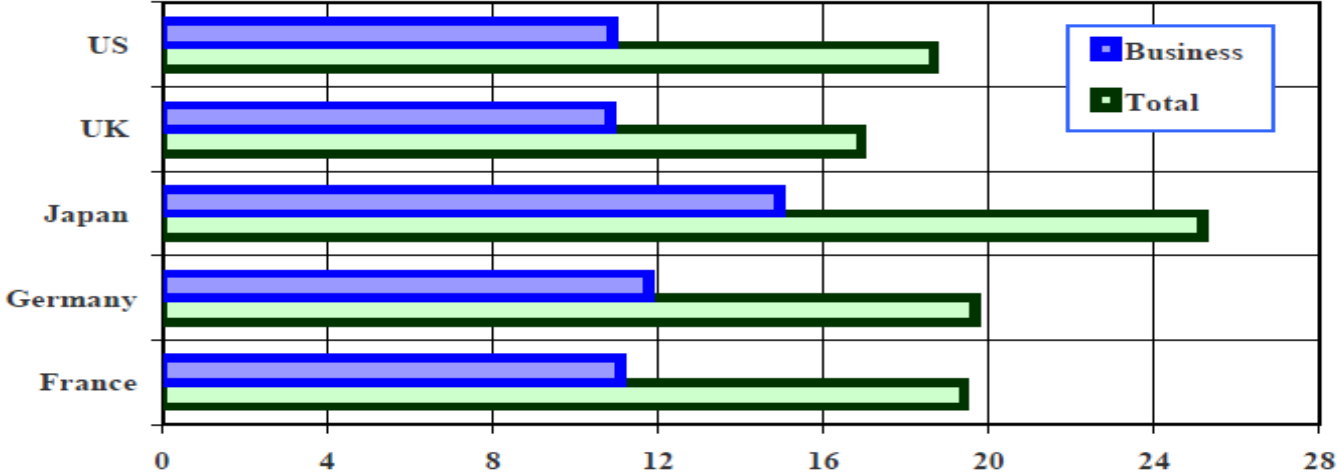


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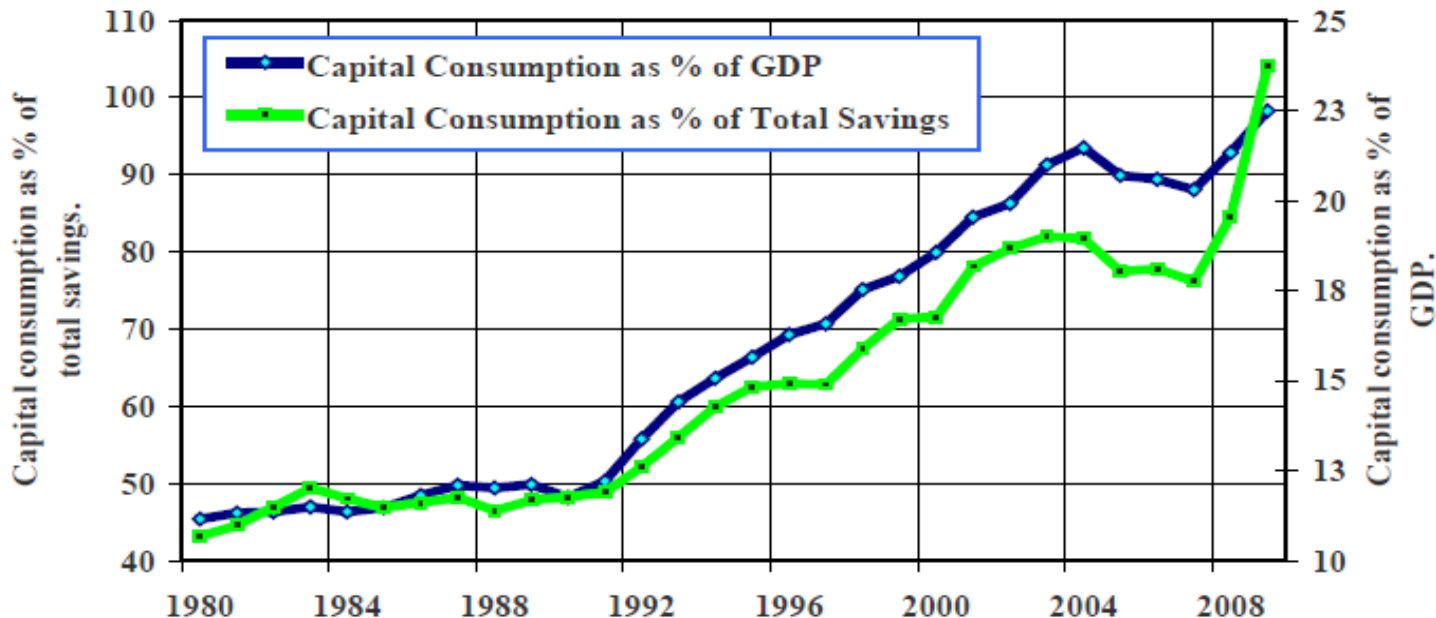
Source: SG Cross Asset Research.

Fixed investment as % of GDP at current prices for 1999-2010



Source: Smithers

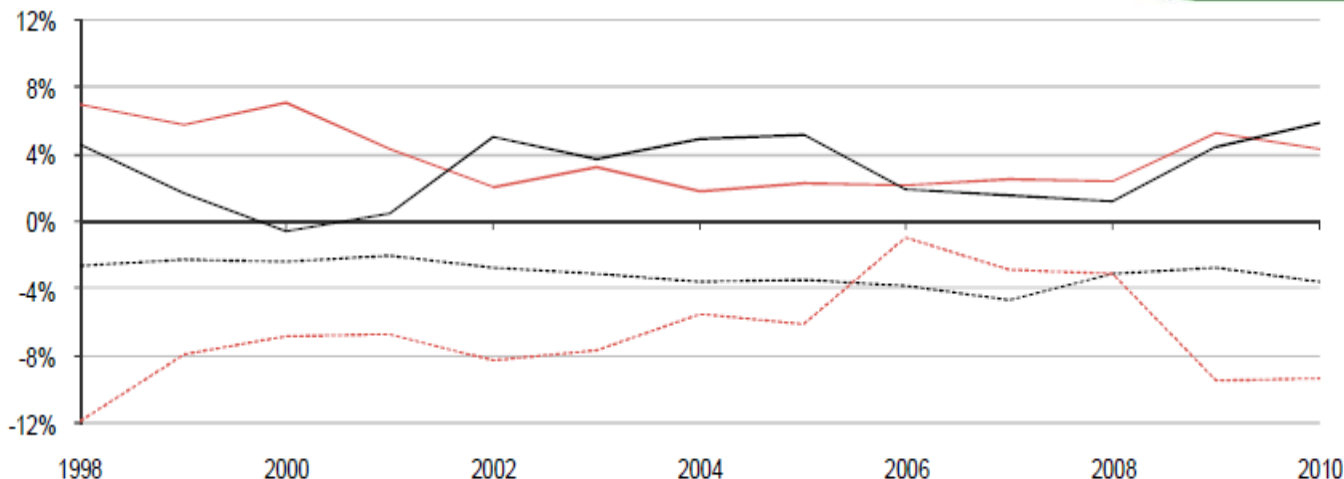
Capital consumption as % of GDP and total gross savings



Japanese sectoral financial balances as % of GDP



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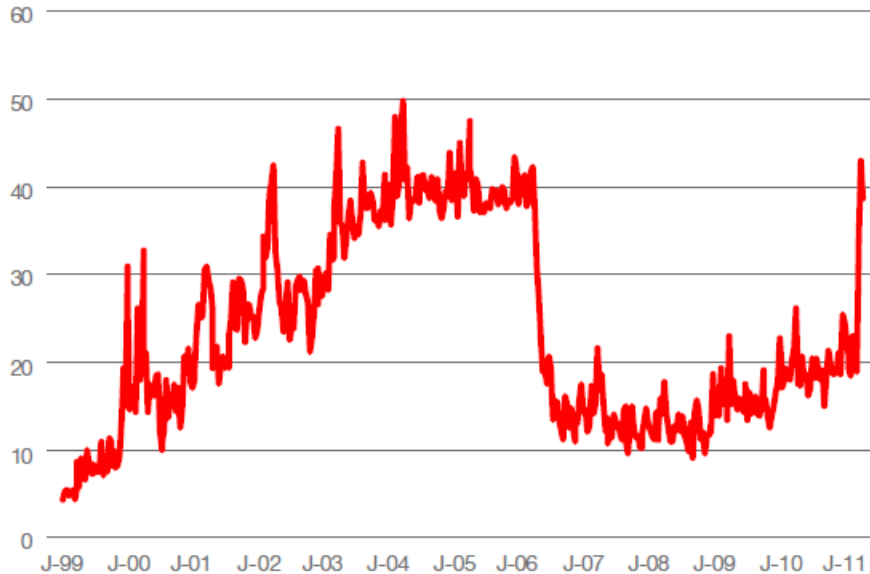
2010 data are LSR estimates

..... Current Account General government — Households — Business

BOJ net liquidity provision: Yen trillion weekly 1999-2011



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Source: CrossBorder Capital.

Who says Japan doesn't matter?

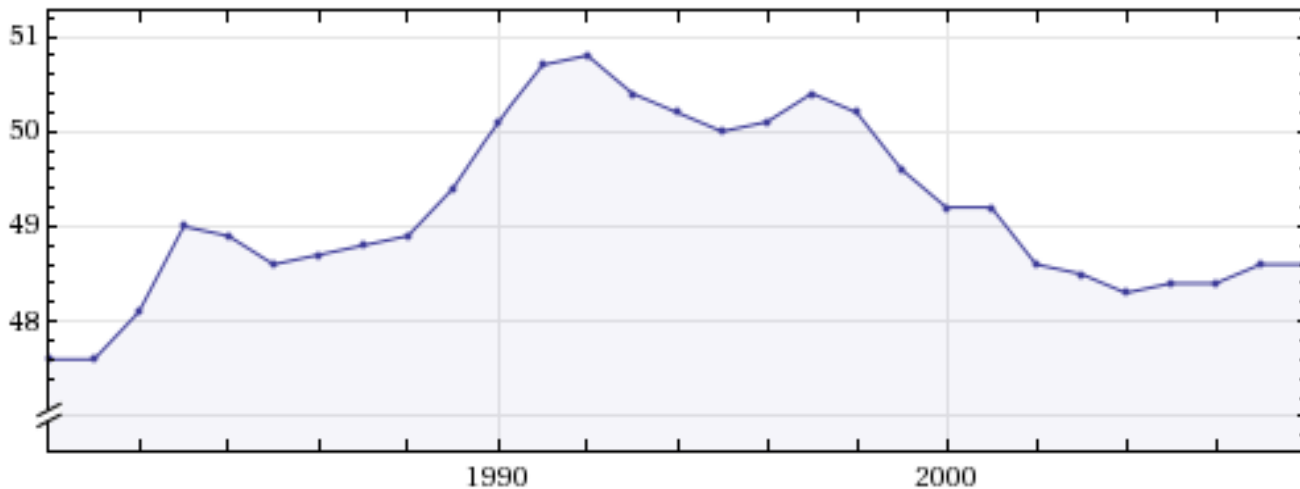
Global market shares of Japanese companies in key sectors



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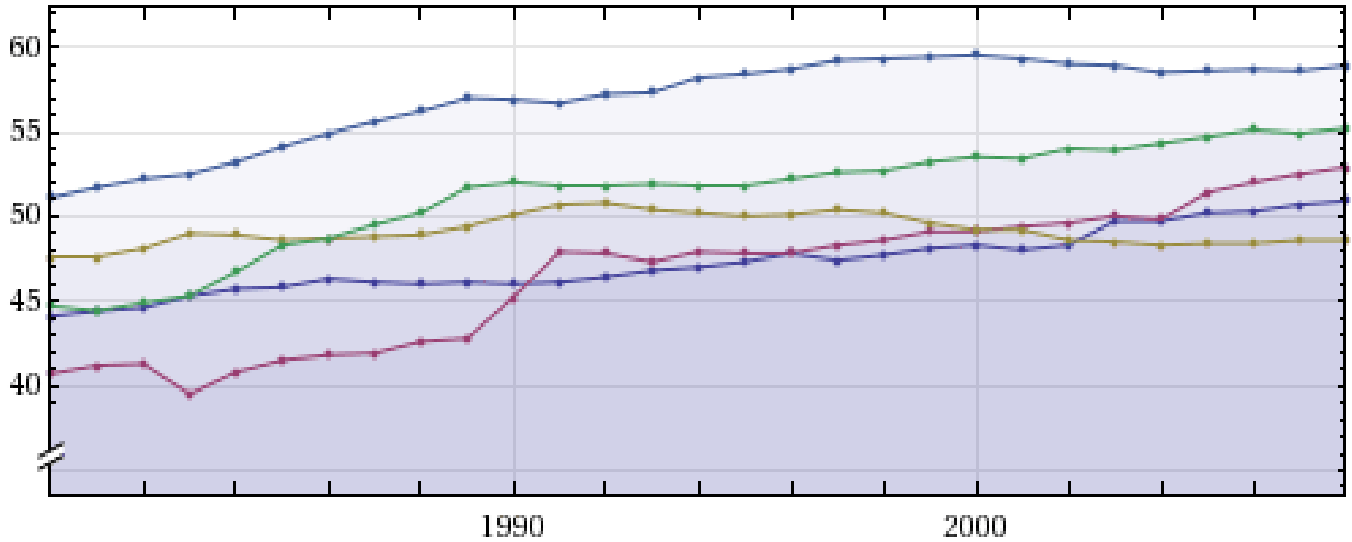
- 32% Automobiles
- 22% Electronic equipment
- 16% Computers and data terminal
- 44% LCD TVs
- 75% Defense satellite communications
- 87% Game software
- 69% Multi-function printers/copiers
- 74% Car navigation systems
- 41% DVD players/recorders
- 43% Electronic components
- 22% Semiconductors
- 22% Display devices
- 58% Wire harnesses
- 34% HDDs (hard disk drives)
- 47% Small motors for autos
- 89% Aluminum capacitors
- 64% Polarizers
- 92% Automobile CVTs (continuously variable transmission)
- 100% Protective polarizer film for LCDs
- 27% Silicon-based solar cells
- 43% Semiconductor
- 36% Lithography equipment
- 46% Mobile phone camera modules
- 46% Li-ion batteries for mobile phones
- 78% Electrode materials for Li-ion batteries
- 83% Memory testers
- 72% Silicon wafers
- 32% Multilayer PCBs (printed circuit boards)
- 78% MLCCs (multi layer ceramic capacitor)

Women in the labor force



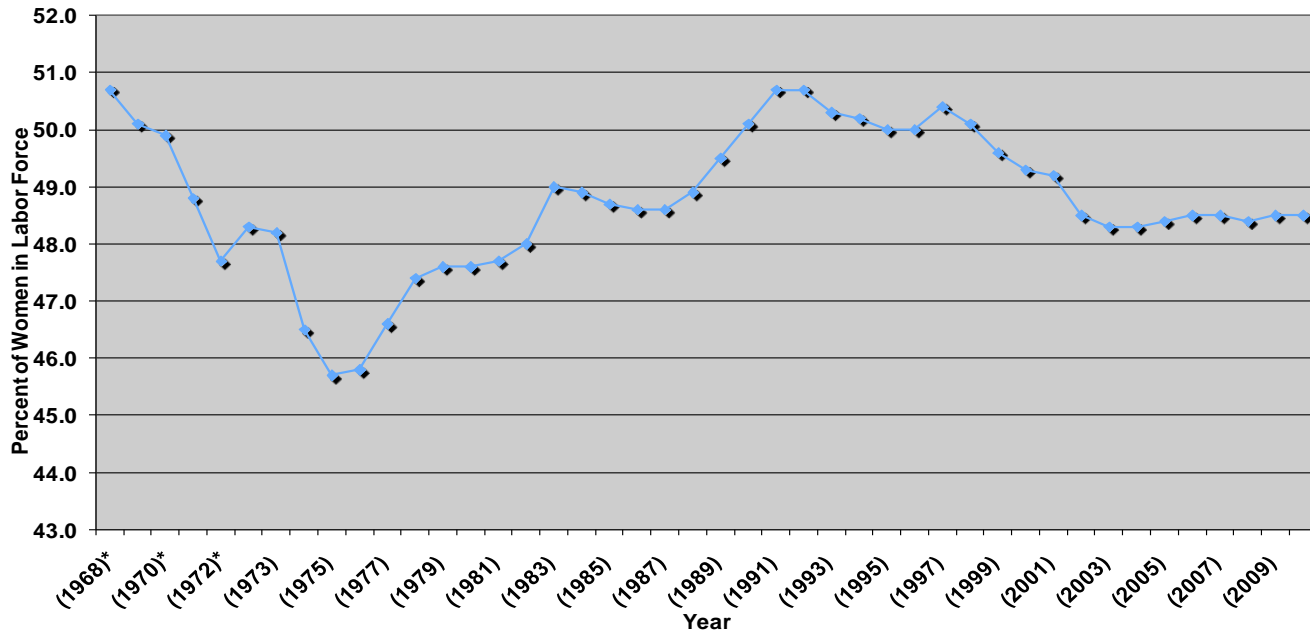
(from 1980 to 2008) (in percent)

G-5 female labor participation rates (1980-2008)



— France | — Germany | — Japan | — United Kingdom | — United States

Japan female labor force participation



Japanese companies' global market shares (FY08 base)



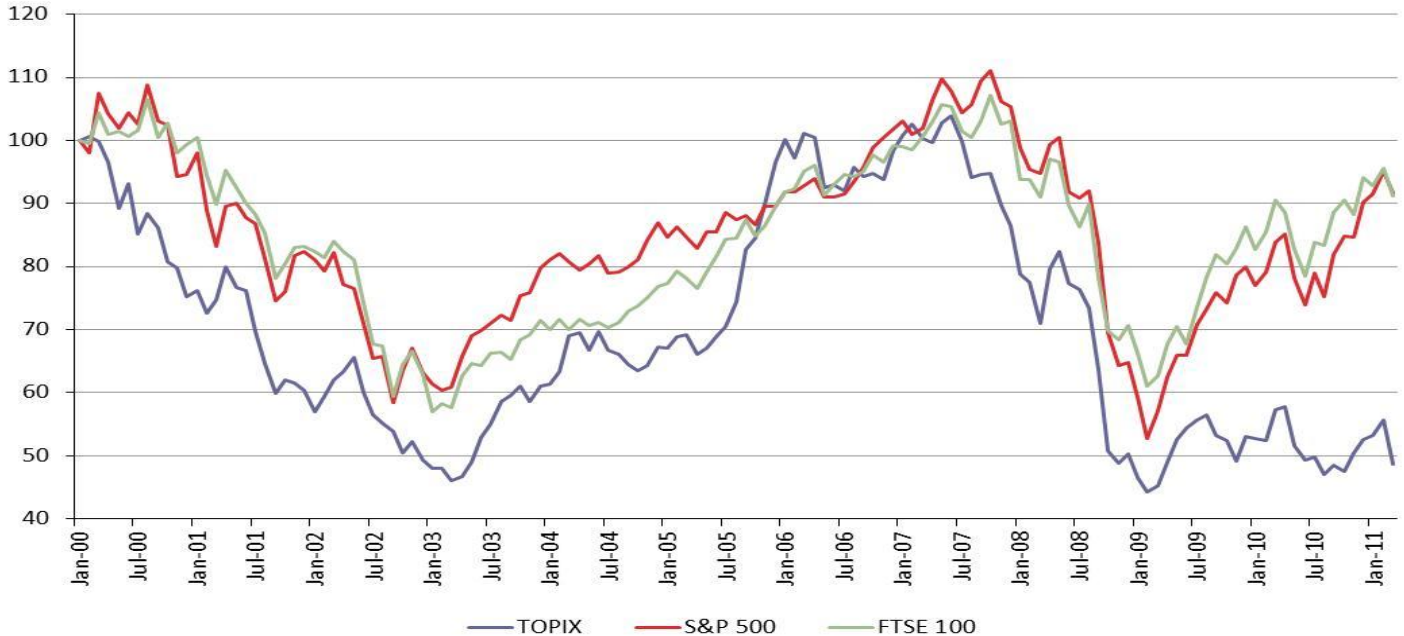
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	Category	Global market share
Final Product	Automobiles	32%
	Electronic equipment	22%
	Computers and data terminals	16%
	LCD TVs	44%
	DSCs	75%
	Game software	87%
	MFPs/MFCs	69%
	Car navigation systems	74%
	DVD players/records	41%
	Component	Electronic components
Semiconductors		22%
Display devices		25%
Wire harnesses		58%
HDDs		34%
Small motors for automobiles		47%
Silicon wafers		72%
Multilayer PCBs		32%
MLCCs		78%
Aluminum capacitors		89%
Polarizers		64%
Automobile CVTs		92%
Protective polarizer film for LCDs		100%
Silicon-based solar cells		27%
Semiconductor lithography equipment		43%
Mobile-phone camera modules		36%
Li-ion batteries for mobile phones		46%
Electrode materials for Li-ion batteries		78%
Memory testers		83%

TOPIX performance lagging peers



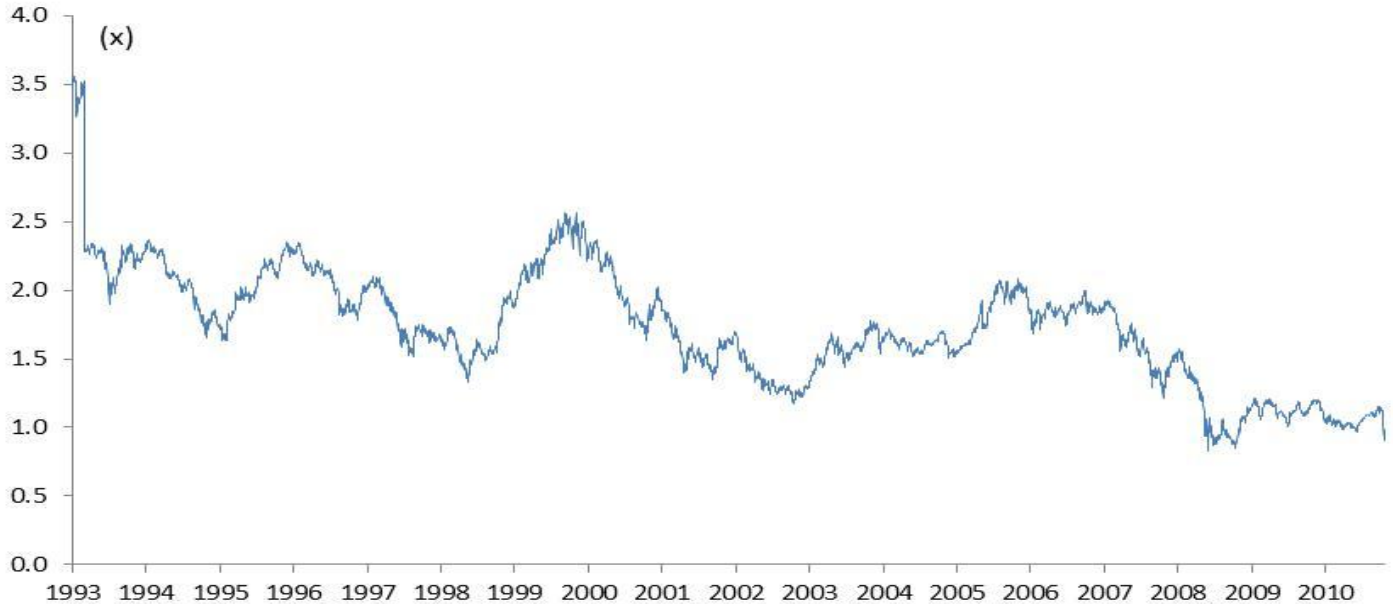
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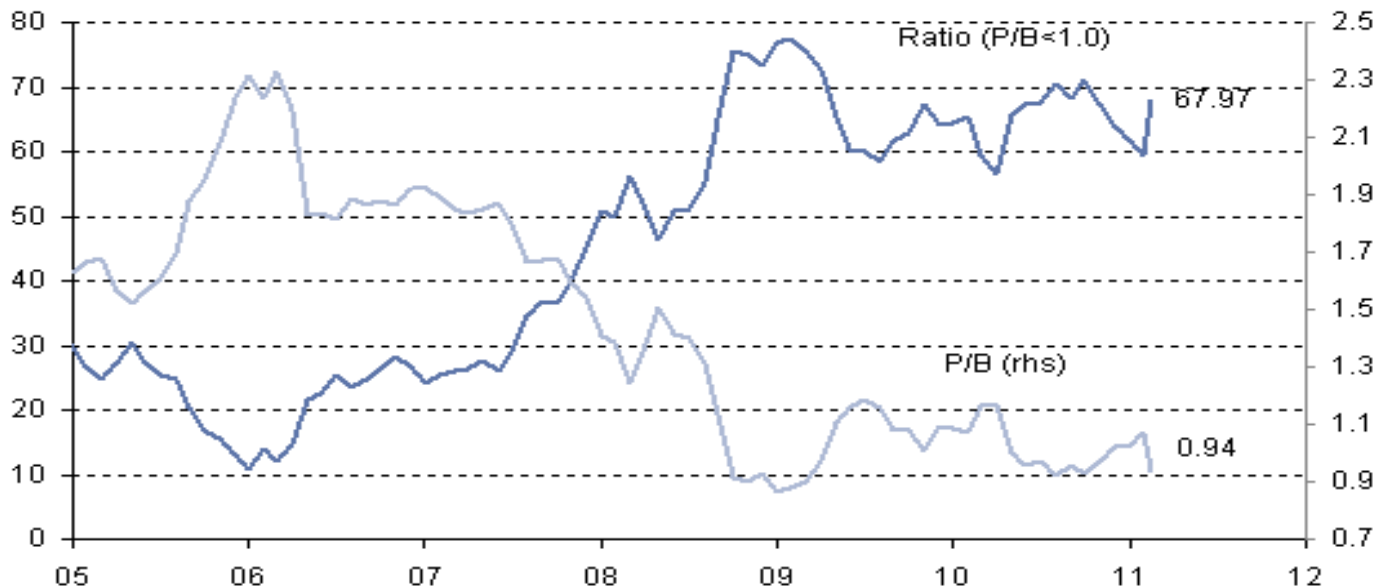
TOPIX at historically low price to book



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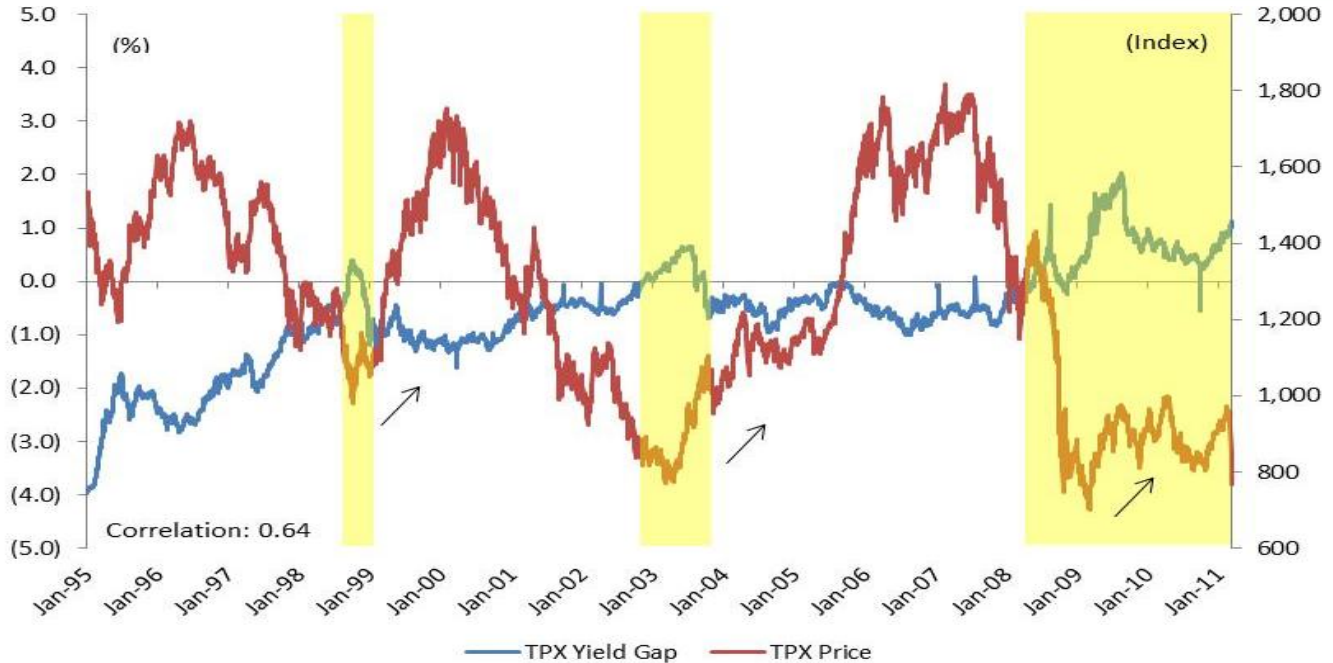
67.9 % of 1,600 TSE 1st section companies below book



TOPIX – JGB yield gap points to recovery



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Bank of Japan asset purchase program



- The Bank of Japan increased its asset buying strategy on March 14, 2010 aimed at reducing risk premiums and increasing investor confidence
- JPY 10 trillion purchase program of assets, including J-REIT and ETFs

Eligible securities	Max Amount	Amount already purchased
Long-term JGB	2,000	751
Treasury discount bills	3,000	1,050
Commercial paper	2,000	228
Corporate bonds	2,000	205
ETFs	900	139
J-REITs	100	13
Total	10,000	2,386