Japan's Challenge for Economic Revitalization

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I. Recession and Its Background of Japanese Economy

Prolonged Economic Recession

Since the “bubble economy” bursted around 1990, Japan has been struggling with a prolonged recession and a deteriorating financial system. The average rate of economic growth from fiscal year 1991 to 1998 remained as low as 0.9% and, especially in the last two years, the growth rate consecutively turned negative to -0.4% in FY 1997 and -2.2% in FY 1998. An unemployment rate has risen to 4.4%, which is historically high for Japan and higher than that of the United States. Three big banks and one traditional security firm collapsed over the last 1-2 years.

The Japanese are overwhelmed by "pessimism," and questions concerning Japan's growth potential have emerged in foreign countries. According to a 1998 survey by the International Institute of Management Development (IMD) in Lausanne on global performance, Japan's rank has fallen from No. 1 in 1992 to No. 18.

Since the collapse of the "bubble economy," the government has implemented nine special stimulus packages that amounted to107 trillion yen. The Bank of Japan has maintained the official discount rate at the historically low level of 0.5% for the last several years. Why has the Japanese economy become so weak and less reactive to those Keynesian measures?

Mismanagement of Economic Policies

The first reason, in my view, is the mismanagement of economic policies. In spite of a clear indication that the "bubble" ceased in 1991, the government hesitated to reverse its position on financial and fiscal relaxation. Consequently, the economy went down to nearly zero growth.

Since 1992, the government has initiated several domestic demand stimulus measures and the Japanese economy has recovered by 3.0% in FY 1995 and 4.4% in 1996. Believing that the economy had been restored to steady growth, the government hastened to rectify the fiscal deficit by increasing consumer tax, terminating special reduction of income tax, and reducing the 1997 fiscal expenditure. As a result, the economy turned negative again in 1997.

It goes without saying that Japan should reform its economic and financial system within the framework of the global economy. The deregulation and financial "big bang" will create potential growth as well as job opportunities in the long run, but they may have a deflationary effect in the short term. Therefore, economic and financial deregulation policies should accompany a measure to expand domestic demand. Despite strong calls for a reduction of corporate and income tax to meet the international standard in 1996, the government instead decided to initiate a series of economic reforms through deregulation and the financial "big bang," together with fiscal restructuring and administrative reorganization.

As a result of increasing unemployment and the problems with pension funds, consumers have lost their confidence in the future outlook of the Japanese economy. Many recognize that the current pension fund system is unsustainable with the interest rate being far below desirable levels.

In addition, Japan will become the most aged society in the world in the near future. Yet, the government and legislators put off serious policy review on the pension policy.

Delay of Economic Reform

The second reason is the delay in reforming the economic system, which deepens the gap between business and economic environments and the international standard. In the 1980s, the U.S. and European countries vigorously promoted deregulation to nurture their competitiveness and to explore new frontiers. In comparison, the Japanese industries were enjoying an asset inflation and neglected to promote competitive capacity-building. Japan's regulated market became less attractive to international business. The Japanese government finally initiated "deregulation" and "reregulation" at the outset of the 1990s and gradually advanced them in the recent years, although it was delayed for a decade compared to those of the U.S. and most European countries.

The "convoy system" of the Japanese financial sector was preserved until recently, and the Tokyo money market has lost foreign dealers' interests. The financial "big bang" is now in full swing to make the Japanese financial market similar to those of London and New York by 2001. At the request of the business community, a review of the tax system to meet the international standard has progressed in increments, but is only half complete. These situations have led to a high cost industrial structure which may decrease expected profitability and discourage foreign capitals investment in the Japanese market.

Weak Entrepreneurial Spirit

The third explanation is a lack of entrepreneurial spirit among business leaders toward restructuring to meet the challenges posed by global mega-competition. Japanese business leaders are inclined to "yokonarabi" (herd instinct) without self-governed responsibility and self-support. Judging from post-“bubble” history, it seems to me that business leaders have favored governmental leadership over any drastic self-initiating steps toward slimming down and opening new frontiers.

Information technology should play a key role to improve the efficacy of business operation and establish effective strategies. However, Japanese business leaders are less enthusiastic in applying the information system than their American and European counterparts.

European and American corporations are promoting mergers and acquisitions across the Atlantic to improve their competitive capacities in Euroland, the globalized financial market, the automobile industry, petroleum, the media and so forth. In Japan, however, it is a recent phenomena that business leaders are coming to undertake these types of restructuring measures.

In the U.S., the venture business has become very active in the 1980s. They generate a dynamic economy and employment opportunities. Japanese venture business has not yet emerged to boom due to the lack of incentive-oriented measures in the areas of tax, financing and business education.

Financial Instability

The fourth reason stems from the instability of Japan’s financial system, accompanied by a credit crunch. Japan experienced enormous asset inflation between 1988 and 1990. The result was a delay in policy changes toward a tighter financial system. Following the long-awaited tightening of monetary policies (a much later stage), land and stock prices dropped dramatically. Real estate prices in commercial areas declined to half of the pre-bubble level, and the stock price dropped to one-third of the bubble's peak level. The monetary loss from the land price crash totaled 730 trillion yen, while the drop in stock prices were estimated at 560 trillion yen.

Consequently, banks and financial institutions accumulated a large volume of bad loans, many of which suffered from non-performing assets. The total amount of bad loans is estimated to be 100 trillion yet.

II. Government Measures to Cut off the Deflationary Trend

The Gap Between Supply and Demand

The gap between supply and demand is estimated to be 30 trillion yen, 6 % of the GDP. Personal consumption, which occupies 60% of the GDP, remains considerably weak and is shrinking further into FY 1998 and 1999, although the government anticipates a slight increase of 0.4% in FY 1999. I am afraid that the unemployment rate which currently stands at 4.4% will increase to 5% because many enterprises will promote restructuring by streamlining this year to restore profitability. This trend will result in lower consumption and higher savings.

Commercial housing construction decreased by about 15% in FY 1997 and by 10% in FY 1998, but I expect it will turn positive by several percentages this fiscal year. Due to a decrease in domestic and external demand, the current production level is 10% lower than the previous year. As a consequence, I predict that overall investment will decrease by 10% in FY 1998 and 5% in FY 1999.

The external demand will stagnate. Although the export demand in the U.S. and European

Union will be relatively strong, their exports to Asia will continue to decrease. In addition, the strong yen will weaken external demand.

Domestic Demand Stimulus Measures

The economic difficulties the Japanese government is facing is as hard to untie as the Godian knot. The knot emerged from a huge gap between supply and demand, financial deterioration, the declining confidence of people, and an extended fiscal deficit. In my view, the way to cut off the Godian knot is to restore domestic demand through any possible means.

The Obuchi Cabinet, taking office last July, has made vigorous efforts to revitalize the economy. It decided on a stimulus package in the amount of 23.9 trillion yen, an amount equivalent to 5% of the GDP last November, and drafted the national budget for FY 1999 with an increase of 5.3% in regular expenditure, which includes a 10.5% increase in the public infrastructure to achieve 0.5% growth in FY 1999. These measures symbolize the Cabinet's strong political will to turn the economy into positive growth.

The cabinet also decided on a tax reform in reduction of 9 trillion yen (2% of GDP) tax income. Income tax was reduced by 4 trillion yen and the maximum rate of both national and local income tax was decreased from 65% to 50%. This reduction is expected to pump up personal consumption and to stimulate a general work spirit. Tax incentives to encourage housing construction were also remarkably expanded.

Furthermore, the government decided to lower the effective rate of combined national and local corporate tax from 46.36% to 40.87% in the amount of 2.4% trillion yen (0.4% of GDP).

Through these tax reforms and reductions, the government expects to cut tax burdens down to the international average of industrialized countries.

In parallel, the decision-making process on the national budget and tax reform took structural issues into consideration. The government increased the budget on basic research and development by 8.1%, and information equipment, such as computers, digital copies, and digital button telephones will depreciate immediately, if they are less than 1 million yen. In an effort to encourage the use of efficient and low pollution automobiles, the tax for passenger cars and similar kinds of trucks are to be lowered.

In order to promote the internationalization of the Japanese yen, the government introduced the open tender system for short-term bonds, which is a special exemption from interest tax on government bonds for non-residents. The government has also decided to abolish the securities transaction tax and to introduce a consolidated tax system in 2001.

Reconstruction of the Financial System

The government and legislators spent a long time solving the issues of bad loans and implementing procedures to reconstruct the financial system. Finally, nine laws passed through the Parliament, the main ones of which were "The Law Concerning Emergency Measures for the Revitalization of the Functions of the Financial System" and the "Financial Function Early Strengthening Law." The first bill provides procedures to deal with collapsed financial institutions under governmental control. The latter is designed to inject public funds into financial institutions to strengthen the equity. The government allotted 60 trillion yen for these measures.

The Financial Control Agency clearly announced that bad loans should be settled by the end of March and that the financial situation of banks can be expected to be sound by 2001. Two big banks were replaced under government control last year by the former law after their collapse, and about 15 big banks decided to utilize the capital injections made possible by the latter law.

In order to improve their financial situations, many commercial banks have tried restructuring by trimming their work forces and closing inefficient offices. Some of them tried to form alliances with others and increased paid up capital on a private basis.

The government also decided to increase loans from governmental financial institutions to middle and small-sized enterprises to protect them from the credit crunch. I believe, owing to the newly established scheme, that the financial situation can escape the worst situation.

Of course, there remain several uncertain factors in the Japanese economy. Recently, the interest rate of long-term credit has been gradually rising from the insurance of a large amount of government bonds. Since the yen has been fluctuating against the US dollar, it is feared that a strong yen will offset the demand created by the stimulus packages. Japan's stock market remains unstable with unclear conditions, including the trend in the New York market.

Observations

I am confident that these drastic fiscal stimulations will bring the economy to zero or positive growth this year. Actually, good signs are already appearing. The construction of a public infrastructure has started operations, and sales of personal computers, light automobiles, and some types of household electric appliances are gradually recovering.

Since last October, house construction began to recover. However, private investment will still remain weak for another year, except for information facilities. I predict that the Japanese will crawl on the bottom of the pan for another half-year because the supply and demand gap will remain large for the time being, but the growth rate will be positive in FY 1999.

Recently, business executives are vigorously restructuring their businesses by reducing idle workers and production facilities, using newly introduced holding companies and promoting mergers and alliances. I assume business profitability will recover earlier then expected. Whether those expenditures will trigger cyclical and continuous growth depends on how business will acquire sustained growth.

Through the above mentioned measures, the fiscal deficit will increase, reaching 9.2% of GDP this fiscal year. For the time being, Japan should concentrate on stopping the deflationary spiral, and the government should illustrate the map for reducing the fiscal deficit in the future.

III. The Restructuring of the Japanese Economic Model

Characteristics of the Traditional Japanese Model

There is the view that Japan's prolonged economic recession and Asian currency crisis are symbolic of Japan's traditional economic model falling behind the times. Actually, now, Japan is forced to meet the challenge of a globalized economy by coming up with a new economic model.

The Japanese economic model has matured gradually through the process of postwar reconstruction and ensuing high economic growth. One of its characteristics is a mixed economy. Economic principle is, of course, based on market economy, but the government has regulated the economy comparatively more broadly than any Western country has. For instance, although the external trade of goods has been widely liberalized, the financial, securities and distribution fields have been protected by governmental regulations only until recently.

Close interdependent relations between financial institutions and industrial corporations is another example. At the time of the postwar recovery when funds were short, financial institutions played a key role in supplying funds to the industrial sector. During the high-growth period, we often saw cases where these relations were strengthened through stock crossholdings and a "main bank" system.

At that time, decision-making depended on the so-called "iron triangle" of the governing party, the administration and the private sector. This has often been criticized abroad for the lack of transparency and accountability.

Next, companies assumed influential positions in social activities. The lifetime employment system and the tax-withholding system are symbolic examples. These systems helped maintain stable relations between management and labor, and people tended to rely on their companies.

Common thinking or a sense of egalitarianism has spread among the Japanese. After World War II, Japanese were thinking, "We're worried about being unequal, not about being poor". In response, the government adopted a sharply progressive taxation system for income tax and a standardized education policy designed to prevent dropouts. It strengthened the people's sense of uniformity but discouraged them from challenging new fields.

The "yokonarabi" (herd instinct) idea also has prevailed in the business sector. They placed a great deal of importance on the views and instructions of the government and the opinions of leaders in the industry. The financial sector, specifically, is strongly regulated, a practice commonly called a "convoy" system.

Because of these features, a unique corporate management style was formed. Business executives usually placed priority on expanding market shares. They endeavored to maintain a stable relationship with major stockholders, main banks, large customers and labor unions. Regarding employees as important assets, they adopted a lifetime employment system, seniority-based wage system and in-house education and welfare facilities.

They have maintained competitiveness by process innovation rather than product innovation. Their collective decision-making has been done on a from-the-bottom-up bases with emphasis on team spirit. This has been beneficial by ensuring information sharing among workers, but the downside is the slow decision-making process.

<u>Program for Structural Reform</u>

The advance of information and telecommunication technology enables enterprises to transcend the barrier of "distance" and "time" and create many business opportunities.

Businesses may move with relative ease to a more attractive market. If any country seeks to attract foreign investment, it has no choice but to adjust its market conditions and trading system to the global standard. Intervention by the government in the market must be minimized to ensure a rational distribution of resources. This is why Japan is now proceeding with deregulation and the Big Bang of its financial markets.

Reform is quite essential to reduce high costs, to encourage creativity, and to accelerate new business formation and development of new technologies. The Japanese government adopted a comprehensive "Program for Economic Structural Reform" in December 1996. It envisions major changes by FY 2001, through "supply side" reforms designed to create greater efficiencies and a low-cost business environment. It includes a program to eliminate regulatory rigidities that have prevented Japan from achieving global competitiveness, harmonizing taxation with international standards and challenges for the development of high technology and soft power including information systems. As I said earlier, to offset the deflationary influence of supply-side reform, the Japanese government has adopted several stimulus packages.

We realize the road ahead will not be easy. Industries need to be restructured, inefficient enterprises closed and workers retrained. Already, however, industrial sectors are in the midst of drastic transformations that promise to greatly enhance Japan's potential.

The Japanese Economic Model Is Still Valuable

Now we must ask ourselves, is the Japanese system facing the scrap heap? Is the Western model superior? The market framework will naturally become globalized in the information age. Even domestic rules such as competition, accounting, inspection and certification should be harmonized, since common international standards would be beneficial for business operations. However, companies may operate with different strategies and cultural characteristics. Japan's corporate culture still has significant advantages in the age of the global economy.

The first positive feature is that companies in Japan tend to respect human resources and organizational harmony. As manpower is a source of creativity, Japanese executives have given priority on heightening it. Hence the employees feel satisfied and fulfilled in their work. If a Japanese company treats its employee as just one part of the production process, it will fail to cultivate the creative core of its success.

Each individual should also be devoted to teamwork in gaining knowledge and integrating new technologies and expertise. The value placed on respect for teamwork will contribute to innovation.

The second positive feature is that companies tend to take long-term strategies. U.S. management leans toward short-term profit and high stock prices. Japan's management also needs to focus more on increasing profit rather than expanding market share. An ideal way to switch to this focus is through the long-term strategies that have been cultivated in Japan.

To keep in step with the changing market conditions brought about by globalization, the company should be constantly upgrading technological ability, and reforming management resources. The long-term strategy should facilitate these changes at a lower cost.

The third advantage of the Japanese system is that companies keep in creative contact and mutual trust with related industries. Sometimes, the business links between assembling companies and parts suppliers --- *keiretsu* ---were criticized by U.S. manufacturers, who complained that they hindered imports into Japan, but now they recognize the advantages.

Cozy, traditional business affiliations that unfairly avoid competition must be scrapped. But creative and trusting relationships between enterprises for the improvement of products must be permitted to continue to make Japan's economy dynamic. The mutual trust among enterprises is a powerful factor in favor of the Japanese economic model.

Favorable Fundamentals

I should also emphasize that Japan still maintains favorable economic fundamentals. First, Japan continues to perform well in terms of basic macro economy. Japan has the second largest economy in the scale of $5 trillion USD of GDP, which is equivalent to six times bigger than that of China, as well as the current annual account surplus in $160 billion USD, the foreign reserve in $210 billion USD, personal finance assets in $1200 trillion USD, and the net external assets in 100 trillion yen. If we compare these figures with those of U.S., you will notice that the Japanese economy still has potential.

Second, Japan is making large investments in research and development (R&D). Japan's GDP ratio in R&D was 2.96% in 1996, the highest among advanced countries– compared to 2.55% in the U.S., 2.28% in Germany, 2.34% in France and 2.05% in the UK. Among the top ten companies who filed patent acquisition in the U.S., six of them were Japanese firms.

Japanese enterprises are considered to be inferior to U.S. companies in the development and designing of information technology, as well as large scale systems such as space development, but have made remarkable success in intelligent manufacturing systems, precision processing, opt-electronics, information standards for transportation systems, color management of displays, printer and digital cameras, mobile office systems, next generation display systems, and fine ceramics.

Finally, Japanese industry maintains ecological and energy efficiency. Japanese businesses are making great efforts to reduce CO2 emissions set by Kyoto protocol in December 1997. Voluntary action plans are being made, including setting numerical goals of reduction of CO2 emission, and increasing energy efficiency for technological development. For example, an automotive manufacturer successfully developed the so-called "Hybrid Car" which combines the gasoline engine and an electric dynamo, expanding their sales. Another automotive manufacturer is developing "3-litre car" which runs 100 km with 3 litres of gasoline. The manufacturer will put it in U.S., Europe and Japanese markets in 1999 or 2000.

Manufacturers of household electric appliances are making vigorous efforts to develop more energy efficient products according to the "top runner system" set by "the law to rationalize energy." This means the manufacturers should improve the energy efficiency of their products.

IV. The Asian Currency Crisis and Japan's Contribution

Lessons for the Asian Currency Crisis

With the emergence of currency crises in mid-1997, Asian economies suddenly began to nose-dive. Currency crises, in my view, were caused by a combination of dollar-linked monetary policy, asset inflation as a result of excessive capital inflow, account deficit expansion, a fragile financial system, lack of market transparency, overstretched production facilities, and weak support from ancillary industries.

The currency crisis has provided various important lessons to Asian countries. The first lesson is to manage economic policies in coordinated, careful and efficient ways to maintain sound economic fundamentals. Asian countries overestimated their growth potentials in the first half of the 1990s and tended to introduce large amounts of foreign capital while neglecting appropriate counter-measures against excess liquidity. These countries are examining how to deal with speculative short-term capital and are keenly watching the outcome of Malaysia's revived fixed exchange rate system.

The second is to strengthen the coordination of economic policies among countries in the region. Asian countries, recognizing the fact that the these kinds of crises have a quick contagion in the globalized economy, are assiduously making efforts to strengthen a cooperative scheme by exchanging relevant financial and economic information and coordinating macro economic policies in financial areas.

The third is to reform trade and industrial structures. The currency crisis demonstrated the weakness of trade and industrial structure. Asian countries have succeeded export-oriented industrialization. For example, while the world export expanded 2.9 times between 1980 and 1996, the export of East Asia grew by 5.5 times. With regard to the rate of export GDP, the figure of East Asia was 37% while that of Japan was 8.9%. It signifies the economy is easily influenced by the change in export environment. Furthermore, they heavily focused on foreign investment in "assembling industries" such as personal computers, semi conductors and automobiles, but did not cultivate the parts and components manufacturing sector. The amount of imported capital goods, such as parts and components, versus the amount of exported industrial goods reached approximately 70% in East Asian countries. This means that even if exports increase with a benefit of local currency, import of capital goods would increase accordingly.

Asian countries realized this weak structure which adversely affects the ground of balance of payment, and are now trying to improve the structure by cultivating supporting industries and strengthening their technical capabilities with a view toward securing a stable position in the international market.

Recovery of Asian Economy

Most Asian economies with a negative growth in 1998 are finally getting out of the worst situations through a series of structural reforms. They have marked trade surplus, and foreign exchange rates against the U.S. dollar have been stabilized. Foreign investment is gradually returning through M&A and increased shares. According to the World Economic Outlook published by IMF, the growth rate of Asian NIES will recover from -2.9% in 1998 to 0.7% in 1999, turning slightly positive, and the growth rate of ASEAN 4 will also recover from -10.4% in 1998 to -0.1% in 1999. Taiwan and China continuously grew by 5-6% in 1998 and 1999. Indonesia, in the wake of political turmoil, however, soured around -15% in 1998 and will continue a negative 3-4% growth in 1999.

Asian economies need to overcome several hurdles before they get back on a positive track: bad debts of financial institutions, devaluation and price rise, increased burden caused by debt in foreign currency, and unemployment. However, Asian economies will get back in the growth orbit if leaders of these countries draw appropriate lessons from the current currency crisis, taking the initiative for maintaining political stability, managing macro-economy properly, pushing structural adjustment by making appropriate use of market forces and promoting administrative reform.

Sources of Asia's Economic Dynamism

Since the mid-1980s, East Asia has played the role of “growth center” in the world economy. The sources of Asian dynamism are traced to high savings and high investment, availability of well-educated labor forces, appropriate use of market mechanisms, incremental liberation of trade and investment, effective introduction of foreign investment and technology, existence of large import markets in the United States and Japan, and the expansion of a domestic consumer market with the growing middle class.

I would like to make two comments on these sources of Asian growth. My first comment regards the relationship of savings and investment. The Asian nations have maintained high savings rates. For instance, the savings rate is 40% in China, 35 % in Thailand, and 32% in Indonesia. Throughout Asia, domestic savings alone can support a very decent rate of growth. I would like to point out that if money supply is properly managed, these nations have an internal strength to generate economic growth by several percentages.

My second comment relates to Asian values. The Asian region is characterized by diverse cultural, linguistic, economic backgrounds, and it is very difficult to identify any common feature that would hold Asia together as an economic or cultural sphere. If forced to cite one such common feature, I would choose the pursuit of "modernization" or "de-asianization" as a unifying theme for Asia.

I believe, however, that the three great religions of Buddhism, Confucianism and Islam would share three critical points in common which affect their way of thinking. The first point is tolerance and willingness to accept a wide diversity or pluralism of values. The second is a respect for harmony in the social order. The third is the importance of self-discipline.

Tolerance for diversity or pluralism instills an element of flexibility which will prove to be highly valuable in the process of globalization. This tolerance and flexibility also provides advantages in expansion of its information networks covering the partners with a different sense of values.

Respect for harmony acts as a driving force in promoting social integration. This spirit will also contribute to overcoming the currency crisis and, over the longer term, to promote new hybrid technologies covering different fields which will play an increasingly important role in the future.

The respect for self-discipline may lead to high savings, hard working, and enthusiasm for knowledge and learning. The trend will certainly play a crucial part in the future growth of the region.

There is a skeptical opinion that the Asian miracle is already a matter of the past. However, it needs to be realized that the current Asian turmoil is the result of mismanagement of economic policies, especially monetary and financial policies. The fundamental values of these economies, such as high savings, sound fiscal set-up, and high work ethics, are all intact.

It may take 4 to 5 years for the Asian economies to regain some of its dynamism. However, I am a firm believer that if Asian countries will maintain political stability and implement policy measures properly, the Asian economy will regain its lost dynamism to be on the growth path once again.

Japan's Contribution to Asian Economy

Since the Plaza Agreement in 1985 which appreciated the yen hitherto, Japanese corporations have actively expanded trade and investment in Asia. For example, of Japan's total export designation, East Asia rose from 23% in 1986 to 43% in 1996. Similarly, imports from East Asia increased from 25% in 1986 to 35% in 1996. Japan's foreign direct investment (FDI) toward Asia expanded two-fold from 1992-1997 in the total amount of $12.2 billion. Outstanding loans from private financial institutions amounted in $114.7 billion in December 1997, scoring 30% of the total outstanding loans to Asia.

With such close relations with Asian nations, Japan is making a great effort to extend substantial support to them to overcome the economic crises. First, Japan has provided a large amount of assistance to the troubled economies of Asia in cooperation with the International Monetary Fund (IMF). The aid, in the total amount of $43 billion, has been delivered in the form of financial support, trade insurance, Export-Import Bank loans, etc., compared to $12 billion from the U.S. and $7 billion from Europe. Japan also pledged an additional $30 billion at the G7 meeting last October, usually-called the Miyazawa plan.

Second, as I mentioned earlier, Japan envisions to contribute to the revitalization of Asian economies by restoring its own financial stability and expanding domestic demand. These efforts have not produced a visible effect to increase imports from Asia, but will have a favorable impact.

The third measure is to cooperate toward the stabilization of monetary and financial markets in Asia. We should strengthen a policy coordination mechanism through financial cooperation through APEC and promote further internationalization of the yen. Establishing the Asian Fund to stabilize Asian currencies is worth consideration, among other devices.

The forth plan is to reform the industrial structure and promote technical competence. Japan is providing, in addition to ODA and loans to governmental financial institutions, technical transfer, personnel training, infrastructure development, and so forth.

The fifth policy option is to maintain the enthusiasm toward free trade centripetal force of APEC. The currency crises have discouraged Asian nations from sustaining free trade and regional cooperation. As a matter of fact, some countries even raised the import tariff on some items. I believe that Japan should pursue the environment in which free trade among Asian countries will be explored and APEC's open functions will be strengthened.

The sixth strategy is to cooperatively secure stable energy supplies and address environmental problems. Preoccupied with the negative growth of economies, many Asian nations have overlooked these issues lately. Over the mid- and long-term, these issues must be revisited to seek solutions. Japan should then develop common policy goals together with its Asian neighbors and extend full support via technology transfer and financial assistance.