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Title	<i>Sun rising over Japan for European investors.</i>

European companies, seduced by the growing industrial might of China, risk ignoring Japan just as Asia's biggest economy is shedding its historic aversion to foreign investment, experts say.

At a Brussels conference this week, economists, corporate executives and government officials said Japan was quietly reversing decades of thinking that regarded investment by “gaijin” (outsiders) as a pernicious threat.

The “Japan Paradox” seminars, organised by the European Commission and the Japan External Trade Organisation, were told that for the first time in years, Japan was becoming a sound bet for foreign companies.

“The lack of interest for Japan in Europe is amazing,” said Magnus Blomstroem, director of the Institute for Japanese Studies at the Stockholm School of Economics.

“Japan has changed tremendously over the past four years but that change has not been recognized,” he said.

For decades Japan's mighty trade ministry kept foreign firms at bay through a mixture of stifling red tape and crippling tariffs.

But after the “lost decade” of the 1990s, the government of Prime Minister Junichiro Koizumi has belatedly realised the benefits that foreign direct investment (FDI) could bring as Japan tries to regain its economic lustre.

The government plans to double FDI in five years from its current paltry level of 1.1 percent of gross domestic product, which compares to an average of 17 percent in other industrialised countries.

A recent study by the American Chamber of Commerce in Japan showed that if FDI rose to the average of other developed nations, its economy would grow an extra 1.5 percent a year.

“As we get mature, advanced, old, what we need from FDI is freshness,” Keio University professor Haruo Shimada, whom Koizumi has appointed to lead a panel of experts to examine the issue, told the Brussels conference.

“We are now coming into a completely new historical stage, like in the middle of the 20th century in Britain,” he said, noting that Japanese companies had helped revitalise Britain's ailing industries, notably car-making.

Jesper Koll, chief economist for Merrill Lynch in Tokyo, said: “Japan is back.”

After years of painful reform, “the industrial heartland of Japan has restructured and is coming through”, he said.

Japan has always had world-beating industries such as cars and electronics, but Koll said laggard sectors such as steel, cement, chemicals, mechanical equipment and wood pulp were now on the rebound.

“Japan is running a growing trade surplus with the US, Europe, (South) Korea and since this autumn China. Japan clearly is very competitive.”

Richard Collasse, head of the European Business Community in Japan, bore personal witness to the growing allure of the world's second-biggest economy for foreign firms.

He said his company, Chanel Japan, was investing 240 million dollars (200 million euros) in a new logistics centre at Chiba, outside Tokyo, and in its flagship perfume and fashion store in the Japanese capital's glitzy Ginza district.

And Japan enjoys one key advantage over its growing rival on the Asian mainland, Collasse said.

“Japan is a stable democracy. China is not,” he said.

Fernando Valenzuela Marzo, deputy director general for external relations at the European Commission, said the obstacles that have kept foreign companies out of Japan for so long were slowly being dismantled.

“Step by step, Japan is becoming a normal, regular market,” he said, citing Renault's intervention in Nissan in 1999, which saved Japan's second-biggest car company from bankruptcy, as “a watershed”.

The Nissan case shows that there has never been a better time to head to the Land of the Rising Sun to take advantage of the restructuring of Japanese industry, the experts said.

“The time to enter the Japanese market is the sooner, the better,” said Merrill Lynch's Koll. According to Blomstroem, “in a few years, it will be too late”.