

Japanese Investment: Their Money, Our Terms

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Rising levels of Japanese investment in Australian land and industry have generated fears that Australia is becoming a Japanese colony. Wolfgang Kasper, Professor of Economics at University College (UNSW), Australian Defence Force Academy, argues that enlightened policies would ensure that Australia enjoys the benefits of Japanese investment without compromising its political and cultural values.

I N recent years, Australia has faced a fairly dramatic increase in company and land acquisitions by Japanese investors and a rising involvement in land and infrastructure development by consortia with substantial Japanese participation. Japanese capital has concentrated on considerable real-estate acquisitions in the Gold Coast area (including Sanctuary Cove and involvement with Bond University), in huge infrastructure developments, which are not altogether private, like the Sydney Harbour Tunnel and the Alice Springs-to-Darwin railway, as well as resort development like the troubled Iwasaki project in Yeppoon.

The growing Japanese presence has recently been further dramatised by official Japanese plans for a 'Multi-function Polis' (MFP) in Australia, in which Japanese developers and industrial companies would create a modern colony for Japanese and Australian researchers and producers. These plans are being promoted by the Japanese Ministry of International Trade and Industry (MITI) which has a tradition of playing 'midwife' for national cartels and concerted initiatives by big Japanese players. MITI's plans appear to have been met with eager interest by Australian state governments and big businesses (*The Australian*, 17 April 1989).

This wave of investment has triggered growing public concern and calls for the re-regulation of direct capital inflows from overseas, as well as controls over purchases of certain types of land by foreigners. Australians tend to become uneasy if they see big investment projects that promise insufficient commercial rates of return, like the Very Fast Train (see Nestor, 1988-89, for a critique of this project). This may be the result of a national Australian preference for quick returns whereas Japanese investors think long-term. But it may also stem from the fear that (so far) invisible subsidies or monopolies will eventually have to secure returns. In some circles the 'Japanese investment challenge' has led to an almost paranoid phobia ('are we becoming a Japanese colony?'; 'are the Japanese now winning with money what they could

not get a generation ago with arms?'). A confidential Queensland government analysis of concentrated land purchases was reported to have recommended that all Japanese proposals should be treated with scepticism, hidden agendas should be sought, and all projects involving MITI should be automatically avoided (*Sun Herald*, 29 January 1989).

Such phobias, like the atom bomb, oil shortages, AIDS, the ozone layer, and the environment, tend to give rise to a populist, single-issue 'politics of fear' to win political support, and have to be mistrusted. On the other hand, it must be a matter of concern for Australians to see growing segments of their land and other assets pass into the hands of big overseas buyers whose motives and rules of play are ill-understood and may be incompatible with Australian aspirations, traditions and implicit ground rules.

This article tries to sort through the arguments and to ask what Australians can do to maximise the net benefits from massive foreign investment.

Possible Gains

The first principle to keep in mind is that the free international mobility of capital and enterprise has the potential of raising living standards by at least as much as free trade. Like the Swiss, we can be better off if we attract internationally mobile capital which earns rates of return in excess of the interest cost. Australia, a stable country with high immigration levels, a relatively young population and many undeveloped resources, should offer international capital (and Australians) such profit opportunities. If we restrict direct foreign investment, we limit our growth potential (for a full treatment, see Kasper, 1984).

A second basic consideration is that Australians have matched profligate public and private spending with poor growth of productivity and hence incomes. The inevitable consequence is that we have to borrow overseas or sell off some of our assets. If we dislike this, we should cut spending, or (better) enhance productivity.

Australian debt-making habits and institutions are complementary to Japanese habits and institutions which have made Japan the world's biggest creditor nation. Rapid productivity and income growth in Japan over the past generation has not been matched fully by the growth in public and private consumption, so savings have increased rapidly. High saving rates are of course rational for a rapidly-aging society like the Japanese (as they are for a married couple who provide for their old age). Japan's aging society must place some of its savings in the hands of more youthful investors overseas: this not only spreads the risk, but also ensures a high rate of return, because young people in other countries will work with Japanese capital.

Moreover, history demonstrates that centres of trade and production have, when they matured, always become banking and investment centres (Braudel, 1984:89-206). Examples are the Hanseatic cities, Genoa, Venice and other northern Italian cities before they declined in the 15th century, Amsterdam in the 17th, London in the 19th, New York in the early 20th centuries and Tokyo now. Because of its resources, proximity and political stability Australia seems one of the logical places for the Japanese to invest in.

The *Défi Japonais*: a Passing Phenomenon

However, the recent trend in Japanese foreign investment cannot be extrapolated for very long. Production centres that turned to banking have always experienced rising real exchange rates (driven up by interest receipts), which have eroded their competitive edge in exports. Indeed, history is full of episodes of international financial disequilibrium that corrected itself: Experts created fears of an eternal dollar shortage in the mid-1950s; it was gone by 1960. Writers created fears of excessive US investment in Europe during the 1960s (*'défi américain'*); it was gone by 1970.

The *défi japonais* will also pass: Society ages rapidly. Productivity growth between 1950 and 1975 was easy because the Japanese could copy and catch up. Now they are at the frontier and will find continued high growth much harder. The resolute targeting of foreign markets for concerted 'take-over', and the Japanese game of professing to one set of rules but playing to totally different rules, has led to international resistance. A younger generation with different values is taking over; it may even elect a Socialist government that would drive up welfare and other consumption spending. A change in Japanese trends of growth, savings and foreign investment may not come abruptly, but it is quite possible that our fears will be forgotten by the year 2000.

These basic considerations should encourage us to welcome direct foreign investment, especially if it comes coupled with knowhow, market connections, technology and entrepreneurship, which are likely to enrich our business culture and raise our own productivity. Foreign direct investment offers the opportunity for faster growth, but this goes along with

possible dangers. Australians should be aware of this, but need not approach the matter with an inferiority complex.

Possible Dangers

Some reservations are justified if foreign investors do not play by our rules of open competition and try to exploit Australia's relative size and economic weakness to secure monopolies or other government-protected positions. The Swiss have shown great circumspection in ensuring that foreign capital plays by Swiss rules and not the African, Latin American or Mafia rules by which some of that capital may have been acquired in the first place. But the Swiss know that this requires a strong, open democracy, a free press, the strict rule of the law, a non-corrupt police, a properly functioning 'market order' and clear divisions between the private and public domains: institutional arrangements that fortify politicians and bureaucracies in their resistance against favour-buying and special deals. Australia, too, has these institutions, but a long tradition of granting political favours, licensing and market intervention has made the Australian economic and political culture possibly less resistant to temptations.

Particular dangers to the 'economic order' are likely to arise when big overseas investors, with backgrounds in what they perceive as normal cooperation and we perceive as cronyism and bribery of politicians, engage in infrastructure projects for which they need government licenses and in which they will enjoy monopolies. At a time of severe budget constraints, politicians will be eager to demonstrate that they can launch conspicuous new projects without visible direct cost to the taxpayer by attracting foreign investor-developers. They may be ready to enter into deals with hidden long-term costs, like waivers of generally applicable rules and laws or cross-subsidies (free land or a harbour bridge toll subsidising the cost of a supposedly private tunnel). Politicians, once ensnared, may gradually be drawn deeper into these deals and made co-responsible for their success. Historic and international experience shows that such deals can then become very expensive to the public purse. It should not be forgotten that one historic argument for socialisation was that big projects extracted public subsidies. When economic liberals advocate privatisation, they certainly do not think of cross-subsidies and state-licensed monopolies. Private enterprise means private profits and private losses.

It is here that large-scale Japanese investments may pose a challenge to Australia. Big Japanese investors have possibly a greater tendency than businessmen in most Western societies to see strength in cartelisation and in co-opting the political process for their business goals. Japanese players are not always used to the checks and balances that Western societies adopted as lessons from previous experience (such as the rule of law, openness of government-industry negotiations, open tender, and free competition). Japan's recent history is full of corruption

scandals, which demonstrate at least to this observer that Japan is lagging behind the old industrial countries of the West in institutional evolution. There are also indications that certain branches of business have ties with gangster organisations (*Yakuza*), including the construction and leisure industries (Kaplan & Dubro, 1986). These organisations seem to enjoy symbiotic relations with some politicians and appear to have

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made their debut in off-shore Japanese investment, for example in Hawaii.

The tendency for economic operators to cartelise, to create and seek rents is, however, not unique to Japan. The unchanging rule of good government everywhere is to keep competition alive by **not** sanctioning collusion and by **not** granting quasi-official protection of monopoly positions (e.g. through regulations or special deals).

How to Strengthen the Immune System Against the Dangers

In the face of the Japanese challenge, some Western observers have argued in favour of emulating the ways of the successful Japanese. They call for an industry policy similar to MITI's (whose alleged industrial successes are in reality due to Japanese hard work, diligent learning, high saving and small government: see Kasper, 1985). They call for close bureaucratic-political-industrial cooperation and special dealing. They favour corporatist regulations that induce or protect industry collusion (which harms consumers and long-term competitiveness). But observers who are mesmerised by purported MITI successes ignore the facts that large sections of Japanese economic life are not subject to corporatist policies and that most Japanese citizens and firms are competitive and hard-working and owe little to political patronage or interventions in the marketplace.

Emulation of corporatist Japanese ways would make it more likely that Australia would succumb to the

challenge from large corporations. Once an atmosphere had been created in which our institutions were negotiable and in which politicians granted favours to producers or developers, big Japanese operators would beat Australia at the game in which they are masters and to which they can devote huge resources. Australia would then attract not competitive foreign investors but investors seeking to modify the open competitive system in search of the long-term rents that are always available in corporatist structures.

To fortify the social 'immune system' against the potential corruption of our precious institutions, we should cultivate and perfect our comparative advantages, and strengthen the features that have made Western societies so successful. Our Western traditions and values will distinguish us in the competition in Asia. We should remain true to ourselves and our cultural experiences (Fallows, 1989, argues along these lines in relation to the competition between the Japanese and American economic systems). That means more open competition, and rigorous crack-downs on breaches of proper trade practice, sanctioning of monopolies, and special favours to large foreign investors. It also means that Australian investors must be given reciprocal access and that vertical, as well as horizontal, trade restrictions must be prohibited. Australia should not accept investments that create enclaves financed by Japanese companies and catered to exclusively by Japanese companies.

An open, competitive society would have strong defences against cartelisers (both domestic and foreign) out to colonise Australia. Foreign investors who have to compete for their profits will generate economic welfare. Their capital, which cannot be moved out, will raise Australians' incomes and, if competitively managed, is likely to earn a higher rate of return than the going interest rate.

It is, therefore, up to Australians to create the conditions that ensure that Japanese (and other) foreign investors behave like good economic citizens. Whether Australia becomes a Japanese colony is ultimately in our own control.

Policy

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