



Japan's Economic Aftershocks

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This is Part 1 of a Two-Part Series on what the long-term consequences of the Japanese earthquake will be on America and Japan's economies.

The aftershocks from the earthquake that struck Japan have not stopped and can stretch well into the summer months, not from seismic tremors but from electric power shortages. Newswires are [reporting](#) that TEPCO, the electric power company which manages the Fukushima nuclear reactor is expecting rolling outages in Japan throughout the summer and well into July as demand for air conditioner use increases.

This will likely hurt the GDP output of Japan. *The Japan Times* [reports](#) on the estimates for how far GDP will be driven down:

“If power outages or efforts by large corporate users to spare electricity continue for a lengthy period, then production would inevitably come under strong downward pressure,” said Lee Chiwoong, economist at Goldman Sachs Japan Co.

In the event power rationing lasts through April as scheduled, real gross domestic product will be pushed down by 0.5 point. If it lasts through June, real GDP will be driven down 0.8 point, Lee said.

A natural disaster can cause immediate and sudden shocks to the economy, but they usually don't cause protracted macro-economic problems. It's in this respect that the Japanese earthquake would cause more damage compared to previous disasters. Dr. Robert J. Shapiro, the co-founder of Sonecon, an economic advisory firm, wrote about [this](#):

When Katrina crippled New Orleans in August 2005 and exacted \$81 billion in property damages on Louisiana and Mississippi, it didn't puncture investment or growth in the rest of the country. For a natural disaster to upend an economy, the damage has to touch most of the nation and endure for a considerable time.

In an interview with FrumForum, Shapiro described the most “unusual” aspect of Japan's earthquake being that it has damaged the energy sector so significantly.

The Japan Times has an excellent [report](#) noting that manufacturing industries in Japan are being hampered by the blackouts, even though they are expected to come at predictable intervals:

Renesas Electronics Corp., a major semiconductor maker, has production sites in

Takasaki, Gunma Prefecture, and Kai, Yamanashi Prefecture, that have not been able to operate due to the power outages implemented by Tokyo Electric Power Co.

“For the wafer treatment process, a 24-hour electricity supply is generally needed,” said Renesas PR officer Makie Uehara.

Tepco has been implementing rolling power cuts in Tokyo and seven other prefectures. Each prefecture has basically been divided into five groups, each experiencing a maximum three-hour outage per day.

Uehara said an incredible amount of equipment in factories is needed for the wafer treatment process, and it takes about a week to restart operations after turning the power on, as they require a great deal of checks.

“It is difficult to start operations if the planned power outage takes place,” Uehara said.

Some have spoken about whether the Japanese earthquake will lead to a reexamination of the utility of nuclear power because of health and safety concerns. An equally valid question might be whether the tight [partnership](#) between the energy industry and the Japanese Government has, in hindsight, led to the country being too dependent on just one source of power.

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