

# Patchy Regional Economic Recovery

By Hamano Takayoshi

One day after the Dow Jones Industrial Average nose-dived 617 points for the steepest single-day point loss ever in New York on April 14, the Group of Seven (G-7) industrialized nations held a meeting of finance ministers and central bank governors in Washington. In a communique adopted at the end of the meeting, Japan was strongly urged to take further economic measures in order to spur its economic recovery.

The world economy has relied on strong growth in the U.S. economy in recent years. But it may no longer be able to expect much of the U.S. economy. This in turn indicates that Japan has a greater role to play in the world economy because its gross national product (GNP) accounts for as much as 16% of the world's total output of goods and services.

Then is the Japanese economy picking up steadily?

## Actual Performance of the Japanese Economy

This spring, the government and the Bank of Japan expressed the view that the Japanese economy is moving on the road to recovery, based on the results of an array of surveys. Government economists believe the Japanese economy is heading for recovery after suffering a downturn for two years through the spring of 1999. The economic setback followed a consumption tax hike from 3% to 5% in 1997.

Plant and equipment investment is indeed perking up in Japan, centering on the information technology (IT) sector, which has led robust U.S. economic growth. Computers, information software, mobile phones, copiers and other equipment related to

communications and information are taking a greater share in the nation's overall capital spending.

But, consumer spending, which accounts for 60% of Japan's GNP, remains on the ebb. Moreover, no signs of recovery are in sight in the employment situation, with the number of corporate bankruptcies increasing. Reflecting the ongoing corporate



Utrecht Terrace at Huis Ten Bosch in Nagasaki Prefecture

Photo : © Huis Ten Bosch

place in July, large-scale amusement facilities, which were planned in the bubble-economy era, are unlikely to move into the black in the near future - a major factor behind the persistently weak business sentiment in the region.

Of these facilities, Huis Ten Bosch in Nagasaki did away with its accumulated deficit of 80 billion yen - equivalent to 180% of its annual revenues - through negotiations with banks and sales of land-holdings of its affiliates. The facility is now trying to get back on its feet under a new president.

By contrast, the Seagaia resort complex in Miyazaki, in which a meeting of G-8 foreign ministers is slated to take place, remains in the doldrums. At the end of March 1999, long and short-term borrowing at the facility stood at 262.8 billion yen. The figure is 13.6 times larger than the company's revenues of 19.3 billion yen for fiscal 1998. Given declining revenues, the resort facility is projected to remain in the red for the time being, with its cumulative deficit reaching 111.5 billion yen, 5.8 times as large as its annual revenues.

Recently released business results show that the direct operating costs of the Ocean Dome and other facilities total 19 billion yen, compared with its annual revenues of 19.3 billion yen. This indicates it is no easy task for the Seagaia complex to move into the black.

The Seagaia facility weathered an immediate financial crisis because the Miyazaki prefectural government subsidized some 6 billion yen, which is almost equivalent to the amount of interest on loans in fiscal 1998 held by the Seagaia. The company is seeking

restructuring, the jobless rate hit a record high 4.9% in March.

Furthermore, the pace of recovery differs widely, depending on industrial sectors and companies. While job offers in the data processing field are robust, many other sectors show no signs of recovery.

The ratios of job offers to job seekers also differ widely, depending on regions.

Some regional economies are still reeling under the heavy weight of bad assets left behind after the collapse of the "bubble" economy of the late 1980s, thus exacerbating business sentiment in the regions as a whole. In the Kyushu-Okinawa region where the Group of Eight (G-8) summit and related ministerial meetings are to take

to whittle down debts by selling hotels and a zoo. However, the prospects for the facility seem bleak.

Obviously, the lackluster performance of the facility is overshadowing the regional economy. The aftereffects of the bubble economy's collapse can be observed in many other areas, and nagging problems cannot be resolved instantly and are weighing heavily on the nation's economic activity.

This indicates that the Japanese economy has yet to reach a point where it will be able to show a self-sustained recovery even without relying on pump-priming measures by the central government and a "zero interest rate" policy by the Bank of Japan.

Meanwhile, the view is gaining ground in and outside the government that the Japanese economy can no longer rely on government measures in view of snowballing fiscal deficits, although Japan is being urged by other industrialized nations and some economists to take fresh pump-priming steps. Are there any other measures to revive self-sustained economic strength?

**The Mind Rules the Economy**

A proverb says "the mind rules the body." The Japanese word "keiki (economic activity)" includes the meaning of people's "mind" - a factor that we may have to recognize anew today. A delayed recovery of regional economies apparently stems in large part from a difference of sentiments.

A survey report says corporate executives' sentiments toward markets differ widely, depending on business results. The survey, conducted in late 1998 by the Distribution Economics Institute of Kumamoto Area, a nonprofit think tank based in Kumamoto Prefecture, covered 237 Kyushu-based manufacturers of consumer goods with annual sales of 200 million yen or higher. The survey results of corporate recognition in regional economies may be applicable

nationwide.

In the survey, the Kyushu companies polled are classified into two types - companies with "steady growth in sales and profit" and those with "slack growth in sales and profit" - based on sales and pretax profit the companies registered for the last three years. The survey covered the environment of competition, and production and marketing strategies (the degree of recognition). The survey shows that declining demand was cited by the highest percentage of companies with "slack growth in sales and profit" when asked about the market environment. Moreover, many companies with "slack



An overview of the Seagaia resort complex in Miyazaki Prefecture

Photo : Miyazaki Pref. Tokyo Products Tourist Center

growth in sales and profit" believe the market is in a state of maturity and saturation. Does this mean they believe they would not get out of the slump on their own? They also said their corporate and brand names are well-known in the region, indicating they rely on "noren (goodwill)." As long as they rely on noren, they cannot take a turn for the better.

In contrast, a majority of companies with "steady growth in sales and profit" are well aware of competition from their rivals in the same industrial sector and big companies in different regions and fully recognize the competitive environment to secure a market share in limited demand. More than 50% of these firms attach importance to the growth potential of markets. They are

trying actively to identify the needs of consumers and focus on areas of high growth potential amid severe competition. As shown in the survey results, recognition differs greatly between growing and sluggish companies.

To sum up, those companies which are sensitive to consumer needs and seek to make inroads into areas that are hard to crack for big businesses under an aggressive corporate strategy, seem to be able to survive fierce competition.

**Focusing on Structural Changes in the Economy**

Today businesses do not necessarily need to locate their main bases in urban areas where land and manufacturing costs are high, thanks to the innovation of information technology. Locating bases in low-cost local areas helps beef up competitiveness and relieve employees from commuters' suffering. It also helps to revitalize regional economies.

Elsewhere, job offers have been growing steadily in nursing-care service-related areas since the introduction of the public nursing care insurance system in April. The full-scale entry into the nursing-care service sector by businesses is expected to have a favorable effect on the employment situation.

In addition, the law for the promotion of recycling of containers and wrappings went into force in April. The enforcement of the law is expected to help spur the growth of resource-recycling industries, thereby giving fresh impetus to the Japanese economy. One of the important factors which can decide whether regional economies may revive or not is that businesses sensitively respond to medium and long-term structural changes in the Japanese economy. JTI

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