

Two Faces of Economy

By Suetsune Takashi

While economics makes friends, it also creates enemies. The eyes of the world are currently riveted on East Asia with its unprecedented economic boom. The area, for the first time in its history and after hundreds of years of stagnation, is becoming a centripetal force of global economic activities. Two decades ago the economy of the area was still in an unpredictable gaseous nebula, although there were some signs of growth. The newly industrializing economies, South Korea, Singapore, Hong Kong and Taiwan, became forerunners in the race for economic growth, a race which has intensified with the entry of China. Today Vietnam is also in the running.

The U.S. and Pacific Rim countries as well are claiming that they are legitimate members of the family of APEC and have the right to share the assets. Their claims are not groundless as their investment is contributing to the rapid economic growth of the area. EU countries are not latecomers either. And Japan stealthily believes that her investment and technology transfer in the area are bearing fruit. So far, everyone appears happy with the situation. But what is going on behind the scenes?

Investment is for creating profit and not for philanthropy. Economic aid, or for that matter any aid, is extended to be later reciprocated in the form of mutual gains for both donor and recipient. No government is so generous nor so naive as to extend financial support with no strings attached.

In a free market economy, investment and aid are the legitimate means by which a profit is generated. However, even if it has proven to be superior to a socialist economy, the free market is not a perfect economic system. It has created, and is creating, economic conflict between countries and regions, the most typical being that between Japan and the U.S. The type of conflict we are witnessing between these two countries today might have triggered a military confrontation 50 years ago. For-

tunately the world has learned enough from past experiences.

Economic activities go side-by-side with conflict between neighboring countries, and these signs are already looming in East Asia. The size and level of economic activity in the region varies by country, which will be a source of conflict.

China with a staggering population of 12 billion, whose annual economic growth in the past few years has been in enormous double digit figures, has the possibility of becoming the largest economic super power in history. No single country will be able to compete with China, and her military buildup is conceived as a possible threat to the security of East Asian countries. East Asian countries are looking for a counter balance. The U.S. can be the one. Japan is also expected to play a role there, which is precarious for her.

In the eyes of the Japanese, the U.S. appears to be searching for new friends in the region instead of a competitor. The ideal relationship for East Asia may well be a trilateral partnership between the U.S., China and Japan. Japan does not want to be forced to choose between the U.S. and China.

COMING UP

East Asia is the most rapidly growing economic center in the world today: China, among others, is registering an unprecedented economic boom; Malaysia and Thailand are thriving; Vietnam is rapidly modernizing her market system.

The major international economic powers are rushing into these countries with money-offering businesses. But the economic conditions for investment are not uniform. The next issue of the *Journal* will provide an update on foreign investment in these four countries.

The *Journal* welcomes letters of opinion or comment from its readers. Letters, including the writer's name and address, should be sent to: Editor, Japan Economic Foundation, 11th Floor, Fukoku Seimei Bldg., 2-2 Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo, 100 Japan. Letters may be edited for reasons of space and clarity.

Diet Approves Electoral Reform Bills

The Diet passed a package of political and electoral reform bills in November, capping a five-year debate on how to reshape Japan's scandal-ridden political system and accelerating a new round of political realignment.

Under the new system, 300 of the 500 lower house legislators will come from 300 single-seat constituencies. The remaining 200 lawmakers will be selected through proportional representation, whereby voters pull the lever for a party rather than an individual. Ruling and opposition coalitions alike are having a hard time deciding who should run for each seat.

Political reform has been at issue following the 1988-1989 stocks-for-favor Recruit scandal over which then Prime Minister Takeshita Noboru resigned in 1989. The subsequent scandals, including the 1992 Tokyo Sagawa Kyubin money-and-mob scandal, amplified public anger over politics.

Diet passage of political reform bills late last January, which laid the groundwork for the electoral reform bills, were among major achievements by a short-lived coalition government, which briefly ousted the Liberal Democratic Party (LDP) from power for the first time since 1955.

Advocates for a single-seat system say the multi-seat constituency system is one of the causes of political corruption. Candidates from the same party often compete against each other, spending massive funds and diverting attention from policy debate.

It is the first time in 47 years that the electoral system has been overhauled on such a major scale.

Following the passage of the package, opposition parties—including Shinseitō, Komeitō and the Democratic Socialist Party—are merging into a single party, the New Frontier Party, in an effort to oust the tripartite coalition government of Prime Minister Murayama Tomiichi. The ruling coalition comprises Murayama's Social Democratic Party, the LDP and New Party Sakigake, a small LDP splinter party.



Seven years following the 1988 Recruit scandal, a decision regarding political reform has finally been reached. This is a mandate to both the ruling and opposition parties that they field candidates in line with the new election system.

Photo: Kyodo News Service

The Diet also enacted an anti-corruption bill to strengthen punishment for illegal acts during election campaigns and a party redefinition bill to facilitate the receipt by political parties of direct funding from tax revenues.

The anti-corruption bill would invalidate the election victories of candidates whose election managers are convicted of buying votes.

Under the new election law, political parties that wish to receive public funds for election campaigns will be required to have at least five Diet members or to have obtained 2% of the total vote in the previous national election.

Matsushita Named BOJ Governor

Matsushita Yasuo, former vice finance minister and president of Sakura Bank, assumed the post of Bank of Japan (BOJ) governor in mid-December, succeeding Mieno Yasushi who retired on completion of his five-year term.

Matsushita, 68, is the first BOJ governor to come from a private-sector bank

since 1964 when Usami Makoto was picked from Mitsubishi Bank. Matsushita joined Taiyo-Kobe Bank in 1986 after resigning as vice minister at the powerful Ministry of Finance where he served for 36 years. Matsushita became president of the bank in 1987, and when Taiyo-Kobe Bank merged with Mitsui Bank in 1990 to later become Sakura Bank, he took the post of chairman and became representative director and adviser in June 1994.

While Matsushita is generally regarded as the most suitable person for the



The next governor of the Bank of Japan, Matsushita Yasuo

Photo: Kyodo News Service

post, some banking sources express concern over possible influence by the Ministry of Finance because of his career there.

The post of BOJ governor has customarily been filled by a former Ministry of Finance official and a BOJ official in rotation for the past five terms. This time, Matsushita was chosen to effectively meet the ministry's turn as widely expected, although Finance Minister Takemura Masayoshi denies there is any such "rotation" rule. Commenting on Matsushita's appointment as the new central banker, Inaba Kosaku, president of the Japan Chamber of Commerce and Industry, said he welcomed Matsushita's choice because of his personality and insight. "I hope for appropriate management of the monetary policy under his helm," said Inaba.

Recession Is Over: Economic Planning Agency

Japan's most recent recession ended in October 1993 after grinding on for 30 months from May 1991, making it the nation's second-longest postwar economic downturn, the Economic Planning Agency (EPA) said in its monthly economic report for November 1994.

This means the recession—which followed the bursting of the speculative "bubble" in the late 1980s—ranks second in duration, behind the second global oil crisis downturn, which lasted for 36 months from March 1980.

The EPA monthly report noted the economy is already moving toward recovery. Similarly, the Bank of Japan struck an upbeat note, pointing out that the business sentiment among major manufacturers has been improving. Yet, some economists argue that the real economy has only just begun to get out of the doldrums and that concerns still remain. In their judgment, the sense of recovery is not necessarily strong among smaller businesses and upturn continues to be restrained by the lingering effects of the bubble-era over investment and the stronger yen.