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Rest of Asia may cash in on Japan's new spending boom

Continued from first page
outside Japan between 2004 and 2006.

"Japan could be an important extra source of demand if the U.S. economy slowed," he says.

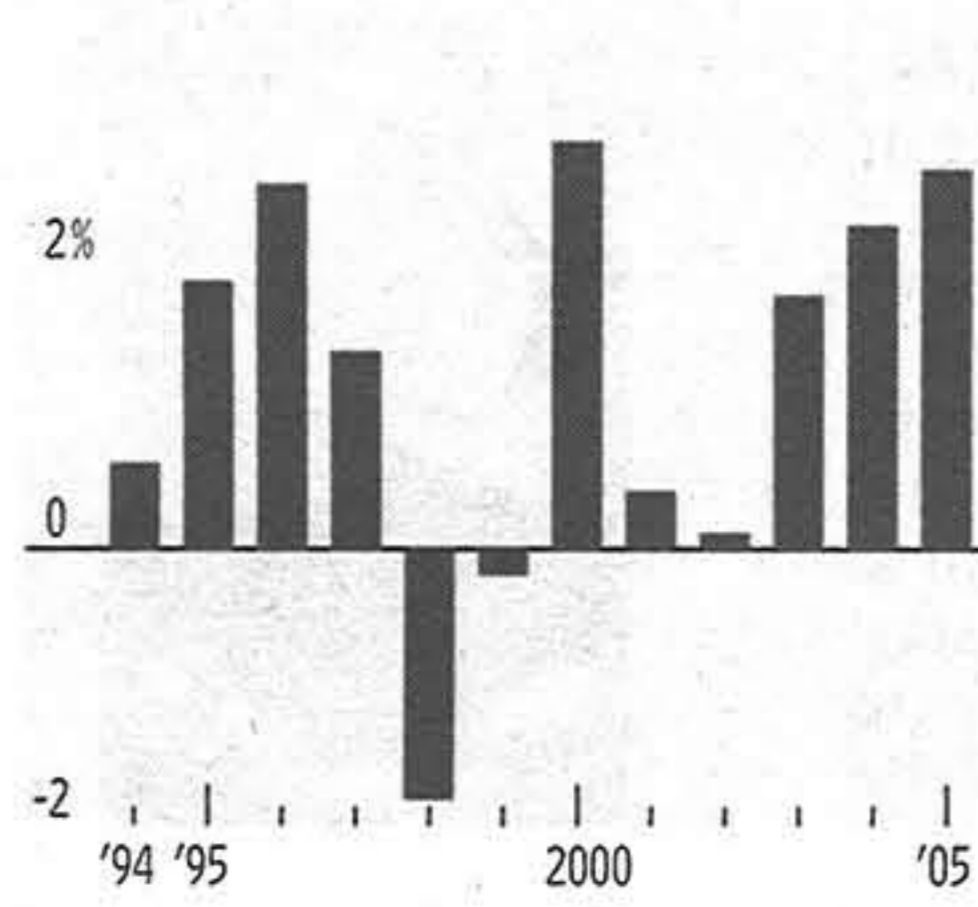
To be sure, the world economy still depends heavily on purchases by American consumers. Because of their unabated appetite, the U.S. current-account deficit with Japan hit a record level of \$99 billion last year. The figure reflects the total value of goods traded between the two countries as well as money flows in services such as tourism.

Japan's growth benefits other countries in ways besides trade. Some U.S. fund managers are scooping up Japanese household savings by offering new investment products with potentially higher returns than their Japanese competition. Pacific Investment Management Co., of Newport Beach, California, a unit of Germany's Allianz AG, has doubled the fixed-income assets it manages for Japanese clients to \$40 billion over the past two years.

Japan's economy still has major long-term problems, including government debt that amounts to 160% of annual GDP—the highest indebtedness in the developed world.

Expanding again

Japan's real gross domestic product growth, year-to-year percentage change



Source: Cabinet Office

that crippled earlier upturns. When Japan's stock-market and real-estate bubble popped in the early 1990s, banks were left with mountains of bad loans on their books and they didn't want to lend money. Since Japanese businesses depend heavily on banks for financing, economic growth ground to a halt.

As banks finally cleaned up their books over the past three years, they began to lend again. Meanwhile, exports boosted profits at

Japanese airlines are buying more planes from the world's two suppliers of big passenger jets, Airbus and Boeing Co. Boeing received orders for 197 airplanes from Japan between 2003 and 2005—more than the total in the previous decade. (Airbus is jointly owned by European Aeronautic Defence & Space Co. and BAE Systems PLC.)

In Japanese stores, consumers have an ever-wider array of choices—and many of the new products are made overseas. For functional, low-cost wear, the big name in Japanese clothes is Fast Retailing Co., which makes most of its Uniqlo brand clothes in China. Foreign companies, from Gap Inc. to Prada Group NV of Italy, have multiplied their outlets in Japan, helped by falling land prices and the large-store deregulation. Overall, sales of imported consumer goods have risen about 40% since 2000, according to the Bank of Japan, while those made in Japan tumbled 20%.

The trend is most pronounced in big-ticket purchases. Cornes & Co., the Japanese importer for Italian sports car maker Maserati, which is owned by Fiat SpA, says sales of the cars jumped to 400 last year from 238 in 2004. "As well as our traditional customer base of people like doctors, we're getting a lot of new, younger customers recently," says Maki Abe, a Cornes spokeswoman. "A lot of them are entrepreneurs in fields like IT," or information technology.

Hirofumi Usui, president of a Tokyo company that provides advice on marketing to the rich, says the biggest change for Japan is that people flaunt their wealth nowadays. The old Japanese desire for middle-class conformity has given way to a taste in flashy consumption, especially of prestige foreign items, he says.

"Japan used to be like a socialist country, and the Japanese thought the rich were boring, sneaky and lacking in taste," Mr. Usui says. "In the past, a lot of people would have been embarrassed to drive a Ferrari."

Japanese consumers are also be-

coming more adventurous about investing. Rira Watabe, 37, got her highest bonus ever last year, as business took off at the Tokyo recruitment company where she works. At the same time, she is intent on building up her savings because jobs are less secure in Japan than they used to be and the pension system is strained. Instead of putting all her money in a Japanese bank, where one-year time deposits earn interest of just 0.03%, Ms. Watabe last year put about \$3,000 in money-market funds denominated in Australian and U.S. dollars. One of these is an Australian-dollar fund that currently yields about 4.9% a year.

She also puts about \$250 a month in the Kokusai Global Sovereign Open Fund, which invests about a third of its funds in U.S. government bonds and most of the rest in European sovereign bonds, returns 6% a year. Its assets have more than tripled to \$42.8 billion in the three years to Feb. 28, making it one of the world's largest bond mutual funds.

"I don't know what's going to happen to my job in the future and nobody knows what will become of the pension system," says Ms. Watabe. "We've got to protect ourselves."

Because of people like Ms. Watabe, Japanese purchases of U.S. stocks, non-Treasury bonds and financial derivatives totaled \$62.8 billion in 2005, up 21% from the previous year.

The popularity of U.S. financial services companies in Japan has been aided by a wave of deregulation since the late 1990s. Hartford Financial Services Group's life-insurance arm entered Japan in 2000, soon after the government allowed Japanese brokerage firms to sell variable annuities to investors. These products resemble mutual funds except they offer tax advantages, benefits if the holder dies and sometimes protection from market losses. In the U.S. variable annuities have long been available and are sometimes criticized because of their high fees and the aggressive tactics used to sell them, but they are a new concept in Japan.

In 2002, Japanese banks gained the ability to sell insurance products. This gave companies like Hartford relatively low-cost access to millions of potential customers. Hartford currently has 366,000 variable- and fixed-annuity accounts in Japan valued at \$26 billion, nearly double the asset level a year ago. In a sign of how important the Japanese market has become, Hartford's Japan unit increased the value of its annuity accounts by \$11.9 billion in 2005, more than the \$11.5 billion increase it recorded in the U.S.

"An enormous amount of wealth was handcuffed by risk aversion," says Stefan Reinwald, head of Japanese equities research at Calyon Capital Markets Asia. "Now it is put to work properly."

Japan's new desire for choice and variety is also good for Mr. Takaoka, whose consulting business gives investment advice to the wealthy. He used to work for giant trading house Mitsui & Co., but quit last year when he concluded Japanese investors were no longer satisfied with the safe options provided by big-name Japanese corporations. He says Japan's rich now want specialized services, which will make better use of their money. This will also give newcomers—both foreigners and boutique services like his own—the chance to manage Japan's new wealth.

"In the past, people went to big companies, so only these would get business," Mr. Takaoka says. Now, "people's field of vision has broadened. This is good for Japan."

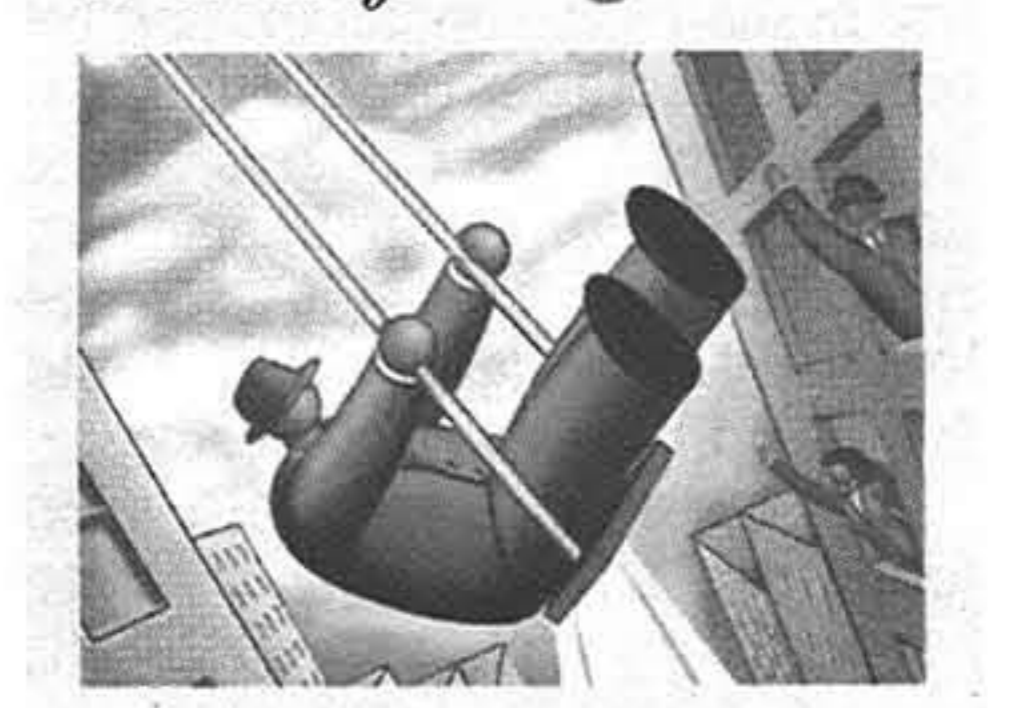
The president of a Tokyo company that provides advice on marketing to the rich says the biggest change for Japan is that people flaunt their wealth nowadays.



Soichiro Takaoka

The Property Report Asia's REIT reach

Investment vehicles are crossing borders to add to holdings > Page 28



Worse, the work force is declining as the number of elderly Japanese increases. That puts a greater burden on working people to support those on pensions.


But growth increases Japan's chances of coping successfully. It grew 2.7% last year—close to the U.S. figure of 3.5%—and economists forecast an even bigger Japanese expansion in 2006. Following several years of upturn in manufacturing, Japanese service industries are now investing more and demand for new homes is forecast to rise.

And the end of Japan's long banking crisis removes a problem

manufacturers, leading to higher wages—which in turn are letting consumers spend more. The average household headed by a wage earner spent 74.5% of its income last year, the highest level since 1990, according to the government. Such a virtuous cycle is normal for a growing economy like the U.S., but in Japan, nothing like this has happened for more than a decade.

This new demand is benefiting companies around the world. Because of an increased desire for travel, plus new or expanded airports, Japanese airlines expect an increase in flights between Japan and mainland Asia over the next few years. Partly because of this,

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