

Current Economic Policies

The following is an edited version of an address delivered by Kumagai Hiroshi, minister for the International Trade and Industry Ministry on September 17, 1993 at the Foreign Correspondents' Club of Japan. A segment from the discussion is also included.

I would like to thank you very much for inviting me to this luncheon meeting. The Foreign Correspondents' Club plays an important role in providing information about Japan to the world. On this very special occasion, which is also the first speech by an economic minister in the Hosokawa administration before this prestigious group, I would like to talk frankly about both short-term and mid- and long-term management of our economy and international economic policy.

As soon as I took up my present post, I advocated drastic deregulation. I had originally thought that MITI officials would oppose this idea. But I discovered that the ministry has been seriously discussing the necessity of deregulation in order to promote new creative businesses and to enhance access for foreign companies as Japanese businesses restructure and shift their base overseas. Frankly speaking, I was quite surprised to see that MITI has changed a lot.

Taking up the reins as minister, I have found that my most urgent task is to formulate measures to stimulate the Japanese economy. The current recession is not only cyclical, but stems from many complex factors, including the collapse of the economic bubble and market saturation. Therefore, I recognize that our economy is in serious straits, a point corroborated by recently published economic indicators. Without correctly assessing how serious the economic situation is, appropriate policy measures cannot be formulated. From this point of view, I strongly criticized the former Cabinet's economic assessment, and since taking up my present post I have been strongly critical of the overly optimistic judgement of the eco-

nomics situation by the macroeconomic coordinating agency.

Companies are hurting under the strain of an excess of labor and in production capacity and have no vision nor concrete plans for the future. If we do nothing, the problem of drastic employment adjustment will soon face us. With the perspective of securing stability in everyday life, the Cabinet realized that overcoming this recession is their urgent task. In this context, the Hosokawa Cabinet began to examine economic stimulus measures just after it took office.

What should we do?

The remedy to the current recession must be a two-stage approach, consisting of emergency economic stimulus measures to get us through the short-term, and an economic master plan to carry us through the mid- and long-term. As you know, emergency stimulus measures were announced at the ministerial conference for economic measures last evening—just in time for this speech. In this economic package, the centerpiece is the idea that we will build an economic society in which people can feel a sense of affluence.

In order to achieve this objective, we decided to use fiscal and monetary policy as well as deregulation and to pass on the benefits of the yen's appreciation. This is just the first of a whole range of measures. Regarding mid- and long-term macroeconomic management guidelines and microeconomic reform, the Hiraiwa Committee, which held its first meeting yesterday, will be very hard at work putting together its recommendations and will adopt its report by the end of this year. That report will serve as a master plan for the future management of the Japanese economy.

The major goal we should be heading towards in the stimulus measures for the short-term and mid- and long-term master plan is aggressive domestic investment using the huge accumulation of

savings, the fruits of Japanese economic development. By this investment we can enhance social overhead capital which is good for improving the quality of people's life and laying the foundation for future economic development. We have only about 10 years before Japan literally becomes an aging society, and we need to make every effort to accelerate these social overhead investments in the remaining time.

To attain this objective from the long-term perspective, it is important to implement necessary fiscal and tax system reforms. Prime Minister Hosokawa requested the Tax Commission to discuss issues relating to drastic tax reform, such as correction of the imbalance between direct and indirect taxes focusing on income tax reduction, in order to realize fairness and vitality in an aging society. We hope that the commission will be able to put together its recommendations for reform as quickly as possible.

In addition, preparation of bold policy measures towards structural reform is also extremely necessary for our economy to recover from the present serious recession. In this connection, I expect the Hiraiwa Committee to examine thoroughly microeconomic reforms, principally deregulation.

I have been making an appeal for deregulation for three reasons: to create greater private sector investment and new business opportunities; to increase foreign access to Japanese markets, in terms of both investment and trade; to pass on benefits from the yen's appreciation to the consumer and to rectify price discrepancies between Japan and other countries.

Currently we have a situation of market saturation and many industries suffer from overproduction. In this situation, deregulation can lead to the creation of new businesses, such as information services, and we may be able to induce private investment and create employment opportunities.



Kumagai Hiroshi addressing the Foreign Correspondents' Club following his appointment as minister for the Ministry of International Trade and Industry.

Regarding market access, I have been quoted as saying the Japanese market is closed. My real intention was to convey my recognition that structural reforms are extremely important to vitalize the Japanese economy. At present, the Japanese economy is one of the most open markets in the area of industrial goods. On the other hand, some point out that various kinds of government regulations, insider-oriented business practices of certain industries and other factors make it difficult for both Japanese and foreign companies to establish new business and to enter the market in some cases. Therefore, we have to make further efforts towards a more open and transparent market. In this context, we need to take bold action in reviewing government regulations and to strictly apply antitrust laws in order to cope with anticompetitive practices of the private sector.

These reasons are of urgent importance when we consider the current economic situation and the necessity of improving the quality of life. That is precisely why it is vital for the prime minister's office to step forward with firm resolve towards breaking up vested interests. MITI thinks that as well as macroeconomic management and

microeconomic reform, industrial structural adjustment policy is also important in the sense that it will support employment adjustment and corporate restructuring and will provide an environment for the start up of new leading industries in the future Japanese economy. That is, we should pursue these three policies in an integrated fashion.

International trade policy

The most important challenge that the Japanese government faces is maintaining and strengthening the multilateral trade system, and in particular, ensuring the successful conclusion of the Uruguay Round. Japan has taken the initiative at the quadrilateral ministers meetings, which have been held four times since May, and reinjected some vitality into the dormant negotiation process. With respect to market access in particular, Japan put forth an ice breaking offer in May that rekindled the negotiations. Again in July, in its capacity as chair of the Tokyo quad meeting, Japan was instrumental in reaching the market access agreement.

The quad countries, Japan, the U.S., the EC and Canada, are major players accounting for nearly 70% of world trade. It is quite significant that agree-

ment was reached by them on reduction and mutual elimination of tariffs for about 80% of all industrial goods. As a result of this quad agreement, the multilateral talks have been reinvigorated in Geneva. For our part, we do not plan to let matters rest here. We will make every effort possible to seek the successful conclusion of the Uruguay Round by the end of this year.

Second, the Japan-U.S. relationship is one of the most important relationships for Japan. The Hosokawa administration is determined to make the Japan-U.S. framework talks, based upon agreement reached in July, as fruitful as possible.

A commonly held perception is that talks of this nature used to be conducted with the U.S. pressuring Japan, and Japan responding with piecemeal concessions in the areas of structural reform and market opening. However, I do think the current negotiations are quite different from previous ones in terms of approach. That is, as I said before, we are about to undertake macroeconomic policies and microstructural reforms entirely on our own initiative. I think that trade balance issues should be solved through our own actions based on our undertaking of these reforms. The Japan-U.S. framework talks are a two-way dialogue. The Japanese side intends to have an exchange of views with the U.S. about the direction and level of progress of macroeconomic and microeconomic reforms in Japan. Also we intend to comment on U.S. efforts to reduce the budget deficit, enhance competitiveness and so on.

In the framework talks, the basic principle is that the talks should be a constructive policy dialogue on reforms that both countries are going to undertake. The reforms that both sides have committed to through the talks will not only apply to Japan and the U.S. but also should have global implications, that is, these reforms will be extended to all of our trading partners on a most favored nation basis.

I would particularly like to stress that another aspect of the framework talks that we did not see in the earlier

Structural Impediments Initiative talks is that they afford Japan and the U.S. an opportunity to cooperate on global issues. With Japan and the U.S. together accounting for approximately 40% of the world's GNP, we cannot overstress the importance of our two countries' joint initiative to tackle such global issues as environmental and population problems, and innovative technological development which will pull the world economy out of its present slump. Last week, the Japan-U.S. framework talks formally commenced. The first item on the agenda was cooperation on such global issues. This clearly shows the global nature of the talks. Concerning our joint cooperation on global issues, I'd like to find a way for Japan and the U.S. to ask other advanced countries to join in the cooperation that comes out of our bilateral talks.

The framework talks are also covering individual sector issues, the so-called "five basket" issues—automobiles, government procurement and enforcement of existing agreements. I think the important points in these negotiations are the positive steps, such as promotion of deregulation, encouragement of competitive business practices and expansion of business cooperation between our two countries. On the other hand, I should say we cannot accept the idea of so-called numerical targets.

Lastly, being a member of the Asia-Pacific region, Japan has taken various initiatives which I would here like to mention. The Asia-Pacific region is drawing attention as a growth center of the world. The organization for Asia-Pacific Economic Cooperation Conference (APEC), consisting of 15 countries and regions, is working steadily towards "open regional cooperation." Last January, the permanent secretariat and budgetary funding were established, thus putting APEC on a steady course. MITI took the initiative in establishing APEC, and has been actively contributing to its development.

I do believe that well beyond the year 2000, through regional cooperation and greater interdependence, the region will be a growth center for the global econo-

my and a source of inspiration to other regions of the world. So far the Asia-Pacific countries have been achieving rapid economic development with dependence on the U.S. market. But from now on, it is necessary for Japan to provide them with markets, along with the U.S., for their economic development. Japan must also increase its direct investment including technology transfer in this region. The aforementioned macro- and microeconomic reform as well as industrial structure reform will be very helpful in providing greater market opportunities to Asia-Pacific countries.

Today, I am glad to have the opportunity to talk frankly about the problems which we are facing. As MITI minister, I am determined to make every effort possible to solve these problems.

Thank you.

Q: Due to *endaka*, the cost of producing goods domestically has risen by about 20% this year, leaving manufacturers no choice but to make goods some place other than Japan. Do you think that soon you will see another wave of hollowing out in Japan. And if so, what alternatives are there for creating jobs in Japan?

A: Japan, for the first time, is facing a major turning point in this respect. I do not believe it is possible for us to try to stop this trend by some artificial means. And as you have suggested, it is incumbent upon us to try to create new employment opportunities in order to address this issue. The question is how we can create jobs. Unlike what has been done to date, we will not be able to provide a helping hand to the industries which are creating new industrial sectors. What we should do is to try to provide an environment conducive to the nurturing of entrepreneurship and the development of innovations. When we look into the future and try to identify industries where we can expect the creation of new jobs, we see, for example, the information industry where there are large number of regulations, and the

distribution industry, where we can expect many innovations to emerge.

Therefore, I have been urging that it is not in response to the pressure coming from other countries, but for our own benefit. In addition to deregulation, another major theme for us is decentralization. I believe that there are many opportunities for investment which have not been tested so far due to the pressures of budget allocation or the enormous power that is concentrated in the hands of the central government which hinders the creation and identification of new demands in areas outside the major metropolitan areas. Therefore, deregulation and decentralization are two major themes by which we will be able to create new jobs.

Q: You have said that you are opposed to numerical targets on trade. It appears that there may be some division within the Cabinet on this issue. During his recent trip to Washington Hata Tsutomu, the foreign minister, suggested that Japan may acknowledge numerical targets, but Prime Minister Hosokawa quickly denied the fact.

A: Our administration is not divided. Mr. Hata tends to respond to questions while trying to show the understanding of questions raised to himself. He is quite benefited of wonderful Japanese trade practices in that regard. However, if you only try to get 50% of his answer, you'll tend to misunderstand the true intent of Mr. Hata's comment. What we should do in diplomatic negotiations is to distinguish what we can do and what we cannot do. For example, the growth rate, which we cannot control by various means, should not be made into a target to which we are forced to comply. And if that is not achieved, penalty sanctions will be applied. Mr. Hata, myself and, of course, the prime minister, think that the current account surplus cannot be tolerated. It is incumbent upon us to reduce this surplus, however, it cannot be done as a commitment to a foreign government. I'd like to make it clear once again that we are very strongly committed to reducing the surplus, and this is what we will be working on in the future.