

IPS LECTURES SERIES

**KOIZUMI'S VISION OF
A NEW JAPAN**

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Japan

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Curriculum Vitae

Mr Nobutaka Machimura Acting Secretary-General Liberal Democratic Party (LDP) Japan

Mr Nobutaka Machimura was born on 17 October 1944. He is from the Mori faction of the LDP and has won 6 elections since 1983. He was appointed Acting Secretary-General of the LDP by Prime Minister Junichiro Koizumi in May 2001.

Mr Machimura graduated from the Faculty of Economics, University of Tokyo in June 1969. He has also studied at the Wesleyan University in Middletown, Connecticut, USA. (1967-1968).

Upon graduation, Mr Machimura served in the Japanese Ministry of International Trade and Industry (MITI) until his resignation in April 1982. During this time, he also spent two years (1979-1981) as a staff of the Japan External Trade Organisation (JETRO) in New York, USA.

Mr Machimura's political career includes many important appointments as follows:

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| 1983 (Dec) | Elected to the House of Representatives from Hokkaido District No. 5 |
| 1989 (Jun) | Parliamentary Vice-Minister of Education, Science, Sports and Culture (two terms) |
| 1990 (Mar) | Deputy Chairman, Diet Affairs Committee, LDP
Director, Cultural Affairs Division, Public Relations Committee, LDP |
| 1991 (Nov) | Director, Standing Committee on Budget, House of Representatives |

- 1992 (Dec) Director, National Defence Division, LDP
- 1993 (Aug) Deputy Chairman, Policy Research Council, LDP
Director, Standing Committee on Security, House of Representatives
- 1994 (Oct) Director, Special Committee on Taxation System Reform, House of Representatives
- 1995 (Jan) Deputy Secretary-General, LDP
(Oct) Deputy Chairman, Research Commission on the Tax, LDP
- 1996 (Oct) Chairman, Standing Committee on Health and Welfare, House of Representatives
(Nov) Acting Chairman, Committee on Deregulation of Administrative Reform Promotion Headquarters, LDP
- 1997 (Sep) Minister of Education, Science, Sports and Culture (Hashimoto Cabinet)
- 1998 (Jul) Parliamentary Vice-Minister, Ministry of Foreign Affairs
- 1999 (Oct) Deputy Secretary-General, LDP
- 2000 (Mar-Apr) Advisor to Prime Minister Keizo Obuchi on Education Issues
(Apr) Advisor to Prime Minister Yoshiro Mori
(Jul) Vice-Chairman, LDP Diet Affairs Committee
(Dec) Minister of Education, Culture, Sports, Science and Technology (2nd Mori Cabinet)
- 2001 (May) Acting Secretary-General, LDP

My name is Nobutaka Machimura. I feel honored and grateful to be invited here together with my wife under the Lee Kuan Yew Exchange Fellowship Program. I have been able to meet many of the leaders of Singapore and have had the opportunity to visit a number of advanced research institutes and some very high-level elementary schools. I am also grateful to be given the opportunity to make a speech on "Koizumi's Vision of a New Japan" in front of such distinguished guests.

Many Japanese people regard Singapore as one of the most prosperous countries in Asia and associate it with its clean, garbage-free streets, polite and hard-working people, and more recently with its most advanced technology and reputation as a super-modern country. This is my third visit to your country and these impressions have been made stronger.

I would like to take this opportunity to briefly introduce myself. One hundred and twenty years ago my grandfather left his hometown where his ancestors had lived for 300 years to develop the frontier island, Hokkaido. I realize that I have also inherited such a frontier spirit. After graduating from university, I worked for the Ministry of International Trade and Industry for 13 years which was a valuable experience for me. In particular, I worked at the Japan Trade Center in New York for two years where I worked hard to resolve trade friction between Japan and the U.S. When I was a university student, I studied for one year in the U.S. which was also a good experience for me. So the U.S. is like my second home country.

Since I was first elected as a member of the House of Representatives in 1983, I have served as Minister of Education, Science and Technology for two terms, Vice Minister of Foreign Affairs and Special Assistant to both Prime Minister Keizo Obuchi and Prime Minister Yoshiro Mori. Having an interest in a wide range of areas, I have engaged in economics, diplomacy and security.

I am currently the Acting Secretary-General of the Liberal Democratic Party. I was regarded as a contributor behind the scenes helping

to bring about the large success of the recent Upper House election.

In the July 29th Upper House election, the three-party coalition including the Liberal Democratic Party scored an overwhelming victory, far exceeding prior expectations and securing a stable majority. It attests to the strengthened political foundation from which to proceed with 'structural reform without sanctuary' advocated by Prime Minister Junichiro Koizumi. This has been endorsed not only in the Diet but also among the Japanese people. So far many political leaders have argued for 'reform' but have failed to implement it because of insufficiency or lack of consensus among the people. As you may already know, once consensus is built, things move quickly in Japan.

What brought about the surprisingly high approval rating of 70-80% for the Koizumi Cabinet? It is partly attributed to his personal style, specifically, his concise and easy-to-understand way of talking, his curly hair style, his love of opera and his slim build compared to that of other Japanese politicians.

However, I believe that the strong support for Prime Minister Koizumi basically stems from the people's high expectation that he will bring an end to the so-called 'lost decade' – the sluggish Japanese economy of the past ten years after the collapse of the bubble economy, thereby bringing Japan back to life again.

Put another way, after World War II, Japan accomplished its development thanks to its industrious people and to the planning of skilled bureaucrats and a system which channelled a limited amount of funds and human resources into specific areas. However, with the real estate bubble, the Japanese reputation as hard-working was no longer applicable and the credibility of bureaucrats plummeted due to repeated scandals involving high government officials. Moreover, the system I discussed earlier became so entrenched and inflexible that it prevented the transfer of resources from less efficient sections with little social needs to highly efficient sections with a lot of social needs.

I think that the very essence of Koizumi's reforms lies in the creation of a new system which would enable new development.

Detailing the basic reform platform of Prime Minister Koizumi, I can point out several of his principles.

First is his policy to put the private-sector ahead of the official sector. This principle is reflected in the following:

- (1) the review of special Government corporations and cutbacks in subsidies,
- (2) privatization of government-run postal services for mail, savings and insurance,
- (3) liquidation, consolidation and privatization of public financial institutions,
- (4) introduction of competitive principles to medicine, nursing care for the elderly, welfare and education, and
- (5) relaxation and elimination of the government regulations which have hampered free activities within the private sector.

Second is his policy to place 'local governments ahead of the central government'. This principle is reflected in the following:

- (1) devolution of power and financial resources to local governments,
- (2) review of the local allocation tax system,
- (3) shakeout and cutback in subsidies to local governments,
- (4) promoting the consolidation of municipalities.

The third is his policy 'to redress the fiscal standing of both central and local governments'. The combined fiscal debts of the central and local governments total about 660 trillion yen which is equivalent to 128.5% of Japan's GDP, the highest ever. This ratio is also, among the major industrialized countries, comparable to that of Italy. Prime Minister Koizumi pledged to keep the issuance of new government bonds under 30 trillion yen for the 2002 fiscal year, which will be the first year to launch fiscal restructuring. This measure will inevitably involve spending cuts on many budget items.

What kinds of problems lie ahead in proceeding with these reforms? It is a fact that there are groups of vested interest in every quarter including the Liberal Democratic Party, the opposition parties, bureaucrats and trade unions. Opposition is expected from these people. However, I believe we can overcome such resistance with the excellent leadership of Prime Minister Koizumi who has the strong backing of our members from the Liberal Democratic Party and the broad support of the people.

A more difficult challenge will be the economic slump. Moreover, the U.S. economy, a locomotive of the world economy, has begun to decelerate due to the sharp decrease in IT-related stock prices. That is adversely affecting Asian and Japanese economies.

The first item on the agenda of Koizumi's reforms is the write-off of bad loans within two to three years. We, however, have to recognize that new bad loans have been generated by the recent stagnant economy, and that the Japanese GDP growth rates for the next two to three years are expected to hover at a low rate due to cutbacks in public spending and a rise in unemployment and bankruptcies. This is where a dilemma in the Koizumi plan lies. Certainly, tax cuts and expansion of fiscal spending are losing their effectiveness to stimulate the economy. Therefore, I think it would not be appropriate for Japan to rely on fiscal policy which would bring about the deterioration of its fiscal position.

Having said that, however, does this mean that we should not take any fiscal measures to bolster the economy? I believe that measures that would both contribute to Japanese structural reform and buttress the economy should be passed in the extraordinary Diet session to be called this fall. These measures can include investment in the development of advanced technology such as bio-technology, information technology, nano-technology, and investment in the development of job skills to promote job mobility.

The Bank of Japan stated that there was little room for additional credit easing measures given the current low interest discount rate.

However is this really the case? I think that they should not allow a downward trend in prices without taking any measures. Instead they should set a target range for price increase and within that target, additional quantitative monetary easing measures should be implemented.

So far, I have concentrated on domestic problems. Needless to say, Japan constitutes an integral part of the world economy. Japan has to contribute to the development of the world and Asia by implementing Japan's structural reform as quickly as possible, thereby putting our economy on an upward track. An increase in Japanese exports driven by a decline in the yen is certainly good news for Japan which has weak domestic demand. However, this will intensify export competition with Asian countries. Therefore I think that the policy to maintain a weaker yen will lead to problems.

'Anti-globalization' demonstrators mobbed the recent G-8 summit in Genoa and one person was killed. In the economic arena, I don't think that we can prevent the business methods of the most influential U.S. companies from spreading throughout the world, which are prevailing under the name of 'de-facto standard'. However, regarding its environmental policy such as a policy on the prevention of global warming which is closely related to the economy, the U.S. argument is hardly convincing. As for individual cultures, it is very important that we recognize cultures unique to each country, hence cultural co-existence should be maintained.

In terms of the development of Asia, I would like to emphasize the following points. The first is the importance of ASEAN. Japan has regarded ASEAN as our partner for the peace and prosperity of East Asia and we have extended our co-operation tailored to meet the needs of each country. For example, for Cambodia which has recently joined ASEAN, Japan hosted the third Consultative Meeting of the donor community to reinforce economic and social support. As the Vice Minister of Foreign Affairs, three years ago, I visited that country to fulfill these endeavors. Japan will extend support to ASEAN countries, not alone, but in conjunction with Singapore.

The second point is to strengthen and promote currency and financial co-operation for East Asia. We shared hard times during the currency crisis which started in the summer of 1997. At that time Japan pledged to offer 80 billion dollars in emergency assistance and has implemented it in a steady fashion. At the meeting of the ASEAN Plus Three Finance Ministers held in Chiang Mai, Thailand, in May 2000, the "Chiang Mai Initiative" was launched aiming at establishing a regional financing arrangement to supplement the existing financial facilities. Based on this initiative, several bilateral swap arrangements have already been concluded towards establishing a network of bilateral swap arrangements. I think that in order to facilitate these trends and to institute a system to respond to fluctuation in the foreign exchange rates, it is high time we realistically study the idea of establishing the 'Asian Monetary Fund'.

Specific details of the AMF will be referred to financial experts. However, some Asian countries have expressed their support for its creation. Although it is said that the U.S. and the IMF do not support this idea, it would be acceptable to them if we were to allow countries outside the Asian region to join the AMF on the condition that they provide the funds.

The third point is to ensure the conclusion of the 'Japan-Singapore Economic Agreement for a New Age Partnership'. Last October, former Prime Minister Mori and Prime Minister Goh Chok Tong decided to complete the negotiation for this agreement by the end of this year at the latest. I hear that the negotiation is proceeding smoothly. I will dispense with details. However, this agreement is quite ambitious in its content and covers a wide range of areas, including not only the liberalization of goods and service trade but also strengthening bilateral co-operation in fields such as financial, and information and communication technology. The significance of Japan's concluding this first-ever high-quality agreement with Singapore, which is an industrialized country that adopts an open economic system, is that it will serve as a powerful catalyst to conclude similar agreements with other potential partners such as South Korea or Mexico. It will also give an impetus to the stalled

WTO negotiations for trade liberalization. Furthermore, this agreement will not only help deepen the relationship between the two countries but also make the economic and diplomatic relations with ASEAN countries closer, thereby contributing to the political stability of the Asian region.

I would like to conclude with a few more words. Japanese diplomacy had been frequently criticized as 'faceless'. One of the reasons for this is that Japan has refrained from overtly showing its national interest when extending economic co-operation and performing diplomatic activities, thereby giving the impression that our diplomatic efforts are pursued based on the same concepts as those of neutral international organizations. Another reason is that diplomatic policy is not developed through the personality of politicians. Decisions reached by the Ministry of Foreign Affairs as an organization is prioritized in order to maintain the continuity of diplomatic policy. Yet another reason, if I may add, would be Japan's failure to make efforts to conduct its own diplomacy. After having lost the war with the U.S. and experiencing the subsequent long Cold War era, Japan began to feel that as long as it was protected under the U.S. nuclear umbrella, it was safe.

As the first Japanese leader in the 21st century, Prime Minister Koizumi has projected his personality in Japan. I expect that he will gradually display his own unique characteristics in diplomacy as well. I would be very grateful if the ladies and gentlemen of Singapore will remember my face, Nobutaka Machimura, together with the face of Prime Minister Koizumi. However, there is no 'magic' in diplomacy. Of prime importance, is the trust based on the broad mutual understanding between individuals and nations. The fact that I am speaking here is also an important step, though small, towards a stronger trust between our countries. I close by pledging to make every effort for the sake of friendship and goodwill between Japan and Singapore.