



PRESS INFORMATION

WIDER

JAPAN URGED TO LEAD IN TACKLING INTERNATIONAL ECONOMIC PROBLEMS

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A Study Group of the World Institute for Development Economics Research (WIDER), the United Nations University's research and training centre in Helsinki, Finland, has issued the following report as a follow-up to the report "The Potential of the Japanese Surplus for World Economic Development" issued last April.

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Japan should play a major role in the international initiatives required now to deal with growing threats to the world economy. The Japanese authorities have already recognized that the country's external surplus gives it a special responsibility for adopting policies to help the international community overcome these dangers. But further action should be taken.

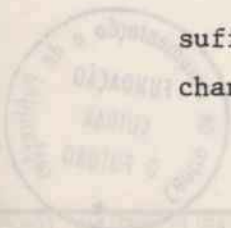
This action needs to be directed to tackling three outstanding issues:

- 1) First, the risk of further damaging exchange-rate swings, particularly between the dollar and the yen;
- 2) Secondly, the danger of an aggravation of debt-servicing difficulties;
- 3) Third, a sharp slowdown in the economic recovery of the industrialized countries this year, and the possibility of sustained deflationary pressure over the longer term.

In each of these fields, the Japanese authorities have recently taken welcome policy actions, or participated in joint actions in co-operation with others:

- in the first, Japan and the United States declared their intention of moderating further swings in the yen-dollar exchange rate;
- in the second, Finance Minister Kiichi Miyazawa stated at his speech to the annual meeting of the IMF and World Bank in September that Japan was willing to make a special subscription to the IMF of SDR 3.0 billion (\$3.6 billion) and discussions are also proceeding on a special contribution to the World Bank;
- thirdly, Japan has taken further action to boost domestic demand.

But the difficulties involved in raising Japan's domestic demand sufficiently to absorb all its savings internally, and the associated changes required in its industrial structure, have also become more



evident. The growth of unemployment in Japan is one sign of this. Even if further action to boost domestic demand were taken, it is unlikely that Japan's excess savings can be fully absorbed domestically.

All these problems could be greatly alleviated by appropriate use of the Japanese current account surplus for world economic development. This surplus is now viewed in a negative light - because it is associated with Japan's export drives and the problems caused in other industrial countries by Japan's super-competitiveness. Instead, the potential of the surplus for world economic development should be emphasized. Although Japan is in the best position to take the initiative, the principle that surpluses should be put to work for development applies also to other surplus countries, notably Germany.

Most of the capital outflow from Japan at present goes to the United States to purchase Treasury bonds, real estate, and other assets. If part of this money could be funneled to the developing countries, it would make a major contribution to development in Asia and elsewhere and ultimately to world economic growth.

A WIDER special report on "The Potential of the Japanese Surplus for World Economic Development" proposed last April that the Government of Japan establish a fund by contributing 0.1 per cent of Japanese GNP and invite other countries to join the fund with similar contributions. If this is done, it should be possible for the fund to act as a catalyst mobilizing private savings many times its own capitalization for the developing countries.

Subsequent to this report's publication, World Bank President Barber B. Conable indicated in an August 1 interview with Nihon Keizai Shimbun that he was very hopeful that Japan's massive trade surplus could be mobilized for development assistance and proposed the establishment of a special lending facility capitalized by Japan.

In these and other ways, it is expected that it should be possible to devise policies enabling Japanese savings and Japan's trade surplus to be used for stimulating economic growth in the Asia-Pacific region and the world at large.

For example, China's Seventh Five-year Plan (1986-90) calling for average per annum GNP growth of 7.5 per cent is expected to require \$40

billion in foreign exchange for attainment. Likewise, India's Seventh Five-year Plan (also 1986-90) calling for 5 per cent average per annum GNP growth will need \$18 billion in foreign exchange. Indonesian development is expected to cost \$2.5 billion in foreign exchange every year. All told, it is estimated that the Asian countries' total foreign exchange requirements are somewhat under \$20 billion a year. Since Japan's net long-term capital outflow was \$65 billion last year, it would not be impossible for Japan alone to supply all of the foreign exchange capital required. Japan should also make a significant contribution to easing the debt burden generally.

Various mechanisms are available and could be utilized to bring about such a re-direction of the flow of Japanese capital. Market-based mechanisms should be employed to the fullest possible extent. They need to be supplemented by an enlargement of the lending capacity of official institutions, notably the IMF and World Bank. For low-income countries, Japan should expand its official development assistance in the form of "soft" loans and grants through the multi-lateral institutions, as well as on a regional basis and bilaterally.

The World Bank should re-consider the case for the establishment of a Third Window, between "soft" IDA loans and normal IBRD lending. The World Bank should tap the large pool of Japanese savings and provide the security to Japanese investors offered by such an official institution. This could in turn require an enlargement of the present capital base of the World Bank.

By the adoption of such policies, Japan could in its own long-term interest greatly alleviate the debt problem and at the same time help ensure a co-operative outcome to present tensions in the world economy.

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NOTE TO EDITORS

WIDER is the economics research centre of the United Nations
University. It has been established with the support of the Government of
Finland.

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