

Can Japan Take Standpoint Promoting Establishment of Common Currency in East Asia ?

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1. Introduction

The economies of the nations of the world are being integrated by globalization. As such, Japan is required to contribute to the development of the world with contents adapted to the global era to maintain its important position in the world economy. Such a contribution is also significant for stably developing the Japanese economy itself, that is, increasing the degree of dependence on foreign countries while increasing in age and decreasing population.

Regarding this issue, whether Japan can work on the building of a stable international monetary system is considered, since the current single key currency system based on the dollar bears enormous risk of shaking the world economy as the current global financial crisis (subprime loan problem) is occurring while the United States continues to have a huge current account deficit.

Until now, Japan has worked on internationalizing the yen. The Council on Foreign Exchange and Other Transactions stated the following.

The dollar, euro, and yen support the world's three major economic regions. As such, the euro representing Europe and the yen as the principal Asian currency are in a position to complement the dollar. Such complementary arrangements can contribute to the establishment of a stable international monetary system supported by the sound economic policies of the United States, Euroland and Japan. (The Council on Foreign Exchange and Other Transactions, 1999)

However, the internationalization of the yen has not proceeded. In fact, it may be going backwards.

On the other hand, Japan has deepened its economic link with other countries in East Asia, and economic cooperation has developed. With due consideration of the potential ability of the East Asian economy, establishing a single common currency in East Asia that is neither the yen nor another country's currency, instead of promoting the internationalization of the yen, is one strategy.

Can Japan take the standpoint that promotes the establishment of a common currency in East Asia? The most difficult problem here seems to be whether a sense of belonging to East Asia can be instilled in the Japanese or not. For people, the currency must be a branch of the society that they belong to. The Japanese will not accept a common currency as long as such a sense does not exist. Is there some possibility that a sense of belonging to East Asia will exist in the future?

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2. Future perspectives of East Asian economy

First, I would like to explore the future direction of the East Asian economy, which is considered to now be at a turning point. The economy will change from an offshore demand-led one depending on exports to the United States to a regional demand-led one with China as the central figure.

(1) Expansion of offshore demand-led economy

After the mid-1980s, foreign direct investment increased in East Asia. First, foreign direct investment from Japan to Newly Industrializing Economies (NIEs) was increased. In this stage, series of transactions, namely, export of intermediate goods from Japan to NIEs, processing and assembling in NIEs, and export of the final goods from NIEs to the United States, were also increased.

Second, after the end of the 1980s, foreign direct investment from NIEs to China and ASEAN members (Malaysia, Thailand, Indonesia and the Philippines) was increased. In this stage, series of transactions, namely, export of intermediate goods from NIEs to China and ASEAN members, processing and assembling in China and ASEAN members, and export of the final goods from China and ASEAN members to the United States, were also increased.

Under these circumstances, the ratio of intraregional-trade rose in East Asia and the degree of dependence by Japan and NIEs on the economy of the United States declined. In 2005, the proportion of the amount of exports to the United States to the total amount of exports by Japan was around half what it was in the mid-1980s. In Korea, with regard to the destination of exports, the proportion to the United States and that to China and Hong Kong was reversed. However, for the whole of East Asia, the degree of dependence on the United States economy has not declined because that of China has increased. (Figs. 1, 2 and 3)

(2) Conversion to regional demand-led economy

Now, the third stage, in which China is the investment country, is being approached through the economic development of China. Foreign direct investment from China to her neighboring countries, such as new ASEAN members, will grow. In this stage, while exports from new ASEAN members to the United States are expected to increase, the degree of dependence of the whole of East Asia on the United States economy is expected to decline due to the drop of growth rate in exports from China to the United States. In addition, China, instead of the United States, is expected to absorb the production of other East Asian countries through her domestic demand-led economic development.

The above-mentioned domestic demand-led economic development in China is derived from the following three requirements for the Chinese economy.

The first requirement is the rectification of income differentials. Differing from that in Japan, the economic development in China has been led by the induction of foreign capital and exports. In this development, the expansion of industry has been limited. There are huge economic differences between the areas along the shore and the mid-west areas of China. Large-scale investment in public utilities, such as infrastructure construction, should be implemented in the mid-west areas.

The second requirement is the improvement of the quality of life in areas along

the shore, where high economic growth has been achieved. The demand in such fields as housing, facilities for the living environment, and environmental preservation is increasing in these areas; such demand increased rapidly after the end of the high economic growth period in Japan.

The third requirement is policy management suitable to the major economic power. China already has more than a five percent share of the world in GDP, while she has huge external imbalance. This percentage is almost the same as that of Japan at the beginning of the 1970s, when Japan's economy was recognized to have a strong influence on the world, through the collapse of the Bretton Woods System. (Japan expanded the amount of current account surplus. In contrast, the United States fell into the red.)

In East Asia, the economic development led by exporting to the United States started in Japan and spread to NIEs, ASEAN members, and China after the 1970s. This development is embarking on a new stage. Hereafter, the East Asian economy converting to a regional demand-led economy with the expansion of domestic demand in China as a core driving force is considered.

(3) Internationalization of RMB

While the link between the real economy of China and the other countries in East Asia will be deepened in such a way, China will carry forward the internationalization of the RMB as the major economic power contributing to the building of a stable international monetary system, as Japan of the past did, on the basis of the deepened link with other countries in East Asia. Will the international monetary system be rebuilt of three currencies: dollar, euro, and RMB?

Under such circumstances, can Japan take the standpoint promoting the establishment of a common currency in East Asia? Whether the standpoint is or is not taken must make the directions of Japan, East Asia, and the world extremely different.

3. Japanese economy at a great turning point

The course of the Japanese economy in the second half of the 20th century can be divided into four periods: postwar recovery (mid-1950s), high economic growth (beginning of the 1970s), stable economic growth (end of the 1980s), and a long extended slump (1990s).

(1) Gloomy view of the future

According to a public opinion poll on people's lives (Cabinet Office), the ratio of people who answered 'get better' as their perspective of future life generally exceeded that of people who answered 'get worse', from the starting year of the survey (1968) to the end of the 1980s. (Fig. 4)

However, the ratio of 'get worse' greatly exceeded that of 'get better' in 1974 when the Japanese economy was hit by the oil crisis. While the world economy suffered, people's lives were threatened by a rise in prices and a business recession. People recognized the difficulty of maintaining high economic growth. That was the exact turning point from the period of high economic growth to that of stable economic growth.

The ratio of 'get better' and that of 'get worse' was reversed again in 1994. In the 14 years since, the ratio of 'get worse' has exceeded that of 'get better'. The gap between the ratio of 'get worse' and that of 'get better' widened through the 1990s. Though this gap stabilized at the beginning of the 21st century when structural reform was implemented, the gap is currently widening again. The ratio of 'get worse' is in an increase trend, and it exceeded one-third in 2008. In contrast, the ratio of 'get better' is less than 10%.

(2) End of 20th century model economic development

The following two issues can be viewed as the fundamental background of such a situation in Japan.

One is that the Japanese-style economic system, under which banks, enterprises, and households were united under the leadership of a central government, collapsed under the development of globalization.

The 'convoy system', under which government regulation prevented weak banks from collapsing, stalled under globalization, and the Japanese-style economic system was drawn near to its end by the financial crisis at the end of the 1990s. The long-term relationship between bank and enterprise was broken, and Japanese-style employment practices, such as lifetime employment and wages based on seniority, were forced to change. Atypical employment increased, and the result-oriented system progressed. From the view-point of the household, the lifetime guarantee provided by enterprise has been lost. The household is now isolated in society because of being cut off from enterprise.

People's lives had been protected through the central government instructing and protecting the industrial circle (bank and enterprise). The central government also worked on redistributing income for elders and local areas (prefecture and municipality). However, these kinds of works by the central government stalled under the increasing influence of the market, which was brought about by globalization.

The other issue is that the population changed from increasing to decreasing. The working-age population peaked around 1995. In 2030, it is estimated to be about 80% of that in 2005. In contrast, the over-75 population is estimated to be doubling. The ratio that is calculated by dividing the 20-to-64-year-old population with the over-75 population will decline from 8.8 in 2000 to 2.8 in 2030. Concern about the sustainability of people in active service supporting the older generation is intensifying. (Figs. 5 and 6)

In the second half of the 20th century, Japan pursued the expansion of its economic scale and the improvement of its status in international society. The Japanese-style economic system led by the central government was the wisdom and the increase of population was the source of the power towards these goals. In addition, there was a feeling of security among the people due to their unification. There was also the physical abundance accompanied by the expansion of the economic scale and a feeling of achievement on the improvement of Japan's status in international society. While the integration of the world economy is progressing and the population of Japan is decreasing, such an economic development as mentioned above is not expected in the 21st century. Though the postwar Japanese economy itself is now embarking on a new stage, the people still can-not foresee it.

4. Revolution of Japanese economy and society

Then, what is the shape of the new period? First, improving the quality of life of individual citizens rather than expanding the economic scale led by the central government is expected to be a basic concept.

(1) Development of cooperation between citizens and municipal office

In fact, the transfer of administrative powers to local government is promoted, and in particular, the role of the municipalities, who are the closest local public entities for citizens, is emphasized. The annexation of small-scale municipalities has already been promoted, and the number of municipalities has almost halved.

In municipal offices, the cooperation between citizens and administration has been actively increased. In Toyama prefecture, all seven municipalities who newly decided on the comprehensive program for creating a community after 2005, which is the highest program of its kind, attached great importance to cooperation. In particular, in four municipalities, cooperation between citizens and administration was placed directly at the core of creating a community matching their concept of what they want the city to be like in the future.

Two things can be identified as the background of why the cooperation between citizens and administration is emphasized, on the basis of the comprehensive program of municipalities in Toyama prefecture.

One is that it has become difficult for the administration to singly bear the creation of a community, from the aspects of both quality and quantity. While the needs of citizens are diversified with the maturation of society, both national and local finances are in a serious situation. (Fig. 7)

The other is that citizens are taking a growing interest in creating a community to pursue the opportunity for self-realization. For example, specified nonprofit cooperation has increased rapidly, and social service action has expanded in various fields, such as welfare, child rearing, and environment. (Fig. 8)

(2) Movement toward society with self-reliant citizens as central figure

Naturally, as the cooperation between citizens and administration has only just begun to take shape, it holds various problems. For example, consensus on the role of the citizens has not been reached. The system for proposing a cooperative project from the administration side has not been constructed. The goal of the cooperation is unclear, and the method of evaluation has not been established. The formation of a project with a residents' association has not necessarily been implemented.

However, cooperation between citizens and administration is expected to advance noticeably in the future, taking account of the following situation in Japan.

At present, a number of people in Japan attach importance to spiritual richness rather than material affluence. According to a public opinion poll on people's lives (Cabinet Office), the ratio of people who attach importance to spiritual richness has exceeded that of people who attach importance to material affluence since 1979. The ratio of spiritual richness is in an increase trend, and it almost reached two-thirds in 2008. In contrast, the ratio of material affluence was around 30%. (Fig. 9)

The public services initiated by the central government can-not be prevented from being provided uniformly. Similarly, local public entities shall provide the standard services from the viewpoint of fairness. In general, the administration can-not respond well to the needs of spiritual richness, which vary among people. However, cooperation with the citizens makes it easier to provide the public services flexibly in accordance with individual circumstance and actual condition since the citizens, who could compensate for the weakness of the administration, also become pillars of the public services. Cooperation can be considered a significant method for fulfilling the need for spiritual richness. At the same time, spiritual richness, such as a feeling of achievement, can be experienced by the citizens who participate in the cooperation.

The cooperation between citizens and administration is expected to lead to a society with self-reliant citizens as the central figure, which is much different from the conventional one where initiative is taken by the central government.

(3) Safety net put up by central government

However, from the very nature of things, the cooperation between citizens and administration can-not necessarily solve all problems. With regard to the declining function of guarantees in society, caused by the collapse of the Japanese-style economic system and the declining birthrate and aging population, in other words, the decline of the feeling of security among people, there are a lot of things the central government has to do.

Actually, a number of non-regular employees in Japan lost their jobs and residences due to the recent global financial crisis. While some kinds of support were provided to the people by the municipalities and NPOs in accordance with the actual conditions of each area, it was strongly recognized that the current social security system was insufficient.

The central government is required to reconstruct the social security system as the safety net for a society driven by the above-mentioned cooperation.

(4) Backup by East Asia to raise vitality of Japanese economy

The vitality of the Japanese economy itself must be raised in improving the quality of life of individual citizens, including the achievement of spiritual richness and the rise of the feeling of security mentioned above.

With regard to this point, the Japanese economy is necessary for achieving a gender-equal society and for promoting the social participation of aged people. At the same time, under globalization, the economic link is expected to deepen with other countries in East Asia, who have been developing rapidly.

The following two points are significant. One is related to the increase of productivity in Japan. The implementation of the division of work with other East Asian countries, the promotion of direct investment into Japan, and the obtainment of human resources are significant. To this end, the Economic Partnership Agreement with other countries in East Asia has been implemented.

The other is related to the generational confrontation caused by the declining birthrate and aging population. Financial asset management in East Asia, where a high rate of return on investments is anticipated, can be expected to mitigate the confrontation. Financial

cooperation with other countries in East Asia has also progressed.

In addition to these points, the export of agricultural products to East Asia and the invitation of sightseers from neighboring countries have become agendas in local areas.

Japan shall deepen its economic link with other countries in East Asia to raise the vitality. East Asia will become the backup for the Japanese economy. And, stability of the exchange rate with other East Asian countries will be the key issue in Japan.

5. Appearance of new multilayered society in Japan

In the past, the central government was significant in the pursuit of the economy of scale by unifying the people. The multilayered society imagined by the people, which they belonged to, was namely the nation at the top of all. Prefectures, municipalities, and citizens were placed below the nation in order. It was very difficult for East Asia to be placed in such a multilayered society. Is East Asia placed above the nation? Or, is she placed below the citizens?

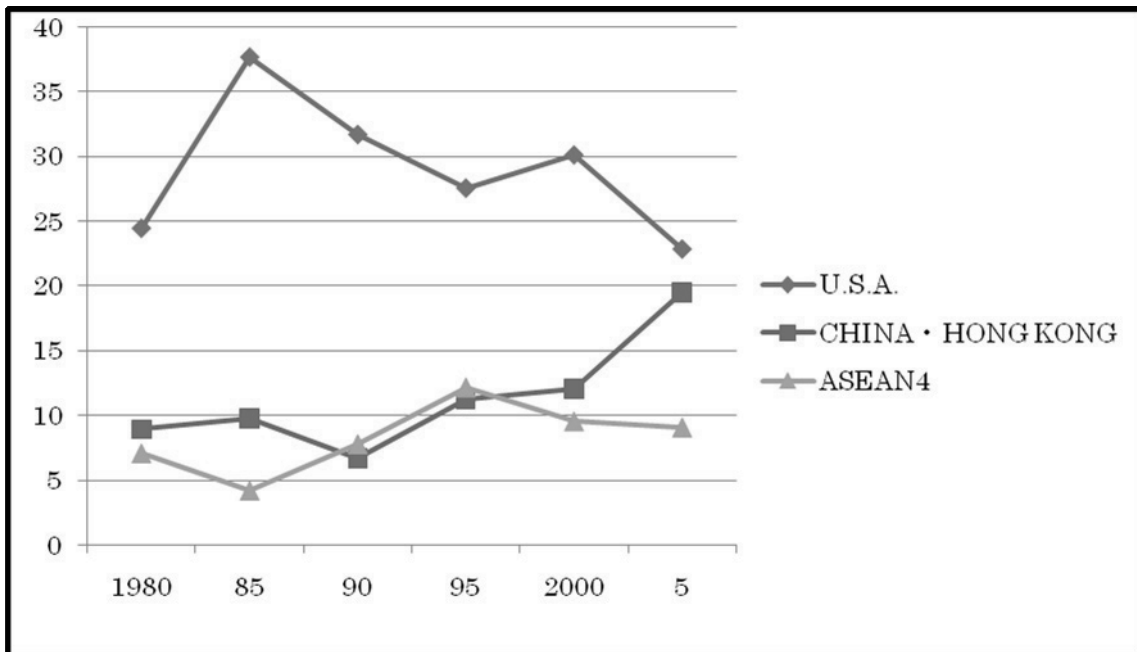
However, the following composition based on the above is expected to form in the future. Namely, it will include 1) a society with self-reliant citizens as the central figure started by the cooperation between citizens and municipal office, 2) a safety net for the society provided by the central government, and 3) backup by East Asia to raise the vitality of the Japanese economy.

Under this composition, the multilayered society imagined by the people will be changed to the following. The citizens are placed at the top of all, and the municipalities, prefectures, and nation are placed below the citizens in order. East Asia can be easily placed in such a multilayered society, namely, below the nation.

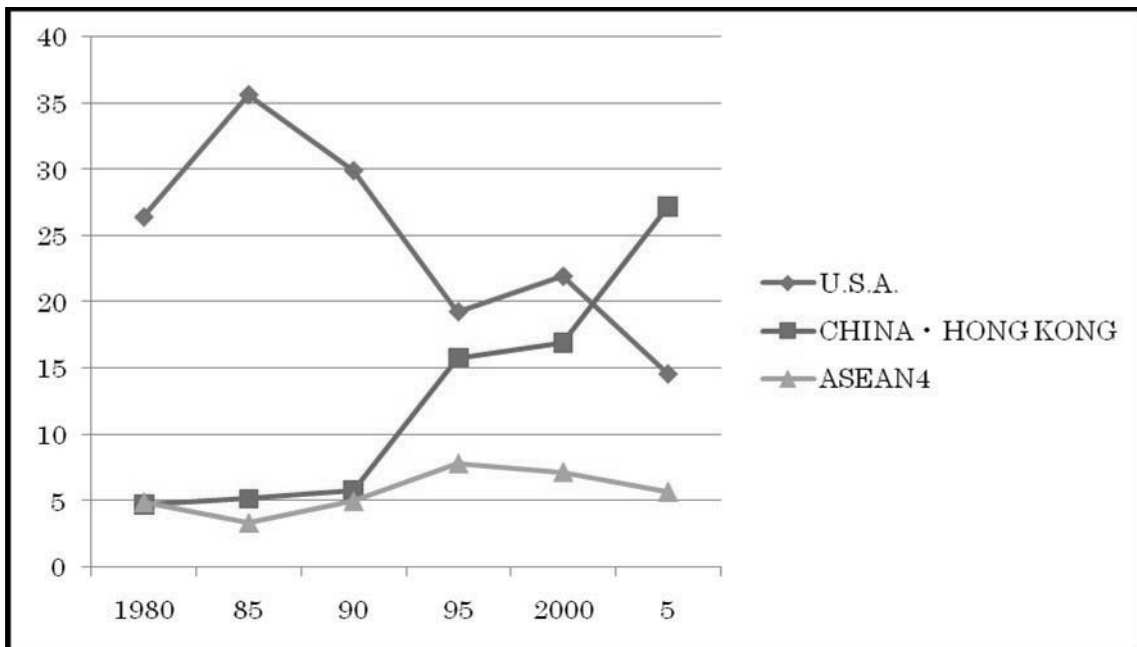
In this situation, the sense of belonging to East Asia (East Asia as part of the multilayered society) could be elicited under the expansion of the exchange of people in East Asia. Taking the standpoint that promotes the establishment of a common currency in East Asia is considered not necessarily impossible.

The leadership taken by Japan in establishing a common currency should be provided on the basis of the above-mentioned concepts.

In addition, the progress of Japan mentioned in this article can be considered a good guide for China since she will confront a decreasing population and rapid aging in the near future. (Figs. 10 and 11)

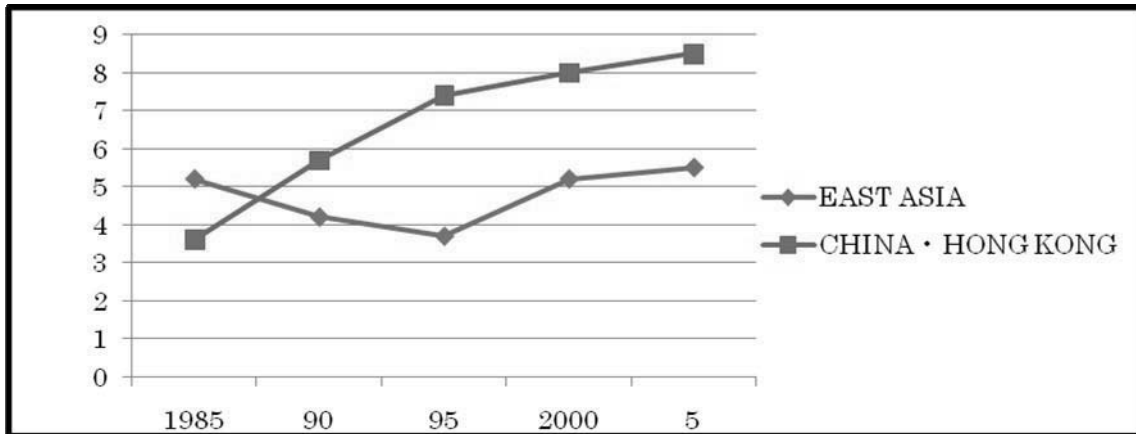
[Fig. 1] Destination of exports from Japan (%)

(Source) IMF, Direction of Trade Statistics YEARBOOK (1983, 1988, 1993, 1998, 2006)

[Fig. 2] Destination of exports from Korea (%)

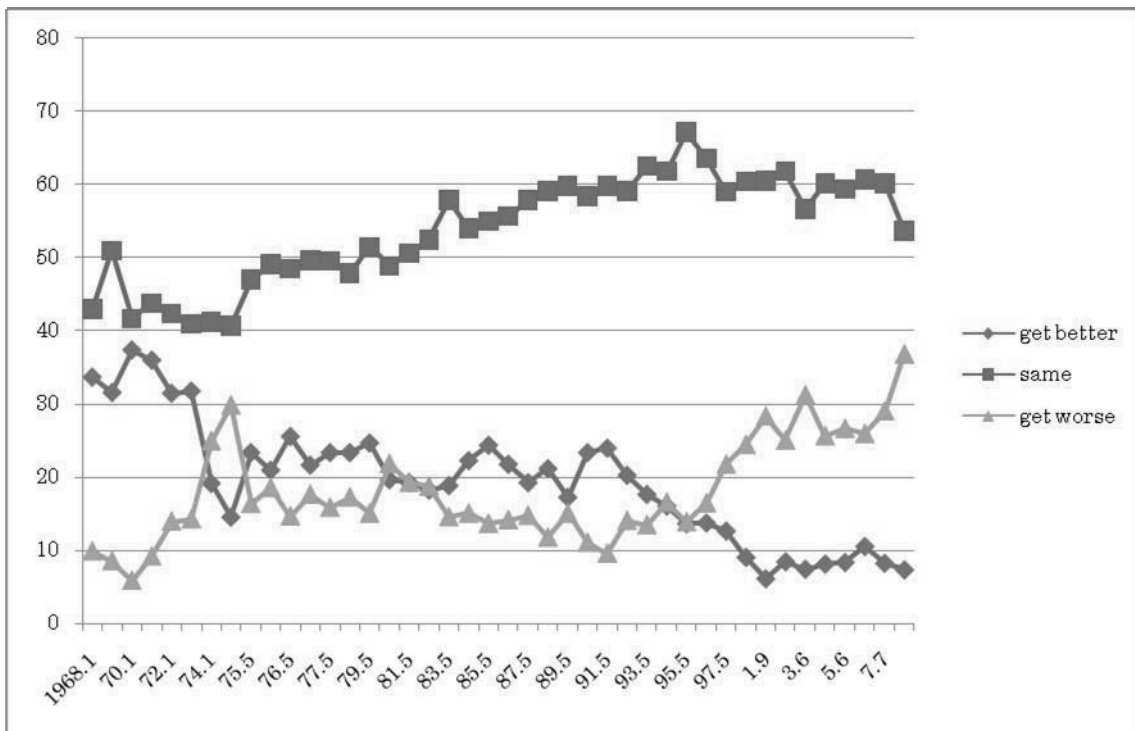
(Source) IMF, Direction of Trade Statistics YEARBOOK (1983, 1988, 1993, 1998, 2006)

[Fig. 3] Ratio of amount of export to USA to GDP (%)



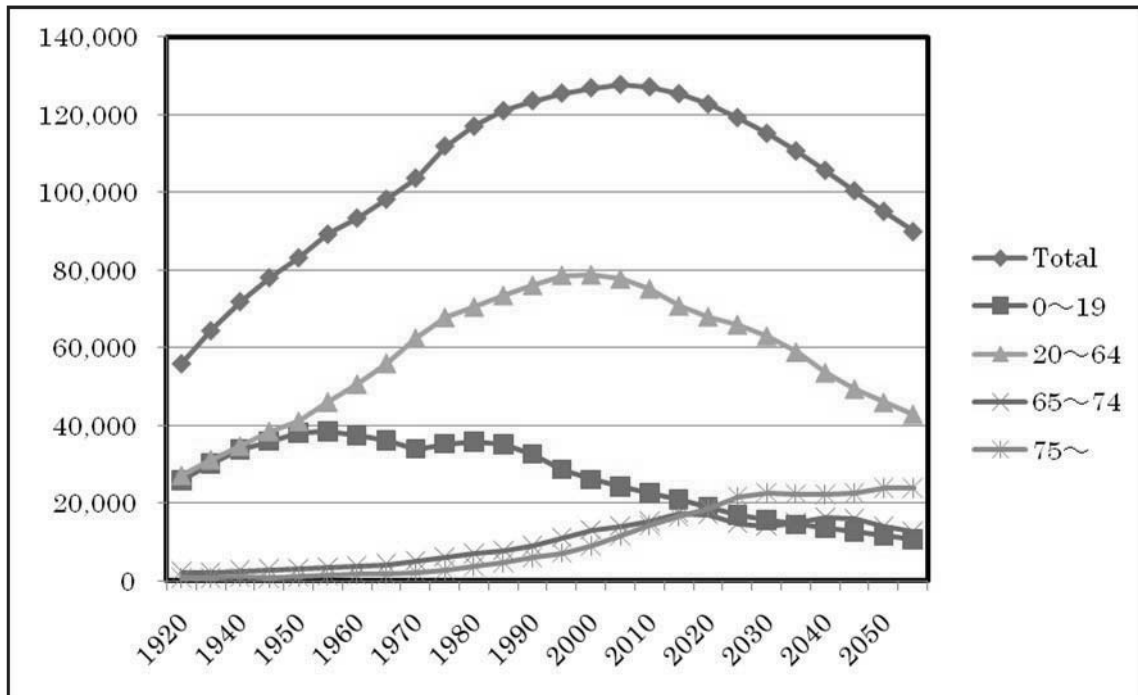
(Source) IMF, Direction of Trade Statistics YEARBOOK (1983, 1988, 1993, 1998, 2006)
 Statistics Bureau, Ministry of Internal Affairs and Communications, Statistical Handbook of World (1994, 1995, 2004, 2006, 2007)

[Fig.4] Perspective on future life (%)



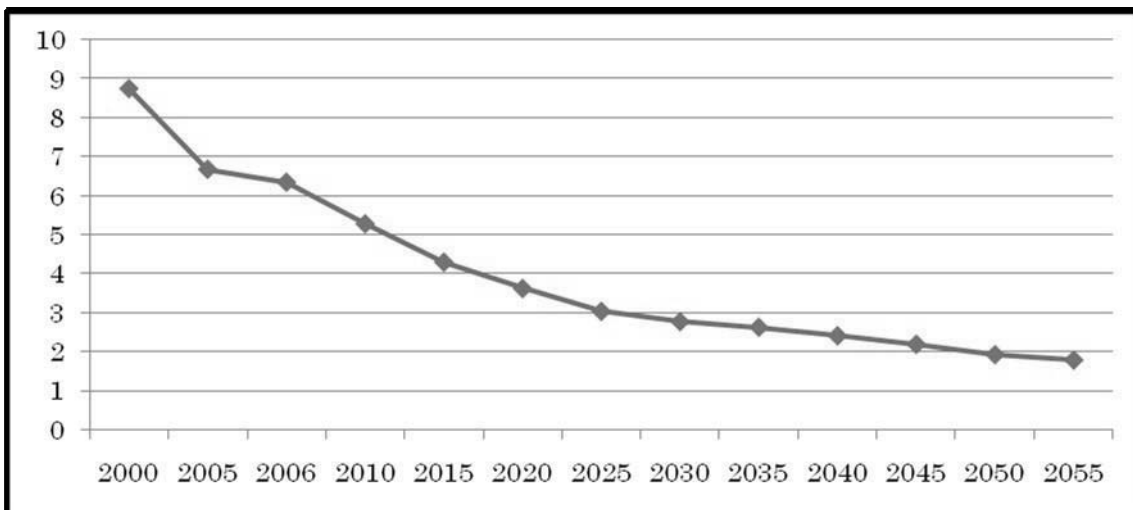
(Source) Cabinet Office, Public Opinion Poll on People's Lives

[Fig.5] Population of Japan (thousands)



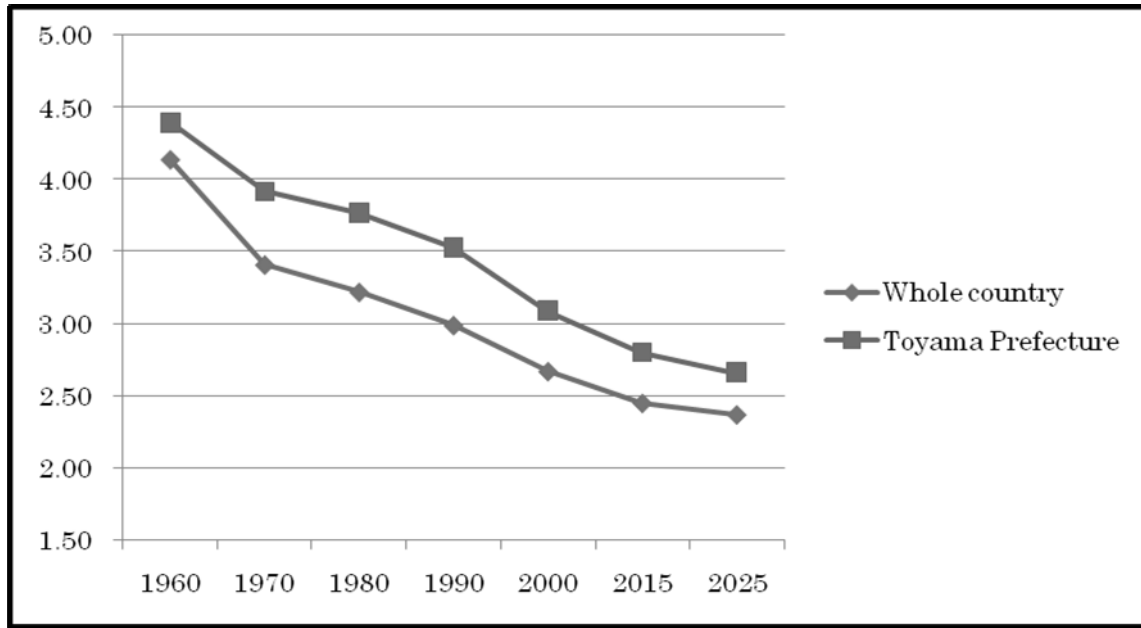
(Source) National Institute of Population and Social Security Research, Population Statistics of Japan 2008

[Fig. 6] Ratio of 20-to-64 year-old population to over-75 population



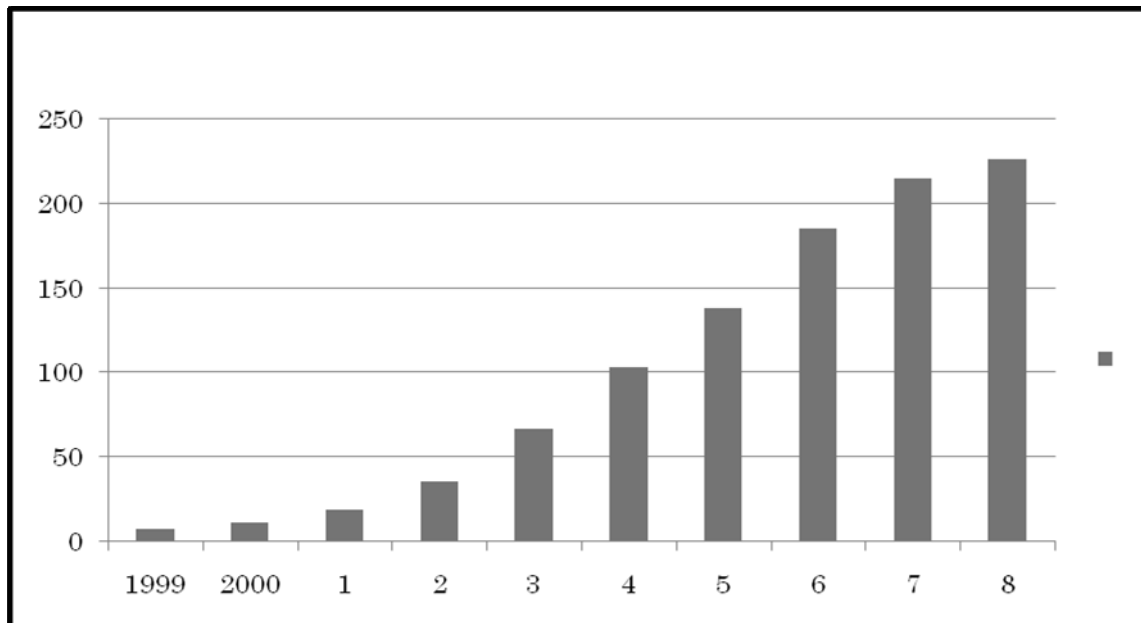
(Source) National Institute of Population and Social Security Research, Population Statistics of Japan 2008

[Fig. 7] Mean number of household members (persons)



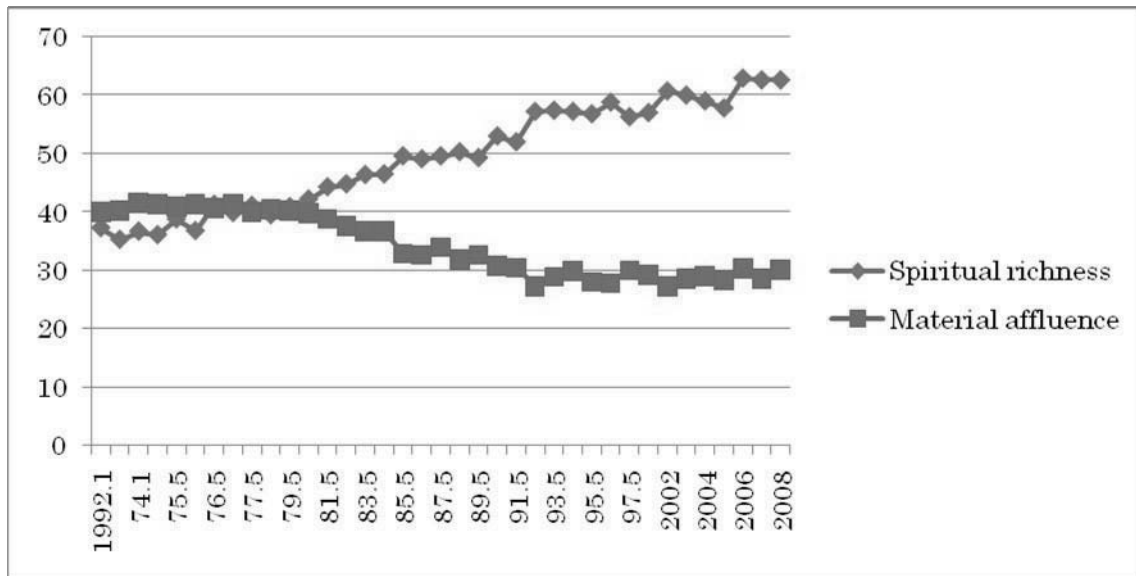
(Source) National Institute of Population and Social Security Research, Population Statistics of Japan 2008

[Fig.8] Number of Specified Nonprofit Corporations in Toyama Prefecture



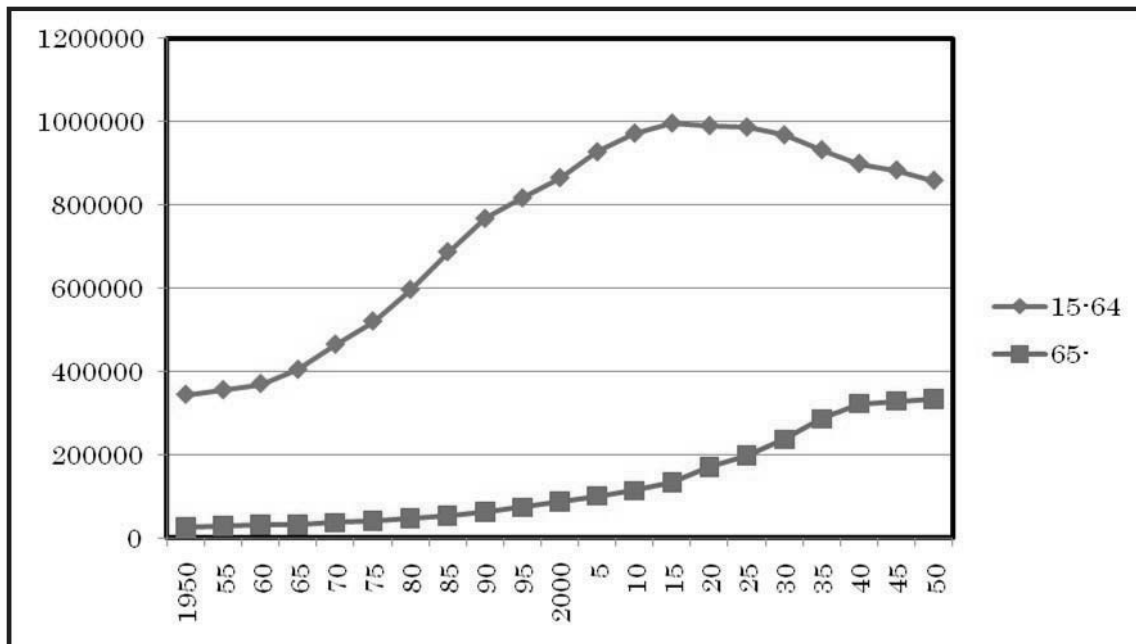
(Source) Toyama Prefecture

[Fig.9] Priority given to spiritual richness and material affluence (%)



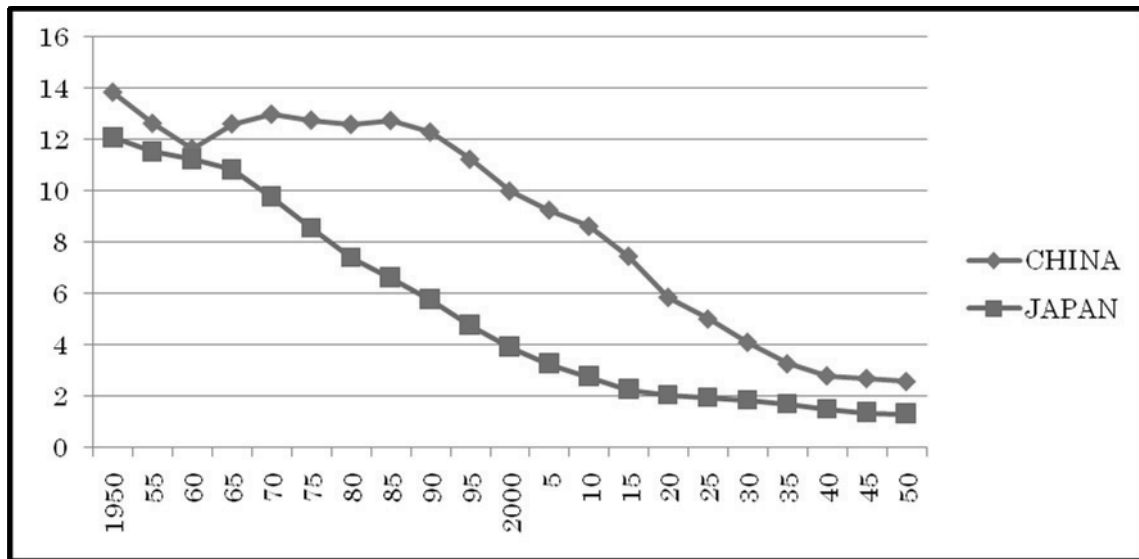
(Source) Cabinet Office, Public Opinion Poll on the People's Life

[Fig. 10] Working-age population and elderly population in China (thousands)



(Source) United Nations, Population Division, World Population Prospects: The 2006 Revision

[Fig.11] Ratio of working-age population to elderly population



(Source) National Institute of Population and Social Security Research, Population Statistics of Japan 2008

United Nations, Population Division, World Population Prospects: The 2006 Revision

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