



Taking Stock of Japan Six Months After 3/11

by Jeffrey W. Hornung

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As Sept. 11 nears, the US prepares to remember the tenth anniversary of the terrorist attacks on New York and Washington DC. For Japan, the date marks six months since the devastating earthquake and tsunami hit. While Japan continues to grapple with a multitude of problems unleashed by the disasters, coverage of Japan's daily struggles has all but disappeared from global media. What is the current status of recovery and reconstruction efforts? Although considerable progress has been made, significant challenges remain amidst an atmosphere of political and economic uncertainty.

First consider the enormity of the human suffering. As of Sept. 5, the death toll stands at 15,763 with 4,280 missing and over 82,000 in shelters. Immediately after the earthquake, Tokyo mobilized over 100,000 of its Self-Defense Forces (SDF) to assist in rescue and recovery efforts. With much of the reconstruction and recovery efforts now being conducted by private companies and NGOs, the number of SDF personnel has fallen to 650 (as of Sept. 6).

While tens of thousands of Japanese are struggling to rebuild shattered lives, the entire nation is affected by the continuing disaster at the Fukushima Daiichi nuclear plant. With the majority of Japan's 54 nuclear reactors currently offline, energy conservation is at a premium. This has forced many businesses to switch to earlier working hours to avoid the oppressive summer heat, to weekend hours to avoid overloading power sources during heavy-use periods, and to allow employees to wear casual dress to keep A/C usage at a minimum.

Problems at the crippled Fukushima plant continue. Reactors still require water for cooling and radiation spikes occur often, although overall levels have decreased. Worse, radiation has seeped into Japan's food chain. Recent reports cite possible radioactive steam emerging from cracked ground around the reactors, indicating that a reactor core has melted into the ground. Work has begun on protective caps for the reactors to prevent the further spread of radiation. Temporary polymeric caps designed to last two years will be placed over reactors 1, 3, and 4 by the end of September, providing time to erect permanent concrete sarcophagi similar to Chernobyl.

The Japan Center for Economic Research estimates the cost for coping with Fukushima's aftermath, including cleanup and disposing of 110,000 tons of radioactive water, could be

as high as \$245 billion. Despite the ongoing problems, a positive development has been Tokyo's decision to separate the nuclear industry from its cozy relationship with trade bureaucrats responsible for both its regulation and promotion. Next April, a new Nuclear and Industrial Safety Agency will be established to regulate and supervise Japan's nuclear industry.

Considering that the disasters destroyed or severely damaged major transportation and communication infrastructures in the affected areas, it is remarkable that all major roads and railways have reopened and that factories and supply chains are recovering at an amazing speed. Yet, as quick as these recovery efforts have been, the biggest challenge (apart from Fukushima) is the cleanup itself.

Japanese media reports that there is over 22 million tons of debris that require both cleanup and disposal. For most of the past six months, questions of responsibility have stalled these efforts. This is because, under current laws, local municipalities are responsible but the enormity of the disaster overwhelmed their capacities. As such, they turned to the central government. With bills in the Diet set to give the central government this control, it appears this effort will soon progress. Current plans have the wreckage cleared by the end of March 2012 and all debris completely disposed of by the end of March 2014.

Reconstruction will run parallel with the cleanup. Tokyo hopes to complete reconstruction within 10 years with the vast majority completed in five. Because costs are estimated as high as \$300 billion (not including Fukushima), the government will need to rely on a mix of tax increases and spending cuts. There has even been some speculation that Tokyo may be forced to sell some of its shares in Nippon Telegraph and Telephone Corp and Japan Tobacco. What Tokyo cannot rely on is funding reconstruction through the sale of government bonds. Japan's current debt-to-GDP ratio is over 200 percent, the highest of all industrialized economies. This ratio, coupled with the cost for reconstruction, recently led Moody's to downgrade Japan's credit rating from Aa2 to Aa3.

While the costs are enormous, there are some positive economic indicators. Economic data for Japan's second quarter showed that instead of the forecasted .7 percent contraction, Japan's GDP shrank .3 percent. There are numerous factors behind this. Government spending is a major factor, but private sector actions have not been inconsequential. Not only is productivity normalizing, the quick recovery of supply chains has meant that manufacturing has been able to bounce back quicker than expected. This, in turn, has been aided by the resumption of domestic consumption after the disasters led many households to suspend purchases.

Growth has picked up so much that there is an expectation that Japan's third quarter growth could rebound into positive territory and its fourth quarter could see an even bigger jump, driven largely by reconstruction demand. The big unknown is the value of the yen, which reached a postwar high of 75.95 to the dollar on Aug. 19. As long as this trend continues, Japanese exporters will suffer, hindering further economic growth.

Behind all of this is the unfolding drama of Japanese politics. On Aug. 29, the Diet chose its sixth prime minister in five years. Former Finance Minister Yoshihiko Noda replaced the unpopular Naoto Kan as the head of the ruling Democratic Party of Japan (DPJ), thus becoming premier. The Kan administration was under constant attack from opposition parties as well as the public for its handling of the disasters, choosing to 'manage' the crisis by an endless series of political committees instead of utilizing Japan's qualified cadre of bureaucrats.

Many believe the uninspiring Noda will lead another short-term administration. With the DPJ split internally between rival groups and the opposition Liberal Democratic Party firm on opposing the DPJ, it is clear the administration will face immediate challenges. Worse, Noda lacks popularity both in his party and with the public. He placed third in the first round of DPJ voting-among five candidates-and placed 4th (*Asahi*) and 3rd (*Yomiuri*) in two nationwide polls asking who the public wanted as the next premier. Japan needs a strong leader, but it does not appear Noda is it.

Japan has come a long way during the past six months. The Japanese people have shown an amazing resilience to recover from great calamity and companies have found ways to rebound. Yet, a panoply of challenges remain. Not only does Fukushima remain a problem, Japan's debt constrains government action and the lack of a stable political situation and a strong leader inhibit Japan's capacity to adapt and rebuild quickly. Stay tuned.

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