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The Impact of Present Financial Crisis on the Financial Markets of Germany, India and Japan

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Comments on Indian's Capital Account Management

- Seemingly, it has been cleverly conducted. The reasons of success: (1) Superior capability of the government/central bank teams, (2) Major state-owned commercial banks strongly supported the team's plan.
- **How to cope with the liberalization (privatization) of commercial banks** in coming years
- China has also controlled capital account, but in a different way**. China has taken policy to open FDI market fully, but not PEI market.** From this time on, India may well open more substantially to FDI, for it will raise India's TFP in the long run, if the policy is well designed.
- East Asia has established a common safety net on capital movement such as **Chieng Mai Initiative (CMI**) and Bond Market Initiatives. How Indians consider this? Any **IMF reform plan** on this issue of India?

Current Problems of Japan

- India—Inflation; **Japan—continuous Deflation**
- **JPY rate/US$** --- on the rise (the average rate from 2000 until Lehman shock was around \105-110, now around \83-85). Euro has sharply dropped. Korean Won is kept very low level (before Asian Currency Crisis, US$1 was around KW750, now KW 1100-1200).
- **Abnormal Yen-daka---Who's responsibility?**
- Japan, however, keeps its current account surplus.
- **RMB level** has been kept artificially low from Japan's perspective. Compare respective GDPs/Per-capita GDPs on PPP basis and nominal currency basis.
- Thus, China's factor costs e.g. wage have been kept very cheap, while comparative TFP's growth has been in China's big favor at least from 1990.

How will Japanese firms respond?

- Large export firms will accelerate its FDI in big market, China and some other Asian countries, as they feel it difficult to earn through export under the unbelievable Yen-daka and that China is moving to 'domestic demand'-led economy. They can solve their problems for themselves. You cannot blame them.
- **Problems:**

(1)Japan's industrial/trade structure won't be higher by making FDI/OEM under the current deflation, as firms refrain from investing domestically.

(2)Many of SMEs with low managerial resources can neither make FDI, nor can increase their productivity due to many structural problems.

(3)(1)+(2) → Further '**de-industrialization'** in Japan→ will reduce both fiscal revenues and job opportunity

Factor of Japan's Economic Growth and Contribution by Factors

	1980-89	90-94	95-99	00-05
ＧＤＰ Growth Rate (Annual Ave.)	6.6%	3.0%	2.4%	3.6%
A. Contribution by Factor (=B+C+D)	5.5	4.4	2.5	3.0
B. Capital	2.3	1.9	1.3	1.2
C. Labor	3.4	2.5	1.2	1.8
D. Total Factor Productivity（ TFP)	1.1	0.6	-0.1	0.6

[Source] Japan's Cabinet Office, Annual Economic-Fiscal Report

Factors of China’s Economic Growth

	1953-78	79-88	89-98	99-05
GDP Growth Rate (Annual Ave.)	6.15%	10.06%	9.59%	9.11%
A. Contribution by Factor (=B+C+D)	5.83	6.70	5.16	5.36
B. Capital	2.59	2.58	2.70	3.59
C. Labor	2.39	4.26	2.19	1.56
D. Total Factor Productivity（ TFP)	0.31	3.35	4.42	3.74

(Source)： China Economic Reform National Economy Institute

While China’s TFP has improved quickly for 30 years, RMB rate/$ has been little risen.

Ave. Monthly Wages of Asian Workers.
Can Japanese firms overcome such big gaps?

Released in January 2010

	Averaged Wage (U.S.$)	Index
Yokohama, Japan	3,099	100.0
Seoul, South Korea	1,220	39.4
Sinchuan, China	235	7.5
Bangkok, Thailand	231	7.5
New Delhi	196	6.3
Hanoi, Vietnam	104	3.4
Dakka, Bangladesh	47	1.5

[Source] Jetro’s research during September-December 2009.

Problems and Prospects

- Abnormally high rate of Japanese yen has largely been derived from Japanese monetary policy. BOJ has to change it sooner.
- **RMB rate won't be appreciated** in a meaningful margin in years to come, due to disagreement of China's vested interests or needs to provide jobs to workers (PBC cannot be institutionally independent). Chinese government **may, in stead, allow its averaged wages raising** around 15%/year in the next 5 years.
- Japanese authorities **haven't intervened FOREX market**, as Japan's official intervention may make excuses for 'Beggar thy neighbour policies.' Then, **won't BOJ intervene in any case? There was a case in 1995: FED & BOJ jointly intervened. Guess what are they thinking?**