

Japanese Corporate Earnings Bottom Out

Concern Still Lingers over Deflation

By Hiroshi OKABE

Photo: Kyodo News



F1 drivers Jarno Trulli (right) and Kamui Kobayashi pose for photographers after a farewell run on a Toyota racing car.

The deterioration of Japan's business performance seems to have been staved off. The combined consolidated loss of eight major electronics companies, including Panasonic Corp. and Sony Corp., came to some 340 billion yen in the six months through September 2009. The figure represents a substantial improvement from the 2.4 trillion yen loss recorded in the previous six-month period. Also, Toyota Motor Corp. almost halved its operating loss forecast for the fiscal year through March 2010 from the earlier projected 750 billion yen to 350 billion yen (based on US accounting standards).

According to a tally by Nikko Cordial Securities Inc., corporations listed on the Tokyo Stock Exchange's First Section are expected to swing back into the black in terms of their overall pretax profit/loss balance. It has now become clear that the performance of Japanese corporations hit its nadir in the April-June quarter and has since been improving steadily backed by personnel cutbacks and other stepped-up restructuring drives, robust exports to China,

and government incentives for boosting purchases of automobiles and consumer electronics.

This in no way means, however, that corporate executives are largely optimistic about their business outlook. The government adopted business-supporting measures such as tax incentives and subsidies for environment-friendly electrical appliances and autos in the first half of 2009. But they are concerned such temporary steps will lose their pump-priming effects sooner or later. Another source of concern is the unabated strength of the yen. If the US dollar stays below 90 yen for a while, export-oriented companies will face even greater possibilities of worsening profitability. In its "Outlook for Economic Activity and Prices," the Bank of Japan said the nationwide consumer price index for fiscal 2011 through March 2012 will fall 0.4% from the year before for the third straight annual decline, indicating deflation will drag on in Japan.

Talking of their business projections, corporate executives voiced anxiety one after another. For instance, Fumio

Muraoka, executive vice president of Toshiba Corp., said, "There is no letup in uncertain factors – stock price falls, a stronger yen and lingering deflation."

The employment situation also remains serious. While the jobless rate is showing signs of improvement, the governing Democratic Party of Japan has put it on its policy agenda to totally ban the practice of dispatching temporary workers to the manufacturing sector. Outcries are being heard in that sector that "manufacturing in Japan will no longer be possible unless companies are allowed to hire low-cost temp workers who currently serve as an 'adjustment valve' for employment." To be sure, a greater number of Japanese corporations will focus more attention on other Asian countries as their production bases in a shift to global production strategies. The worsening of employment conditions directly leads to stagnant consumer spending, thus prolonging deflation. Hence, the consensus view of corporate executives is that solid economic recovery is unlikely even though business earnings seem to have bottomed out.

Toyota has decided to pull out of Formula One racing at the end of the 2009 season. The move is meant to concentrate its management resources on cars targeted at emerging economies such as China and India as well as on environment-friendly vehicles, thereby achieving its goal of moving back into the black as soon as possible. "When considering F1 fans, I feel sorry about that," said Toyota President Akio Toyota. "But we had no choice but to make a tough decision when we looked at the management environment from a medium to long-term perspective." As Honda Motor Co. has already withdrawn from the top motor sport class, no Japanese team will appear in F1 from next year. The withdrawal of the world's No. 1 automaker from F1 may be seen as a move symbolizing a deep-rooted sense of crisis in corporate Japan.

Hiroshima, Nagasaki to Bid for 2020 Olympics

Hiroshima and Nagasaki, the only cities to have suffered nuclear attacks, have expressed their desire to co-host the 2020 Summer Olympics. Both cities aim at achieving a nuclear-weapon-free world by 2020, which falls on an Olympic year. Hiroshima Mayor Tadatoshi Akiba said, "The Olympics symbolizes the abolition of nuclear arms and world peace. We would like to tap the possibility of realizing our co-hosting plan." Echoing him, Nagasaki Mayor Tomihisa Taue stressed the significance of co-hosting the Games. "If we can co-host the Olympics, it will add momentum to international opinion calling for the elimination of nuclear weapons. It deserves to challenge."

The two cities' Olympics bid surfaced just after US President Barack Obama was named this year's winner of the Nobel Peace Prize for his efforts to rid the world of nuclear weapons. Hiroshima and Nagasaki have called on municipalities around the cities and those between the cities to join the bid and set up a panel consisting of the mayors of supporting cities to study the feasibility of jointly hosting the Olympics.

After studying the issues related to holding the event, the panel will make a conclusion by next spring whether or not to give the go-ahead to the proposed bid.

However, the Olympic Charter stipulates: "Should there be several potential applicant cities in the same country to the same Olympic Games, one city only may apply." There has been no precedent of joint hosting by multiple cities. The cities face challenges for a successful bid, which include financial resources and facilities. International Olympic Committee Vice President Thomas Bach valued the bid by the atomic-bombed cities as holding "a highly symbolic significance," but added "the bid cannot be successful with that only." He said the Japanese Olympic Committee needs to scrutinize the cities' plans for hosting the



Photo: Hiroshima Pref.

The Atomic Bomb Dome in Hiroshima City, a World Heritage site, is a symbol for the motto "No More Hiroshimas."

Olympics to find whether the plans are well prepared.

After Tokyo lost its bid to host the 2016 Olympics, Tokyo Gov. Shintaro Ishihara has said the Japanese capital will bid again to host the 2020 Summer Olympics. As for co-hosting with Hiroshima and other cities, Ishihara said, "It lives up to the IOC's ideals to host the Games in the world's only atomic-bombed country jointly with the city of Hiroshima symbolic of the human longing for peace."

Japan to Lead APEC in Shaping Regional Growth Strategy

Prime Minister Yukio Hatoyama's administration plans to lead efforts to wrap up a growth strategy in the Asia-Pacific region that can make economic growth compatible with the battle against global warming. At their meeting in Singapore in November, leaders of the Asia-Pacific Economic Cooperation (APEC) forum pledged to put in place in 2010 "a comprehensive long-term strategy that supports economic growth" in a manner that is "more balanced, (and) inclusive and sustains the environment." Japan, which chairs APEC in 2010, has taken on a leading role in compiling the long-term growth strategy. Hatoyama told the 21-member forum that Japan is ready to take an initiative towards shaping the new strategy that also pays due attention to

environmental and energy issues.

APEC, which held its first summit in 1993, has since produced good results, including completion of an action program on trade liberalization in the region. As for the proposed Free Trade Area of the Asia-Pacific (FTAAP) covering the entire region, the APEC leaders pledged in their Singapore declaration to "continue to explore building blocks" toward a possible FTAAP in the future. This represented APEC's aim to promote trade liberalization, with the prospect of regional economic integration in sight, and to bring about stable economic growth after the world economic crisis.

However, it is difficult to chart an effective strategy as APEC groups various economies as diversified as developed,

emerging and developing countries, and these members face many conflicts of interests over trade and global warming issues. In an apparent bid to counter the Hatoyama-proposed "East Asian Community" plan, the United States has made it clear to give greater priority to APEC. China, soon to be the second-largest economic power surpassing Japan, is pursuing its own strategy. The top three – the United States, Japan and China – are trying to gain the initiative over the still-growing mega market of the Asia-Pacific region. This kind of power politics looks sure to affect the process of shaping the APEC growth strategy.

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