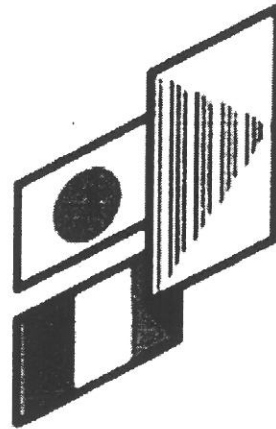


**ITALY-JAPAN
BUSINESS
GROUP**



XII Assemblea Plenaria
13 febbraio 2001

intervento

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Speech for the Japan – Italy Business Group Conference

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1. The Current Condition of the Japanese Economy

The Japanese economy underwent a series of financial crises as a result of misjudging the Asian currency crises of 1997 and the state of the domestic economy. It experienced negative growth of -0.6% in 1998. However, judging from the 1.4% growth in 1999 and the prospect of 1.2% growth this year, we can say that the economy is in a state of mild recovery on the whole.

(While the base for statistics is shifted to SNA93 last year, the standard year was also changed from 1990 to 1995 with the result that the figures differ from those released before, so 1998: -1.9% and 1999: 0.3%.)

The Japanese economy in the 1990s was generally sluggish with the bursting of the bubble economy; those days can be characterized as the time when we were preoccupied with the restructuring of corporations and the settling of bad debts, for the financial situation was aggravated by the downturn in the prices of such assets as shares and land, and by the pressure of excess capacity. It was after the onset of the financial crises that a comprehensive process for tackling these problems was instituted at either government level or at corporate level. In that sense, although the Japanese economy has weathered a crises, the problems of corporate restructuring and bad debts are still only half settled, which is why Japan's economy is not yet on the path to dynamic recovery.

I would like to explain this current condition in more detail.

Examining last year on a quarterly basis, although growth was 1.3% from April to June, and 1.5% from July to September, it still remained slightly sluggish subsequently. Therefore the government has to acknowledge that Japan's economy has not yet emerged from crisis, that is to say:

2. Bankruptcy proceedings are still at a high level with an increase in large-scale bankruptcy.
3. The unemployment situation is still severe, standing at 4.8%, which is high for Japan. But in that the numbers of new job openings and employees are showing a tendency to increase, signs of improvement can be recognized.
4. Although individual income has improved slightly, individual expenditure remains at the same level.
5. Government expenditure hitherto aimed at propping up the economy is now being reined in

because of Japan's financial standing.

On the other hand, encouraging signs can still be discerned.

6. Corporate profits have shown a reasonable improvement, and business confidence has begun to recover.
7. Although mining and industrial output had declined somewhat recently, it has just begun to increase again.
8. A 3.8% increase in private business investment is expected, especially in the field of IT, which will act as a bellwether for general business investment.

If this is so, it will bring in its wake an increase in employment in private enterprise and an increase of income; it is hoped that private consumption and business investment rather than government expenditure will stimulate the economy.

According to government forecasts, the economic growth rate for next year is expected to be 1.7%, but this figure depends on the American economy accomplishing a soft landing and growth of 3.4%. We should observe the trend in the American economy, which has slowed down since the latter half of last year.

This recent slowing in American economic growth was reflected in the plunge in the Nasdaq index, a large part of which is concerned with IT stock, and which has had a considerable adverse effect on Japan's stock market. The average Nikkei share price of 225 companies reached its lowest point in January since the onset of the financial crisis. Although the market has slightly recovered recently, there is marked concern that the recent tendency to sell off cross buying share holdings by the time of the closing of the fiscal year in the coming March will depress the stock market. At the same time, we need to pay attention to the fact that the figure is lower than last year because the indexed companies changed last April.

These falls in share prices will worsen the balance sheet. The International Accounting Standard turns on current value accounting and consolidated accounts and will also take into account an allowance for retirement provision. Although I regard actual business movements as most important, rather than the figures on the balance sheet, I am concerned that a situation will arise in which the aggravation of the balance sheet will dampen actual business.

It can help by saying that a 1.7% growth rate for next year is still low by the standards of the EU's growth prospects, but given the approaching restructuring of corporations and the continuing settling of bad debts, it cannot be helped. Improvements in and reinforcement of the micro-economy together with more deregulation and restructuring will lead to a dynamic development of

the macro-economy.

Still, consumer prices marked a fall of 1% last year in spite of the appreciation in oil prices. This is mostly due to the influx of low-end products such as textile goods and electrical goods from Asian countries, especially China. It seems that this influence will prove to be actually much greater than the official statistics indicate.

The textile industries in Japan suffered greatly because of this, therefore Japan, which has been substantially the only country amongst the advanced countries that takes negative view against such measures to curb imports as imposing duties on dumping, is now considering seriously application of import-regulating measures. The decrease in the export of textile products from Italy to Japan seems to be a result of that.

As for the behavior of the Japanese consumer, there is a clear trend towards polarization, with the buying of low-end products and also of luxury goods.

Now, as for the influence of oil prices, it has not presented such a big problem in Japan. The cost of imported crude oil and oil products increased 56% last year compared with the previous year, but that accounted for only 14% of the whole value of imports to Japan. The price of petrol rose by 10 to 20%, but I don't find this significant.

By the way, the future of Japan's economy involves the disposition of 642 trillion yen (5.5 trillion dollars) of public debt, which is 129% of the annual GDP. Certainly, although an increase in public debt is expected in future, and could prove to be a great problem, there is no question of default because Japan does not rely on debt from overseas as does America, and there is over three hundred and sixty billion dollars worth of foreign currency reserves, and over 10 trillion in individual financial assets. However, there could be fear of restrictions in financial policy in future.

9. Present Situation of Trade and Capital Investment.

Here I would like to explain the situation of trade and capital investment in Japan.

- 3) Exports from Japan increased by 15% on a dollar basis last year. Although exports to EU countries other than Italy increased only by 6%, which is poor, exports to Italy showed a favorable increase of 15%. The main items to show an increase were chemical products, hardware and related products involving such electrical equipment as telecommunication equipment and visual equipment.
10. On the other hand, imports to Japan showed a 23% increase overall, 10% from other EU countries, but only 6% from Italy. A marked influence from low-end products from China,

which accounted for a quarter of the fall in the overall export of textiles from Italy, seems to be the reason why imports from Italy were cut back.

It is worth mentioning that an 19% increase in the export of such machinery as scientific and optical apparatus and office appliances and an 8% increase in chemical products represents a decline from the 27% increase of last year. The percentage of machinery and chemical products still stands at 32%. Products exported from Italy incline towards traditional arts and crafts. There is an outstanding machinery industry in Italy, therefore an increase in trade will be expected in the high-technology field and information-related field in future. Such high quality fashion goods as handbags, accessories and leather clothes are still making a fair showing.

5) I would like to explain next the situation with regard to Japan's external direct investment.

In the 1999 fiscal year (the term "fiscal year" means the twelve months from April 1st to March 31st in the following year), we recognized a 7% increase in transactions and a 64% increase in the value of Japan's external direct investment according to a report by the Department of the Treasury. It is worth mentioning that investment in the EU increased by 33% in the number in transactions, and by 82% in value, comprising 487 transactions in all and amounting to twenty five billion and two hundred million dollars, surpassing that of America and accounting for 40% of the whole of external direct investment. There was a 27% increase even last year when investment in Japan declined, as a result of Japanese reconfiguration and the strengthening of Japan's foothold in the EU market in anticipation of the launching of the Euro.

Since then, although during the six months from April to September last year, external investment by Japan increased by 16% compared with the corresponding period of the previous year, the actual value decreased by 44%. Although transactions increased 2.2 fold, monetary value decreased by 38%. This arose from a few large investments in the first half of the year 2000, but it seems that interest in investment in the EU is still strong.

Given these circumstances, it is most disappointing to find that investment in Italy consisted of only 6 transactions involving forty seven million dollars in 1999, and also only 2 transactions of forty seven million dollars in the first half of the year 2000. Later there will be a speech about investment exchange but a thorough study of this issue will be needed.

11. Recently, the amount of direct investment in Japan has doubled every year; the ratio of external to domestic investment was 10 to 1 in 1997, but 3 to 1 by 1999. In particular such massive proposals as Renault buying into Nissan have increased, with investment from the EU accounting for 57% of the whole of the direct investment in Japan. Lately there has been active investment in such fields as automobile industries, telecommunications, finance, insurance and distribution.

Various measures of deregulation, the organizing of systems related to M&A, the

introduction of international accounting standard and the tackling of problems of restructuring and reconfiguration of Japanese enterprises as well as the fall in land and share prices have given rise to an environment in which overseas enterprises can readily invest, as is shown by the course of investment in Japan in recent years.

It was confirmed that this system would present no great obstacle at the discussions during the symposium which JETRO held in collaboration with MITI, the American Chamber of Commerce in Japan and the State Department. Actually, direct investment from America greatly increased in the first half of the year 2000.

12. Prospects for the relationship between Japan and Italy.

In this part I would like to touch on the future cooperative relationship between Japan and Europe, and Japan and Italy.

I think it is necessary that Japan and Italy construct a cooperative relationship to deal with various problems as partners shouldering responsibility for humanity's future in the 21st century.

There are so many mutual problems between Japan and Europe, for example the issue of constructing international rules and regulations, structural reforms, the response to globalization, the problems of an aging society, problems of energy and the environment, the problems of developing high technology, IT problems and education problems. It is necessary for Japan to tackle these problems in collaboration with Europe.

I would now like to mention some of these particular problems.

First, the problem of constructing international rules and regulations, Nowadays, the world is evolving towards globalization, as well as what is called Americanization. The market economy and liberalization are unavoidable and possess much justification. However, it cannot be said that the best way to bring happiness to the peoples of the world lies in a decision to entrust all to American style liberalism, market economy absolutism and the law of the jungle. It is desirable that Japan and Europe cooperate to correct extravagant behavior and to seek out the construction of more suitable systems because Japan and the European countries share comparatively mutual social backgrounds and tend to agree concerning these problems.

There are many problems in different fields starting with the problems of world trade regulations as stipulated by the WTO, such as intellectual property rights, commerce and other IT related regulations, various standards and Mutual Recognition Agreements (MRA) and GM issues.

As for WTO, I think Japan and Europe should take the initiative in putting forward matters of concern and interest to developing countries and in setting up frameworks to consider how those countries might benefit, while a cooperation to establish a new Round within the year is also

required.

By the way, although not participating in the conventional bilateral Free Trade Agreement (FTA) and the associated regional integration, Japan has been insisting on negotiations at multiple places not excluding non-member nations. But in actual fact Japan, Korea, China and Taiwan are the only countries not to have attended the bilateral and regional agreements between major nations. In recent years, the Japanese government has changed its conventional line and has admitted that the FTA supplements the multiple agreements and the influences which promote liberalization and has come to grapple with the bilateral FTA negotiation in a more positive manner. Indeed it has already started negotiations with Singapore. In this sense, the experience of the EU, which has concluded free trade agreements with many countries such as the states of Eastern Europe and Mexico, could provide valuable guidelines.

The recent cooperation between Japan and Europe has extended to similar cooperation between East Asia and Europe. ASEM was established in 1996 as a place for consultation in order to construct close-knit and equal political, economic and cultural relations between ASEAN and the three East Asian countries of Japan, Korea and China and the EU. Regular meetings have been held. JETRO also set up the "ABIAN conference" forum attended by well-informed independent personalities in Asia and Europe in collaboration with the IMD (International Institute for Management Development), whose headquarters are in Switzerland. The last conference was held in conjunction with the ASEM meeting held in October last year.

It is expected the relationship between Asia and Europe will be reinforced on various occasions in future.

Secondly, along with the progress of globalization, business in both Japan and Europe is compelled to accommodate the international regulations for promoting competition. Business must also work on restructuring leading to enhanced competitiveness and global business tie-ups.

Deregulation is rapidly advancing in such fields of public service as telecommunications, electricity and gas, and finance and insurance and distribution which have been regulated severely hitherto, thus delaying rationalization. At the same time, improvements in balance sheets are required by the introduction of international accounting standards. Furthermore, the development of an environment in which related legal systems involving corporation breakups, partition, share holding companies and resuscitation, all to make business restructuring and tie-ups easier by introduction of stock options, was furthered. Japan is making basic changes in institutions and in business practices. There are active tie-ups beyond conventional customer groups and capital relationships.

Here exist many mutual problems to be overcome by Japan and Italy, but it means that there are

many business chances. Much advantage may be derived from Japanese enterprises, which excel at "hard business", and Italian enterprises, which excel at "soft business", supplementing each other and cooperating.

Thirdly, to mention work being done on the problems of an aging population, I heard that the percentage of the Italian population over 65 years old is 17%, the highest after Sweden. But in Japan the figure is practically the same, and is expected to exceed that of Italy in the near future. It is calculated that the population over 65 years old will be some 27% of the whole population by the year 2025. About half of the elderly in Japan are living with their children; I hear that in Italy the rate is higher than in Japan. I think Japan and Italy, which share a similar plight, could learn from each other and find better solutions.

"A Global Aging Initiative Policy Conference" was held as proposed by the CSIS (i.e. the Committee of Strategic and International Studies) in cooperation with JETRO. Hashimoto, a former Prime Minister of Japan and Peer, a former Governor of the German Bundesbank and Mondale, a former American Vice President, served as co-chairmen. The manifold talents of these three participants were deployed in this forum in discussing the problem from various points of view. The second conference was held in Zurich in Switzerland on January 23rd and 24th last year. His Excellency Dini, Italian Foreign Minister, who is also present today, gave the keynote speech. It is planned to hold the final conference of this forum in Japan at the end of August.

The problem of an aging population will prove a restraining factor in matters of economic growth, and cause the accretion of such financial burdens as pension and medical welfare. This is the problem bearing on all social fields including markets, energy and security.

Opinions on reforms in the pension system, raising the age of retirement, problems of manpower related to the elderly and to women, the introduction of immigrants, businesses related to the elderly, the influence of the progress in medical technology and forecasts of the speed of advances in aging were aired at the previous conference.

As these problems are unavoidable for all countries when their futures are considered. I think it is necessary for us to put our heads together since none of these encroaching problems can be avoided by any of our countries.

I have raised many mutual problems, but there are many others which require cooperative efforts by Japan and Europe, and Japan and Italy. Let's strive to make the world of the 21st century more prosperous and to create a more egalitarian society by the general cooperation of industry, government and academy of both Italy and Japan.

Lastly, it is proposed that the next Japan-Italy Business Group Meeting be held in Japan. Moreover, 2001 is the "Japan-Italy 21st Century Incentive" year.

Although there will be many cultural events, I think there will be fewer occasions for economic exchanges. In the sincere hope that a large Italian delegation will come to the next conference with the intention of planning occasions for business exchanges between Japan and Italy, I would like to conclude my speech.