Photo : Kyodo News

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Prime Minister Koizumi Jun-ichiro (right) giving an interview after the sharp decline in the support rate for his cabinet due to the sacking of Tanaka Makiko (left)

Koizumi's Popularity Waning: Polls Show

Prime Minister Koizumi Jun-ichiro's popularity among voters is ebbing following his dismissal of popular former Foreign Minister Tanaka Makiko, according to media polls. Koizumi sacked Tanaka on Jan. 29 due to a dispute between her and the Ministry of Foreign Affairs over the participation of non-governmental organizations in the International Conference on Reconstruction Assistance to Afghanistan held in Tokyo on Jan. 21-22.

Public support for Koizumi and his cabinet is still relatively high compared with that for his predecessors. However, the Koizumi Cabinet, which had enjoyed high support ratings, as high as 80%, since its inauguration in April 2001 with its structural reform programs, is now in its first crisis and is facing rough sailing.

A telephone poll of 2,414 voters conducted by the *Asahi Shimbun* on Feb. 2-3 put the approval rating for the Koizumi Cabinet at 49%, a sharp decline from the 72% in the previous Jan. 26-27 poll. As many as 69% of the pollees disapproved of the sacking of Tanaka.

A similar poll conducted by the *Mainichi Shimbun* around the same time showed that Koizumi's approval rating had sagged to 53%, down 24 points from January. The disapproval rating for the sacking of Tanaka was 68% in this poll. A *Yomiuri Shimbun* telephone poll also showed a sharp drop of 30.9 points in the approval rating to 46.9% from 77.8% in September 2001. The dismissal of Tanaka was disapproved of by 66% of the respondents.

Kyodo News conducted a face-to-face survey of 1,941 voters on Feb. 2-3, which showed that support for Koizumi and his Liberal Democratic Party (LDP) had dipped substantially.

The approval rating for the Koizumi Cabinet plummeted by 21.5 points to 58.0% from 79.5% in a similar survey conducted in December 2001, which was the lowest since the administration was inaugurated in April, 2001. The disapproval rating rose 21.8 points to 37%, the highest since its inauguration.

Asked for reasons why they supported the Koizumi Cabinet, 29.9% of pro-Koizumi pollees said they found no suitable politicians who could replace Koizumi, while 22.7% said they trusted Koizumi. In the previous survey, those who supported Koizumi because they trusted him made up the largest percentage. The latest poll reflected the fact that those who supported Koizumi's political stance in a positive way were becoming less positive in supporting his policies.

Among those who disapproved of the Koizumi Cabinet, the largest percentage of 20.5% said they had no expectations for Koizumi's political reform. The percentage of those who said they could not trust Koizumi rose 4.6 points to 17.0%. In the previous survey, those who said they had no expectations for Koizumi's economic policy constituted the largest percentage.

Support for the Koizumi Cabinet sagged across the spectrum of political affiliation. Even among supporters of the LDP, support for the Koizumi Cabinet dropped 12.9 points to 82.3%. Support for the cabinet among supporters of the alliance partner New Komeito sagged by a sharp 21.0 points to 54.0%, while support among the opposition Democratic Party of Japan (DPJ) plunged 26.7 points to 50.8%.

Support for the ruling LDP slipped 6.1 points to 39.9% from the previous survey, while those who did not support any particular party rose 4.1 points to 32.5%, underlining voters' distrust of political parties. The support ratings for other parties remained almost unchanged, 10.0% for the DPJ, 4.5% for the Social Democratic Party, 3.2% for New Komeito, 2.7% for the Liberal Party, 2.7% for the Japanese Communist Party and 0.2% for the New Conservative Party.

COMING UP

The next issue of *JJTI* will analyze the changing industrial structure and trade balances in Japan's economy – a subject that was the focus of this year's *White Paper on International Trade*. We will also feature Japan's animation industry which has achieved a high level of international recognition after Miyazaki Hayao's *Spirited Away* received the Golden Berlin Bear at the Berlin International Film Festival.

Japan's Income Account Surpasses Trade Surplus, a Sign of "Maturity"

Japan's income account surplus

Balance of payments 2001 (Provisional)

(100 million yen, %)

Item	2001	2000	Changes from the previous year
Current Account	110,633	125,763	-15,131
Changes from the previous year	(-12.0%)	(3.3%)	—
Goods and services	32,059	74,298	-42,239
Changes from the previous year	(-56.9%)	(-5.5%)	—
Trade balance	85,210	125,634	-40,424
Changes from the previous year	(-32.2%)	(-10.4%)	—
Exports	465,831	495,257	-29,426
Changes from the previous year	(-5.9%)	(8.1%)	—
Imports	380,621	369,622	10,999
Changes from the previous year	(3.0%)	(16.3%)	—
Services	-53,151	-51,336	-1,814
Income	88,258	62,061	26,197
Current transfers	-9,685	-10,596	911
Capital and Financial Account	-70,226	-91,242	21,016
Financial Account	-66,752	-81,295	14,543
Direct investment	-40,684	-25,039	-15,645
Portfolio investment	-57,042	-40,568	-16,474
Excluding securities lending	(-78,577)	(-45,462)	(-33,116)
Other investment	30,974	-15,688	46,662
Excluding. securities lending	(52,415)	(-11,949)	(64,364)
Capital Account	-3,473	-9,947	6,473
Changes in Reserve Assets	-49,364	-52,609	3,245
Errors and omissions	8,957	18,088	-9,131

Source: Ministry of Finance

surpassed the shrinking goods-and-services trade surplus for the first time in 2001, according to provisional figures released by the Ministry of Finance (MOF) on Feb. 14. This underlined the fact that Japan, which had gained surpluses with trade, now depends on foreign investment returns as domestic manufacturers move production abroad, a phenomena which shows Japan is becoming a "mature" country.

The 2001 of income account surplus, which represents returns from foreign investment, totaled an all-time high of ¥8,825.8 billion, while the trade surplus plummeted by a sharp 32.2% to ¥ 85,21 billion from the previous year, the smallest surplus since the current method of calculation was adopted by the MOF in 1985. This reflects Japan's changing economic structure, such as the global recession in information technology (IT) industries, declines in exports due to relocation of production facilities abroad, and surging imports from Asian countries. Officials expect contractions in the trade surplus to continue in the immediate future.

The current account, which measures the difference between a country's income from foreign sources and foreign obligations payable, has been on the increase since last fall due to growth in the income account, including rising earnings by overseas subsidiaries, despite declines in the trade surplus. Previously, the current account tended to be influenced by the trade surplus.

Japan's trade surplus reached a record high of some ¥14 trillion in 1998, as companies with strong international competitiveness increased their dependence on exports due to the recession in domestic markets following the collapse of the bubble economy. Since then, however, the accelerating transfer of production facilities to China and other foreign countries, as well as sagging domestic production capacities have become obvious. Due to the lowering of domestic production capacity, the effect of the recent rise in the yen's value on export promotion is doubtful. Consequently, Japan's trade surplus has continued to contract, with some economists anticipating that Japan could become a trade deficit country like the United States even if domestic demand recovers.

Some economists say that the contraction of the trade surplus is what mature industrialized countries naturally follow. But, it is still not clear whether the income account will make up for the reductions in the trade surplus. The government finds itself facing the task of clearly defining the direction of the country's future economic structure.

The MOF attributed the expansion of income earnings to an increase in dividend earnings due to brisk financial settlements by foreign affiliates, as well as the improved balance of medium and long-term foreign bond holdings. The MOF anticipates that the income account surplus will steadily increase for the time being but could shrink without new investment since the account reflects past investment.

Takahashi Susumu, chief economist of the Japan Research Institute, predicts that with the ratio of overseas production expected to increase, Japan will see its account surplus disappear in a couple of years unless the country creates a surplus in other areas besides trade. Takahashi suggests that Japan should pay attention to technological exports of the non-manufacturing sector and tourist income, noting that Japan is outdone by other industrialized countries in these areas.

Japan's surplus in the current account, which measures trade in goods and services, fell for the first time in two years in 2001, dropping 12.0% on the year to ¥11,633 billion, the lowest figure since 1996.

The surplus in the income balance expanded by ¥2,619.7 billion or 42.2% mainly due to an increase in dividends from overseas subsidiaries and the interest from bond holdings.

The shrinkage of the trade surplus resulted from a 5.9% decrease to ¥46,583.1 billion in exports due to a slump of the semiconductor sector amid a downturn in the IT market, and from a 3.0% increase to ¥38,062.1 billion in imports, mainly an influx of products from China and other Asian countries.

The surplus in the trade and services account fell 56.9% to ¥3,205.9 billion, the third consecutive year of decline. The services account indicates the trend of tourism, cargo transport and other services.

Regarding future prospects for the current account balance, the International Bureau of the MOF said that although the trade surplus is influenced by cyclical factors of the global economy, the income surplus would increase on a stable basis and the current account surplus would turn upward after having hit bottom in 2001.

Banks Moving Faster to Separate Bad Borrowers from Good Ones

Major Japanese banks are accelerating moves to separate troubled borrowers from healthy ones. They are becoming particularly tough toward companies in the structurally depressed construction and retail industries. The banks are now drawing a clearer line between borrowers that should be bailed out and those which should be advised to seek court-guided bankruptcy proceedings.

On Feb. 27, struggling supermarket chain Daiei Inc. announced a new three-year restructuring program featuring ¥520 billion in financial support from its three main creditor banks – UFJ Bank, Sumitomo Mitsui Banking Corp. and Fuji Bank (merged to form Mizuho Bank and Mizuho Corporate Bank on April 1).

The program also calls for Daiei to carry out a large cut in its capital affecting common stocks, shut down 100 loss-making group stores and slash 2,000 jobs at the parent firm. The troubled retailer is expected to report an unconsolidated net loss of ¥450 billion for the business year to February 2002 as it posts hefty losses connected to restructuring programs.

Established in 1957 by Nakauchi Isao, Daiei became the largest retailer in terms of sales in 1972 and also became the first company in the retail sector to rack up annual sales topping ¥1 trillion in 1980. But its interest-bearing debts ballooned as its aggressive strategy of increasing the number of outlets and diversifying operations backfired following the collapse of Japan's asset-inflated economic bubble a decade ago. As of the end of February, its group interest-bearing debts were estimated at ¥2.13 trillion. Daiei operates 286 stores and employs some 41,000 people, including part-time workers. The company also owns a pro-baseball team, the Fukuoka Daiei Hawks.

Daiei's new restructuring plan envisages cutting its group interest-bearing debt to ¥900 billion by the end of February 2005 from ¥1.8 trillion at the end of last August by financial assistance and selling assets, excluding debts owed by a Daiei consumer credit subsidiary. But market analysts said the size of the Daiei bailout package may not be sufficient and it is still uncertain whether Daiei can rehabilitate itself given the prolonged deflation in Japan.

Prime Minister Koizumi Jun-ichiro's policy of disposing of banks' non-performing loans and liquidating debt-ridden corporate borrowers is now considered Japan's promise to the international community. Since the Financial Services Agency launched special inspections of major banks that target 100-120 of their corporate borrowers, at least four such companies have gone under. The four failed firms are Niigata Engineering Co., Aoki Corp., Japan Metals & Chemicals Co. and Sato Kogyo Co. Meanwhile, other troubled borrowers – Daiei, Fujita Corp. and Haseko Corp. – have been bailed out by their creditor banks.

Sato Kogyo decided to file for bankruptcy protection under the corporate reorganization law as the company had difficulty rehabilitating itself after its restructuring programs, which cen-

Photo : THE YOMIURI SHIMBUN

Daiei President Takagi Kunio announced a new three-year restructuring program

tered on job cuts amid the plunge in lucrative public works projects, failed to generate enough resources to repay its massive interest-bearing debts.

Sato Kogyo, which has a strong base in the Hokuriku region, was responsible for preventing a chain reaction of bankruptcies in the Sea of Japan coastal region. It had no choice but to go for bankruptcy proceedings by the end of March as it would otherwise have fallen short of cash to repay its clients thereafter.

Sato Kogyo will now pursue court-guided rehabilitation by taking advantage of its expertise in civil engineering, including tunnel construction. But its success depends on economic recovery and a business environment that will allow the company to make the best use of its expertise.

According to one estimate, Japan's capital investment in the late 1990s would have been 8% higher if Japanese companies' debt-to-sales ratio in the early 1990s had been as low as it was in the early 1980s. The average rate of growth in the Japanese economy over the past decade was just above 1%, and the potential rate of growth has fallen to 1% in the short term. The recent rise in the jobless rate and the drop in public works projects will inevitably boost deflationary pressure. But the government expects to achieve a growth rate of more than 2% in the medium term if resources are redirected toward growth sectors in the economy as a result of structural reforms.