

A Time for People to Choose Their Own Countries

By Hamano Takayoshi

The news recently reported that in the world of sumo, Japan's national sport, top *yokozuna* Akebono had followed in the steps of Takanohana, relinquishing his U.S. nationality and acquiring Japanese citizenship, and that he was also delighted. Akebono's case involved special circumstances, in that he was required to become a Japanese national to obtain the status of *oyakata*, or elder of the sumo world, upon retiring from his present position, but generally speaking a trend is apparently now developing in Japan in which people leave Japan and in some cases give up their citizenship.

Above all, rather than building factories in Japan, companies are choosing other Asian nations because locating plants overseas eliminates the worry of being subjected to troublesome regulations and production costs are cheap. With the recent procession of incidents involving financial and pharmaceutical authorities, as well as Tokyo Broadcasting System, Inc. (TBS), no less, covering up or lying about information pertaining to people's lives, more people may be all the more inclined to disavow such a country. We appear to have entered an era in which people as well as companies are choosing countries that offer comfortable living standards and freedom of movement.

Conditions for corporate choice of country

A 1996 MITI report indicates that the ratio of Japanese manufacturers' overseas production, that is, sales from all Japanese manufacturing plants abroad compared to sales from manufacturing within Japan, had reached 7.9% for cars, color televisions, video cassette decks, and other products as of 1994. Compared to the 20% or so for the United States and Germany this could still be considered low, but in Japan's case the ratio has been rising each year and forecasts are that it will eventually

be around 15%. Overseas manufacturing by Japanese companies is also linked to increased local employment and transfers of advanced technologies to developing nations and in that sense is one international contribution. However, there are converse fears that this will lead to the disappearance of domestic manufacturing and insecurity over employment, inviting the risk of corporate hollowing out.

Why do Japanese companies abandon Japan? Above all, this is probably because production costs are high in Japan. Around this time last year companies suffered the impact of the extremely high yen-low dollar rate of ¥80 to the dollar, but the yen has now fallen by more than ¥20. The yen is still seen to be strong in spite of this and there is no knowing when export industries might again face tough times due to a rapid yen upswing. In such case manufacturing overseas becomes more profitable than exporting finished products from Japan. Many countries want to have Japanese firms locate there and several countries near Japan have low labor costs and rapidly expanding economies. Countries offering attractive incentives for companies to relocate exist nearby.

Public utility rates are often cited as factors in rising costs and the government cited pricing methods in its review of deregulatory plans at the end of March. A report compiled by the Price Stabilization Policy Council formed the basis for this, but it must be noted that, whatever splendid proposals are offered, the issue is the extent to which they will be implemented.

As a rule, free competition in the market also determines prices in Japan, but exceptions to this rule, in which the Diet and the national and local governments are directly involved in establishing pricing, that is, public utility rates, make up nearly 18% of the consumer price index and only these rates are trending upward. Recently, the post-

June revision of one public utility rate, domestic air fares, generated considerable discussion.

A flexible fare system under which airlines could freely set tariffs within a certain range was introduced in December 1995 as part of deregulation. All air carriers announced fare revisions based on this, but this led to a tremendous public backlash because as weekly round-trip discount and other fares were cut, the actual result was price increases.

On this issue I personally think that although the regulations regarding market entry have become looser than before, such as increasing the number of carriers allowed to operate per route to two or three, the shift to the flexible tariff system is the reason that competition among airlines is still inadequate and why they have yet to compete in a real sense. There appears to be a need for renewed recognition that this is what happens when incomplete market entry deregulation leads to deregulation of prices alone. In any case, the committee emphasizes in its proposals that repeated trial and error will be needed regarding measures that will be useful in restraining public utility rates.

At the least, these proposals should be implemented without hesitation. If not, it will undoubtedly spur companies' flight overseas.

However, countries that take in companies that have fled Japan involve other, separate issues.

Choosing Taiwan or Hong Kong

Prior to Taiwan's presidential election this spring there were temporary tensions when China held military exercises, firing missiles into the sea near Taiwan, and the U.S. dispatched an aircraft carrier. Although slightly off the subject, I was visiting Shanghai at the time and profoundly sensed the differences in national characters. That is,

because the TV news programs that I saw in China depicted the area of the rocket drill as near the Chinese mainland while the maps that I saw on Japanese TV news programs were closer to Taiwan, the impression was completely different. I did not know whether it was that the Chinese were trying to stress the meaning that, rather than threats to Taiwan, these were nothing more than military exercises within China, depicting them a bit closer to the continent, or that the Japanese TV shows were mistaken, but I had the feeling that the slight difference in the way that the maps were shown on television alone would have a difference on the manner in which the public viewed this issue.

The Chinese consider the Taiwan question nothing more than an internal issue and it is thought that this was a posture adopted to clearly indicate that it would not recognize Taiwan's independence. However, President Lee Teng-hui ended up being reelected, and some are of the opinion that these military exercises conversely had a negative impact. China and Hong Kong experts have begun to voice the view that a key point in forecasting Taiwan's future will be what becomes of Hong Kong after its return to China in July 1997. Hong Kong is an important commercial and financial center for China and Asia. Most Taiwanese will very carefully note whether actions will be taken to sufficiently maintain those functions when Hong Kong is restored to China. If Hong Kong is able to continue economic activities as it has up to now, they will probably think that unification with China would present no problems.

If, however, China's "one country, two systems" arrangement under which a capitalist system exists in parallel with a socialist country does not work well



Yokozuna Akebono beams at having become a Japanese national.

Photo: Kyodo News Service

after Hong Kong's return to China, the people of Taiwan will see that and will possibly be more strongly inclined to separate from China.

An additional point that should be mentioned is that China's policies toward Taiwan and Hong Kong will also have an impact on ASEAN (the Association of Southeast Asian Nations). At Asia Forum, a symposium hosted by Nomura Research Institute (NRI) and attended by various Asian think tanks in Tokyo in April, Edward K. Y. Chen, president of Hong Kong's Ling Nan College, stressed, "It is a mistake for the United States and Japan to confront China. ASEAN is the one that possesses the power to stand up to China." Vietnam joined ASEAN last year. With the addition of Laos and

Cambodia this year there will be nine nations—and ASEAN un—mistakably has an important role to fulfill in China's economic development. Needless to say, this is because there are many overseas Chinese in ASEAN who have had not a little influence in supporting China's development. Of course, in this instance "confrontation" refers to diplomatic or economic power rather than military force. Viewed in this way, it is also possible to see that ASEAN and other neighboring countries are taking strong precautions against China's assumption of hegemony through a military buildup.

Asia is now attracting attention as the world's growth center. NRI predicts that although growth will slow somewhat in 1996 compared to the previous year, Asia's newly industrializing economies and ASEAN will achieve 6.7% in real economic growth. As long as the countries of Asia put a priority on their economies and compete among each other for growth, their citizens will probably not discard their home countries to choose their own countries. So the question again comes down to Japan. In his closing remarks at the recent forum, NRI Chairman of the Advisory Board Minaguchi Koichi noted, "As we enter an age in which countries can be chosen, and especially as Japan shifts from a bureaucrat-driven economy to one led by the nation's citizens by the 21st century, as well as from a developmental philosophy to an acceptance of market forces, there will be a pressing need for structural reforms."

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