

Government Injects Public Funds into Resona Bank

On May 17, the government decided to inject public funds into Resona Bank, while providing full guarantees for deposits held at the bank. The decision came after the government called the first meeting of the Financial System Management Council under Article 102 of the Deposit Insurance Law.

Resona Bank, the core banking unit of Resona Holdings, has bases in Osaka and Tokyo, and mainly deals with small and medium-sized companies. The bank later formally applied for an injection of ¥1.96 trillion in public funds, and the government injected the capital in June. As the first bank that was granted special state support, Resona Bank is to seek rehabilitation under the government's close watch.

Following the bailout, Resona Holdings Chairman Kaiho Takashi, President Katsuta Yasuhisa (who is also president of Resona Bank), Deputy President Yanase Yukio and two Resona Bank vice presidents all stepped down. The banking group then invited executives from other industries as its chairman and outside directors.

TO READERS

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Katsuta Yasuhisa (left), former president of Resona Holdings, speaks at the Upper House Committee on Financial Affairs

The capital adequacy ratios of Resona Holdings and Resona Bank dropped below the 4% level required for domestically operating banks, due to a stricter assessment of the banks' deferred tax assets, or future tax credits, which had been strongly demanded by Financial Services Minister Takenaka Heizo.

Commenting on the public fund injection, Prime Minister Koizumi Junichiro said, "This measure was needed to prevent a financial crisis. (Resona) has not collapsed." He also reiterated that he will push through his reform programs.

The case of Resona revealed the financial vulnerability of major Japanese banks, and the market's view of other major banks is also becoming more severe.

The government had already injected a total of ¥1.1 trillion in taxpayers' money into two predecessor banks to Resona – Daiwa Bank and Asahi Bank – in 1998 and 1999.

Food Safety Commission Launched

The Cabinet Office launched the Food Safety Commission on July 1 to address the growing public concerns about food safety in the wake of such incidents as the mad cow disease scare and imports of Chinese vegetables with high levels of residual agricultural chemicals. On the same day,

the Ministry of Agriculture, Forestry and Fisheries (MAFF) reorganized its structure and established the Consumers and Safety Bureau. The Ministry of Health, Labour and Welfare (MHLW) also reorganized its structure, with the Pharmaceutical Bureau transformed into the Pharmaceutical and Food Safety Bureau, and the Food Sanitation Division renamed the Food Safety Department.

The Food Safety Commission has seven members, who are food scientists and experts. The nomination of the commission members is subject to Diet approval. Tanigaki Sadakazu, state minister and chairman of the National Public Safety Commission, was appointed minister in charge of the commission.

The commission assumes responsibility for evaluating the risks of food products, while MAFF and MHLW will take charge of carrying out risk management measures, including fostering industries promoting food safety in addition to the oversight and prevention of legal violations.

As an independent administrative body, the Food Safety Commission will take over evaluation functions from MAFF. It is authorized to evaluate a wide range of food and food-related materials, including fertilizers, agricultural chemicals, food additives, genetically modified foods and health foods. It also has the authority to issue advisories on food safety to the

relevant ministries and agencies.

The commission's immediate task will be to determine whether the meat of cloned cattle is safe to eat. A MAFF research group has confirmed its safety and the commission's finding is being closely watched. The commission is also expected to advise MAFF on the maximum permissible intake levels of cadmium and methyl mercury. The commission's advice is expected to have consequences for evaluating the safety of rice.

In line with the move, MAFF abolished the Food Agency, which had taken charge of administration related to rice, wheat and other crops. The ministry's reorganization indicates that it is refocusing its food administration on consumers. Previously, the ministry had focused on producers and distributors and placed priority on stable supplies.

After being appointed as minister in charge of the commission, Tanigaki said that he would make the utmost efforts to build confidence in the administration of food safety. "There is a need to undergo proper training to coordinate work between the commission, which is responsible for risk evaluation, and ministries, which are in charge of risk management," Tanigaki said, in reference to the importance of coordination among the commission, MAFF and MHLW.

Will the "China Boom" Continue?

With the severe acute respiratory syndrome (SARS) outbreak brought under control, Japanese businesses are pinning renewed hopes on the Chinese market, shaking off the pessimism that once gripped them at the peak of the epidemic. Manufacturers of steel and other key industrial materials, and automakers are expecting to benefit from the "China boom." Economists point to an emerging picture of the Japanese economy inevitably tied to the fate of the boom.

The steel industry, which embarked on streamlining and restructuring ear-

lier than most other industries, has recovered remarkably. For instance, industry leader Nippon Steel Corp. posted a ¥142.9 billion operating profit for the 2002 accounting year ended March 31, 2003, almost double the previous year's level.

Many business deals come from China and other parts of East Asia. "We expect steel demand in China to continue growing at an annual rate of 7%," says Nippon Steel President Mimura Akio. "Steel demand is increasing only in East Asia, including China. South Korean and Taiwanese steel mills have chalked up record profits. We, too, will be doing so in three years' time," adds a confident Mimura.

Other material-producing industries have enjoyed the benefits of streamlining and the China boom. Most major chemical companies, for example, closed the 2002 fiscal year with better profits on increased sales.

Cho Fujio, president of Toyota Motor Corp., whose business performance has reached an all-time high, admits to the need for reliance on overseas demand, saying, "It's tough to depend on the domestic market alone." The Toyota group as a whole plans to spend some ¥1 trillion on new plant and equipment in the current business year, earmarking most of the investment to North America and China.

Some auto industry analysts predict China's annual output of cars, trucks and buses will balloon to 10 million vehicles in 2010 from 3.48 million currently. China will outstrip France this year to become the world's fourth largest automaker after the United States, Japan and Germany, according to China's state-run Xinhua news agency.

Car prices in China have fallen close to levels within easy reach of consumers. The ownership of personal cars in China is only 2.8 cars



It is not clear if the China boom will be sustainable after the 2008 Summer Olympics

per 100 households, a level low enough to assure further growth in demand.

It is not clear if the China boom will be sustainable. China is set to host the 2008 Summer Olympics. Heavy investment is expected until then, including the construction of a high speed rail link between Beijing and Shanghai. Japanese and European groups are competing hard to win the project, with the Japanese side counting on the view in some quarters that China is inclining in favor of the Shinkansen super express system.

One concern about the fate of the China boom is the post-Olympics reaction, as seen in South Korea after the 1988 Games. A possible overheating of the economy resulting from a spate of massive investment could shield the eyes of Japanese businesses from potential problems. As examples of such problems, some economists cite built-in weaknesses in the Chinese economy, including a heavy budget deficit ensuing from aggressive fiscal spending, swollen non-performing loans at national banks and a widening income gap between the rich coastal area and the poor inner region.

But one thing is sure – China's experiment involving 1.3 billion people is going to deal the Japanese economy a heavy impact. Japan has entered a stage where it must devise a strategic response well before such an impact begins to be felt.