

Obuchi Succeeds Hashimoto as Prime Minister

Obuchi Keizo succeeded Hashimoto Ryutaro as Japan's new prime minister. Hashimoto, who had led the nation since January 1996, resigned to take responsibility for the devastating defeat suffered by his ruling Liberal Democratic Party (LDP) in the July 12 House of Councillors (upper house) election. Obuchi, 61, foreign minister in Hashimoto's Cabinet, organized his Cabinet immediately after he was elected Japan's 84th prime minister in a Diet vote on July 30.

The new cabinet is featured by the appointment of 78-year-old former Prime Minister Miyazawa Kiichi as finance minister. Miyazawa will take charge of the crucial post at a time when Japan remains mired in its worst recession and financial troubles in decades.

In the July 12 upper house election, the LDP won only 45 seats out of 126 seats contested—far short of the 61 seats it held before the election, while the Democratic Party, the largest opposition force, and the Japan Communist Party substantially increased their seats, lunging the country into political turmoil. Combined with its 58 uncontested seats, the LDP's total strength in the 252-seat chamber is 103, and will continue to be short of a majority.

The LDP's setback showed that voters were disappointed at Hashimoto's economic policy which increased their financial burdens through such measures as an increase in consumption tax, and led to the current recession.

The voter turnout of 58.84% was 14 points higher than that of the previous Upper House election in 1995 and reflected voters', particularly uncommitted voters' awareness.

Obuchi's new administration is likely to be forced to abandon Hashimoto's policy which focused on fiscal structural reform



Prime Minister Obuchi Keizo and his new Cabinet

Photo: Kyodo News

in favor of stronger economic pump-priming measures as well as acceleration of the cleanup of problems loans, the primary drag on the Japanese economy.

Another big challenge the new administration will face is how to steer the Diet. With the LDP 23 seats short of a majority, the government will find it inevitable to seek the cooperation of opposition parties in passing key bills, such as those related to the Total Plan for resuscitating the ailing financial system, in the parliament. The government may concede to opposition demand over the amount of public funds to be injected into financial institutions. At the same time, the government and the LDP will be urged to push for early studies on permanent tax cuts demanded by the U.S. government, and adopt a new tax reduction package prior to the new prime minister's visit to Washington, probably set for the autumn.

Obuchi will have to adequately respond to markets more than any other Japanese prime minister has done in the past. If markets are not impressed by the new administration's economic policy, the

yen's value will further depreciate and the stock market will suffer again, rekindling the Asian economic crisis.

Japanese people are becoming increasingly uneasy about their future, with the jobless rate hitting an all-time high and society quickly aging.

The restructuring of the financial system and other reform measures will cause people a great deal of pain in short terms. The government will be able to gain people's understanding of the reforms only if it articulates a clear vision for building a new worry-free society.

"Bridge Banks" to be Established as Financial Bailout

The government and the ruling Liberal Democratic Party on July 2 unveiled a "Total Plan" for resuscitating the ailing financial system, calling for the establishment of "bridge banks" as a key plank. The bridge bank scheme is aimed



Photo: Kyodo News

"Bridge Banks" established as central feature of Government and LDP "Total Plan" unveiled July 2

at protecting customers of failed banks and extending loans to relatively sound borrowers of failed banks to prevent a bank failure from triggering a chain of bankruptcies of corporate customers.

The plan is the second package of measures for stabilizing Japan's badly shaken financial system, following a decision made in February to inject ¥30 trillion in public funds into the banking system to strengthen financial institutions' capital bases. It will help speed up liquidation of bad loans, including procedures to auction land held as collateral on bad loans.

The plan, modeled after a U.S. system created in the late 1980s, involves creation of a state-run holding company by the government-backed Deposit Insurance Corp. The holding company, tentatively named Heisei Financial Resuscitation Corp. after the name of the current Imperial era Heisei (since 1989), in turn will set up bridge banks as subsidiaries to take over failed banks.

The holding company is empowered to use public funds totaling ¥13 trillion from the ¥30 trillion package adopted by the government in February, to cover losses incurred by bridge banks.

The scheme assigns a maximum period of five years (two years in principle) for each failed bank to be bridged until the bridging process is completed, and

applies to all failures that could occur before March 31, 2001. A bridge bank that cannot find a private receiver bank within the timeframe will be liquidated.

In the first stage of the plan, failed banks will be immediately placed under government control, if judged appropriate by the Financial Supervisory Agency (FSA), which began operations in June. Bank management will be replaced by a new team of administrators, to be appointed by the FSA from among lawyers or other knowledgeable persons. The administrators will then search for other financial institutions to take over the failed banks' operations.

Electronic Commerce Gaining Steam

The Ministry of International Trade & Industry (MITI) is stepping up the growth of electronic commerce as a key to Japan's economic development in the 21st century. MITI has already earmarked a ¥40 billion budget to build the technological and institutional infrastructure of electronic commerce. It is implementing 45 demonstration projects encompassing more than 20 different industries, including motor vehicles, aircraft and electronic machinery. It is also looking into ways of protecting consumer interests, verifying the identity of users, ensuring security and

other issues through model experiments involving some 500,000 consumers.

In an effort to heighten consumer awareness, MITI is conducting practical experiments in Kobe, the Mitaka area of Tokyo and the Makuhari area of Chiba Prefecture to test the use of electronic money, the settlement of 10 different credit cards and the management of shopping malls. As a safe means of electronic settlements based on a de facto global standard, MITI is developing a Secure Electronic Commercial Environment (SECE) system for use in these experiments.

As for electronic commerce among businesses, MITI is pushing several projects, including joint 3-D computer design in the fields of motor vehicles and aircraft, digitalization of management of large-scale equipment in the steel and electric power industries, and standardization of an electronic data interchange system and development of a common database for the travel and advertisement industries used to issue and receive orders. Businesses are expected to embark on full-fledged commercial application of these systems in the near future.

Aided by MITI's support, JCB Corp., a major credit card company, opened a virtual mall on the Internet in February this year. Known as J Mall, the new system permits easy and safe shopping with credit cards. In the Kobe area, JCB is experimenting a shopping system allowing consumers to use IC cards, or a combination of electronic money and credit cards, in both an Internet mall—called Smart Commerce Japan—and a real mall.

The United States is running a step ahead of other countries in electronic commerce. A U.S. Commerce Department projection shows that global electronic commerce will expand to more than \$300 billion in 2002, ushering in a "digital economy" era.