The strong yen and increased competitive pressures at home are forcing companies to move production offshore

New Opportunities Opening In Japan

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BRITAIN has enjoyed a special economic relationship with Japan in recent years, as Japanese companies have invested heavily here. This inward investment has been of vital importance to the British economy. It has revitalised British industry and improved our trading performance.

As Japan is still the world's major exporter of capital it is important for Britain to maintain these close economic ties. Fortunately these ties should remain, although a close eye needs to be kept on the current dramatic economic changes under way in Japan.

Britain still has a large trade deficit with Japan. UK exports to Japan have slowly risen from £1.0bn ten years ago to £2.99bn in 1994. This has been more than offset by the growth in imports from Japan, which have risen from £4.12bn to £8.9bn over the last decade. The underlying trend should improve in coming years.

Apart from the United States, Britain has been the recipient of more Japanese foreign direct investment than any other country.

Latest official Japanese data shows that by the end of fiscal year 1993-94, the accumulated total of Japanese direct investment in the UK was $31.7bn.

This was more than four times the amount directed into Germany and compares to total Japanese investment in Europe of $83.6bn. In fact, Britain has been the recipient of 7.5% of Japan's total overseas investment; roughly 42% has gone to the USA.

This investment has been across a wide spectrum. A large number of Japanese manufacturing firms have established operations here in sectors such as the motor industry, chemicals, electronic and electrical equipment as well as general machinery. Many Japanese firms have made Britain the centre of their European operations, taking advantage of lower costs in Britain compared with most of the continent. And, contrary to popular belief, they tend to have a good opinion of British labour force skills.

But it has not just been manufacturing. Japanese financial investment has been concentrated in London, given its predominance as Europe's financial centre.

Although one or two Japanese financial firms may have scaled down their operations recently the vast majority, such as Dai-Ichi Kangyo Bank, are continuing to expand. Financial sector deregulation in Japan and the strength of the yen will encourage this expansion.

Dramatic change. Japan is presently experiencing one of the most dramatic changes in its recent economic history. Structural, long-lasting shifts are evident throughout the economy. These shifts will continue for some time, although the strength of the yen is ensuring that the pace of adjustment is speeding up.

> Japanese direct investment in Britain is four times greater than in Germany

Japan is suffering from the three 'Ds' – deregulation, deflation and deindustrialisation.

Deregulation means the opening up of the Japanese economy to foreign competition. The Japanese economy is the mirror opposite of the British economy. In the UK our retail, distribution and financial sectors are incredibly efficient and are amongst the best in the world. But although our manufacturing sector is efficient it is too small. By contrast, Japan's manufacturing sector is huge and efficient but its retail, distribution and financial sectors are all relatively inefficient.

This stems from the way the Japanese economy has been protected. After the Second World War when the Japanese economy was small and weak many regulations were introduced, aimed at promoting and protecting industry.

These regulations succeeded in their task, but now they are seen as defending the status quo, stifling competition and making it difficult for foreign firms to break into the Japanese market and sell goods there.

Japanese firms have thus been able to sell goods almost free from foreign competition.

Last autumn, the Japanese government said there were 11,402 rules in place affecting just over two-fifths of the economy. Then the government indicated that it planned to remove half of these regulations over the next five years.

If only it could be as easy as that! By the time the government announced its five year plan at the end of March it contained proposals to remove only just over 1,000 regulations. Political enthusiasm for deregulation had waned in the wake of continued domestic economic problems in Japan. Clearly this pace of deregulation is too slow.

The main initial pressure for Japan to open its economy came from abroad, and in particular from the Americans who were alarmed by the sizeable trade deficit with Japan. President Reagan focused on reducing the deficit through macroeconomic measures, forcing the yen to become stronger and pressurising the Japanese to boost domestic demand. President Bush, meanwhile, emphasised the need to remove invisible barriers and open the economy.

President Clinton has combined the approach of both his predecessors, using Larry Summers to push for a more stimulative fiscal policy in Japan, and Mickey Kantor to speed up deregulation. But the pace of change is still too slow for the Americans, particularly in the area of autos.

It is not just foreigners who are looking for change. In recent years there has been increasing pressure from within Japan for deregulation. Japanese consumers have felt that they have not shared enough in Japan's industrial success. This is rather ironic. Whilst many people here in Britain wish to achieve Japan's success, many in Japan envy what they see as better living standards in the West.

Deregulation will have two dramatic

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