【研究論文】

The Global Repercussions of Crises Triggered by U.S. Financial Crisis and the Role of Japanese Economy

― A Proposal of the "Structural Expansion of Domestic Demand" ―

Yasuhiko Ebina Ph.D

Preface

A huge global money shifted from the U.S. dollar to two directions consisting of Euro partially and primary products partially on the background of the depression of the U.S. economy and the decrease of the U.S. dollar position. But there were two dangers in the new global money flow. The first danger was the securitization including a "securitalization of sub-prime loans"― namely a securing of debts according to a blind belief of market mechanism ― inevitably accompanied by the moratorium of bonds issues not only in the U.S.A. but also in the Europe. The second one was the globalization of primary products business in which there is a lack of ethics and rules being inevitable in the globalization even on the base of the market mechanism.

Moreover there is a possibility of the repercussion of crises on a global level which should be defined as the "global repercussion of crises"― namely, the global depression inevitably combining in the economic crisis"― due to U.S. financial crisis (Note 1).

By the way, there were some trials to control against the financial crisis as a trigger of the repercussion. Firstly there are global trials consisting of four main trials. First one was the synchronization of main financial policies in each country especially in the U.S.A., EU countries and Japan. Second one is the cooperation of watching main financial institutions including mega-banks and big securities firms in the world which had been proposed by FSF (Financial Stability Forum) and agreed by the main countries at the G 7 meeting on April 11th 2008. Third one was the trial to create the CDS (Credit Default Swap) clearance system (Note 2) among mega-banks and big securities firms being supported by the cooperation of governments in the world especially in Europe and the U.S.A. which aimed to protect dealings accompanied by credit risks. Fourth one was the building of the public financial infrastructure on the base of a globe as the "new order" expected to substitute for the "old order" namely Bretton Woods system which was built by the initiative of only two Anglo-Saxon hegemonies consisting of U.S.A. and U.K. as the "post world war Ⅱ order in the world economy".

Secondly there were some trials in Asia, too. On May 5th 2008, Korea, China and Japan agreed to form Asian FSF to watch main financial institutions in Asia. And ASEAN＋3 (Korea・China・Japan) have agreed to form new "Chiengmai Initiative" aiming for AMF (Asian Monetary Fund) on the basis of the donation of about 80 billion U.S. dollars (Note 3).

But we have to say that it is never enough to exert control against the financial crisis, which is accompanied by such a dangerous characteristic. This is because if there are not enough appropriate policies in each country to support and cover such global cooperation, global cooperation will immediatly be overwhelmed by huge attacks of global money flow speculation accompanied by a surge of steep inflation due to the global repercussion of crises.

So, let's take up Japanese policy as a case study to build national policies aiming at the wrestling with a possibility of the global reperecussion of crises, focusing on the change from present economic policy over-depending on the Yen depreciation to new economic policy namely the "structural expansion of domestic demand" accompanied by the Yen appreciation expected to contribute to the formation of the "alternative" (Note 4), The aim of this article is a study of this issue.

The construction of this article is as follows

Ⅰ. The global money flow

Ⅱ. The position of currencies especially the U.S. Dollar in the world

Ⅲ. A shift from the huge credit creation in the U.S.A. to U.S. financial crisis

Ⅳ. A direction of Japanese economy under a possibility of the global repercussion of crises

(Note 1) The financial crisis which is now underway should be defined as a "systematic crisis" in financial systems especially U.S. financial system (Refer to Chapter I [Note 2]). But we should not neglect the point that there is a danger in which this crisis has a possibility of the shift from the crisis of the financial system to the crisis of economic system itself especially U.S. economic system on the whole due to the taking-over of huge amount of debt bonds — the amount of debt bonds reaches at least 700 billion U.S. dollars [*1] of which will be re-taken over as a part of Japanese foreign reserves by Japanese government [*2] — by U.S. government itself on October 3rd 2008, nevertheless U.S. government is facing a danger of the "U.S. dollar sliding" owing to twin deficits consisting of the current account deficit (738. 6 billion U.S. dollars in 2007 resulting in the net accumulated debt of 2, 500 billion U.S. dollars at the end of 2006) and the budget deficit (454. 8 billion U.S. dollars in 2008 fiscal year [from October in 2007 to September in 2008][*3]). As a result, IMF predicts that the real growth rate of advanced countries in 2009 will decrease steeply. For instance the real growth rate of U.S.A. will decrease from 1. 4% in 2008 to －1. 6% in 2009, that of Euro zone will decrease from 1.2% in 2008 to −2.0% in 2009 and that of Japan will decrease from 0.5% in 2008 to −2.6% in 2009 with the result that the real growth rate of advanced countries will decrease rapidly in 2009 (Refer to Nihonkeizai Shinbun January 29th 2009). By the way, IMF predicts that the real growth rate of emerging countries will decrease steeply from 6.6% in 2008 to −2.0% in 2009 (in emerging countries, that of China will 6.7%, that of India will be 5.1% and that of Russia will be −0.7%) with the result that the real growth rate of the world economy will decrease from 3.7% in 2008 to 0.5% in 2009 (Refer to Ibid).

[*1] The total amount of money which U.S. government and FRB (Federal Reserve Board) spent as the cost of guard against U.S. financial crisis is estimated as 8,000 billion U.S. dollars (except unlimited lending by FRB) being equal to about 60% of U.S. GDP and 1.5 times of Japanese GDP even in the short term from March 16th (the day of the deadlock of Bear Stearns) to the end of November in 2008 (Refer to Nihonkeizai Shinbun November 27th 2008).

[*2] The amount of offshore holdings of U.S. gormament bonds reached to 2,860.5 billion U.S. dollars at the end of September 2008 (Refer to Nihonkeizai Shinbun December 16th 2008). Among offshore holders, Japan is the second holder of U.S. government bonds in the world. The amount of U.S. government bonds which is held by Japanese government has already reached 573.2 billion U.S. dollars (share; 14.8%) at the same time (Refer to Asahi Shinbun November 19th 2008). Ironically, most biggest holder of U.S. government bonds is China which holds 585.0 billion U.S. dollars (share ; 15.2%) at the same time (Refer to Ibid), whereas China does not have so familiar relationship with U.S.A. like Japan. Nevertheless, we should anyway take note of the fact that China and Japan, both of which are Asian main countries, have U.S. government bonds 1,158.2 billion U.S. dollars all together with the result that the share of both country's holdings of overseas U.S. government bonds reaches 40.5% at the same time.

[*3] It is predicted that the amount of the budget deficit will reach 1,186.0 billion U.S. dollars in 2009 fiscal year (See Asahi Sinbun January 1st 2009).

(Note 2) Refer to Nihonkeizai Shinbun November 1st 2008.

(Note 3) A design of AMF has a relationship with monetary cooperation in Asian Pacific region especially with the cooperation to solve the "U.S. dollar sliding". How we can solve the issue of key currency in Asian Pacific region under the condition of a possibility of "U.S. dollar sliding", refer to Yasuhiko Ebina「The monetary cooperation among the Won, the Yuan and the Yen as a player in the "Global Governance" in the financial world—

Focusing on a "balancer" of the "Kite Fling Model" in the Asian-Pacific region —」(Niigata University of Management『Jounal of Niigata University of Management』[No. 14, March 2008]) p. 17 ~ 35.

(Note 4) Concerning the "alternative" namely "another globalization" especially in the field of the financial market, we should aim a symbiosis of the market-mechanism with the market-control system in which the way and the form of merket-control should be entrusted to the originality of financial and economic policies in each country on the one hand and should be subjected to the syncronization of main financial and economic policies in each country on the base of a globe on the other, whereas the "present globalization" especially the globalization in the financial market is going to aim the market-mechanism in the belief of ultra market-mechanism.

Ⅰ. The global money flow

1. The expansion of the inflow of global money to the U.S.A.

We can introduce some characteristics concerning the global money flow. The first characteristic is the point that the main stream of the flow depends on the inflow from other four poles to the U.S.A. The U.S.A. has accepted 681.1 billon U.S. dollars (on the net base) in 2007 which has consisted of 300. 0 billion U.S. dollars from EU, 18. 7 billon U.S. dollars from Japan, 240. 5 billion U.S. dollars from Asia and 121. 9 billion U.S. dollars from South-centrl America. There are no poles, which would accept such huge amount of momey from other poles except the U.S.A.

Secondly, this inflow from other four poles to the U.S.A. contributes to finance the deficit of current accounts in the U.S.A. For instance, the amount of U.S. current accounts deficits in 2007 was 738. 6 billion U.S. dollars. It was mainly financed by the inflow in the same year from other four poles namely 681. 1 billion U.S. dollars mentioned above. This offset accounting — namely the offset system of current account deficits (738. 6 billion U.S. dollars) by offshore money inflow (681. 1 billion U.S. dollars) — figuratively speaking is the relationship beween the "vomitting of blood" (namely the current account deficits) and the "blood transfussion" (namely the offshore money inflow). Therefore, if the offshore money inflow would be less than the current account deficits due to the disappearance of the U.S. advantageousness in own financial market owing to the decrease of the interst differencials between U.S.A. and offshore countries, there would be a possibility of serious "dollar sliding".

Thirdly, such a contribution has steeply increased recently. The amount of U.S. current accounts deficits in 2000 was 415. 1 billion U.S.dollars. It was financed by the inflows from other four poles namely 579. 3 billion U.S. dollars (on the net base) owing to EU (434. 7 billion U.S.

dollars), Japan (76.5 billion U.S. dollars), Asia (57.5 billion U.S. dollars) and South-central America (10.6 billion U.S. dollars).

Fourthly, the "Oil Money" is going to be an infow from other poles to the U.S.A through EU especially England (Note 1). The amount of the flow from the EU to the U.S.A. increased from 523.0 billion U.S. dollars in 2000 to 695.5 billion U.S. dollars in 2007. This increase has reflected the "Oil Money" through the EU.

Lastly, suppliers to the U.S.A in money flow are going to shift from developed countries namely EU and Japan to BRICs namely Asia, Sourth-central America and The Midlle East. For instance, in 2007 the amount of the inflow from other poles to the U.S.A. namely 681.1 billion U.S. dollars (on the net base) was due to the EU (300.1 billion U.S. dollars), Asia (240.5 billion U.S. dollars), South-central America (121.9 billion U.S. dollars) and Japan (18.7 billion U.S. dollars), whereas in 2000 the amount of the inflow from other four poles to the U.S.A. namely 579.3 billion U.S. dollars (on the net base) owing to the EU (434.7 billion U.S. dollars), Japan (76.5 billion U.S. dollars), Asia (57.5 billion U.S. dollars) and South-central America (10.6 billion U.S. dollars).

2. The Bonds as a main stream of the inflow of global money to the U.S.A.

We will check what kinds of stream among many streams represents the main stream in the inflow of global money to the U.S.A. Table I - 1 shows the composition of the inflow of global money to the U.S.A.

Table Ⅰ-1 The composition of the inflow of global money to the U.S.A.

[1] The case of 2006 [*1]

・Total;	1,019.7 billion dollars	(100.0%)
・Direct Investment;	171.2 billion dollars	(16.8%)
・Stocks;	101.8	(10.0)
・Bonds;	746.7	(73.2)

[2] The case of 2000 [*2]

・Total;	704.1 billion dollars	(100.0%)
・Direct Investment;	277.1 billion dollars	(39.3%)
・Stocks;	153.1	(21.7)
・Bonds;	273.9	(38.9)

[*1] from January to July in 2006 at an annual rate, [*2] per year
(Original source) Katuyuki Hasegawa "The trend of global money flow" p. 2 [URL]

We should remark some points from the above table I -1. Firstly we put the importance on the fact that the main stream of the inflow of global money to the U.S.A is the Bonds. The share of the inflow of the Bonds reached to 73.2% overwhelming other infows in 2006. Secondly the share of the Bonds has steeply increased recently. Its share recorded 73.2% in 2006 whereas its share recorded only 38.9% in 2000. Then thirdly we must check the reason why the share of the inflow of the Bonds has so steeply increased in such a short time in the case of the inflow to the U.S.A. The main reason for the increase in the flow of the Bonds is the increase of the

Bonds flow from newly developed countries including BRICs (Brazil, Russia, India and China). For instance, the inflow of the Bonds from Asia to the U.S.A has increased from 32.5 billion U.S. dollars in 2000 to 244.0 billion U.S. dollars in 2006. The inflow of the Bonds from Sourth-central America to the U.S.A has increased from 54.5 billion U.S. dollars in 2000 to 100.7 billion U.S. dollars in 2006. And the inflow of the Bonds from the EU to the U.S.A has increased from 137.0 billion U.S. dollars in 2000 to 366.1 billion U.S. dollar in 2006 owing to the mentioned-above "Oil Money".

3. The change of the flow in Bonds market

By the way, we must take note of the change of the trend of flow in Bonds market. There is a steep change of the trend in the funds rising in the world from the second half of 2007. The amount of funds rising consisting of Bonds, Stocks and Syndicate loans in the world in January ～ March of 2008 was 1,980 billion U.S. dollars which has decreased 1,300 billion U.S. dollars compared to the same period in 2007. Such a steep decrease owes mainly to the decrease of Bonds issue. The amount of Bonds issue was 1,110 billion U.S. dollars (including government and governmental Bonds 430 billion U.S. dollars) in January ～ March of 2008 resulting in a decrease rate of 44% compared to the same period. The amount of Stocks issue is 120 billion U.S. dollars in January ～ March of 2008 resulting in a decrease rate of 34% compared to the same period. The decrease of Bonds issue owes to the moratorium on securitization including the sub-prime loans (Note 2).

Then we should note whether the U.S.A will be able to successively enjoy the huge inflow of money mainly due to the inflow of the Bonds or not.

(Note 1) It is reported that the amount of the "Oil Money" reached 800 billion U.S. dollars in the middle of 2005 (Refer to Katuyuki Hasegawa "The trend of global money flow" p.2 [URL]).

(Note 2) Securitization means the process of turning the cashflows from a pool of underlying assets (such as mortgages) into bonds (Refer to The Economist「Paradise lost — A special report on international banking —」[May 17th 2008] p.6). According to The Economist, securitization was originally developed to make the financial system more resilient. In other words, instead of banks holding every loan on their balance-sheet until they reached maturity, risks would be sold and spread among a wider group of investors (Ibid). But substantially "now many see securitization as the villain of piece" (Ibid). Because "increases in the number of loan appliciations by subprime borrowers were associated with a decline in lending standard" (Ibid p.7). As a result, The

Table Ⅱ-1 The position of currencies in the world

[1] The items of currencies in foreign reserves

(billion, %)

	1999 [*2]	2007 [*3]
Total	1,781	6,037
Total of publication [*1]	1,379 (100.0)	3,845 (100.0)
U.S. dollar	979 (71.0)	2,455 (63.8)
Pound sterling	40 (2.9)	182 (4.7)
Japanese Yen	88 (6.4)	105 (2.7)
Switzerland Franc	3 (0.2)	6 (0.2)
Euro	247 (17.9)	1,014 (26.4)
0thers	22 (1.6)	83 (2.2)

[*1] excluding of unpublished countries (China *etc*) of foreign reserves
[*2] end of December
[*3] end of July
(Note) original source ; IMF (International Monetary Fund)
(Source) Nobuyuki Oguchi "Deal" (Economist [April 14th 2008]) p. 52.

[2] The ratio of currencies in foreign exchange

- U.S. dollar 43.2%
- Euro 18.5%
- Japanese Yen 8.3%

(Note) original source ; BIS December 2007
(Source) Ryuichi Kawasaki "A key currrency" (Economist [April 14th 2008]) p. 54~55.

> Economist insists that "given the prevalence of excessive leverage, procyclical risk models and illiquid assets, the effect of lots of different institutions trying to reduce their own risk was in fact to increase systematic risk" (Ibid p. 13).

Ⅱ. The position of main currencies in the world

1. The position of the U.S. Dollar as a key currency

The position of main currencies in the world is shown on the Table Ⅱ-1. From Table Ⅱ-1 below, we can find some trends related to present positioning of currencies. Concerning the position of U.S. dollar, it holds the position of key currrency even now especially in the field of foreign reserves, whereas there is a steep decrease of funds rising including U.S. bonds.

2. The gradual decrease of the U.S. Dollar position as the result of Euro emergence

But even if it has the position of key currrency even now, that position is going to weaken due to the substitution from the U.S. dollar to the Euro. Concerning this problem, we should especially take note of the following issues.

Firstly, we should take note of facts that (a) most foreign reserves in U.S. dollars belong to U.S. national bonds, (b) the amount of U.S. national bonds which is held by the private sector is only 22% even at the end of 2007 (Note 1) and (c) the share of foreign governments and international organizations in holding of U.S. national bond has increased (Note 2) whereas the share of private sectors in holding of U.S. national bonds has decreased.

Secondly, care should be taken in noting that there is steep emergence of global investors in the assets market who are engaged in speculations due to the huge amount of money (Note 3) even if at present, main holders of the assets in U.S. dollars are giant institutional investors(Note 4).

(Note 1) The share of private sectors in holding of U.S. national bonds has decreased from 39.5% at the end of 1997 to 22.3% at the end of 2007 (Refer to Sankei Shinbun April 8th 2008).

(Note 2) The share of foreign governments and international organizations in holding of U.S. national bond has increased from 22.6% at the end of 1997 to 25.3% at the end of 2007 (Ibid).

(Note 3) It is reported that in the balance sheet of assets, hedge funds hold 1.500 billion U.S. dollars, SWF (Sovereign Wealth Funds) holds 2,500 ~ 3,000 billion U.S. dollars and private equity funds hold 700 billion U.S. dollars (Refer to Ryuichi Kawasaki "A key currency"[Economist April 14th 2008]) p. 55.

(Note 4) According to the balance sheet of assets, pension funds hold 21,600 billion U.S. dollars, insurance companies hold 18,500 billion U.S. dollars and investment trusts hold 19,300 billion U.S. dollars (Refer to Ibid).

Ⅲ. A shift from the huge credit creation to the financial crisis

1. The reason why the U.S.A. has been able to enjoy a huge global money flow

As mentioned above, the U.S.A has enjoyed huge money flow especially through the global bonds market. Why has the U.S.A. been able to enjoy it ?

Because there is a huge credit creation due to two factors which consist of (a) the increase of SWF and hedge funds etc (refer to [Note 3] in Chapter Ⅱ) and (b) the "carry trade of currencies" (Note 1). It is estimated that owing to these factors, the amount of global assets would reach 180 trillion U.S. dollars. This is about four times the GDP in the world (Note 2).

But this kind of huge amount of money is going to shift from U.S. dollars to two directions consisting of Euro partially and primary products — for instance resources, oil and foods etc — partially on the background of the depression of the U.S. economy and the decrease of the U.S.

dollar position.

Namely, there is a shift from the huge credit creation by which the U.S.A. has enjoyed huge money flow to the serious financial crisis from which the U.S.A. is suffering the depression accompanied by the possibility of a steep inflation in the near future under the dangers of the global repercussion of crises as mentioned below.

2. How to control the financial crisis

We should note that there are two dangers in such a new trend of global money flow. One is the securitization including the sub-prime loans, which is inevitably accompanied by danger as mentioned above (Note 3).

Another one is the globalization of primary products business in whch there is a lack of ethics and rules, inevitable in globalization even on the base of the market mechanism.

Then we are going to encounter a serious financial crisis in which the world economy will be obliged to endure the "global repercussion of five crises — namely the financial crisis, the currency crisis, the energy crisis, the food crisis and the resources crisis combining in the economic crisis finally —" (Note 4). So we can easily suppose that it is very difficult to control the financial crisis which should be difined as a trigger of the "global repercussion of five crises".

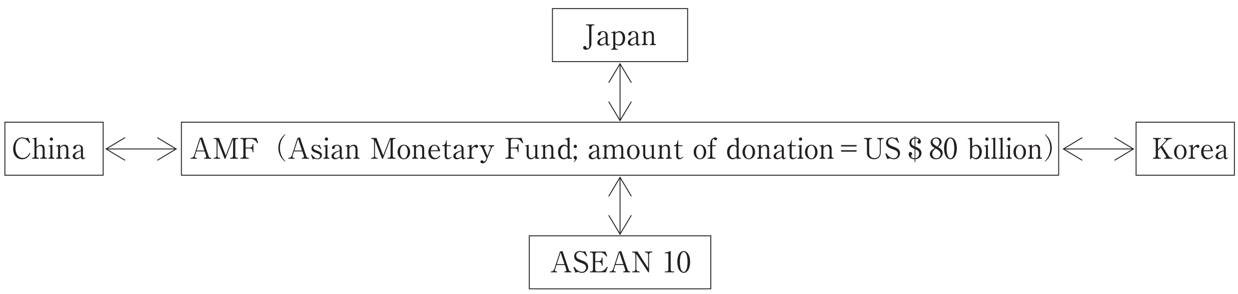
3. Some trials to control the financial crisis

Nevertheless, there were some trials to control the financial crisis. First one were some trials on the global level. First of all, there were four trials on this level. One of them was the cooperation in watching the main financial institutions, including maga-banks and big securities firms in the world which had been proposed by FSF (Financial Stability Forum) and has been agreed by the main countries at the G7 meeting on April 11 2008. The second was the trial to create the CDS (Credit Default Swap) clearance system among mega-banks and big securities firms supported by the cooperation of governments in the world especially in Europe and the U.S.A. which aimed to protect dealings accompanied by credit risks (Note 5). The third was the synchronization of main financial policies in each countries especially the U.S.A., EU countries and Japan — namely (a) liquidity provision by central banks, (b) governmental certification for inter-banks dealings, (c) capital investment by each government —. The fourth is the building of the public financial infrastructure on the base of a globe as the "new order" expected to substitute for the "old order" namely Bretton Woods system which was built by the initiative of only two Anglo-Saxon hegemonies consisting of U.S.A. and U.K. as the "post world war II order in the world economy". Namely it is reported that G 20 meeting on November 15th 2008 has agreed about (a) continuance of the synchronization of main finmancial policies in each countries mentioned avobe on the base of G 20, (b)expansion of budget expenditure of G 20 countries especially new emerging countries (Note 6) to avoid a possibility of the great depression like the 1929 Depression, (c)grappling with the radical reform of the IMF (International Monetary Fund) and control over the global finantial system by the "new IMF" from the medium and long term viewpoint (Note 7).

Second one were trials on regional levels. There were some trials to control the financial crisis in Asia. There were two trials in Asia, too. Firstly, Korea, China and Japan have agreed, on May 5th 2008, to form Asian FSF to watch the main financial institutions in Asia. Secondly, ASEAN + 3 (Korea・China・Japan) have agreed to form new "Chiang Mai Initiative" aiming for AMF (Asian Monetary Fund) on the base of the donation of about 80 billion U.S. dollar (See Chart Ⅲ-1) (Note 8).

Then we should recognize that such trials on both bases of global level and regional level are very important steps to control the global money crisis. Nevertheless we have to say that itis never enough to control the global money crisis because if there are not enough policies in each country to support and cover such global cooperations, global cooperation will immediately be overwhelmed by huge attacks of global money flow speculations accompanied by a surge of steep inflation due to the global repercussion of crises.

Chart Ⅲ -1 The new "Chiang Mai Initiative"



So let us take up the Japanese policy as a case study to study national policies to control the global money crisis.

(Note 1) The "carrry trade of currencies" means the loan of money (which has been borrowed in the country being able to borrow at low interest rate) in the country being able to loan at high interest rate . For instace the "Yen carry" is famous in this context.

(Note 2) Refer to Nihonkeizai Shinbun「The national strategy after the Sub-prime」(Nihonkeizai Shinbun April 24th 2008). Still more the amount of "investment money" reached to 150 trillion U.S. dollars which was 1.5 times compared to the amount of it in 2000 (Refer to Asahi Shinbun March 19th 2008).

(Note 3) It is reported that the senior director of IMF estimates that the amount of loss due to the sub-prime loans would reach 1,380 billion U.S. dollars on September 24th, 2008 (Refer to Nihonkeizai Shinbun September 25th 2008) and it is reported thet Mizuho-Shoken estimates that the amount of loss due to it would reach 5,800 billion U.S. dollars in the case of the "Market Value" (Refer to Asahi Shinbun November 24th 2008).

(Note 4) We should not neglect the fact that the price in fields of oil・foods・resources is going to decrease according to the advancement of the depression in a globe. But we should never forget the essential problem in this issue, because the rise of the price in such fields of oil, foods and resources owes essentially to the shortage of these items due to some structural reasons. Moreover, needless to say, from a viewpoint of the medium and long term, the "global repercussion of five crises" will inevitably combine not only in economic crisis but also with the "global crisis of environment"(Refer to Naoaki Okabe「the key solutioin of the "global repercussian of crises"[Nihonkeizei Shinbun june 16th 2008]). (It should be noted that this point has a relation to a idea of "Green New Deal"[Refer to Chapter Ⅳ <Note 7>].).

(Note 5) Refer to Nihonkeizai Shinbun June 3rd 2008 and Ibid October 24th 2008.

(Note 6) Chinese government has declared that China will invest 4,000 billion Yüen untill the end of 2010 to stimulate Chinese economy as a leader of new emerging countries(Refer to Nihonkeizai Shinbun November 10th 2008), whereas many advanced countries are hesitating about the expansion of their budget expenditure due to huge deficits — for instance the amount of budget deficits in U.S.A., central government has reached 454.8 billion U.S. dollars in 2008 fiscal year (mentioned above) and the amount of governmental debt in Japanese central government will reach 778,000 billion Yen (1.5 times comparing to Japanese GDP) at the end of 2008 fiscal year —. But we should not forget the fact that even new emerging countries are challenged by the strong pressure of inflation and China is not exceptional with such kind of inflationary pressure with the result that huge amount of investment by Chinese government has a possibility of spoiling for the stability of Chinese economy.

(Note 7) Refer to Asahi Shinbun November 17th 2008 .

(Note 8) Refer to Nihonkeizai Shinbun November 22nd 2008. Moreover, it should be noted that such kind of AMF is expected to be bound to the realization of a design of ACU (Asian Currency Account) which will play a decisive role in the stabilization of Asian financial system (Refer to Naoaki Okabe「Beyond the "Bretton Woods"」[Nihonkeizai Shinbun November 24th 2008].

Ⅳ. The role of Japanese economy under a possibility of the global repercussion of crises — The change from present policy under the Yen depreciation to new policy under the Yen appreciation —

1. The economic recovery under the Yen depreciation

As I already mentioned last year in this bulletin (Note 1), Japanese economy owed its economic recovery to the expansion of world market especially Asian market accompanied by the Yen depreciation. Then we can find a familiar relationship between the increase of Japanese export and the depreciation of the Yen. For instance Japanese export increased nearly 10% from 2005 to 2008 whereas the value of the yen versus dollar was depreciated from 1995 to 2007 resulting in the lowest level since just before the Plaza Agreement in 1985 (Note 2).

By the way, nevertheless the increase of export accompanied by the Yen depreciation has contributed to the economic recovery, present economic policy over-depending on offshore market has two disadvantages. One is the loss of Japanese wealth under the depreciation of the Yen. The Yen depreciation carries Japanese wealth from Japan to foreign countries through the dumping of the technology, knowhow and the ability of many Japanese labours (Note 3). Another one is the reduction of labour's relative wage. Over-dependence on offshore market (Note 4) especially on newly industrialized countries accompanied by low labour cost aggravated the wage level in Japan (Note 5) resulting in the relative decrease of domestic market.

2. New economic policy under the Yen appreciation
— A proposal of the "structural expansion of domestic demand"—

From the context mentioned above, the appreciation of the Yen not only is expected from the viewpoint of global financial condition especially of the retreat of the dollar position as key cuurency but also is requested from the domestic economic condition — namely the "improvement of the trade condition" and the "increse of labour's relative share of the net profits"—.

For the purpose of the improvement of domestic economic condition, we should adopt a new economic policy which should be called as the "structural expansion of domestic demand". Because it will be possible to expand the domestic demand under the Yen appreciation only after the pursuit of structural change of Japanese economy. If Japanese governments, especially local governmernts, are able to promote the innovation in the service industry, in the agricultural industry and in local industries (Note 6) through structural policies, new domestic market will expand steeply owing to the increase of the productivity in whole economy accompanied by the "increase of labour's relative share of the net profits" resulting in the expansion of domestic demand itself, even if foreign demand decreases due to the Yen appreciation. As a result, Japanese economy will be successful in demand increase on net base accompanied by the increase of growth potential on the one hand and by the gradual Yen appreciation being able to avoide the steep Yen appreciation combining in domestic depression on the other. We call such kinds of policies as the "structural expansion of domestic demand" (Note 7).

(Note 1) Refer to Yasuhiko Ebina「The monetary cooperation among the Won, the Yuan and the Yen as a player in the "Global Governance" in the financial world — Focusing on a "balancer" of the "Kite Fling Model" in the Asian-Pacific region —」Niigata University of Management『Jounal of Niigata University of Management』(No. 14, March 2008) p. 17～35.

(Note 2) Refer to「Ibid」p. 26

(Note 3) We refer to such a carry of weatlh as the "aggravation of the trade condition" in which we are necessarily obliged to accelerate the decrease of Japanese economic potential even in the age of low fertility when it is estimated that Japanese economic potential will decrease due to the change of demographic structure. For instance, it is reported that the amount of the net outflow of Japanese incomes as a result of the aggravation of the trade condition has reached to 28 trillion yen (on the base of per year) in the term from April to June of 2008 (Refer to Nihonkeizai Shinbun August 21st 2008).

(Note 4) It is reported that the average ratio of offshore market compared to total markets (domestic market+offshore market) in Japanese enterprises is about 60% (Refer to Asahi Shinbun May 29th, 2008).

(Note 5) There is the deduction of labour's relative share of the net profits in Japan. For instance Japanese labour's relative share to the net profits has decreased from 71.6% in 1998, namely the peak of it, to 63.6% in the second quarter of 2006 (Refer to Yasuhiko Ebina『An economic policy under the age of low fertility and the age of Asian unification — Aiming for Sustainable Growth」—』[Akashi-shoten, April 5th 2007] p. 19～20). Needless to say, such a deduction of labour wage share combines with the lagging of the recovery of consumption.

(Note 6) Concerning the revitalization of local industries, refer to Yasuhiko Ebina「A design of the "Kan-Etu cluster" as a large regional economic zone — A tentative plan concerning the "New Deal aiming the revitalization of local economy"—」<in preparation> [Niigata University of Management・Institute for the Regional Vitalization『The regional Vitalization Journal』<No. 15>].

(Note 7) Concerning the concept of the "structural expansion of domestic demand", refer to

Yasuhiko Ebina『How we are able to realize the expansion of domestic demand？』[NIRA・Output<June 1986>) p. 237～273. Well, A proposed a design of the "structural expansion of domestic demand", consisting of (a) the expansion of consumption and the change of its structure, (b) the expansion of infrastracture and its qualitative change and (c) the shift from export-oriented industries to domestic demand-oriented industries from the medium and long term viewwpoint, aiming for the answer the request by the age when Japanese society neded the expansion of domestic demand to avoide international trade frictions due to Japanese export industries, in the NIRA report. There is a common point concerning the awareness of the issues about the importance of the medium and long term viewpoint namely structural viewpoint between NIRA report and the present article. But there is a difference due to the age between last time NIRA report and the present article. The reason why we should prefer the domestic demand to the offshore demand in this time owes not only to "the term of the viewpoint" but also to the "theory of the net assetes country"(Refer to the "Net Assetes Country"[Asahi Shinbun November 6th 2008]). According to the theory of the "Net Assets Country", as a country shifts from the "debt country" to the "net assets country", main players who pull the economic development will change from export-oriented industries to consumer-oriented industries especially industries providing products and services in fields of "social needs"— namely social, cultural, environmental and intellectural needs in the age of the "civil society in maturity"— resulting in the increase of the importance of such kinds of needs in domestic demand (Refer to Ibid). By the way, concerning this point, Asahi Shinbun calls the "structural expansion of domestic demand", which owes to the environmental innovation especially in the field of local industries, as the "Green New Deal"(Refer to Asahi Shinbun November 25th 2008).