

Japanese Management and Asian Economic Crisis

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Abstract

This article is based on the lectures made in February and March 1999 at Budapest University of Economic Sciences. The lectures can be divided into two parts: (I). The Japanese Management System (JMS) and (II). The Asian Economic Crisis.

The first part begins with a brief historical review and summary of major characteristics of JMS. The major characteristics of JMS comprise the "three sacred treasures" of lifetime employment, seniority system and enterprise union, as well as other characteristics such as one-time recruitment, in-house education, bottom-up decision making, employee welfare programs and collective/family-oriented culture. The emphasis is placed on the inter-relationship of those characteristics. The chart named "the Diamond of JMS (Figure 2)" is given to illustrate how tightly those characteristics of JMS are related and linked with each other. The first part also refers to the reasons for the success of JMS and its possible transformation in the future.

The second part discusses the recent Asian economic crisis with regard to the U.S and Japanese economic policies. The main argument is a change in the U.S. economic policy (Figure 5). The U.S. government has been working more for the benefit of tertiary industries such as Wall Street and internet business since 1995. As a result, the strong dollar and high interest rate have been maintained to welcome the money from all over the world. The reasons for and the results of the Asian economic crisis are given along with this change in the U.S. economic policy.

The first and second parts of this article are summarized separately but are closely related. This is because the characteristics of JMS have been working more effectively in the secondary industries and the future of JMS depends on how the Japanese companies can transform them into the economic changes from the secondary industries to the tertiary ones.

I. Japanese Management System

Background

The Japanese Management System is a general term for management practices or managerial styles commonly adopted by Japanese enterprises. The word was created by European and American scholars after World War II when Japanese economy had a miracle recovery.

One of the earliest Western researchers on the Japanese Management System was Prof. J.C. Abegglen, a cultural anthropologist. He made a comparative study of Japanese and American management characteristics and published a book, "The Japanese Factory" in 1958. In this book, he named Japanese employment practices "Life-time employment."

In addition to the lifetime employment practices, a 1970 OECD report stressed the seniority system and the enterprise union. As a result, these three factors are called "Three sacred treasures"

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¹ *The Japanese Factory : aspect of as social organization*, Free Press 1958.

symbolizing the Japanese Management System.

The Japanese Management System became more famous during the 70's and 80's because Japanese economy overcame the two oil crises and continued to show rapid growth. Major economic magazines such as "The Economist" in the U.K. and "Business Week" in the U.S.A. devoted extra spaces to special stories on the Japanese Management System and called it the secret to Japanese economic growth.

However, the general perception of the Japanese Management System has declined as the Japanese economy slowed down in the 1990's. In fact, the Japanese Management System has both merits and demerits, and the strengths of the Japanese Management System can be weaknesses when economic conditions change. In addition, many Japanese companies have reexamined their traditional management and labor practices. The lifestyles and values of Japanese workers have also changed. Today, the mythological age of the Japanese Management System has ended, and its reality is being disputed among scholars.

1. Three Sacred Treasures

(1) Lifetime Employment

Lifetime employment is actually not an established institutional system, but a practice of long-term employment. In Japan, a majority of new college graduates join a company right after their graduation, and work for the same company until they reach their retirement age. This means that people work for the same company for twenty or thirty years. Changing jobs is not so popular in Japan as it is in Europe and America.

Legally, however, Japanese labor contracts are pretty much the same as European and American ones. Employee has contract with his or her company on an individual basis and people are free to leave the company whenever they want to do so. In fact, a great number of employees in the tertiary industry and in small business settings take up different employment more frequently. Therefore, the lifetime employment is merely a labor practice among the Japanese large corporations in the secondary industry.

Still, the lifetime employment practice is very fundamental in the sense that the other two major characteristics work on the assumption that people work for the same company for a long time.

(2) Seniority System

Seniority System is composed of Seniority Promotion System, and Seniority Wage System.

The Seniority Promotion System is actually not a system but a practice in which people are promoted according to the length of service. Most new college graduates are treated the same. Even if you have an MBA degree from Harvard, you have to start at the lowest position. Managers are gradually promoted up from the lowest ranks and need many years of experience before reaching senior managerial positions.

However, this promotion practice does not always work on a pyramidal organization hierarchy, as the higher you get promoted, the fewer positions you have in the hierarchy. Then, the Seniority Wage System works in compensation for this promotion practice.

The Seniority Wage System is more systematic rather than a practice. It is a pay scale based

on seniority. The Seniority Wage System is composed of a life wage concept and a preset yearly pay raise.

The wage can be divided into performance wage and life wage. The performance wage is rated as a result of individual performance. However, the performance wage often increases according to the length of service on the assumption that people gain ability along with the length of working. The life wage is rated in consideration of the changes in employee's life. This life wage also increases according to the years of service, because it is generally believed that the living cost will increase according to the years of service. For example, the order employees generally have more children, and they need a larger house and have to pay larger education costs.

The preset yearly pay raise is usually carried out simultaneously in April every year. Each year, employees will get higher wage base according to the length of services.

(3) Enterprise Union

Japanese labor unions are not organized by occupation or industry, but by enterprise. Therefore, there is only one union for each company. For example, Toyota has a single labor union of Toyota Labor Union within a company. Similarly, Nissan has Nissan Labor Union and Honda has Honda Labor Union, one each within each company. All the employees belong to the same enterprise union until they are promoted to managers. Managers leave the union to join the management side.

These enterprise unions are federated by industry, but the function of such industry-wide organization is different from that of European and American organizations. For instance, Confederation of Japanese Automobile Workers' Union (JAW) is merely a national center, or political lobbying unit for the automotive industry. Unlike the United Automobile Worker's Union (UAW), the Japanese national center organization, JAW, does not go into the details of wage and labor conditions. Each enterprise union takes full responsibility of collective bargaining within each company.

As each company has a single union, the relationship between the company and the union is relatively close, compared with that in Europe and the U.S.A. The enterprise union has generally an underlying trust in the company, standing on common ground to share the profits and prosperity.

2. Other Characteristics of Japanese Management System

The other major characteristics of Japanese Management System are as follows :

(1) One-time Recruitment

Japanese academic calendar runs from April through to March. This means that every student finish his or her school from kindergarten to university in March. Similarly, the fiscal year of most Japanese companies begins in April and ends in March. As a result, almost all of the employees are recruited one time and join the company simultaneously in April.

Compared with Europe and the U.S.A. where people are hired throughout the year based on the employment needs, most Japanese companies do not hire people midway through the year. New graduates from university or high school are major source of new employment.

Another feature of this one-time recruitment is that the company generally does not hire new graduates according to their major, that is, what they learned at school. For instance, a new graduate who majored in law is not necessarily employed as a legal specialist. This is directly related to the following internal education.

(2) In-house Education

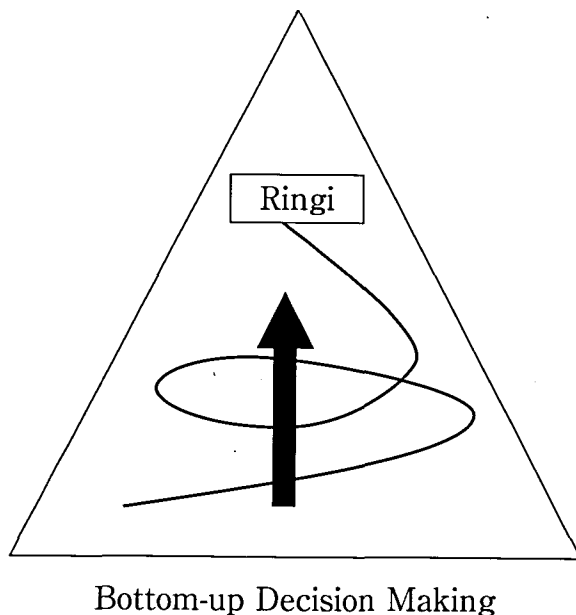
The Japanese company hires new graduates as general employees rather than as specialists. Then, the company gives a variety of internal education programs to train the new graduates. The in-house education can be divided into on-the-job training and off-the-job training.

On-the-job education is carried out at office or shop on a daily basis. New graduates learn the background of job while doing it. For example, the new graduate who is assigned to the legal department becomes a legal specialist while doing a daily work.

What employees learn from their experience is a key to success in their promotion. The company takes time to evaluate them in the context of their aptitude, qualities and entire contribution to the company.

Off-the-job education includes a new employee education, a special skill education and a management education. The new employee education is designed for the new graduates to get basic knowledge and common sense, and to become a member of business world. The special skill education varies according to the assigned job. If you are in an international department, you may attend a class of the foreign language program. A variety of lifelong education programs are available within a company in Japan, whereas it is individual's cost to learn Spanish, for example in Europe and the U.S.A.

Figure 1. Ringi Circular System



(3) Bottom-up Decision Making

In many Japanese companies, the decision making process begins from the lower level of officers and it moves toward the top executives for final approval. Therefore, this process is called bottom-up decision making. The Ringi System is one example.

In the Ringi System, the very first idea comes from the person in charge of the project. He or she draws up the original plan for the project in a written form called Ringi circular. Then, the circular is sent to related departments or to higher-ranking officers. During the circulation, meetings are sometimes held to improve the original plan. The plan is sent from man-

ager to general managers, and then to top executives for final approval.

The bottom-up decision making takes time to obtain the approval from related departments and managers. However, the project is quickly carried out once the decision is made, because informal approval of all the involved departments is already sought before decision making.

(4) Employee Welfare Programs

Another feature of Japanese Management System is an emphasis on employee welfare programs. Many Japanese companies provide a wide range of fringe benefits and welfare programs for employees.

The company does not usually provide housing facilities in Europe and in the U.S.A. because it is an individual responsibility to build a house. However, the company housing is furnished in Japan to younger employees who do not have their own houses. When they want to purchase a house, a large part of the purchasing cost is financed through the company with a very low interest rate.

Many companies have hotels, sanitariums or accommodation facilities in health resorts in order for employees to enjoy their vacation. Some companies build a hospital to provide medical services to employees. Some have a day care center or a nursery school for employee's children.

(5) Collective or Family-oriented Culture

Some scholars or analysts stress that the cultural aspect of Japanese society is a key to success of Japanese Management System. Japanese society is very homogeneous. Japanese are generally collective and family-oriented. They prefer group-oriented management to individual leadership.

In general, Japanese think that the company belongs to its employees, whereas the Americans believe that the company belongs to its shareholders. Therefore, Japanese tend to think that the lives of both management and employees depend upon the destiny of their company, as if all the crew went down with the ship.

The management is therefore based upon paternalism and family-oriented philosophy. Bottom-up decision making is an example of collective activities, and in-house education, employees welfare program is examples of family-oriented management style.

Enterprise unions are also based upon such a sense of destiny-sharing community. Therefore, the Japanese union does not demand too much when the company faces difficulties.

3. Diamond of Japanese Management System

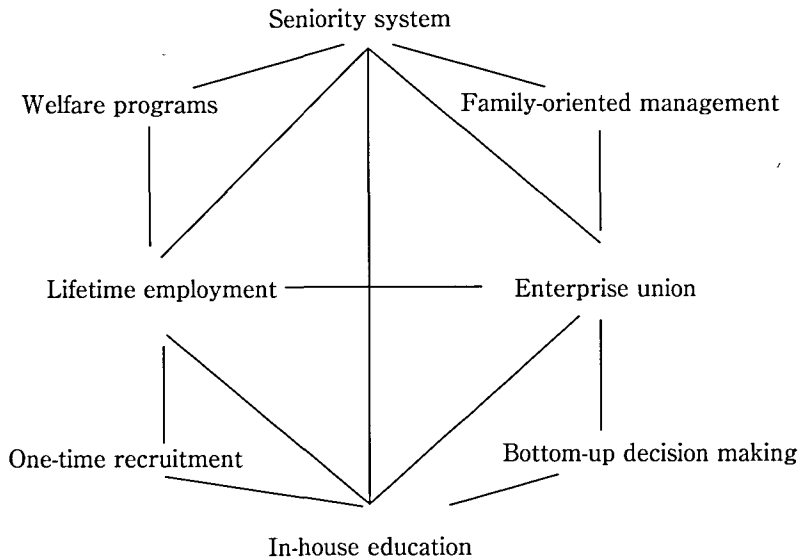
The characteristics of the Japanese Management System are tightly related together. They are inter-related so much that the Japanese Management System will collapse even if one characteristic is missing.

For example, all of the characteristics work effectively on the condition of lifetime employment. Seniority system is based on the assumption that employees' ability will increase along with the length of service and experience. In-house education also depends on the lifelong employment because the company can gain the benefit of education only when employees work for a long time. Enterprise union is necessary when people work for only one company.

One-time recruitment is the other side of lifetime employment. The importance of employee welfare programs is obvious if the employee works within a company for a long time. The other characteristics such as bottom-up decision making system and family-oriented management are the results of lifetime employment.

Therefore, I can say that the Japanese Management System is a synergy effect of all of the above-mentioned characteristics. I draw the following chart (Figure 2) and name it "the Diamond of Japanese Management System." Each point is mutually related and linked with each other so tightly that they form a diamond-like system as a whole.

Figure 2. A Diamond of Japanese Management System



4. Reasons for the Success of Japanese Management System

The Japanese Management System functions successfully under certain conditions.

(1) Expansion of Total Market

The Japanese Management System works theoretically when the total market is expanding. When the economy and market is expanding, the unemployment ratio is relatively low and the labor market outside the company is strictly limited. Then, one-time recruitment of new graduates is effective. Lifetime employment is necessary to secure the labor force. In-house education works to utilize the limited internal labor force more flexibly.

In fact, since 1950s, Japan had enjoyed a double-digit economic growth until the recent recession. Japanese economy started from nothing after World War II and there was much room for expansion in the domestic market. After the postwar reconstruction was achieved, the Japanese economy continued to expand by exporting products to foreign markets.

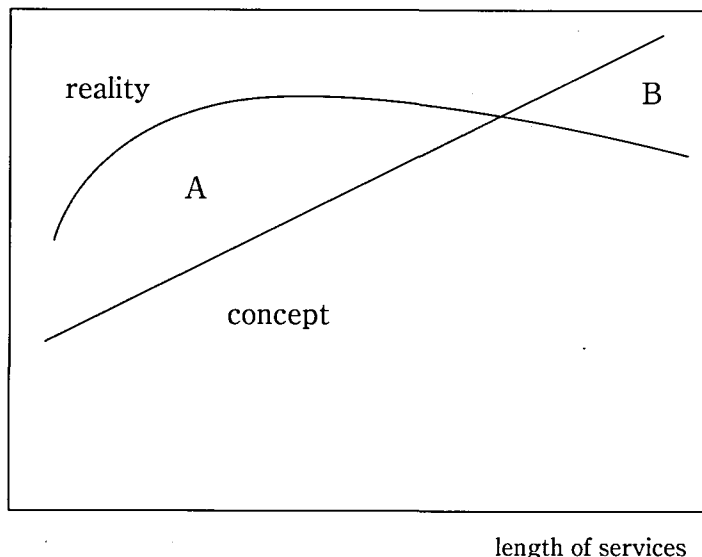
(2) Increase in Population

The Japanese Management System functions effectively when the total population is increasing. This is because the total labor cost is held down at a relatively low standard when younger employees are joining the company.

It is generally believed that the ability and performance of the employees increase along with the number of working years. However, the actual achievement is somewhat different from this concept especially in the direct production areas of secondary industry. Younger employees often gain skills and knowledge soon after they enter the company, and maintain high level of performance, while the output may go down along with the years of service.

As shown in the Figure 3, the company can enjoy the relatively low labor cost (A dred) when the new younger employees continue to join the company. In fact, the Japanese companies expanded their business when the baby boomer generation continued to join the company.

Figure 3. The Difference in Seniority Concept and Real Performance
performance



(3) Large Company in the Secondary industry

The Japanese Management System works effectively in the large corporations engaged in the mass production in the secondary industry. With the collective and family oriented background, the Japanese management had been successful in motivating floor workers. It is usually the large corporations that can provide excellent employee welfare programs and a high level of in-house education. The enterprise union generally does not demand too much, and this is a great benefit especially for the large mass-production companies.

In fact, the Japanese Management System worked well in a labor-intensive industry. Japanese economy right after the World War II was in a state of devastation, and production was stimulated by so-called "priority production system." The steel and coal industries were given a first priority, then followed by shipbuilding and automobile industries. The Japanese Management System was

adopted by large corporations in such industries and contributed to the success of such industries.

5. Transformation of Japanese Management System

The traditional Japanese Management System is now being transformed due to the changes in Japan. Major changes are that in economic conditions, the structural change in population, and the change in Japanese lifestyle/values.

(1) Economic Change : Recession

Faced with the recent economic recession, many Japanese companies have difficulty in maintaining the number of employees who are promoted every year according to the seniority system. As a result, the unemployment ratio has reached a highest record since World War II.

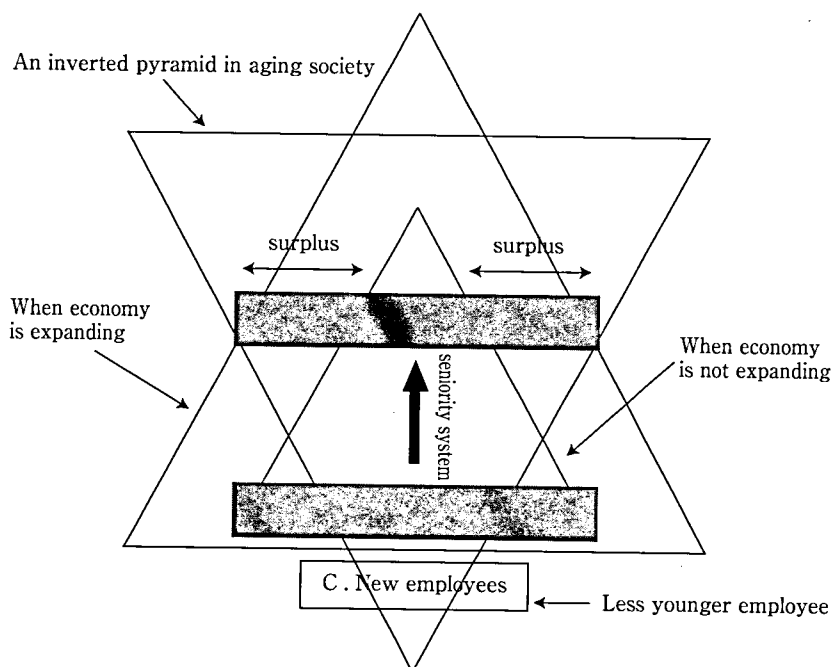
Companies are also faced with a difficult financial situation due to the increasing labor cost according to the seniority wage system within the framework of lifetime employment.

(2) Social Change : Aging Society

Moreover, the change in the demographic structure has affected the Japanese Management System. Japanese society is aging and birth ratio is decreasing. This means that the average age of total employees is raising and the company has more difficulty in hiring new employees.

Consequently, the organization hierarchy of Japanese companies is being deformed from a normal pyramid into an inverted pyramid (Figure 4). This has an affect not only on the financial cost but also the motivation of each employee.

Figure 4. Deformation of Organization Hierarchy



(3) Cultural Change : Value and Life Style

The Japanese Management System has been supported by the people's anxiety about unemployment. It was most important to obtain a job right after World War II when there were severe food shortages and rampant inflation. Thus, the lifetime employment was most attractive and welcomed by Japanese.

Once the lifetime employment practice become popular among large corporations, the labor market outside the company did not grow, and people are more afraid of unemployment².

As the standard of living increases, however, younger people become more interested in changing their jobs. The ratio of changing jobs is increasing and the outside labor market is gradually growing.

6. Future of Japanese Management System

Economic, social and cultural changes have affected the Japanese Management System. A decade-long economic recession has prevented Japanese companies from growing enough to keep the lifetime employment. Secondly, the social and demographic changes, that is, a falling birthrate and the aging of the population have made it more difficult for the Japanese companies to maintain the ideal organization hierarchy for the traditional seniority system. Thirdly, the System was affected by the change in the life style and value of especially younger generations that want to change their jobs more frequently.

However, the human-oriented aspect of the Japanese Management System is not negligible. The lifetime employment is not always a closed employment system. It is actually a long-term employment practice to develop human resource capabilities while reducing the risk of unemployment. By securing the long-term commitment, the company provides a variety of services, and the employees contribute to their companies from a long-term perspective.

Therefore, it may hurt the Japanese economy to destroy the Japanese Management System. Today's recession has resulted from the people's anxiety about the future. The question is how the Japanese can improve on the System while dealing with the social and cultural change.

The market-oriented aspect of the Japanese Management System is another advantage. Long-term customer service is often realized because of the lifetime employment. In this regard, there is a possibility that the Japanese Management System will effectively work in the tertiary industry. For example, the long-term customer relation is vital to the success in retailing banking and investment consultations.

The Japanese economy achieved remarkable growth especially in the labor-intensive secondary industry. This is because that the so-called Japanese Management System worked most effectively in such industry.

It is another challenging job for the Japanese to improve on the quality of the System to effectively work in the tertiary industry.

² Japan's high saving ratio is a sign of their fear of unemployment. Their high level of education has something to do with the fact that people want to get a better job in one-time recruitment after graduation of famous colleges.

II. Asian Economic Crisis

1. U.S. and Japanese Economic Policies

(1) U.S. Economic Policy

U.S. economic policy changed around 1995. The old economic policy was between 1985 Plaza Agreement of G5 and 1995 G7 Agreement. The new policy was introduced after 1995.

The old economic policy is traditional and classic in the closed economy based on the secondary industry. The American government welcomed the yen's appreciation, that is the weak dollar, to reduce the imports from Japan. This policy was for the benefit of the U.S. secondary industries such as the automobile industry.

After the Plaza Agreement of 1985, the yen's value doubled from around 250 yen/dollar to 130 yen/dollar. This policy certainly affected the Japanese economy and helped the U.S. secondary industry. However, the Japanese companies regained their power when the yen stayed around 120 - 140 yen/dollar between 1988 and 1992. Therefore the U.S. government maintained this old economic policy and the yen's value raised once again to reach 80 yen/dollar in 1995 (Attached figure 1).

However, during the decade-long experiment, the U.S. government must have learned that the Japanese secondary industry becomes stronger along with the yen's appreciation, and their U.S. counterparts lost their power under such a protectionist economic policy. Moreover, the yen's appreciation hurts Wall Street, because foreign investors do not put money into Wall Street if the dollar is anticipated to drop.

Then, I infer from the trends in foreign exchange rates that the new economic policy was adopted around 1995. The new policy is for the benefit of the tertiary industry such as Wall Street and Internet business. Under the new policy, the strong dollar was welcomed. After 1995 G7, the yen depreciated from 80 yen /dollar to 100 yen/dollar. The Japanese currency had dropped down to 150 yen/dollar last summer.

During the decade of the old economic policy, the trade administration was the main issue between the U.S. and Japan. The United States had adopted a much more protectionist policy and the U.S. Government sometimes tried to impose Super 301, which is against free trade.

However, there has been no such an argument under the new economic policy. Since 1995, the U.S. Government has used almost every opportunity to put an emphasis on free trade, the market-base system, and the globalization of money market. For instance, U.S. Secretary of the Treasury Robert Rubin, who comes from Wall Street, often stresses the importance of openness and transparency of the market³. This is for the benefit of Wall Street that has a strong competitive edge in the international money markets.

Between the two economic policies was the end of Cold War in 1989. There has been a globalization of American-type capitalism since the end of Cold War. Wall Street has become a center of the international money market, and the skill and expertise of Wall Street showed a remarkable competitive edge with an aid of computer technologies and finance theories.

³ "For capital to flow freely and safely to where it can be used most efficiently to promote growth, high quality information about each economy and investment opportunity must also be freely available." Mr. Rubin's Speech at IMF's Interim Committee in April 1998.

Figure 5. Recent Change in the U.S Economic Policy against Japan

	Old Policy	New Policy
Period	1985 - 95	1995 - present
For the benefit of	Secondary Industry (automobile)	Tertiary Industry (Wall Street)
Currency	Strong Yen 250 to 80	Strong Dollar 80 to 150
Basic idea	Trade Administration.	Free Trade

(2) Japanese Economic Policy

Japanese Economic Policy has been very traditional and secondary-industry oriented. When the Japanese bubble economy collapsed in 1991, the Japanese Government decreased interest rate from 6% to 4.5% for the benefit of the manufacturers in the secondary industry. The Government continued to reduce the official discount rate of central bank to 1.75% in 1993. The rate was reduced again to the lowest record of 0.5% in 1995.

At the same time, the Government traditionally fights against the yen's appreciation so as to help the export-oriented secondary industry. Therefore, the Japanese Government welcomed the new economic policy of the United States Government under which the U.S. maintained the strong dollar.

But, the real reason for the collapse of the Japanese economy was a collapse of the land price mythology. Japan is such a small country that nobody believed that the land prices would fall. In reality, the land prices continuously and remarkably increased every year until 1991. Most Japanese banks held a mortgage on land in the expectation that the land prices would go up. Then, the financial institutions could not collect enough credit when the land prices went down.

Most stock prices of Japanese large corporations increased drastically during the bubble economy on the assumption that the lands of the companies were valued as latent or hidden assets. However, their stock values declined when the land prices decreased.

As a result, Japanese economic policy did not work well. The low interest rate and the depreciation of the yen did not help the secondary industry. Moreover, it helped the U.S. economy. Japanese money ran away from the domestic market and went to the Wall Street in order to enjoy higher interest rate on the assumption that the dollar would remain strong as long as the yen was depreciating.

2. Asian Economic Crisis

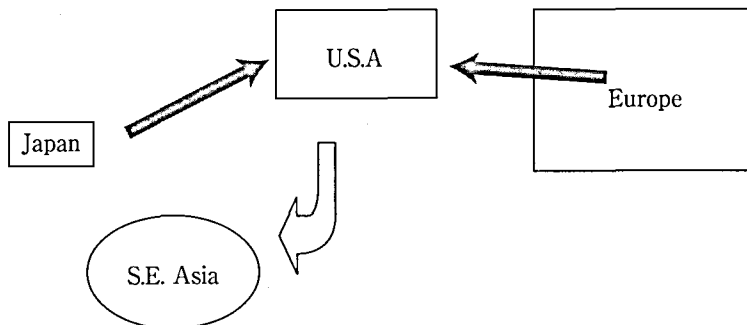
(1) Monetary Movement toward Asia

A great amount of money came to the U.S. not only from Japan but also from Europe. The U.S.A. is the world largest debtor in the current account of international balance of payment. For instance, the 1998 deficit of \$ 168.6 billion for goods and services was the highest annual deficit on record. This means that the U.S.A. is the largest creditor in the capital account⁴.

The money from all over the world has pushed up the American stocks and the Wall Street has enjoyed the long-lasting economic boom. Before the Asian economic crisis, a part of the

money went from the U. S. to South East Asian countries in which a high level of economic growth was then achieved (Figure 6).

Figure 6. Monetary Movement before Asian Crisis



(2) Economic Policy of Asian countries

Asian countries tried to achieve an economic growth by pegging to the dollar while they open their capital market. This policy had been working well during the time when the U.S. adopted the old traditional economic policy. Until 1995, the link between the Asian currencies and the dollar meant that the Asian currencies tended to depreciate against other currencies. Therefore, the Asian countries enjoyed more competitive edges especially against the Japanese currency.

But, when the investment boom in the Asian countries had exceeded the demand, the policy began to malfunction. The Asian countries tried to cool down their economy by raising interest rate, but the higher interest rate welcomed more money on the open market.

It is common sense in International Economics that the fixed foreign exchange system is inconsistent with the open monetary market system. The dollar-pegged currency system is contradictory to the open money system.

After the U.S. new economic policy made the dollar appreciate, and the Asian currencies also began to appreciate; the Asian countries could not reduce the interest rate to help their domestic economy, because their currencies were linked with the dollar.

Then, speculators such as the international hedge fund managers had been aware of the risk that the Asian currencies would be devalued in the end, because the weak local currency cannot keep up with the appreciating dollar. In addition, the fundamentals of Asian countries were not established well enough to protect their currencies. When the hedge funds attacked the Asian countries one by one and withdrew their money from each market, the governments of each country did not have sufficient foreign currency to fight against the funds.

It was surprising how fast the Asian economic crisis spread from Thailand. Malaysia, the

⁴ The overall balance of payments comprises the current account (merchandise and services), unilateral transfers (gifts, grants, remittances, and so on), and the capital account (long-term and short-term capital movements). If payments due in exceed those due out, a country is said to be in overall surplus; and when payments due out exceed payments due in, it is in overall deficit. A monetary movement in the opposite direction must balance the surplus or deficit, and consequently the overall balance including monetary movements must always be equal.

Philippines, and Indonesia were soon affected. The crisis then moved on to Hong Kong and South Korea.

3. Results of Asian Economic Crisis

(1) Asian Economies

The results of Asian Economic Crisis were devastating. The economies of Asian countries were totally destroyed. Asia has been transformed from the world's fastest-growing area into its slowest-growing region.

The Asian currencies dropped by 40% to 80% (Attached figure 2). The GDP decreased from +5% of 1997 down to -7% 1998. (Attached figure 3). Even if they are in a depression, the inflation ratio is as high as 10% (Attached figure 4). In addition, they are suffering from high unemployment (Attached figure 5).

In particular, the Indonesian economy is worst among them as you see in the attached figures. The GDP growth rate went down to minus 17% after the crisis; the inflation rate is over 50% while their unemployment ratio is nearly 20%. The economic deterioration affected the political instability and President Suharto who had been in office for 32 years resigned in May 1998.

(2) World Economy

The influence of Asian Economic Crisis did not stop there. The Japanese economy was also affected by the Crisis because of their investment in the Asian countries and their exports to the area. The crisis has finally had an influence on the U.S. economy. The decreased demand in the region has affected U.S. exporters, and the increased competitive edge of Asian countries because of the depreciation of their currencies has affected the U.S. producers.

Asian financial turmoil in large part has been tamed for the time being, but the risks of renewed problems remain substantial. The continued instability and fluctuation of currency markets had repercussions in Russia in the summer of 1998 and moved on to Brazil late last year.

With the end of the Cold War, the economy of each country is being unified to create a single global market. However, there is no central bank to regulate the flow of money.

Despite the rapid growth of international market, there is a notable lack of clarity among international authorities with regard to responsibility for the liquidity and solvency of a system. The reason why the Crisis spread so quickly in the aftermath of Thailand's currency devaluation was the lack of contingency planning by the country's ASEAN partners.

In the wake of the Mexican crisis of 1994, the IMF was given the lead role in responding to international payments crises. However, there is little likelihood that the IMF will be able to construct a credible stabilization program under crisis conditions in a matter of days.

With these circumstances, other risks can never be eliminated completely, and there is a possibility that we will have another tragedy.

4. Future of the World Economy and Japan's Role

(1) The New Economic Policy

The Asian Economic Crisis proved that the dollar-pegged currency system does not work on an open capital market. For instance, higher interest rates are supposed to cool down the inflation but they actually welcomed more money through the open market and they finally promoted the inflation.

The old economic policy of the U.S. (during the decade of 1985–95) and the present Japanese economic policy are very classic and theoretical. The low interest rate and the depreciation of self-currency are commonly useful to give more competitive edges of domestic products.

The new economic policy the U. S. has adopted since 1995 is based on a high interest rate and the strong dollar. It is against the traditional economic policy, but it is working under the following condition:

- (a) The country has an international key currency such as the dollar.
- (b) The country has a strong competitive edge in the money market.
- (c) The country's secondary industry is strong enough to grow under the high interest rate.

(2) Japan's Role

The question is how much the Japanese economy will meet the above-mentioned conditions. The answer is unfortunately not positive under the existing circumstances.

The Yen is still not a useful international currency. The dollar has a dominant share of 57% in the international currency market, followed by 19% of Euro. The yen's market share is only 5%. The Japanese Government will have to make further efforts toward the use of the yen as an international currency.

Secondly, the Japanese competitive edge in the tertiary industry is far behind its U.S. counterpart. Therefore, the priority should be given to high-technology sectors, including telecommunications, computer software business and new financial services to create a more value-added industrial structure.

The third condition depends on how fast the Japanese economy can recover from the present recession. For this end, the Japanese Government should stimulate the demand of land transactions in order for the banks to enrich their capital to recoup liquidity. Then, the financial standing of corporations will be improved, and excess capacity will be rectified.

These efforts to meet the above-mentioned conditions are not only for the benefit of Japanese economy but also for the world economy. A Japanese economic recovery is essential for an economic revival in Asia and is indispensable to the stable development of the world economy.

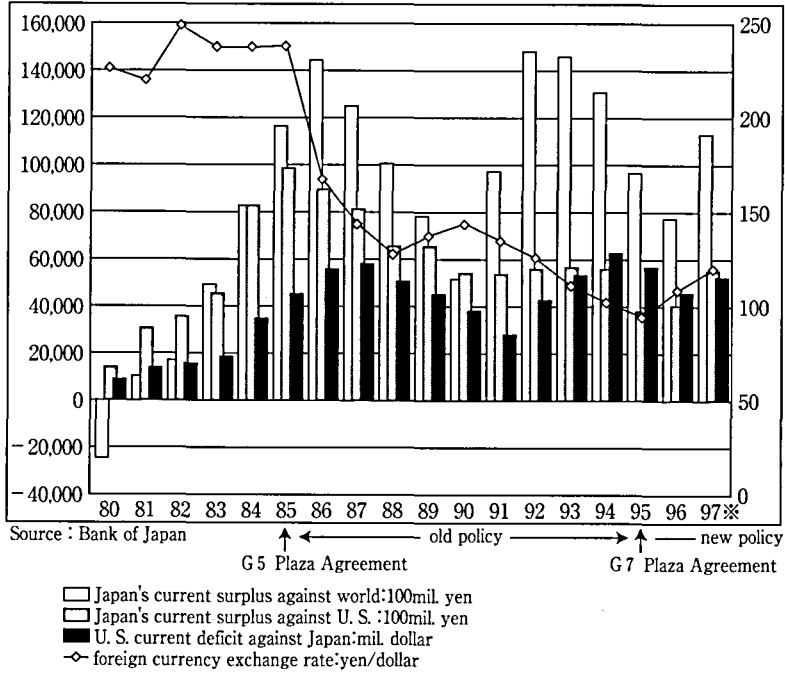
It is true that the world needs a more stable and stronger financial and currency system. Therefore, the Yen has to be utilized as an international currency, following the dollar and Euro.

The international community of today is becoming increasingly interdependent in all aspects. In order to ensure the stable development of the international community, it is increasingly important for Japan and Europe to play a larger role.

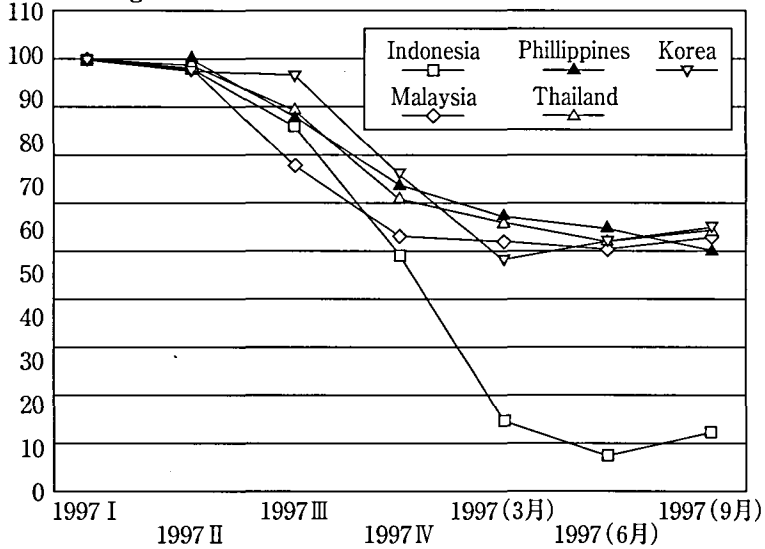
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Attached figure 1.

Yen's Value against Dollar, Japan's current account and U. S. trade deficit against Japan

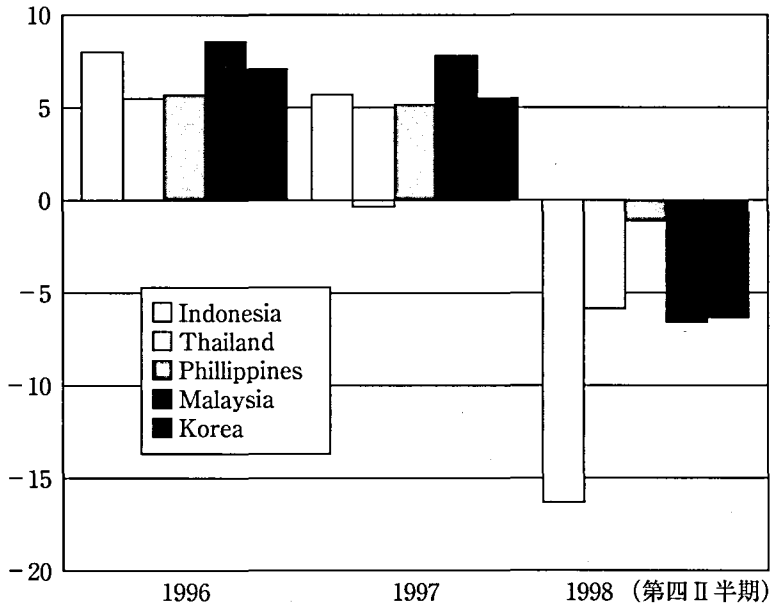


Attached figure2. The Value of Asian Currencies after Crisis



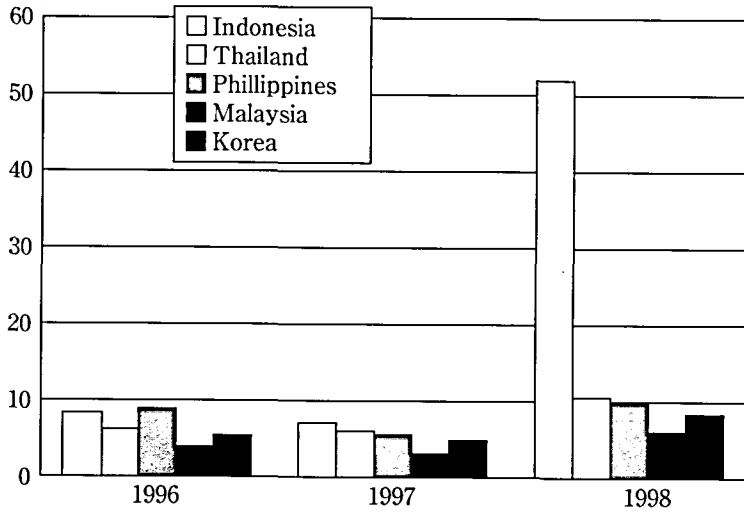
Source: The Ministry of Foreign Affairs of Japan
(www. mofa. go. jp)

Attached figure3. GDP Growth Ratio of Asian Countries



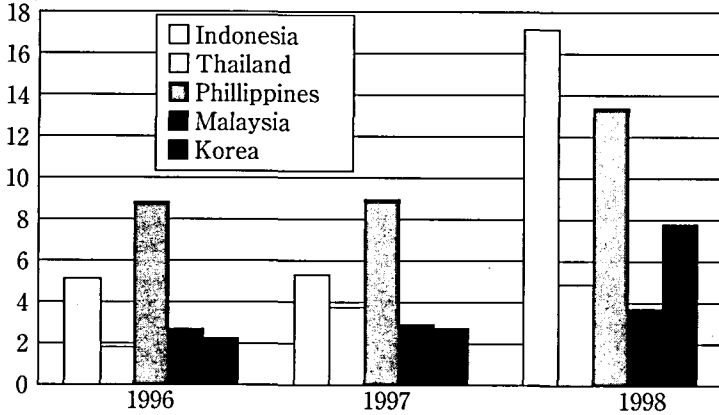
Source: The Ministry of Foreign Affairs of Japan
(www. mofa. go. jp)

Attached figure4. The Inflation of Asian Countries (%)



Source:The Minisrry of Foreign Affairs of Japan
(www. mofa. go. jp)

Attached figure5. The Unemployment of Asian Countries (%)



Source:The Minisrry of Foreign Affairs of Japan
(www. mofa. go. jp)