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Second wave of Japanese investment

THE second wave of migration of Japanese companies to Malaysia and other countries in the region will not result in the hollowing out of the Japanese economy, Japan's former Vice-Finance Minister for International Affairs Eisuke Sakakibara tells Hardev Kaur in an interview in Tokyo.

Q: The Japanese economy grew at 2.4 per cent in the first quarter. In December last year you had said that Japan's inherent strength has not been recognised by the rest of the world. What do you have to say now?

A: That was anticipated but what we need to observe is the April-June growth. During this period it may not be that strong.

We are at a crucial juncture (of economic recovery) and in terms of policies we should not tighten either fiscal or monetary policy.

We need to be very vigilant at this juncture. We do have basic strength in technology. But we need to carefully manage both the fiscal and monetary policy.

Q: In December you said the underlying strength of the technological sector was strong and it manifested itself in the first quarter. Where do you see the growth coming from in the next three to six months?

A: Mostly in plant and equipment investment for the information and telecommunication sectors. It is already happening.

Between January and March this year it (the information and telecommunication sectors) turned out to be positive.

It is going to expand to other industries. What is uncertain at this moment is consumption.

Growth should be reflected in higher earnings for corporations and higher incomes for individuals and higher consumption. That has not happened yet.

Q: Why is it that the Japanese are very cautious with spending?

A: Part of that is culture. The other is perception of future uncertainties.

Major structural changes are going on in Japan and especially in the labour market. Lifelong employment is changing and gradually collapsing.

This gives rise to uncertainty among employees and of future wage increases. That inhibits the consumer who will be less vigorous in spending. To some extent that is inevitable.

Q: The US economy seems to be coasting along. Do you see it continuing to act as the engine of growth for the rest of the world? Where will the growth come from?

A: I don't think that the US can continue to grow at this rate. The US economy which is growing at five to six per cent will probably slow down to about four per cent in the year 2001.

The growth will have to come both from Europe and Asia and it has to come from Japan.

Q: Are you optimistic that Japan will be able to do this?

A: Given clever management of the fiscal and monetary policy, I think we could do it.

But I am a little worried about the statement on interest rates from the Governor of the Bank of Japan.

Q: Now that the Southeast Asia has registered a 'V-shaped' recovery and Malaysia is back to registering growth rate of before the crisis but Indonesia is a different story. Do you think the region has really recovered from the crisis and have we learnt any lessons from it?

A: I think we did learn a lesson. Indonesia is different where the system has collapsed. But South Korea and Malaysia have learnt and have substantially changed their economies.

Many of the countries are undergoing major structural changes. Of course the IT revolution is going to spread to this area as well.

It is noticeable that in the course of the last two years intra-regional trade has increased quite dramatically.

Exports from Japan to the Asian region and imports by Japan have increased. The same thing can be said of China and other Asean members. It is a trend for the future - increased intra-regional trade and eventually increasing intra-regional dialogue. That would probably strengthen the foundation of this region.

Q: Prime Minister Datuk Seri Dr Mahathir Mohamad advised to Japanese businessmen and entrepreneurs to have a second wave of migration to Asia and Malaysia to remain competitive.

A: I think so. We have done that in the 1980s. We had withdrawn some investments during the crisis but now some Japanese businessmen are very keen to increase direct investments in Malaysia and the rest of Southeast Asia. In order to compete globally that is absolutely necessary.

Given the information and telecommunication technology as well as computers and management of manufacturing processes offshore we could manufacture very high quality goods outside Japan, in Malaysia and elsewhere. That is the basis for the second round of direct investment.

I am not worried about the hollowing out of Japanese economy. It would lead to other high technology industries (to develop in Japan) and that is inevitable.

Q: There are concerns that because the nature of employment has changed and with the resultant unemployment in Japan for the first time, Japanese companies may be reluctant now compared with the 1980s to move out. Do you sense this reluctance?

A: Yes, some companies are worried about unemployment here. But I think there should be major restructuring of the labour market in this country anyway.

So I don't think that they should hesitate to go for direct investments in Asia. Sure, that may cause some unemployment in certain areas. But that is inevitable. Delaying the process does not contribute to anything.

Q: Where do you see the Asian Monetary Fund heading after Chiangmai where a regional swap arrangement was agreed on? Are you more positive now of its future?

A: Chiangmai is a first step in the right direction. What is important is that in Chiangmai, China came on board for the first time. We need to develop the swap arrangement for the region including China, and that is a step in the right direction.

But we also need to push the trade and direct investment negotiations. We could have some kind of intra-regional trade round and liberalising trade within the Asian region.

In this, the Japanese should play a leading role. We should make major sacrifices in areas such as agriculture so that the rest of Asia will benefit from liberalisation.

That (agriculture) has been a very difficult political issue that will continue to be a difficult political problem. But we need to overcome this political difficulty in order to enhance the growth of intra-regional trade.

The growth of intra-regional trade and growth of intra-regional direct investment would lay a much more solid foundation for international financial co-operation such as the proposed Asian Monetary Fund and possibly help towards some kind of currency arrangement. That is how

European unification proceeded. We need to emphasise both trade and direct investment.

Q: There has been reluctance for change, despite criticisms including that from Joseph Stiglitz of the International Monetary Fund and the World Bank. Do you see any light at the end of the tunnel regarding changes in the international financial architecture?

A: There is some progress but I am not that optimistic. What we need to do is to proceed on the regional front rather than hope that the global financial architecture would proceed as we want. That would be very difficult.

There are some national interests of the US involved. There are some national interests of some European countries involved and those are different from ours.

Of course we need to continue to make efforts to improve the international financial architecture, but at the same time we should work quickly on the regional front. That would probably speed up discussions on the international financial architecture as well.

Q: Do you see anything positive coming out of the Group of Eight meeting in Okinawa (July 21-23)?

A: I don't think anything concrete will come out of it. They will probably leave some abstract agreement on the importance of IT and some statement of a digital divide and or IT revolution and a statement that something needs to be done to fill in the digital divide and gap.

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