

12/01/2000

Japan can become engine of growth

JAPAN'S former Vice-Finance Minister for International Affairs, Eisuke Sakakibara, is outspoken for a Japanese and is known as Mr Yen for his influence on the markets. In an interview with Hardev Kaur at his office in Tokyo, he calls for a regional defence mechanism to prepare for the next crisis "... which will take place. No question about that".

Q: What are the prospects for the Japanese economy in the new millennium?

A: Japan probably hit the bottom in the first quarter of 1998 and may slowly be recovering. In fiscal 1999 we will see a growth of one-two per cent. Consumption is still weak, but there are signs of recovery.

In 2000 and 2001 investments in plant and equipment, and particularly in information and telecommunications, is expected to be quite strong.

For the first time, in the last couple of years, aggregate investment in plant and equipment recorded positive growth. There are signs a revolution is taking place in the information and telecommunication sectors.

In the 21st century, Japan could become an engine of growth for this area, along with other countries. I am not pessimistic (about Japan).

Major structural changes are taking place. In June, Nasdaq Japan opens and the Tokyo Stock Exchange (TSE) has created a new sub-section. There will be a boom in IPOs in venture businesses and this will probably result in fairly robust growth.

Q: It has been said that Japan is not quite attuned to the new economy, that it still does things the old, slow way using the old hierarchy which results in slow decision-making. But what I am hearing from you is that it is changing. Is Japan changing fast enough?

A: Yes it is changing. Under the surface things are really beginning to happen. Initially led by venture businesses like Softbank, but now big corporations like Fujitsu, Sony, Hitachi and NTT have started to move in the direction of information and telecommunication revolution.

There are companies that are still lagging behind - some in construction, some in banking, but I think there will be sufficient pressure from the market for them to change. It is a question of survival.

Q: Does the region need an exchange rate regime like Europe's? What is the role of the Bank of Japan in view of the strengthening of the yen vis-a-vis the dollar? Should it intervene in the currency market?

A: Firstly, we need some sort of co-operative regime among Asian countries. We are operating through the dollar and only the market for the US dollar exists. The Malaysian ringgit, yen and Korean won operate through the US dollar.

There is an increasing need to stabilise the exchange rate among Asian countries. In order to do that we need a co-operative regime among Asian currencies - ringgit/yen, won/yen and yen/baht and so on. It may take time but it is absolutely necessary, at least in the medium term, that we develop a co-operative regime. Some sort of a unification of currencies might be difficult but we could start with something like an Asian currency unit.

Secondly, Japan needs to stabilise the yen/dollar rate. Further appreciation of the yen would be detrimental to the Japanese economy and would have a negative impact on the economies of the region.

BOJ has intervened. It should continue to intervene aggressively to stop further appreciation of the yen. At the same time, it should indicate to

the market that it will further ease monetary policy in order to halt appreciation of the yen.

Q: What is stopping the BOJ from intervening or giving very strong signals to the market that it means business?

A: It should give strong indication that it is stopping further appreciation of the yen. It is relatively young in terms of being an independent central bank. Being young it has some rigidity. It should become a little bit more mature than it is now.

Q: But isn't youth always more aggressive and bolder?

A: I understand that independence is very important for the central bank and in order to be independent you have to be flexible. You have to communicate well with the markets and with the politicians as well. It is a slow learning process for the BOJ and I hope it has learnt enough by now.

Q: If the yen continues to strengthen, do you see Japanese investments from the US returning to Japan? And if this does happen could that precipitate a downturn in the US economy and set off an adverse chain reaction worldwide?

A: That's it. That means the US needs to co-operate. It is more of a US problem than a Japanese problem. There is need for joint intervention by the US and Japan to stabilise the currencies.

Further appreciation of the yen, seen from the reverse side, is a weakening of the dollar. At this time I don't think (a weak dollar) is desirable for the US because it is receiving a huge amount of money from the rest of the world. As a matter of fact, it needs US\$1 billion a day in order to compensate for its current account deficit. So a weakening of dollar is not desirable. The US and Japan should co-operate to stop further strengthening of the yen or the further weakening of the dollar.

If the US market becomes unstable now it would be very harmful to the world economy. Already, the US stock market has a bubble element. If it bursts, that would really affect the world economy and we have to avoid that.

Q: Who will be the economic leader of Asia in the new century?

A: Your Prime Minister (Datuk Seri Dr Mahathir Mohamad) has shown very strong leadership and I think he will continue to do this. I am hopeful Indonesia will come back. Wahid (President Abdurrahman Wahid) has very good leadership and a strong sense of policies. As Indonesia's political turmoil is settled, it will eventually emerge as one of the leaders of the region. Of course, China is very important and (South) Korea, particularly under Kim Dae-jung, has shown a willingness to play a significant role in the region.

So China, (South) Korea, Malaysia, Indonesia and eventually India. With the advent of the telecommunication age, India has great prospects and its economy is becoming more and more dynamic. I expect India to play a significant role.

Q: What kind of impact do you see from China's entry into the World Trade Organisation on the region, in particular, and world trade, in general?

A: It is very significant that China is formally coming into the market. China has recorded very dynamic growth but it is still insulated from the rest of the markets and is basically a controlled economy. But China is deregulating its market in a cautious way. This is welcomed. We need to co-operate with China to build sensible regional arrangements within Asia.

Q: Will China's entry into the WTO impact on trade patterns in the region?

A: China's participation in WTO is a step in the right direction. But I do not see any immediate huge transformation of the economy. The process

will be gradual.

China is a huge market and development of the Internet and cellular phone business will change the pattern of communication fairly dramatically in the years to come.

Q: There are some moves to bring unresolved trade issues, from the failed Seattle meeting, to the UNCTAD meeting in Bangkok in February. What should developing countries in Asia do?

A: It is a difficult issue (trade liberalisation). Increasingly, developed countries have become inward-looking. And particularly for the US it is an election year. Even for Europe, the enormous change that is taking place in the economic structure is generating a very strong domestic voice to defend the welfare state and the status quo. That will probably continue and generate protectionist pressure within developed countries and we need to watch them very carefully.