Economic Viewpoint

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WHAT'S THE MOST PROMISING EMERGING MARKET? JAPAN

Nearly all economists are deeply pessimistic about Japan, and their concerns are mirrored by apocalyptic warnings from Washington. But global CEOs should look beyond this hand-wringing and consider investing in Japan now. "There's more opportunity to make a lot of money in Japan over the next 10 years than anywhere else in the world," says Gary C. Wendt, who recently stepped down as Chairman and CEO of GE Capital Services Inc.

GE Capital late last month bought Japan Leasing for $6.5 billion in the largest foreign acquisition in Tokyo's history. GE's strategy is far-reaching but not unusual. In just the last year, Merrill Lynch & Co. has acquired the entire retail branch of Yamaichi Securities Co., and Universal Studios began building a $1.5 billion theme park near Osaka. Goodyear Tire & Rubber Co. has bought substantial parts of Sumitomo Rubber Industries, and Hughes Electronics Corp. has gained control of Japan's Directv. Citigroup Inc. moved to buy Nikko Securities Co.'s investment banking operation, and Ford Motor Co. may soon increase its ownership of Mazda Motor Corp. Indeed, in the last year, a handful of dynamic foreign companies have poured more investment into Japan than anything seen in decades. Do they know something others don't?

BURST BUBBLE. If you listened to the doomsayers, you'd think the Japanese are somehow incapable of solving their crisis. But the record of economists is awful. They wrote off Japan during the OPEC shocks because it was 99% dependent on petroleum imports. They didn't anticipate the country's dramatic ascent in the 1980s, nor did they predict when and how the bubble would finally burst in the 1990s.

Yes, the country faces daunting problems. But critics are wrong in saying that Japanese officials are paralyzed. This year alone, Tokyo may commit nearly $1 trillion, or 20% of gross domestic product, to stimulating the economy and recapitalizing the banks—and it is likely to do more, including expanding the money supply.

A stagnating Japan is still the world's third-largest economy, behind the U.S. and the European Union, representing nearly two-thirds of East Asia's GDP and 30% of all the world's savings—some $10 trillion. Even a problem-ridden Japan has just what global companies seek today: a highly educated and industrious workforce, tremendous purchasing potential, and political stability.

The acute crisis, sad as it is, also provides unprecedented opportunities for foreign companies. It is forcing deregulation and a breaking down of both the corporate conglomerates and the government bureaucracies. Corporations will institute U.S.-style accounting standards in April. And companies such as Toyota Motor Corp. and Matsushita Electric Industrial Co. are granting performance-related pay and share options for the first time.

Not since the immediate postwar period have Japanese leaders in government and business been so willing to deal with foreign companies—or so desperate. A year ago, for example, it would have been inconceivable for Nissan Motor Co. and Mitsubishi Motors to offer themselves up to foreign buyers, or for Japan's Central Bank to hire McKinsey & Co. to help reorganize its operations. Foreign companies positioned in Japan will be in on the ground floor of the massive investment necessary to satisfy the nation's pent-up demand for financial services, state-of-the-art telecommunications technology, and modern housing. The upside potential is reflected in a stock market that has lost nearly 70% of its value since 1989. All told, CEOs would do well to think of Japan as the world's most promising emerging market.

GE Capital's strategy is instructive. The company prosp ected for five years, then moved decisively. In January 1998, it bought a small consumer credit company. It followed with increasingly large purchases in life insurance and retail lending. Then, with the acquisition of Japan Leasing, it acquired 70,000 new commercial customers and established itself as a major player in Japan. In each case, the purchase was made at a substantial enough discount to hedge against a prolonged recession. GE insisted on total control and quickly brought in its own executives and technology. It applied essential American marketing savvy by being the first to sell some of its key products through Japan's extensive network of Seven-Eleven convenience stores.

Granted, the Japanese market is not for the fainthearted. Cultural barriers remain formidable, and more economic shocks probably lie ahead. But you have to be there if you want to be a global leader, and it may take generations before so great a window of opportunity opens again.