

## **International Macroeconomics Program**

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Amid rapidly advancing globalization, it is far from certain if the growth engine of the Japanese economy, its superiority in *monozukuri* (manufacturing) and exports, will remain as it did in the past. There is a need to consider how the growth in emerging markets can be internalized by the Japanese economy and what is needed for Japan, which is surrounded by the rapidly growing neighboring countries of Asia, to realize balanced sustainable growth. Now that Japan is faced with its biggest post-war challenge, the economic recovery from the Great East Japan Earthquake, the macroeconomic management of Japan is fraught with difficulty. In future macroeconomic policies, it is important to develop new systems by being conscious not only of domestic factors but also of international aspects.

This International Macroeconomics program will advance research projects spanning fields such as macro finance, international trade and macroeconomics, international finance, corporate foreign exchange risk management, and corporate finance. The relationship among individual projects can be set out as seen in the chart below.

First of all, two research projects will focus on the domestic factors of the Japanese economy that are striving to recover from the earthquake disaster. In the 3) Research on Macroeconomic Policies Focused on Fiscal Reconstruction and Similar Measures project, the sustainability of Japan's public finances is deemed an essential condition for the steady advancement of economic recovery. Theoretical analysis will be conducted on the relationship between fiscal reconstruction and the financial system as the holder of government bonds. In the 4) Long-term Deflation in Japan: Its causes and policy implications project, instead of treating long-term deflation as a simple monetary phenomenon, it is treated as a phenomenon deeply related to the real aspects of the economy (i.e., long-term stagnation of the real economy). The objective will be to elucidate the correlation between

abnormalities occurring in the real and monetary parts of the economy.

On the international front, two research projects will specifically focus on the relationship between Japan and Asia, namely, the 1) Research on a Currency Basket project and the 2) Research on Exchange Rate Pass-Through project. The currency basket project will continue to propose the use of the Asian Monetary Unit (AMU), which has been made public on RIETI's website since 2005, and the AMU Deviation Indicator in order to stabilize exchange rates within the region. Additionally, research on a new international currency system and an appropriate new currency system in Asia will be undertaken. In the exchange rate pass-through project, various issues related to pass-through and a closely linked subject, trade invoice currency selection, will be analyzed from both macroeconomic and corporate-level perspectives. Factors such as pricing, foreign exchange risk management, production/sales networks, and corporate competitiveness will be the keywords in this research.

In the 5) Great Trade Collapse project, which will start after September, the macroeconomic effects of the drop in trade that the world economy experienced during the recessionary period of 2008–2009 (the “Great Trade Collapse”) on the Japanese economy will be analyzed. Structural changes in supply chains will be one of the areas to be focused on.

As mentioned above, in this program, issues on international macroeconomics are analyzed by using various approaches. But, as shown in the chart, each project theme is closely related to the others. Research will be conducted along a spatial axis involving the Japanese, Asian, and world economies. As for the Japanese economy, studies will be performed on macroeconomic policies to achieve fiscal reconstruction and breakaway from long-term deflation in view of their effects on foreign exchange rates. As for Asia, studies on institutional infrastructure such as the role of a common basket currency and analysis of various issues related to the exchange rate pass-through and invoice currency selection, with their effect on the supply chains of Japanese firms, will be undertaken. As for the world economy, new policies on trade and foreign exchange will be proposed in the 5) Great Trade Collapse project. Therefore, where necessary, collaboration between projects

will become important. The program director will be responsible for monitoring the progress and performing this function. Collaboration with other RIETI programs will also be pursued to improve research results.

Japanese firms are pricing their products and services based on the trends in the foreign exchange rates and supply and demand in domestic and overseas markets. But their practices vary depending on the competitiveness of their products, the countries to which they export, and differences in their foreign exchange risk management. By adding the collection of such corporate-level micro-data and related analysis to the projects, the program will grasp the Japanese economy from a wide range of perspectives, thereby leading to research that directly contributes to macroeconomic policy.