

Mergers and acquisitions activity by Japanese firms in Asia was also up (to 58 cases) in 1994 after several years of decline, according to the JETRO paper; the Asian proportion of M&A cases has in fact increased sharply in the past few years, rising from 18% in 1990 to 33% in 1994 to 42% in January-September 1995. The bottom line of all this investment activity is the very strong presence of Japanese firms in some Asian countries; Taylor for example points out that Japanese manufacturers employ 7% of Thailand's entire workforce and that one company (Matsushita) alone produces about 4% of Malaysia's GDP.

Such numbers do not necessarily translate into a long-term growth trend in absolute terms, however. Japanese investment in Asia (as in other regions) actually dropped strongly with the collapse of the real estate bubble at the end of last decade; Asia's numbers only surpassed FY89-90 levels again in FY94-95. The region with the highest annual growth rate of Japanese investment in FY94-95 was in fact Latin America. And even now, Japanese FDI levels for Asia remain well below those for North America (US\$9.7 billion versus US\$17.8 billion in FY94-95 and a higher proportional disparity in the first half of FY95-96).

The cautions expressed so far should not be taken to imply that nothing is happening vis-a-vis Japanese trade and investment in Asia. They simply suggest that at least some of the recent statistical increases may be longer-term and cyclical in nature. It will take more time before a real medium-term trend favouring Asia can be confidently derived from the statistics alone.

An examination of some of the underlying factors, however, suggests that the Asia thrust may have some medium-term staying power. First of all, broadly speaking, Japan firms are aware of the almost unanimous analytical conclusion that East Asia will remain a centre of comparatively strong economic growth and demand over the next decade or longer. Secondly, East Asia is seen as an area where liberalization of external trade and investment regimes is gaining pace (as compared for example to the EU and NAFTA). Thirdly, endaka is seen as likely to continue, at least as a threat, with attendant pressures on domestic production costs and the return on exports. Finally, Asia has a recent history of high profitability for Japanese firms: MITI surveys indicate that among Japanese manufacturers, Asian subsidiaries have been more profitable than either North American or European ones over the past decade, and more profitable than domestic manufacturing since 1991; the most recent (FY93-94) composite numbers show a 4% profit for Asia, 2% for domestic production, zero for North America and a loss of 1% for Europe. Continued investment in Asia thus makes sense for Japanese firms.