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## Second wave of migration key to Japan's survival

Hardev Kaur in Tokyo

JAPAN is emerging from a prolonged recession. Its gross domestic product (GDP) grew at 2.4 per cent in the January-March 2000 quarter - a 10 per cent annual growth rate for the three-month period and the fastest in four years.

While the 0.5 per cent growth was a shade lower than the 0.6 per cent forecast by the Government for the fiscal year to March, it nevertheless represents a rebound from a two-year losing streak. Or does it?

The currency and stock markets did not react positively to the GDP figures. There are other figures and statistics that are said to be acting as a damper on the stock and currency markets. These include unemployment and salaries, a contraction in bank lending and the unused capacity of businesses.

But even so the positive GDP growth figures in Japan will provide a boost to economies of the region which are themselves recovering from the crisis of 1997. The world's second largest economy is an important export market as well as a major source of investment for countries in South-East Asia.

With strong investment in the information and telecommunications sectors, the Japanese economy, according to Mr Eisuke Sakakibara, former vice minister for international affairs, is set to register fairly robust growth. Japan, he says, can become the engine of growth for the region.

But private consumption in Japan is still weak and this is attributed to the outlook of the Japanese themselves. With the employment structure changing and with lifelong employment breaking down, consumers are understandably more cautious, thus the "anaemic" private consumption figures and declining household spending figures.

Japan, which recovered from the devastation of World War II to become the world's second largest economy, has inherent strengths that can propel the economy forward and pull the region along with it.

Japanese companies can remain competitive and in the forefront of innovation. This, Prime Minister Datuk Seri Dr Mahathir Mohamad says, can be achieved if Japanese companies "migrate" their costly production facilities to Malaysia. This will enable them to be competitive by taking advantage of the lower costs as compared with Japan.

Sakakibara agrees. He says for Japanese companies to compete globally, it is "absolutely necessary" for them to move out. And with technology, information and telecommunications combined with the computer management of the manufacturing industry, "we could produce very high-quality manufactured goods outside Japan".

The first round of migration was during the 1980s, following the appreciation of the yen or "endaka", when many Japanese companies moved their operations to Malaysia and other South-East Asian countries. In fact, the bulk of production by a number of large Japanese corporations is now based offshore, including in Malaysia.

Indeed many of the operations and companies that moved abroad have done very well. The move was necessitated by, among others, the need to remain competitive in the world market and in the forefront of technology and innovation.

A second wave of migration is deemed necessary. The yen continues to strengthen against the US dollar and the euro. The Bank for International Settlement (BIS) points out that "from its lows in 1998 to its highs in

early 2000, the yen has posted an almost 45 per cent gain against the dollar and a 65 per cent appreciation against the euro". This makes for more expensive Japanese goods and services, thus rendering it less competitive in world markets - and certainly in the US and Europe.

To compete globally, Japanese industries must take advantage of the competitive environment of its Asian neighbours such as Malaysia.

Undoubtedly the economic situation in South-East Asia and Japan has changed since the 1980s. Some companies, says Sakakibara, had withdrawn from the region before the crisis. In an interview in his office in the Japanese capital, Sakakibara pointed out that in the last two years or so, intra-regional trade had increased substantially and now Japanese businessmen are quite keen to increase direct investment in Malaysia, other South-East Asian countries and even in India.

The trend for the future is clearly for increased intra-regional trade and dialogue which will increase and strengthen the foundation of the region. The environment for a "second wave of migration" of Japanese industries is set, he contended.

In Malaysia, the Multimedia Super Corridor (MSC) provides additional incentives and an environment not available elsewhere. Japanese companies should, and can, take advantage of the incentives provided in the corridor. It is also possible for investors to operate throughout the world using the MSC as their springboard.

The 50km by 15km corridor is almost a different country, with different laws, different practices and policies and with all the facilities and infrastructure needed for IT. In other places, there may be "one street or one building" but none so far has been able to set up a corridor of the size of the MSC and all the advantages that it offers.

What about the argument that the migration of Japanese industries and businesses would mean a "hollowing out" of the Japanese economy? Sakakibara, also known as Mr Yen for his influence on the currency markets, is not worried. He argued that the migration of Japanese industries will in fact lead to the development and emergence of other high-technology industries and "this is inevitable".

Even unemployment in Japan should not hold back companies from moving out to remain competitive. Mr Yen pointed out that the economy is undergoing a structural change which also means a major revamp of the labour market.

"I don't think they should hesitate to have direct investment in Asia. Sure, that may cause some unemployment but that is inevitable," said Sakakibara. High-cost Japanese industries must migrate to survive and remain competitive. The move will prompt greater innovation and restructuring of both the Japanese economy and industries.

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