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`Be prepared for next economic crisis'

Hardev Kaur in Tokyo

TOKYO, Tues: In the absence of a global mechanism, countries in the region must build up their national and regional defences to cope with the next financial crisis which "will surely take place", says Japan's influential former Vice Minister of Finance for International Affairs, Mr Eisuke Sakakibara.

"No question about that," he said, emphasising his point concerning the "next crisis".

Sakakibara says even though the region has learnt a lot of lessons from the recent crisis and how to deal with it, he, however, "does not think it is possible to really stop the occurrence of future crises".

For a national defence mechanism, he says there is need for a good national supervisory authority. There is need to build up foreign reserves, need to build up some kind of contingent arrangements with the private sector and to develop some kind of regional arrangement to forestall the crisis.

"And if the crisis takes place there is need to provide reciprocal financial arrangements," Sakakibara says in a wide ranging interview at his office here.

Also known as Mr Yen for his influence on the markets, he had at the height of the financial crisis in 1997 proposed the setting up of an Asian Monetary Fund which was shot down by the US and the International Monetary Fund (IMF).

Eventually the Japanese Government announced the Miyazawa Initiative to assist crisis-hit countries in the region at a much later stage but with a smaller funding.

He said the region needs to deal with the US carefully which he described as "a hegemonic power in the world". The US had opposed the setting up of the East Asia Economic Caucus (EAEC) which was first proposed by Prime Minister Datuk Seri Dr Mahathir Mohamad in 1990.

If the EAEC had existed during the crisis, Mr Yen says the "situation could have been different". The IMF made several crucial mistakes in the initial stages and "in some cases that perpetuated the crisis rather than halting it."

The Japanese Government is proposing Sakakibara to replace Mr Michel Camdessus as the IMF's managing director who is leaving his post in February.

On regional cooperation Sakakibara says: "I think the US should understand that the Europeans have a regional arrangement and the US itself has regional arrangements in the Western Hemisphere.

"So it's only natural for Asian countries to have a regional arrangement which is not inconsistent with the global arrangement. We could persuade the US. We need to."

On the appreciation of the Japanese currency, Mr Yen argues that "seen from the reverse side, it is a weakening of the US dollar". A weakening greenback is not desirable for the US and therefore "the US and Japan should cooperate to stop further strengthening of the yen or the further weakening of the US dollar".

He notes that there are "some bubble elements" in the US stock market.

"And if the bubble bursts in a harmful way that would really affect the world economy negatively. We have to avoid that. There is need for a stable exchange rate and therefore for the two leading economies to work

together," he said.

Sakakibara, who is now a professor at Tokyo's Keio University, is optimistic about the future of Asia. He plans, together with the World Bank, on "Revisiting the East Asian Miracle" and adds that he already knows the conclusion - "in the 21st Century we will again have the East Asian Miracle".

As for Japan, the world's second largest economy, he contends it has hit bottom in the first quarter of 1998 and is slowly recovering. In fiscal 1999 it is expected to register a growth of between 1 and 2 per cent. While admitting that consumption is still weak, he however added there are signs that it is starting to recover.

Contrary to the popular view that Japan has not moved into the "new economy", Sakakibara points out that it is changing. "Under the surface things are really beginning to happen. Initially led by venture business like Softbank, but now the big corporations like Fujitsu, Sony, Hitachi and NTT have started to move in the direction of information and telecommunication revolution. The revolution is really starting to happen."

On Japan's regional role he agrees that it needs to take more regional interest but says it is not appropriate for Japan to adopt a "hegemonic role in the region".

Pointing out that there are a lot of competent leaders in the region, Sakakibara adds Japan "... could become the Finance Minister, but the Prime Minister has to be someone else."