

**Impressions and Observations from Tokyo, March 11 – 21, 2011**  
**Following the March 11 Earthquake**

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I was sitting at a desk in my room on the 35<sup>th</sup> floor of the New Otani Hotel Tower Building in downtown Tokyo Friday afternoon March 11, when suddenly the building began to shake and sway. Oh, an earthquake I thought. But it became stronger, and wouldn't stop, and I couldn't move. It was very scary. Once it stopped, I went to the window to see if any buildings had collapsed or if there were any fires. But it all looked the same. I was safe, the building was safe, and people were safe. And that was essentially true for everyone in Tokyo.

That began a fascinating 10 days in Tokyo. I was there for the 25<sup>th</sup> anniversary conference of the Business School's Center on Japanese Economy and Business (CJEB) titled "Japan, U.S., China in the World Economy," to be held on March 16, but of course it was postponed. Virtually every event in Tokyo – conferences, seminars, university and school graduation ceremonies – was cancelled. However, none of my meetings the week of March 14<sup>th</sup> with Center corporate sponsors, other professionals, recent university graduates and other friends were cancelled, indeed a few were added, and I was comfortably ensconced in the excellent Hotel Okura virtually devoid of guests.

Japan now faces its worst crisis since World War II. The 9.0 earthquake in northeast Japan/Tohoku was the largest in Japan's recorded history. The extraordinarily enormous tsunami wave caused the most destruction – lives lost, futures shattered, property destroyed. Like everyone in Tokyo and most of the world, I was riveted by the heart-rending continuously updated reports of death, disaster, and destruction of property, some 450,000 homeless, most in temporary evacuation shelters. But what makes this crisis qualitatively different and most dangerous is the partial meltdown at the four nuclear reactors at Tokyo Electric Power Company's Fukushima Daichi power facility. Fukushima now joins Chernobyl, Windscale, and Three Mile Island as one of the world's four major nuclear accidents.

My most compelling and enduring impression is of the great strengths of Japanese people and society. People have been calm, orderly, flexible, stoic, pragmatic, honest, resolute,

prepared to endure, helpful of others, and determined to prevail. As one Japanese friend quipped, Japanese queue up even to buy toilet paper and other practical necessities until they are sold out.

Lack of information in this suddenly uncertain, potentially threatened Tokyo quickly became people's major cause of concern and anxiety. Initially communication and transportation were out, and people wanted to know whether their family and friends were safe, and home OK. On Monday March 14, people reported to work in a somber Tokyo as everyone voluntarily conserved electricity. An unprecedented 262 significant aftershocks were recorded in the first week. We felt numerous aftershocks every day, but neither I nor anyone seemed to worry much about them. It was easy to get around Tokyo – taxis were abundant, subways were working, and traffic was light since gasoline supplies were short.

As the week progressed, our greatest concern was about the possibility of dangerous radioactive air spreading to Tokyo, though the actual recorded levels were very low. TEPCO was not and still is not able to fully control the Fukushima nuclear reactors or prevent some radioactive materials from leaking. Like most Japanese in Tokyo, I was (and am) persuaded that even in the highly unlikely worst case scenario (complete meltdown or explosion), Tokyo's air will not become dangerous. Likewise, radioactive milk and vegetables from Fukushima seem to be a localized problem, well under control. However, the sudden but temporarily higher levels for infants of radioactive iodine -131 in Tokyo tap water on March 23 was a new shock, and brought a run on bottled water.

The government has steadily provided a great deal of factual information, and academic and other specialists appear on TV and in other media to analyze the available evidence about the Fukushima situation. I was also deeply reassured by the presentations at the special symposium held by CJEB at Columbia on March 22, including the talk by Professor David Brenner, Higgins Professor of Radiation Biophysics, on the low risk of dangerous exposure to radiation for almost all Japanese. Nevertheless, until TEPCO brings the Fukushima nuclear reactor problem under control, the psychological costs to Tokyo residents will probably be substantial, if latent.

Since most of my previously scheduled appointments, including the Bank of Japan Governor and the TEPCO chairman, for the March 21 week were cancelled, I went to Kobe a few days early and then, as scheduled, to Tottori and Shimane prefectures on the Japan Sea. Life was very normal in those places. Lights were bright, stores and hotels were as crowded and busy as usual (with very few foreigners), and people bustled around in their regular life schedules. While people deeply sympathized with those suffering from the triple disasters, Fukushima seemed (and is) far away. On April 3 I went to Korea where I wrote this.

Context is important. Though the loss of life and property has been great and devastating, some U.S. media have ignorantly sensationalized aspects of these disasters, including the economic impact. The three most afflicted Tohoku prefectures – Iwate, Miyagi,

and Fukushima – have a population of 5.7 million, 4.5 percent of Japan’s population of 127.5 million, and a 4.0 percent share of Japan’s GDP.

This disaster did, however, reveal the extent to which Japanese companies have relied upon Tohoku companies as sole or dominant suppliers of very specific items, components or parts. This is the case not only for the automobile industry but for a range of items, such as resins for packaging computer chips, material for binding processed food packages, and train engine brushes. The efficiencies of supply chain management based on production economies of scale and just-in-time low inventories will have to be rethought. It is too early to determine how quickly such supply interruptions will be overcome, and what their near-term macroeconomic impact will be.

In the near term Japan’s GDP growth will decelerate as both consumption and production are reduced, but in the longer-run reconstruction and new investment expenditures will generate greater demand and growth. The Tokyo region and eastern (northern) Japan will face electricity shortages and likely rolling blackouts, especially in the summer, and these may turn out to have severe effects on businesses, especially small ones. However it is too early to determine how well they will be managed.

Whether this crisis will shock Japan out of its two decades of economic lethargy depends upon Japanese Keynesian “animal spirits” and political will. Given Japan’s historically demonstrated capabilities to rebound from adversity, I am not pessimistic. This is certainly not the end of Japan. It will be a new beginning.