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Break Away from Perception of High Yen as Bad

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The yen's excessive or historic appreciation is feared to seriously affect the Japanese economy. As during the past yen appreciation periods, export-oriented companies and relevant small firms have growingly been calling for correcting the yen appreciation. But we must question if the yen is really strong now or if the yen's depreciation could help the Japanese economy to be reinvigorated.

Yen is not necessarily viewed as strong

The biggest reason for the yen's nominal rise to the highest postwar level is that the price rise in Japan has remained lower than in foreign countries on long-lasting deflation. The yen's "effective exchange rate," which affects the real economy and is defined as the trade-weighted average of the yen relative to a basket of other major currencies adjusted for the effects of inflation, stands at the levels for 1995, indicating no sharp appreciation, though rising after the 2008 Lehman Shock. According to the Finance Ministry's trade statistics for the first half of 2011, the United States absorbed 14.4% of Japan's total exports in value, China 20.0% and the European Union 11.6%. It may be unfair for us to look at the yen's value against the U.S. dollar alone. The yen's recent appreciation has come as market participants have viewed the Japanese economy as relatively sounder than the European and U.S. economies due to fears about the future of these foreign economies.

If Japanese companies are failing to compete in foreign markets under the yen's effective exchange rate that is not so high, the problem may lie with a decline in the Japanese economy's international competitiveness, rather than the exchange rate.

Implement fundamental economic measures

In fact, the Japanese economy, looked from a different angle, has achieved high nominal growth since 2007. While Japan's nominal gross domestic product in yen leveled off from 470 trillion yen in 2009 to 479 trillion yen in 2010 and to around 479 trillion yen in 2011, Japanese GDP in U.S. dollars grew from \$5.02 trillion in 2009 to \$5.45 trillion in 2010 and to \$5.98 trillion in 2011. An annual growth rate in dollars stood at about 8%. A decline in value added on a yen basis since the financial crisis triggered by the subprime mortgage problem in 2006, strongly impresses us with the Japanese economy's stagnation. This indicates a weak dollar, rather than a strong yen, and the evolution of structural changes in the world economy.

The yen appreciation may work to the disadvantage of some industries or persons and to the advantage of others. But the yen appreciation in general bring about benefits by allowing domestic products to sell for higher prices and Japanese to buy foreign products for lower prices. In nature, the yen's depreciation means nothing more than the bargaining of Japanese assets. Therefore, the Japanese economy's stagnation can be traced to the lack of a global strategy for economic growth as well as the present economic structure that cannot lead the yen's appreciation to serve Japan's national interests.

Instead of repeating foreign exchange market interventions to help avoid the yen's appreciation over a short term, the Japanese government should take a long-term approach to develop global companies that trade goods and services in yen to prevent a stronger or weaker yen from affecting their business performances. The government should also develop an economic environment in which few parties are shaken by foreign exchange rate fluctuations. To this end, the government should adopt policies to support Japanese companies' global expansion with the promotion of freer domestic competition, corporate tax cuts and the reduction of domestic and foreign tariffs through the promotion of free trade agreements.

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