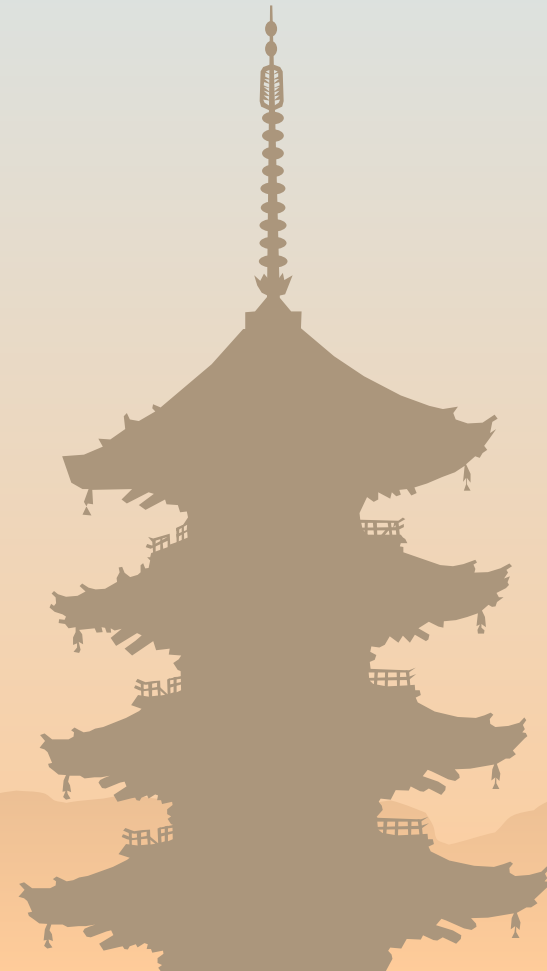


Occupying Japan

Five Myths and Realities:
Economist's Eyes and Its
Possible Implications to Iraq

Toshiyuki Yasui, Senior Fellow, JBICI
At the JIAP event "OCCUPYING IRAQ"
April 23, 2003
E-mail: yasui.toshiyuki@anet.ne.jp



Myth #1: Japanese Economy Revived From Ruins

- ❁ REALITY:
- ❁ Japan lost its national wealth in non-military sector only by 34% due to the War. Industrial Infrastructure in rural area mostly remained safely.
- ❁ However, it took 5 years to get its GNP back to pre-war record level. (eg. GNP 1934-36=100, 1946=69, 1949=87, 1951=109)
- ❁ IMPLICATION TO IRAQ: Iraq seems to retain almost all industrial infrastructure safely (eg. oil wells). But this does not guarantee us to see instant recovery of Iraqi economy.
- ❁ ==Needs more aid efforts in longer term ?

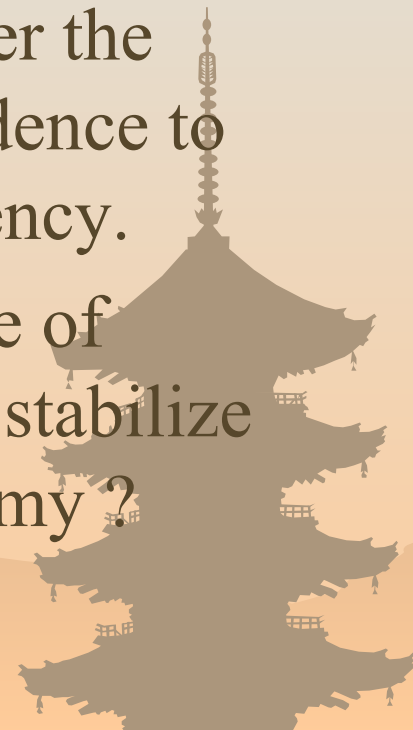


Myth #2: Dollarization Helped Stabilization

❁ REALITY:

- ❁ Japan was an exceptional country where US military scrip denominated in dollar was banned to be used as legal tender in its territory.
- ❁ In September 1945, GHQ ordered to de-link circulation of military certificate from Japanese currency to prevent collapse of confidence of Yen in local market.

- ❁ IMPLICATION TO IRAQ: If *de-facto* dollarization goes on, it may endanger the nation's confidence to domestic currency.
- ❁ ===Losing one of useful tools to stabilize the Iraq economy ?



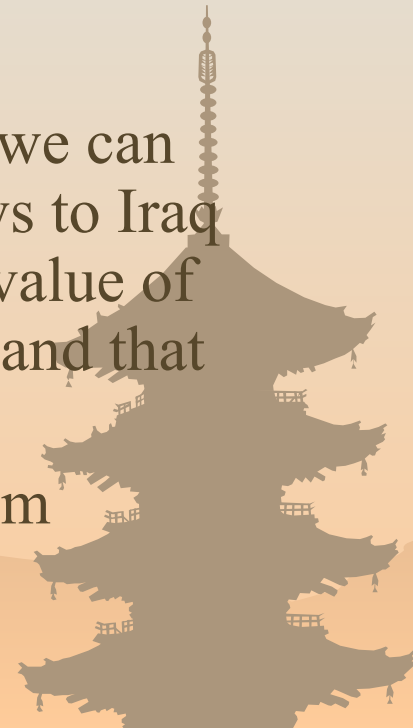
Myth #3: Land Reform & Dissolution of the Industrial Conglomerates Were Pre-requisites for Economic Stabilization

- ❁ REALITY:
- ❁ No doubt success without shedding bloods on land reform (1946) and dismantling the *zaibatsu* (1947) prepared large economic basis for democratic Japan.
- ❁ However, they did not promise economic success only by their means: agriculture sector still needed subsidy support by the government after the occupation period and *zaibatsu* gathered again as *shosha* to be competitive companies in the international market for export.
- ❁ IMPLICATION TO IRAQ: Better to consider “proper size” of companies to compete with globalized market when Iraqi state-owned companies are privatized.
- ❁ === Rural sector reform and privatization should be carefully tuned with globalized economy.



Myth #4: Japan Maintained Single Exchange Rate System

- ❁ REALITY:
- ❁ Perplexed item-by-item exchange rates system existed (1947-49) before Dr. Joseph Dodge recommended a single exchange rate in March 1949 (Yen360/\$).
- ❁ IMPLICATION TO IRAQ: Key question is how we can successfully accommodate possible capital inflows to Iraq on re-construction phase that may appreciate the value of Iraqi currency *vis-à-vis* its major trading partners and that thus may weaken its trading competitiveness.
- ❁ ===An idea to keep the dual exchange rates system (capital and non-capital) in transitional period ?



Myth #5: GHQ & Japanese Officials Kept At Good Arms Lengths

- ❁ REALITY:
- ❁ As the occupation prolonged, the occupation itself had become an institution. The period in 1947-48 was also a time of disarray and financial scandals involving some officials of the Supreme Commander for the Allied Powers (SCAP). (eg. *Showa Denko Incident*)
- ❁ Japanese officials raced to touch with SCAP officials to get their own “ideal” policies realized. Even private companies officials began to use SCAP to their ends.
- ❁ IMPLICATION TO IRAQ: Need to establish effective arms lengths measures and inspection procedure.
- ❁ ===SEC & GAO officials on tour in Iraq ?

