

And Yet the Times Move on ...

By Wakamatsu Kenji

If we restrict ourselves to the tone of the media, the year 2003 dawned in Japan amid an unprecedented mood of impending crisis. One reason for these fears is that the structural reforms announced by Prime Minister Koizumi Jun-ichiro have not produced the expected economic growth. And the increasingly held view is that deflation will get worse, and usher in a situation similar to that of the Great Depression of the 1930s. This opinion says that there are lessons to be learned from President Herbert C. Hoover's stubborn adherence to balanced finances, which precipitated the 1929 Wall Street crash and the worldwide depression. There is also uncertainty over Iraq. War with Iraq might have already started by the time this edition of the *Journal of Japanese Trade & Industry* appears. How and when might this war be resolved? And what are the prospects for a postwar settlement? North Korea's nuclear program also poses a direct threat to Japan. There will hopefully be more cooperation amongst Tokyo, Washington and Seoul, as well as more international lobbying with the help of Beijing and Moscow, to put a stop to the program.

The real private sector economy has been subject to globalization since the end of the Cold War, while ferocious corporate competition is changing ideas about the international division of labor. Internationally, there has been a considerable shift from the vertical arrangement of the production process, the type of arrangement we saw in the past involving parent and subsidiary companies, to a horizontal arrangement, which allows a diverse range of options in planning and development, production of components, assembly, marketing and office management. There was once a lot of talk about Japanese corporations shifting their manufacturing offshore. Their shift into the Association of South-East Asian Nations (ASEAN) countries, in order to reduce manufac-

turing costs, signals such an arrangement. In Europe also, more than a third of German corporations have transferred their manufacturing bases to Eastern Europe, which has worsened employment and brought economic stagnation in Germany. Major North American, European and Japanese corporations are meanwhile shifting into China in search of huge markets, and are showing the sort of activity to make China the factory of Asia, and indeed the factory of the world. Economic ties are also growing between China and the ASEAN countries. A Chinese corporation has started producing TV sets in Vietnam, while a Thai corporation has opened China's biggest shopping center in Shanghai.

There is currently a considerable flow of orders between China and the ASEAN countries for unfinished components, orders that also involve Japanese corporations. This flow has also been a factor in moves to establish a free trade area between China and ASEAN. ASEAN has the edge in manufacturing technologies, with computer-aided design and technical guidance bringing a sharp rise in technical transfers. But China is also keen to acquire advanced Japanese technology, buying up or providing capital to small and even moderately large Japanese firms, which are strapped for cash in Japan's economic downturn. Some Japanese corporations are meanwhile hopeful and willing to shift to new markets in a bid to survive. So we see the beginnings of what might be called the "Asianization" of the Japanese economy.

China appears to be aiming for the creation of the world's largest free trade area, which would embrace Japan and South Korea in addition to ASEAN. The United States does not welcome Asia's economic integration in this form, and it is wary of moves toward an Asian Union (AU) similar to the European Union (EU). This is out

of concerns about the political repercussions and out of skepticism about economic integration with a country, which despite its progress toward a more open economic system, is beset by human rights problems. China, however, is keen to increase its participation in the world economy in order to ensure the success of the 2008 Beijing Olympics.

The question is how do we reconcile conflicting national economies and conflicting national and corporate interests? These conflicts are growing all the time with the globalization of economic interdependence. We have seen such conflicts in the expansion of the EU. The World Bank and the Asian Development Bank have also sounded warning bells about the deflation that is hurting Japan. There are limits to what a single country can do, which means that there will have to be more cooperation among Japan, North America and Europe, as well with China, which also counts as a major country.

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