

## More Signs of Economic Recovery

The Japanese economy is flashing more signs of long-awaited recovery. Government data released in June showed the nation's gross domestic product (GDP) posted an inflation-adjusted increase of 1.4% in the first three months of this year from the previous quarter. This translated into a solid annualized growth rate of 5.7%. The figures marked the first positive growth since the January-March period of 2001. In July, the Bank of Japan (BOJ) reported that its key measure of business conditions had improved for the first time in a year and nine months. The central bank's quarterly "Tankan" survey, taken in June, found that the so-called diffusion index of business conditions among large manufacturers – viewed as a yardstick of business activity – improved to minus 18 from minus 38 in the previous survey in March. The result – the number of businesses reporting that their performance is good minus those reporting negative viewpoints – showed pessimists continuing to outnumber optimists, but the steep 20-point improvement marked the first upturn in seven

### TO READERS

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Business Conditions (Net percentage of respondents who reported "Favorable")

	Mar. 2002	June 2002	Change between Mar. and June	Sept. 2002 (Forecast)	Change between June and Sept.
<b>Large enterprises</b>					
Manufacturing	-38	(-27) -18	<b>+20</b>	-11	+7
Non-manufacturing	-22	(-21) -16	+6	-12	+4
<b>Medium-sized enterprises</b>					
Manufacturing	-47	(-38) -28	+19	-21	+7
Non-manufacturing	-32	(-31) -26	+6	-23	+3
<b>Small enterprises</b>					
Manufacturing	-51	(-51) -41	+10	-35	+6
Non-manufacturing	-42	(-46) -37	+5	-38	-1
<b>All enterprises</b>					
All industries	-41	(-40) -32	+9	-29	+3
<b>Principal enterprises</b>					
Manufacturing	-39	(-27) -23	+16	-14	+9
Non-manufacturing	-21	(-16) -16	+5	-9	+7

Note: Figures in parentheses are the forecasts of the previous survey.

Source: *Tankan Outline* (June 2002), Bank of Japan, Research and Statistics Department

quarters. It was the largest leap ever in the index for large manufacturers. The BOJ survey also found that conditions among both large non-manufacturers and smaller enterprises gained ground in tandem with the improvement among large manufacturers, putting an end to the long deterioration in business confidence. Coupled with the recovery of exports, expansion of production and progress in working down the stocks of unsold products, the findings appeared to show that business conditions have seen their worst days.

Given these developments on the economic front, the government upgraded its assessment of economic activity. "While the economy continues to be in a difficult situation, movements of incipient recovery can be seen in some areas," the government said in its monthly economic report to a regular Cabinet meeting, attributing it in part to a rise in exports. Minister of State for Economic and Fiscal Policy Takenaka Heizo told a news conference after the meeting that the economy has not achieved a full recovery but that he has noticed moves of economic activity bottoming out. But the report stressed the downside risk of the Japanese economy, noting that the prospects for the

world economy are increasingly uncertain in the wake of a U.S. stock market slump and the dollar's continued slide. Japan's long overdue self-propelled economic recovery led by domestic demand still appears to be a distant prospect.

Forecasting Japan's economic future as of mid-July requires a close watch on the yen-dollar exchange rate and U.S. economic trends. Many Japanese companies have assumed the dollar will fetch about ¥125 on average in the first half of fiscal 2002. But the rate has returned to a level of around ¥115, a figure prevalent immediately after the Sept. 11 terrorist attacks on the United States. The higher yen is threatening to cut deeply into the export earnings of Japanese businesses. Developments on the U.S. economic front may undermine Japan's economic recovery, which has so far depended on exports. Many Japanese businesses listed on the stock market expect their earnings performance to recover rapidly in a V-shaped pattern in the business year ending March 31, 2003. But that scenario could be seriously affected depending on foreign-exchange market developments and U.S. economic trends.



## Personnel Changes at the Ministry of Finance

Japan's Ministry of Finance (MOF) has seen a gradual erosion in its power since a major reform of the central government bureaucracy in January 2001. Due to the reform, which came in the wake of a series of entertainment scandals, the MOF was even forced to change its name from the 130-year-old "Okura Sho" to "Zaimu Sho," although its English name remains the same.

But the summer of 2002 may be remembered as the time of marking the return of the MOF's clout because many of its former senior officials came back to grab key public service posts in July. For example, Takeshima Kazuhiko, former assistant deputy chief cabinet secretary, became the chairman of the Fair Trade Commission (FTC), replacing Negoro Yasuchika.

Takeshima, who joined the MOF in 1965, has assumed such key posts as the commissioner of the National Tax Agency and the chief cabinet councillor on internal affairs. In his previous post as assistant deputy chief cabinet secretary, he played a key role in drawing up economic policy under the government of Prime Minister Koizumi Jun-ichiro.

Traditionally, the FTC chairmanship has mostly gone to former MOF bureaucrats. But in the wake of the scandals, the practice came under fire, and the post went to Negoro, a former prosecutor, in 1996.

Succeeding Takeshima is Fushiya Kazuhiko, former deputy governor of the government-funded National Life Finance Corporation. Fushiya, who joined the MOF in 1967, is also a former commissioner of the National Tax Agency.

At the Financial Services Agency (FSA), another former MOF bureaucrat, Takagi Shokichi, became the commissioner, replacing Mori Shoji, also a former MOF official.

Takagi, who joined the MOF in 1971, is a former director-general of



*Has the Ministry of Finance regained its clout?*

the FSA's Supervisory Bureau. The FSA was created two years ago in a reform of the MOF to separate the ministry's function as a financial industry watchdog from its role as a budget planner. The first FSA commissioner, Hino Masaharu, was a former public prosecutor.

A prime example of the signs that the MOF is regaining its power is the fact that Administrative Vice Minister Muto Toshiro, who joined the ministry in 1966, stayed on the job in this year's annual personnel reshuffle. His term has now entered a third year – the longest for any administrative vice minister in the postwar period.

But the long-standing practice of changing an administrative vice minister every one to two years is considered one of the vestiges of the wartime regime. Back in the Meiji (1868-1912) and Taisho (1912-1926) eras, it was not uncommon for administrative vice ministers to remain in the position for three or four years. For example, Tajiri Inajiro, who founded Senshu University and later became the governor of Tokyo during the Taisho era, stayed in his post as administrative vice minister for six years from 1892.

Explaining his decision to freeze the transfers of top officials within the MOF during its annual personnel

reshuffle this year, Finance Minister Shiokawa Masajuro said, "The next fiscal year's budget and tax reforms will determine Japan's future. We cannot push them through without a strong leadership."

But the real resuscitation of the MOF will only come if the ministry dares to abandon its old-fashioned, bureaucratic logic and comes up with drastic measures to reinvigorate the Japanese economy and streamline government spending.

## Nippon Keidanren Inaugurated

Keidanren (The Japan Federation of Economic Organizations) and Nikkeiren (The Japan Federation of Employers' Associations) have merged to become Nippon Keidanren (The Japan Business Federation). Okuda Hiroshi, chairman of Toyota Motor Corp. and a former chairman of Nikkeiren, was named to head the new business group at its inaugural meeting in Tokyo on May 28.

Nippon Keidanren will take over the functions of Keidanren, which lobbied the government on behalf of business interests, and Nikkeiren, which represented the business world in dealing with labor-management issues.



As the most powerful business lobby, Nippon Keidanren is likely to wield greater influence over government policies. The merger of Keidanren and Nikkeiren has left Japan's business world with three major lobbying organizations, the two others being the Japan Chamber of Commerce and Industry and the Japan Association of Corporate Executives.

Nippon Keidanren has 1,534 original members, including some 1,000 former Keidanren member companies, employers' organizations in the 47 prefectures all over the country under Nikkeiren, and various industry-based groups. It aims to make policy proposals to the government on economic affairs in general, including labor-management issues previously dealt with by Nikkeiren.

In his inaugural address, Okuda said that Nippon Keidanren aims to realize a vital and attractive Japan and create an environment in which individuals and companies alike can fully display their abilities. As a guest speaker, Finance Minister Shiokawa Masajuro welcomed the merger of the two powerful business bodies, saying that the business world has been consolidated and the general headquarters for the business world has been established.

The inaugural meeting adopted a resolution calling for 1) promoting reform of corporate management and creating new jobs and employment opportunities in order to strengthen Japan's international competitiveness, and 2) close coordination with the government in launching new rounds of multilateral trade talks and accelerating the conclusion of free trade area agreements among regions or between countries. The meeting also endorsed 15 corporate executives, including Hamada Hiroshi, chairman of Ricoh Co., as vice chairmen.

The merger of Keidanren and Nikkeiren was partly aimed at boosting the business world's political influence. Keidanren used to coordinate political donations among member



Okuda Hiroshi (right) meets Koizumi Jun-ichiro (left) at the inaugural ceremony of Nippon Keidanren

firms and associations and mainly channeled them to the Liberal Democratic Party. But it stopped the practice in 1994 after a host of scandals over political donations was exposed. The business world is said to be eager to resume donations to boost political influence but has failed to do so as political fund scandals continue to surface. Okuda said, "We will confront the government on the one hand but will cooperate with it on the other," indicating that the new business body will seek to establish new political relations while closely watching the political situation.

In its latest monthly economic report, the Cabinet Office declared that the Japanese economy has "bottomed out," but it is not yet clear whether the recent trend will lead to a self-sustaining recovery. As corporate leaders clamor for immediate measures for economic revitalization, such as tax breaks for research and development and capital investment, reductions in the donation tax and tax benefits for homebuyers using housing loans, Nippon Keidanren is poised to urge the government to put these measures into practice at an early date.

Okuda has gone through ups and downs in his corporate life. He was once demoted and sent to the Philippines, where he spent six-and-

a-half years as a manager of Toyota's local subsidiary. He was called back to the head office after his managerial ability was recognized by the then Toyota honorary chairman, Toyoda Shoichiro (grandson of Toyota founder Toyoda Sakichi), who also served as Keidanren chairman. Okuda became Toyota president after the sudden death of his predecessor Toyoda Tatsuro. At the helm of Toyota, Okuda turned the ailing No.1 Japanese automaker around with the slogan "No Change, No Good."

Once engaged in the development of environmentally-friendly hybrid cars, Okuda is keenly interested in global environmental issues. But he will likely find himself hard-pressed to coordinate opinions on environmental issues among members of the new Nippon Keidanren, as the steel, electric power and other energy-consuming sectors, which had dominated the defunct Keidanren, are taking a dim view of the prevention of global warming. In fact, for instance, they were reluctant to agree to the ratification of the Kyoto Protocol. As head of Nikkeiren, Okuda exerted strong leadership with eye-catching phrases, such as a "market economy with a human face," which he coined himself. It remains to be seen whether he will be able to lead the new business body in his style.