Japan quake to delay recovery, pump up debt

REUTERS, *New York*

Japan is likely to suffer a temporary economic hit from Friday's devastating earthquake and tsunami and then enjoy a boost from reconstruction but the cost of rebuilding will worsen its already worryingly high public debt burden.

While few expect the damage to exceed that of the Kobe earthquake in 1995 when the economy shrank by 2 percent before rebounding even further, the concern is that Japan's economy is much weaker today. It also is weighed down by the largest public debt among advanced economies, double the size of its $5 trillion gross domestic product.

Additionally, some economists said the scale of the disaster and its consequences remained far from clear, especially after an explosion on Saturday at a nuclear power plant damaged by the quake that has caused some radiation leakage.

"Not since the Cold War have I been asked to think about the economic consequences of a nuclear explosion in a densely populated area in a modern industrial economy," said Carl Weinberg, chief economist at High Frequency Economics.

"I don't relish that task."

Still, most analysts said that while Japan's economy may now not return to growth in the first quarter, it will pull through later this year.

As for the world economy, Japan is not a major engine of global growth so the disaster poses less of a risk to other countries than soaring oil prices caused by turmoil in the Middle East and North Africa.

"The global economy will be fine," said Stephen Stanley, chief economist at Pierpont Securities in Stamford, Connecticut.

"After an initial decline in GDP growth, (Japan's) economic activity will rise driven by reconstruction," said Mohamed El-Erian, who helps oversee more than $1.1 trillion in investments at PIMCO.

Japan might see GDP expand by more than 3 percent in annualised terms over the next three quarters if the pattern seen from the smaller 7.2 magnitude Kobe earthquake in 1995 is anything to go by, analysts said.

Friday's quake, which sent a tsunami surging through coastal towns and cities, was centered around the northeastern city of Sendai in a region that is home to auto manufacturing and semiconductor factories.

Japan's economy was struggling before the disaster. Its GDP shrank by an annualised 1.3 percent in the fourth quarter of 2010. A Reuters poll published before the quake showed economists expected GDP to resume growing in the first quarter, expanding by 0.5 percent from the previous quarter.

One of the most worrying impacts of the earthquake will be Japan's already fragile debt position. "The timing of the disaster could not have been much worse," Capital Economics said in a research note.

"A large part of the reconstruction costs will probably have to be met by local authorities and ultimately by central government, which is already struggling to bring public debt under control," it said.

Brendan Brown, economist at Mitsubishi UFJ Securities, said it "seems plausible" that the debt costs could add between 2 percent to 10 percent of GDP to its massive public debt load.

If public debt grows more than 5 percent, "there would be the speculation as to whether the Japanese government would dip into its massive holdings of foreign exchange reserves and, say, sell US T-bonds rather than issuing huge additional quantities of JGBs," Brown said.

It is unimaginable that Japan would restructure its debt but investors might expect higher inflation and a weaker yen as ways to help it to cope with its debt burden, he said.

This could hit its credit rating again. Japan was downgraded by Standard & Poor's in January given the lack of a plan to fix public finances. Moody's has warned it may soon cut Japan's ratings if the government fails to control its ballooning debt.

The yen, which jumped more than 1 percent to 81.87 per dollar following the quake on Friday, likely will gain further in the following days, depending on the size of repatriation from insurers and other companies.

The Bank of Japan on Monday plans to offer several trillion yen (tens of billions of dollars) to money markets in an emergency operation aimed at ensuring market stability and the smooth settlement of funds, Jiji news agency said, which could take pressure off the currency.

"We expect that the foreign exchange market will take its cues from the immediate monetary and fiscal response," Citigroup analysts said in report.

Another intervention by the BOJ in the currency market to curb yen strength is a possibility, said Mansoor Mohi-uddin, head of foreign exchange strategy at UBS Macro Research.

AFP

A man directs people as they queue for supplies outside a shop in Fukushima yesterday following the massive earthquake and tsunami. The panic has caused shortages of food and fuel in many parts of eastern Japan.

Quake threatens setback for nuclear energy

AFP, *Hong Kong*

Explosion and meltdown fears at Japan's quake-hit Fukushima nuclear plant renewed debate about the safety of atomic energy Sunday and cast doubt over its future as a clean energy source.

Officials warned that there was a "high possibility" of meltdown at the ageing facility north of Tokyo, which was rocked by an explosion Saturday following an 8.9-strength tremor that sent 10-metre waves bulldozing inland.

Backup cooling systems failed, leaving the core to glow unchecked and sparking fears that fuel could breach the containment shell, leaking dangerous radiation into the densely-populated region that houses 30 million people.

About 200,000 residents were evacuated from a 20-kilometre radius around the plant, which was built in the 1970s and is one of 54 nuclear plants providing about 30 percent of Japan's power.

Operator Tokyo Electric Power Co (TEPCO) insisted radiation was still within safe levels, but mounting internal pressure meant that some vapour had to be released, and it warned another blast might take place in a second reactor.

Anti-nuclear campaigners said the crisis was a timely reminder of the dangers of atomic energy, particularly in a seismic hotspot like Japan, with Greenpeace describing it as an "inherently hazardous" industry.

Tens of thousands of demonstrators took to the streets in Germany over plans to prolong the country's dependency on nuclear power, while Russia ordered a review of its emergency response procedures.

Beijing said it was watching developments closely, having stepped up investment in nuclear power in a bid to slash carbon emissions, with 27 plants being built, 50 in the planning phase and another 110 proposed.

According to the World Nuclear Association there are 443 nuclear reactors operating worldwide, with another 62 under construction, 158 on order and 324 proposed.

Iraqi city sees hotel boom

AFP, *Najaf*

The holy Shiite city of Najaf in central Iraq, home to the shrine of a revered cleric, is in the midst of a hotel building boom in a bid to dramatically ramp up the number of visiting pilgrims.

While thousands of mostly Iranian religious tourists already pass through Najaf every day on what are marketed as nine-day tours of Iraq's holy Shiite sites, hoteliers and business groups in the city expect hotel capacity, currently at breaking point, to double in the next three years.

"Even if we multiplied the number of hotels in Najaf by 10 times, it would not be enough!" said Farhan Shibli, who already owns two hotels in the city and is building another.

"It is a great opportunity for investors, a golden chance -- these two cities, Najaf and Karbala, are ripe for investment in hotels," he added, referring to another holy Shiite shrine city close to Najaf.

The chamber of commerce in Najaf, about 150 kilometres (90 miles) south of Baghdad, estimates about 3,500 pilgrims arrive every day in the city of just 500,000 inhabitants, the vast majority of them from neighbouring Iran.

The tourists are mostly on package tours where they spend three days in Najaf principally to visit the shrine of Imam Ali, a seventh century Muslim leader, and three days in Karbala and Baghdad respectively.

Karbala, which has a population of 630,000, is the home to shrines to Imam Hussein and Imam Abbas, also revered among Shiites, while Baghdad houses a mausoleum to another such cleric, Imam Kadhim.

The tour groups typically also make a day trip to Samarra, north of the capital, to visit the gold-domed Askari shrine there.

But Najaf's 130 or so registered hotels are barely able to deal with the influx, to the point where 40-odd sub-standard establishments take in pilgrims, according to the chamber of commerce.

"How many tourists come to Najaf depends on hotel capacity," said Zuheir Sharba, chairman of the chamber of commerce.

"If there are more rooms, more people will come. The problem is there is no additional capacity right now."

Sharba added: "Lots of hotels have rooms with four or five beds, but pilgrims who come don't seem to care. They just want a place to sleep for the night."

Shibli concurs, noting that religious tourists will pay money just to sleep in his hotels' lobbies, while others will cram several people into individual rooms.

AFP

Wang Yulan goes online with the help of her neice to sell the produce in their home in rural Beijing. For years, Wang had to drive her three-wheeled vehicle to the market to sell her produce. Now, she has joined a growing number of farmers selling their wares online, giving them access to customers around China and boosting their meagre income.

Energy markets brace for shockwaves

SINGAPORE, *Reuters*

Fossil fuels may rise on Monday as energy will be in focus with investors more concerned about how Japan will replace lost electricity generation capacity than the negative impact of Friday's cataclysmic earthquake on the economy.

But at the same time, volumes may remain small at the start of trade as the market might look for clearer direction after Friday's broad-based selloff and await answers on how quickly Japan would be able to stabilise operations at its power plants and refineries.

Following the magnitude 8.9 earthquake and devastating 10-meter tsunami that has shut down ports, power plants and refineries, the immediate reaction of many investors was to extend the week's sell-off across the commodities sector, leading to the biggest decline since last July.

Brent and WTI oil prices fell Friday -- Brent shed 3 percent and hit a low of $112.25 a barrel, while WTI dipped below $100 for the first time since early March on worries about demand from the world's third-largest economy and oil importer.

"In the shorter to medium term, expect to see a lot more fossil fuel going to Japan. From as early as Monday we are likely to see a rise in LNG, oil and coal as the market gears up for greater Japanese demand," said Jonathan Barratt, managing director of Commodity

Investors doubt Zimbabwe despite major steel deal

AFP, *Harare*

Zimbabwe last week won its biggest foreign investment in a decade with a $750-million steel deal, but that left other firms even more confused about the rules of business in the troubled nation.

The agreement gives India's Essar Group a 54-percent stake in the mothballed state steel firm Zisco, in deal worth 12.5 times the total foreign investment recorded in Zimbabwe in 2009.

But the deal contravenes Zimbabwe's new equity law, which requires locals to hold majority stakes in major companies. Officials have tip-toed around the contradiction, but it's not the first time the new rule has been waived.

In September, pan-African banking group Ecobank Transnational was given the green-light to acquire 70 percent of Zimbabwe's Premier Bank, following a $10-million capital injection.

Other companies now wonder how or if the law, vociferously defended by veteran President Robert Mugabe, will apply to them.

"Many people are worried about the execution of the law or how it would be applied," said Kojo Parris, a South African investor.

"There is need for clarity on how the law would be applied or how exemptions would be applied."

The law requires locals to own 51 percent stakes in major firms, a rule that indigenisation minister Saviour Kasukuwere defended during an investment conference.

"We believe as government we were getting a raw deal from foreign firms, especially from mining sector," Kasukuwere said.

When Zimbabwe's unity government took office two years ago, officials confidently predicted a surge in foreign investment, which until now has proved elusive.

Euromoney, the financial services group behind last week's conference, still ranks Zimbabwe as among the riskiest destinations in Africa, alongside countries like Somalia and the Democratic Republic of Congo.

While the economy began growing again in 2009 after 12 years of contraction, the fragile unity government has yet to win over investors, due largely to conflicting messages from Harare.

Economic ministries are now under the control of Prime Minister Morgan Tsvangirai, who has relentlessly pitched the country to investors.

The security apparatus remains firmly under the control of Mugabe, who snubbed the investment confab, held one week after he threatened to seize firms from western countries that maintain an asset freeze on him.

Despite the mixed signals, 250 potential investors came to Harare last week, representing mainly banks, mining and retail companies.

Capital-intensive businesses like mining and manufacturing have generally shied away from new investments in Zimbabwe, while retail and services have proved more willing to jump in, especially from neighbouring South Africa.

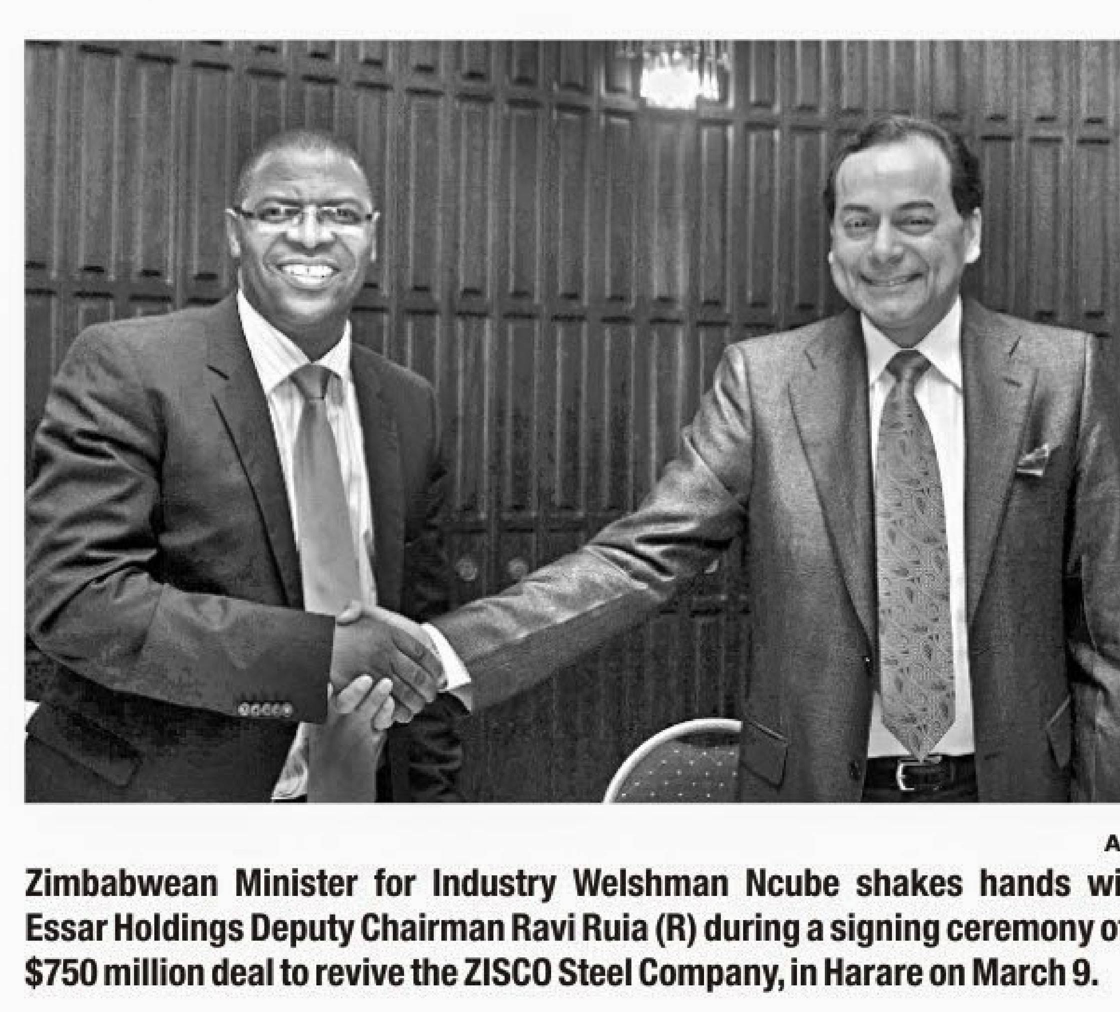
South African retailer Pick and Pay has increased its stake in local stores from 25 to 49 percent. South Africa's Spar has also expanded its presence, while international banking group Investec has upped its stake in OK Zimbabwe stores.

"Investors in the basic consumer sector such as those in retail always do well in economies that are coming out of a crisis," said Ritesh Anand, managing director of pan-African fund manager Invictus Investment.

Jonathan Chenevix-Trench, founding partner of British investment group African Century, told AFP the key to riding out the risk was to plan for the long term.

African Century has bought 25 percent shares in Zimbabwe's Stock Exchange and London-listed National Merchant Bank.

"When investing Zimbabwe you must have long-term plans," he told AFP. "I personally welcome the indigenisation policy as everyone needs predictability. The key thing about the law is trust."



AFP

Zimbabwean Minister for Industry Welshman Ncube shakes hands with Essar Holdings Deputy Chairman Ravi Ruia (R) during a signing ceremony of a $750 million deal to revive the ZISCO Steel Company, in Harare on March 9.