

# Forum hears state intervention fears

**'Roundtable Japan' panel tackles range of issues, offers prescriptions for nation's economy**

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How should Japan go about dealing with the impact of the financial crisis spreading around the globe? What about the upcoming general election and the rise of China? These were some of the pressing matters discussed by prominent experts in a range of fields at "Roundtable Japan," an annual discussion forum held this year on June 5-6.

The subject drawing the foremost attention of participants was what has been called "state capitalism." Atsushi Saito, president and CEO of Tokyo Stock Exchange Group Inc., observed: "The economy's linchpin is moving from Wall Street to Washington, D.C. State capitalism is rearing its head in the U.S."

Alluding to the nationalization of General Motors Corp. by the government of U.S. President Barack Obama, Saito expressed worries about the "distortion" of American capitalism due to government intervention. "The thinking is wrong that the market economy can be sacrificed, albeit temporarily, for the sake of eradicating the threat of panic and unemployment," he argued.

Yuko Kawamoto, a professor at the Waseda University Graduate School of Finance, Accounting and Law took governments to task for excessively meddling in the business of the private sector. Bemoaning governments' "loss of discipline," she criticized moves by the administrations of many countries to stimulate the economy with excessive fiscal spending and bailouts for failing companies.

"The current crisis," Kawamoto stressed, "has been caused by the failure of the financial system, not by the failure of capitalism."



From left to right: Takemori, Hayashi, Iwata, Smadja, Saito and Kawamoto participate in the "Roundtable Japan" forum.

Japan is also expanding fiscal spending with massive government bond issues — leading some pundits to worry about the country's ability to repay its debt in the future. Claude Smadja, president of Switzerland-based Smadja & Associates Inc., said he thought the current crisis could serve as a catalyst for change, but at the same time he was doubtful whether Japan can really deliver on structural reform.

Saito voiced concern over Japan's capability to meet its fund needs on its own in the future and urged change on this front. "Change is a must," he said. "Should Japan run into a situation in which it has to turn overseas to finance its fund needs, it could amount to Tokyo seeking 'Chapter 11' bankruptcy protection," he warned.

#### Call for debate

Yoshimasa Hayashi, an upper house member of the Liberal Democratic Party, said there is an alternative for smooth debt issuance, in which the Bank of Japan buys Japanese government bonds outright. He warned, however, it would likely invite "hyperinflation."

He then exhorted the nation's political parties, saying, "Each party should explicitly refer to the fact that there is

no easy way to solve the serious debt load in its manifesto and contest its proposed solutions with other parties" in the coming general election campaign.

Discussion participants had various prescriptions for reconstructing Japan's economy. Kazumasa Iwata, head of the Cabinet Office's Economic and Social Research Institute, said Japan needs to change its economic structure into one driven by personal consumption and other components of domestic demand.

To enhance growth of Japan's economy based on domestic demand, Iwata advocated a strategy with three pillars: investing in environmental technologies to achieve a low-carbon society, promoting the medical and elderly care fields, and resurrecting agriculture.

Iwata's views drew a counterargument from Shunpei Takemori, a professor at Keio University, who expressed skepticism about agriculture becoming a mainstay industry for the country. Nor was he convinced about the medical and senior care businesses attaining a presence big enough to nourish and grow a national economy. "An idea that prioritizes agriculture and medical care at the expense of automobiles and other key industries should be

dismissed," he said.

Instead, Takemori advanced a view that export industries will continue to drive Japan's growth.

#### Latent assets

A call for greater attention to the declining labor force — a structural problem for Japan's economy — came from Kathy Matsui, managing director and chief Japan equity strategist at Goldman Sachs Japan Co. One way to make up for this problem, she said, is "wonomomics" — mobilizing more women into

the work force. "The low percentage of women in the labor force in Japan is conspicuous," she noted. "Japan needs to bring more stay-at-home women" into the fold, she added, calling such women "latent assets" for Japan's economy.

Attendees expressed more pessimism than optimism about the near-term outlook for Japan's economy. Robert Feldman, director of the economic research department and managing director at Morgan Stanley Japan Securities Co., predicted a W-shaped recovery for Japan and a U-shaped pickup for the U.S. economy.

To back up his forecast, Feldman noted that durable goods, including those for consumers, occupy a higher ratio in Japan's industrial production index, resulting in a longer economic recovery process than elsewhere. He went on to warn that measures Tokyo is now implementing to resuscitate the economy are expected to have only short-term effects and run out of steam by year-end.

Meanwhile, Mitsumaru Kumagai, senior economist at Daiwa Institute of Research Holdings Ltd., cautioned that the U.S. economy — the main engine for the Japanese economy — will take a long time to pick up the gloomy job market and fragile consumer spending. As for China, he said it is "nothing more than an auxiliary engine and is not strong enough to propel Japan's economy."

## 'G-2' draws differing views

In lively fashion, forum attendees exchanged views on China's rise and the shadow it will likely cast on Japan-U.S. relations — developments they see as having an important bearing on Japan's future.

They shared the perception that while U.S. power is eroding due to the financial crisis, China is raising its relative global profile as many nations pin their hopes on the country's role as a growth engine for the world economy.

Akira Kojima, trustee and senior fellow of the Japan Center for Economic Research, pointed out that something that might be called an economic version of the "mutual assured destruction" concept may apply to the U.S.-China relationship. MAD is a military strategy doctrine prescribing that the mutual use of nuclear weapons would result in the annihilation of both the attacker and the defender, thereby acting as a deterrent to nuclear war.

In order to maintain its deficit financing, the U.S. wants China to continue purchasing and holding its Treasury bonds. China, for its part, has to keep buying Treasuries to prevent their falling prices from eroding the value in their official reserves, Kojima explained. The upshot is a U.S.-China "Group of Two" becoming "the driver of the global economy," he said.

An opposing view came from Yoshiji Nogami, president of

the Japan Institute of International Affairs, who regarded the concept of a U.S.-China G-2 as untenable from the standpoint of security. On international trade matters, for one, the U.S. and China alone will not be able to decide anything for themselves, he argued.

The same holds true for the problem of global climate change, according to Nogami. "If the U.S. and China took the lead in determining the standards" for climate change for the international community, he said, "then such rules would end up on a substandard level."

Nogami called on discussion participants not to underestimate Japan's position in relation to China's. "The size of foreign currency reserves does not determine the scale of economic activity," he insisted. "When other factors, such as the balance of foreign direct investment, also are taken into consideration, Japan surpasses China in terms of global presence."

*"Roundtable Japan," an annual forum held in Tokyo, brings together experts in various fields from Japan and abroad to discuss issues relevant to Japan's future in the context of global change. Since 2005, it has been co-sponsored by consultancies Smadja & Associates and Forma Corp. This year's forum, the fifth in a series, was supported by Nikkei Inc. and the Japan External Trade Organization.*

## Odds in DPJ's favor, but uncertainties remain

Another key topic at the "Roundtable Japan" discussion was the upcoming general election, which must be held by early September.

Attendees looked into their crystal balls to see if the main opposition Democratic Party of Japan will unseat the LDP to assume control of the government, or whether the LDP will manage to prolong its almost uninterrupted post-war reign.

Ryosuke Harada, editorial writer and senior editor of The Nikkei's Editorial Bureau, put the DPJ's chance of an election victory at above 50%.

That said, he was more concerned about whether the DPJ, after becoming the ruling party, can really deliver on its

campaign promises.

"How well the party goes about dealing with the bureaucrats will determine the fate of its policies," Harada said.

Hayashi, the LDP lawmaker, said that if an LDP loss is inevitable, the party "ought to emerge as a good loser. For that, it would do well to fight the election on a no-holds-barred manifesto."

Jun Iio, a professor at the National Graduate Institute for Policy Studies, said that in terms of the party's ability to govern Japan, people who cast their votes for the DPJ will be betting on uncertainties.

The real test for the DPJ, Iio added, lies in how it can eliminate the electorate's fears over its ability to govern.

He spoke about the possibility that in the wake of an election win, the DPJ could add more than 100 new members to its lower house ranks. And he said the DPJ might be able to "run a stable government contrary to general expectations" should it leave policy planning to the bureaucrats.

Feldman predicted post-election political turmoil, saying that the LDP may not be able to survive its election defeat, while the DPJ could fail to survive its victory.

Harada also voiced his belief that the upcoming generation will mark the beginning of a major political turning point, noting that another election — that of the upper house — is coming up in July of next year.