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I am honoured to be the guest of the Fuji-Sankei Communication Group, and to address this distinguished gathering of representatives of major businesses and industries in Japan.

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In the four decades since World War II, Japan has grown to become the second largest economic power in the free world. This spectacular growth has created a new situation requiring new solutions to the problems of adjustment for the world and for Japan. Japan's large and persistent trade surplus has strained relations with her trading partners. The value of the yen has risen dramatically.

Despite acute economic difficulties caused by such a sudden up-valuation, Japan's GNP is expected to grow by 4.9 per cent in fiscal year 1987. This is a remarkable achievement. The Japanese economy has responded to new policies which stimulate domestic demand.

Singapore as a Total Business Location

Rising production costs caused by the high yen have led to a restructuring of Japanese industries. Many factories which are no longer competitive are moving abroad. A small part of this flow has come to Singapore. Since 1986, Japan has been the top foreign investor in Singapore. The volume of Japanese investments has gone up. More significant, the quality of Japanese investments has gone up.

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Previously, Japanese companies had moved labour-intensive operations to Singapore, but kept their research and development in Japan. Recent Japanese investments have high technology. This dovetails into Singapore's economic strategy. We have invested in education and training to maximise the economic value of our people. Singaporeans can now undertake technically exacting and complex activities. Many MNCs, including Japanese, now undertake, in Singapore, work on design, development, marketing, system integration and

international business management. Their higher quality investments make further use of our better educated and trained workforce.

Singapore also provides a conducive and competitive business environment. Our infrastructure is equal to those in industrial countries. We also have cultivated a pro-business environment to encourage MNCs to sink roots and go beyond manufacturing.

Sony Corporation decided last year to set up an operational headquarters (OHQ) for its Asia-Pacific operations in Singapore as part of its globalisation strategy. It is the first Japanese OHQ in Singapore. Sony started in Singapore in 1973. It has progressed from sales and purchasing to precision manufacturing, technical services and operational headquarters activities. Sony's investment strategy represents a new type of Japanese investment that exploits Singapore's favourable total business centre, and make it an integral part of its global plans.

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Singapore now encourages MNCs to go beyond manufacture not only into research and development, but also technical services, marketing and distribution, managing of funds and running of subsidiaries in other countries. We give incentives so that companies can use Singapore to improve their

competitiveness. We are confident that Sony OHQ will succeed in Singapore, and so encourage other Japanese companies to do likewise.

Increasingly, Japanese companies will invest abroad and import semi-finished/finished products they manufacture abroad. They have to do this to remain competitive. Therefore Singapore can play a key role in the globalisation strategy of Japanese MNCs. From Singapore they can serve not only their home market, but also the regional and world markets. Furthermore, they can tap the region's bigger and cheaper labour pool. Labour-intensive parts of a product can be done in neighbouring countries and exported to Singapore for the more capital- or skill-intensive operations.

Singapore has other functions: for example, Nestle has a research and development centre in Singapore that concentrates on regional market tastes in food and beverages; Yokogawa services clients throughout the region, allowing them to use their centum computerised process control system in Singapore. MNCs combine Singapore's special features with those of the region's by siting different parts of their operations in different countries in the region. In this way, they maximise the comparative advantage of the ASEAN countries vis-a-vis each other.

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Today, there are 15,000 Japanese working for more than 600 Japanese companies in Singapore. They send their children to the Japanese school, shop at Japanese supermarkets and department stores, and eat at the many Japanese restaurants in Singapore. Singapore has become an international city, open, friendly, and safe to all races and all cultures.

At the same time, the Japanese are becoming more international-minded as Japan plays host to many MNCs, and the Japanese themselves work in Japanese factories and offices all over the world.

Japan Must Open Her Markets Further

Japan has to make further efforts to generate domestic demand and increase imports if she is to reduce trade tensions caused by her huge trade surpluses. To reduce protectionism, Japan has to reduce her trade surplus, which has grown from US$8.8 billion in 1981 to US$80 billion in 1987. Such massive imbalances in world trade cannot be sustained. Japan has to increase her imports not only bilaterally with the US, but also with other countries, especially ASEAN and the NICs. Frustrations over Japan's seemingly impenetrable market have threatened the present trading system which has brought prosperity to Japan and many other countries, including the NICs and ASEAN. Fortunately, Japan's

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remedial steps to open up her markets and increase domestic demand have placated the Americans and Europeans for the time being. As a major trading country, Japan cannot afford to allow conflict in trade to go out of hand, as in the 1930s, or the consequences will be disastrous for all.

Japan has been the biggest beneficiary of the present trading system. She is now a major economic force. Therefore she has a big responsibility to maintain the stability of the system, and to help balance global supply and demand. Trade liberalisation will ease the strains with Japan's trading partners and also keep up Japan's high rate of GNP growth led by increasing domestic demand.

By shifting production facilities overseas, Japan's private sector is helping to reduce the surplus. Japan's overall trade balance will improve because she will be importing more semi-finished and finished products from Japanese factories abroad. US MNCs have adopted this globalisation approach for at least two decades and benefited from it. More Japanese companies will be taking this route.

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Japan's Role in the Asia-Pacific Basin

The Asia-Pacific region will be the major growth-centre in the 21st century. The trend is towards greater international division of labour and consequently towards more international trade. Japan's ties with the countries of Asia, especially ASEAN, will grow. Japan will be the key player in the economic growth of the region. She can strengthen her partnership with the other countries of Asia, through more liberal trade and freer transfers of technology and know-how through investments. These economic links will be strengthened by cultural and social exchanges, and by greater people-to-people contact. Both Japan and the region stand to benefit.

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