

Interview with Teruo Asada, former Chairman &amp; Executive Advisor of Marubeni Corporation

# Japanese Business Leader Is Cautiously Optimistic About the Global Economy

By Japan SPOTLIGHT

Think tank people are concerned about the possible harmful impact of the US-China tech cold war if it is prolonged on the world economy and trade. How does the business world view this? While think tank views are theoretical and have a macroscopic perspective, businesses tend to be more practical and focus on tangible effects.

Teruo Asada, former chairman and executive advisor of Marubeni Corporation, one of the largest Japanese trading companies, kindly spared time to respond to our questions on this issue. The views of a big trading company's representative are of great interest given the current turmoil in global trade and the possible impact upon global supply chains.

(Interviewed on Dec. 13, 2019)

## Current State of the Global Economy

**JS:** I suspect that a prolonged US-China tech cold war will have a strong negative impact on the world economy. Many economists think the US economy is still in an expansionary stage at this moment, but I think a prolonged trade war would seriously harm the US economy, the Chinese economy and eventually the global economy. What do you think about the outlook for the world economy if this trade war continues?

**Asada:** In the light of the current business situation, I do not think the global economy will fall into a recession, as it did after the Lehman Shock in 2008, though it may slow down to a certain extent. I believe in the strength of the US economy. The US-China trade war would strengthen the need for restructuring global supply chains, which could lead to rising production costs. Tariffs are also rising, and developed nations are suffering from a labor shortage. Under such circumstances, in 2020 world economic growth will be slightly lower than in 2018 or 2019.

The US economy and Chinese economy will be negatively affected by the trade war. In particular, the Chinese economy would fall into difficulty due to a continuous decline in exports for the past two years. However, both the United States and China can still afford to implement active monetary and fiscal policy to stimulate their economies. I visited the United Kingdom last December just before the general election that determined the direction of Brexit on behalf



Teruo Asada

of the chairman of the British Market Council, a private organization aimed at promoting Japanese imports from the UK and supporting Japanese companies interested in setting up offices or factories in the UK. I talked with opinion leaders there and I was impressed by the robustness of the UK economy. It will not be in any serious difficulty due to whatever may happen after Brexit.

What I am most worried about is the Japanese economy. Japanese interest rates have already reached below zero and there will be little room to lift the economy by monetary policy. Our public finances are in the worst condition, with tremendous accumulated debt. There is also very little room for stimulating the economy by fiscal

policy. It is certainly true that the Japanese economy has been enjoying its longest expansion in the postwar period, lasting many months. But this can be considered as a consequence of the continued monetary easing policy so far and not of a consolidated growth strategy. I am particularly concerned about the delayed implementation of a growth strategy for raising industrial or national competitiveness by structural reform, compared with the rest of the world.

Overall, I think the world economy, including emerging economies and those of ASEAN nations, will not get into a serious recession, although there could be a tentative slowdown in 2020.

## Japanese Business Suffering from Power-Based International Politics

**JS:** I guess there might be cases where Japanese business interests would be seriously harmed in

## power-based global politics without rules. What do you think about this possibility?

**Asada:** I am not worried much about it. I participated in the Annual Joint Meeting held by the Japan-US Southeast Association and Southeast US-Japan Association as a chairman of the Japan side in October 2019 in the state of Georgia. This meeting regularly attracts the attendance of state governors and business leaders from the seven southeastern states in the US (Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee) and Japanese business leaders. At the meeting I raised with the seven state governors the possibility of Japanese business being negatively affected by the decision of the Committee on Foreign Investment in the US (CFIUS) to reject foreign direct investment (FDI) due to national security concerns.

Many Chinese companies today are finding their FDI in the US rejected. Our concern is that Japanese business could be involved in such US-China friction in the future. For example, if a Japanese company, in partnering with high-tech Chinese companies, is trying to invest either in the US or other countries, there would be a possibility of the US opposing it. Particularly in the case of large-scale investment either in the US or other nations, I thought there could be great concern about its being refused by the CFIUS. But, after having talked with the governors, I found it is quite unlikely that Japanese companies would be involved in any such trouble and they would neither suffer any serious loss nor would any new business be difficult to start.

I was also surprised to see in this meeting that the trade imbalance between the US and Japan was not an issue for discussion anymore. The largest bilateral trade deficit of the US is now with China, followed by Germany and Mexico. Japan comes next. The US-Japan trade imbalance or trade issues do not matter much anymore for the people in the US. There is also the fact that Japanese FDI in the US has worked well in convincing US states of its utility and this has lessened trade friction between the two.

Some 1,500 Japanese companies have invested in the seven southeastern states and created around 200,000 new jobs there. The investment balance in those states amounts to more than \$40 billion, while the investment balance overall in the US is around \$400 billion. This is greatly appreciated by local communities and I believe this is the best example of the win-win relations achieved by the US-Japan partnership since the 1970s.

As a business person who has worked for a trading company for many years, I believe that business is based upon human relations. That is an important lesson for us. Having seen such good human relations built up between the US and Japan, I think there will be little risk of Japanese business being hampered by the CFIUS decision, though the risk is not zero.

## Rules-Based Trade Regime

**JS:** Even with little possibility of Japanese business being affected negatively by power-based international politics, would it not be better to have a rules-based trade regime that ensures free trade and

## investment?

**Asada:** Yes, but it is difficult. The WTO's rule-making function has stopped working and even its dispute settlement mechanism has been seriously hampered by the lack of a majority among the seven members of its Appellate Body tasked with making a final decision on the relevancy of the dispute panel report. Can Japan take the initiative in reconstructing trade and investment rules? I think there will be a greater role expected of Japan in rule making for IPRs and national security-related issues. However, I am skeptical about Japanese leadership in WTO reform or in founding a new trade regime to replace the WTO. The US is a self-sufficient nation, as it can provide energy and food necessary for domestic use and survive even with its markets closed, though that could negatively affect the economy in the long run. How can Japan lead the US to a rules-based global regime?

President Donald Trump is doing well in having China accept a tentative agreement to modify its aggressive foreign economic policy by his tough countervailing policy. No other person could have earned such a gain from China. The US economy is still in good shape. The trade war is not significantly harming its economy at this moment.

Meanwhile, Japan is certainly doing well in having concluded the recent trade agreement with the US. I believe these provide good bilateral rules. But as for global rules, I think it will be questionable for Japan solely to create them on its own initiative or leadership.

**JS:** It may be difficult for Japan to create a global trade regime, but it would be possible to make regional trade rules like the TPP among Asia-Pacific nations.

**Asada:** Yes, that is true. Japan's contribution to mega-regional FTAs is significant, as shown in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which should have been even better with the US joining it, the EU-Japan EPA, and the trade agreement between Japan and the US, as mentioned, which stays largely within the framework of the CPTPP. Another mega-regional FTA, the Regional and Comprehensive Economic Partnership (RCEP), will be concluded with India's agreement soon. I think such regional FTAs can be achieved by Japanese leadership, and taking the initiative in concluding such regional trade rules will be a crucial role in the future for Japan, but the WTO or other worldwide trade regimes possibly replacing the WTO will be difficult to achieve only by a Japanese initiative.

**JS:** In such rule-making, economics and national security are increasingly discussed simultaneously. METI has recently set up an office focusing on the interrelations between the economy and national security. The recent revision of the Foreign Exchange and Foreign Trade Act in Japan, imposing restrictions on FDI over possible harm to Japanese national security, is one example of how economics and national security are closely related.

**Asada:** If national security concerns become too great they would push Japan into a contradictory stance on free trade, which it has been advocating until now. This could lead to many sanctions and we cannot deny any possibility of the global trade regime moving towards anti-liberalization. The revision of the Foreign Exchange and Foreign Trade Act could also provoke friction between Japan and the investing countries, even with a very small amount of FDI. Of course, Japan should respond to concerns about national security in balance with economics, as is the trend today. But it is necessary to bear in mind that excessive policy intervention based on concerns over national security could be disastrous.

**JS: Australia and Japan seem to share the concern about the balance between economics and national security and agree that they should be discussed simultaneously. I think they can be good partners in this regard. Both nations play a key role in APEC. APEC could be a good venue for discussing economics and national security, assuming that the WTO does not work well. It would not enforce any obligation upon member countries but there would be peer review pressure on them. This would make it easy to achieve a consensus among member nations.**

**Asada:** Unfortunately, the US is not paying much attention to APEC. Trump is not interested in attending multilateral forums, as he prefers bilateral discussions and negotiations. It is certainly a good venue for discussion, but I doubt if APEC would be the venue where new international rules are adopted.

## **Coping with Other Rising Geopolitical Risks**

**JS: Besides the US-China tech cold war, there are other geopolitical risks, such as Iran or North Korea. How does a trading company in Japan like Marubeni prepare for them?**

**Asada:** Japanese trading companies have been pursuing business opportunities despite the wide range of geopolitical risks. We have been doing business with our partners and clients in close relationships for a long time under such risks. We would also pursue business opportunities in other countries and communities with Chinese companies even with the risks that may entail, if such business could bring those nations or communities invaluable benefits.

I believe that trading companies must continue their win-win business with their partners, while bearing in mind existing geopolitical risks. Of course, it would be thoughtless to continue business without any risk management policy. We trading companies have developed good risk management strategies for each country based on our knowledge and wisdom acquired from long worldwide business experience.

When there is any large-scale conflict in the world or a need to think about specific emerging risks, we rethink and revise such risk

management strategies on our own. Our company, through such a process, has developed our own ranking of country risks and country ratings and we define the limits of exposure to transactions with a specific country based on that ranking. We must also think about the means of hedging those risks while developing risk management.

We have been working with Japanese public agencies, such as the Japan Bank for International Cooperation (JBIC), Nippon Export and Investment Insurance (NEXI) and the Japan International Cooperation Agency (JICA), in financing our projects for hedging risk. Also I believe that working with international organizations such as the Multilateral Investment Guarantee Agency under the World Bank, which has long experience in Africa, or the IMF in terms of co-financing would be important in avoiding political and/or credit risk. Such a risk hedging strategy would be a product of our trading companies' wisdom born of our business experience.

## **Private Business Involvement in Rule-Making on Economics & National Security**

**JS: In rule-making on economics and national security, would we need to involve more private business people's views in policy discussions and formulation? For example, it is often said that there are some sensitive technologies which could harm national security. It might be only private businesses that could identify exactly what these technologies are.**

**Asada:** Yes. Having participated in various meetings of advisory boards to Japanese government ministries, I found there were very few business people among the members, while there were many academics and economists. The arguments of the academics and economists were too theoretical and conceptual because most of them do not have actual business experience so that they are not fully aware of the real problems which businesses face.

I think the Japanese government should create more venues for policy discussion with private business people who are engaged in actual business and knowledgeable about business realities. They should take full account of those business people's views in policy formulation. Not only trading companies but also manufacturing companies or IT business should be more involved in exchanges of views on the economy and business with the policy makers in the government.

I think such dialogue between the government and private sector in Japan would strengthen the capacity of Japanese policy decision making and thus encourage Japanese leadership in global governance. I sincerely hope that such strengthened Japanese leadership can lead the world economy to better globalization. **JS**