
A Japanese View

Cooperating to avert disaster

Presented here are excerpts from a speech delivered by Hiroshi Uchida, head of the Ministry of International Trade and Industry, at the Yomiuri Symposium on the International Economy '86, held March 13, in Tokyo.

The speech, entitled "International Cooperation to Avert Disaster," reflects on the state of the actual economy of the United States and the relation of the advanced to the underdeveloped sector. The Yomiuri symposium, which featured European and American speakers, was designated as a message to the Tokyo summit May 4-6 of leaders of the OECD nations.

As we approach the 21st century, we are very fortunate that the intelligence of humankind has worked to rebuild the world economy in the last half of the 20th century from the ruins caused by the many mistakes of the first half, and that we have been able to sustain that rare condition in human history, peace and prosperity for 40 postwar years. However, it can also be said that we have arrived at the present while postponing the reforms necessary to break away from old systems and the proper responses to new technology, reforms and responses that were achieved in the past by such violent means as revolution or war. We must now face up to these difficult problems confronting us and boldly deal with them. . . .

At present, the United States, Western Europe, and Japan together account for two-thirds of the world's total production. They are therefore indeed the three main pillars supporting the economy of the world and willy-nilly shoulder its fate. If one of the economies of the three fails through mistaken management, the interrelationship among the three would deteriorate and cause the spread of protectionism and the stoppage of the organic functioning of the free trading system. If this chaotic condition arises, the developing nations, which bear cumulative debts, would lose their export markets, causing them to refuse to honor their debts and bring

about the collapse of the international financial system, which eventually would lead to the collapse of the world economy.

If this scenario of world economic disaster an unwarranted concern? Would that it were. . . .

The U.S. economy has an overwhelming weight and responsibility, the policies of which have greatly influenced the economy of the world. However, it is not blessed with immortality and cannot be sustained without the cooperation of other nations. . . .

The major problem currently faced by the United States is the reduction of budgetary and trade deficits. However, even if these deficits were successfully reduced for the time being through strong U.S. government action or the large-scale cooperation of other governments, the result would still be only the treatment of the symptoms of the emergency patient and not the basic rebuilding of the patient's physical make-up. As long as this basic make-up of the U.S. economy is not revised, the same problem it faces today could once again arise.

Productivity is a general measure of the capacity to raise the living standard of the people and is especially a measure of the competitive strength of the United States in the world's markets. However, the rate of increase of industrial productivity has been falling off from year to year. If the growth rate of productivity continues to be low for a long time, a great drop in American competitive strength could not be avoided.

The problem of American productivity is widely recognized as being rooted in such basic factors as capital, labor, managerial strength, and labor-management relations. If the United States wishes to reduce its trade deficit, it ought to devote special efforts to the improvement of these factors at the same time that it requests other nations to cooperate. The disadvantages of low productivity growth rate and loss of competitive strength increase the likelihood of seeking easy solutions, such as buttressing the protective walls for industries that have lost their competitiveness and shutting out products o would seem that the United States should use every means available to increase productivity.

Another cause of the trade imbalance is the creation of cavities or "hollowing" in American industry; that is, American manufacturers have moved major portions of their production to locations abroad instead of investing within their own country to improve productivity. We can say that the strong dollar has also contributed to this trend in addition to the problems of productivity in the United States. It would be logical to assume that the blame for increases in imports due to such cavities in American industry ought to be accepted by the Americans themselves instead of their blaming other countries.

However, we see in actual practice a different response. A specific example is the result of the agreement reached by the five-nation finance ministers conference on Sept. 22,

1985. The high value of the dollar was reduced and the yen became higher. In the field of electronics, this caused the Japanese electronic products imported into the United States to rise in price by 5 to over 12%. The complaint voiced over the several past years by Americans that the yen was too low had thus been greatly resolved, and the price differential between Japanese and American products was greatly reduced. American products had now been placed at an advantage, and a breathing spell was provided which the American industry had wanted and which should have allowed the renewal of equipment or the reorganization that the industry needed. However, with the rise in price of Japanese electronic products, the American products also rose in price, almost as though the Americans were sliding their prices along with the Japanese. The result of this trend is clear: In spite of the determined efforts of the Japanese government and the central bank to attain a high yen currency exchange rate, American products seem to have merely ridden on the Japanese price escalator, so that the price differential was not much different from the time before the yen exchange rate changed. The advantage American products could have had was forfeited by the Americans themselves.

The profits accruing from the increased price of these American products could be used to improve quality and implement other production reforms. But if this is not done and the profits are merely distributed as dividends, then all the sacrifice made by Japan to achieve a high yen value would only result in raising prices for the American consumer, and the trade gap between the United States and Japan would not be affected. . . .

There is another matter that would cause serious damage to the world economy if it is mismanaged. That is the cumulative debts of the developing nations that has risen to \$850 billion by the end of 1984. The fact is that the problem is merely being postponed by delaying loan payments and providing additional loans.

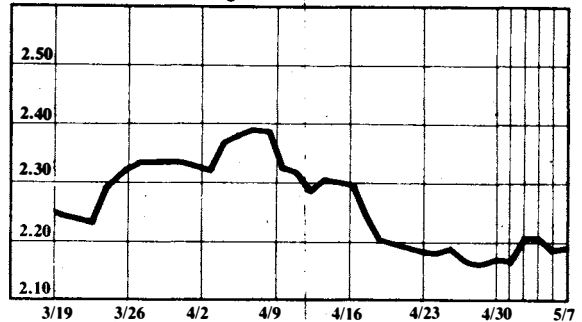
An objective view of the problem shows that the principal has hardly been paid, and the major portion of the interest is being paid in formality only through additional loans from the creditor nations. There seems to be no clear outlook for relief, let alone discovering a basic solution. Because this huge cumulative debt of the developing nations remains on the books, the debtor nations cannot carry out drastic economic reconstruction policies, the creditor nations on the other hand cannot extend long-term loans to the debtor nations for economic reconstruction, and a constant threat of impending instability hangs over the international financial system. . . .

No one can deny that the world economy cannot grow adequately without the growth of the developing nations. Has not the time come for us to consider some drastic policies that can shelve the present book values of loans, notwithstanding past history, and make the developing nations implement new and sound economic policies and help expand the world economy?

Currency Rates

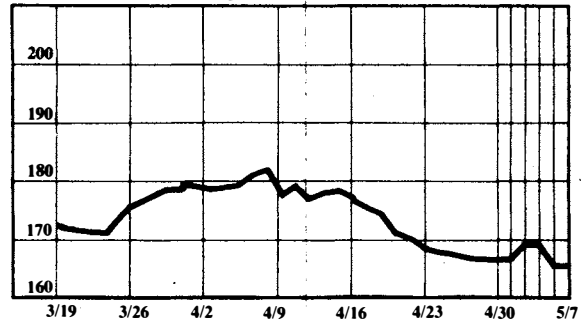
The dollar in deutschemarks

New York late afternoon fixing



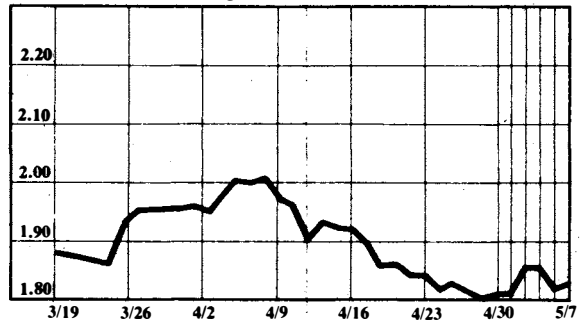
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

