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Japan-Yen

MR YEN WARNS ASIA OF JAPANESE ECONOMIC COLLAPSE

By: Azman Ujang

TOKYO, Oct 20 (Bernama) -- The man dubbed by the international media as "Mr Yen" today warned the whole of Asia of a "really bad" scenario if the economy of Japan collapses.

Japan's Vice Finance Minister Eisuke Sakakibara said the most important agenda for his country, the world's second biggest economy but now facing its worst post-war recession, was to get the economy back on its feet again.

Sakakibara, seen as the strongest defender of the yen in the Japanese government and whose views on the currency would normally have market-moving effects, said foreign reserves and public money would have to be injected as quickly and as massively as possible to avert a global credit crunch that would have devastating consequences especially to Asian countries.

"Japan is in an extremely difficult recovery path. If Japan collapses, it will be really bad for the whole of Asia," he told a seminar here which was also attended by Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad.

Sakakibara also told Dr Mahathir seated next to him that international currency speculator George Soro, whom the Malaysian leader has often blamed for causing the financial crisis in the region, was going to publish a book next month in which he now seemed to agree with Dr Mahathir's views on the destructive ways of currency speculations.

"The Western financial system is at the cross-roads and the Japanese economy is facing the most serious crisis since World War II and with a global credit crunch looming," he said.

He said the Japanese banks were having a severe credit crunch and for Japan this was the most important thing on its hands.

"What this means is that capital will not be going across borders and capital will stay within the countries themselves," said the vice minister who advocated that it was now time for the public sector to come to the rescue by complementing and supplementing banking funds.

The public sector must now assume a great deal of role for economic stimulus and inject money into banks as quickly as possible, he said.

Sakakibara said it was in this light that Japan had come out with a US\$30 billion package for Asia announced by Finance Minister Kiichi Miyazawa at the recent International Monetary Fund and World Bank meetings in Washington.

He said Japan hoped to be able to disburse the money as quickly as possible to revitalise Asia's ailing economy.

"I agree with Dr Mahathir that Japan is the richest depressed country," said the vice minister of comments that Japan, with its vast foreign reserves and trade surpluses, could afford to offer more.

But Sakakibara said Japan's own economy too needed help and therefore much money would be used to revitalise the domestic economy which was crucial if the Asian economy was to recover at all.

He said the U.S. economy was also on the decline, while Europe was having a contraction and Latin America having "real serious problems exposing the countries to dangers and risks".

In his view, if Asia, which was the first to be hit by the economic crisis last year, could pull itself out first, then Asia could be the first to support the world economy to recover.

He also described as "very bold" Malaysia's recent move to impose exchange controls with a fixed exchange rate for its currency, arguing that the market could not be expected to do everything and the world could not until now come to a consensus as to what kind of exchange regimes would be the best.

Dr Mahathir told the forum organised by the Mainichi Shimbun newspaper group that the problem with people was that they had fixed minds about the world financial system.

"We should get away from that kind of thinking and examine the effects and not merely the cause. While we believe in something like a religion, the people and countries are suffering from the bad effects of the market fixing and playing around with exchange rates. Please open up your minds, we should examine other systems, modify and not just shut our minds," he added.

He said that in the case of currency trading, the massive sums of money being traded actually did not exist although currency trading was estimated at 20 to 30 times trading in goods and services.

He said in Malaysia, the amount of actual money in circulation was only worth RM20 billion.

"Actually currency trading is in the form of mere figures on the computer screen. No money is actually transferred".

Dr Mahathir said the US-based hedge fund that collapsed recently, Long Term Capital Management, had a capital of US\$4 billion but was leveraging in huge multiples and that should be stopped.

"If such leveraging in massive multiples is stopped, at least the problems would be more controllable. They are not dealing in real money, currency trading is very much virtual trading but the problems they cause are very, very real".

Japan External Trade Organisation (Jetro) chairman Noboru Hatakeyama said the United States should further reduce interest rates to help world economic recovery as well as avoid imposing anti-dumping measures.

He said the U.S. was maintaining high interest rates to make its dollar attractive while the anti-dumping measures against the steel industry had badly hit the industry.

Asked by a Pakistani journalist if he thought the interest-free banking system could be an answer to the problems of free market capitalism, Dr Mahathir said Malaysia was practising both the interest-based and the interest-free banking systems with some measure of success.

He said even European companies in the country had borrowed on the interest-free system but he was unsure if the interest-free system could be protected from currency trading.

"The interest-free system has yet to develop a variety of financial instruments and I don't see that as a solution to the world problems just yet," he said.

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