論 説

Restructuring of Japanese Manufacturing Industries Accelerated in East and Southeast Asia

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1. Introduction

The across-the-border movement of Japanese private capital has accelerated through the latter half of the 1980s and the 1990s, with the Japanese currency yen rapidly revalued since the "Plaza Accord" in September 1985.

It was as early as the late 1960s and the early 1970s when Japanese manufacturers, bigger electrical and electronic firms among others, began to relocate their production at East Asian export processing zones and other industrial estates in the world. The drastic appreciation of the yen approved at the G 5 meeting gave a new momentum to the extensive redeployment abroad of Japanese private capital. A number of manufacturing companies, including smaller ones, have since advanced into East and Southeast Asia and almost all over the world.

The massive redeployment of Japanese manufacturing industries contributed to the high-rate economic growth of East and Southeast Asian economies until the financial crises occurred in 1997. With the Thai currency baht suddenly depreciated through speculative transactions by international capital in July 1997, the financial and economic crises instantaneously spread worldwide and gave far-reaching influences on Indonesia, South Korea and other Asian economies.

With the East Asian economic "meltdown" in 1997-1999 as a turning point, an increasingly large number of Japanese manufacturers have tried to relocate their production to new sites in China, the People's Republic of, seeking for cheaper labor and bigger market opportunities. Taking the electric machinery industry for an instance, Japanese investment in China rose by 380% in fiscal 2000.[1] At the same time, Japanese manufacturers have reinforced a number of their production sites existing in Southeast Asia.

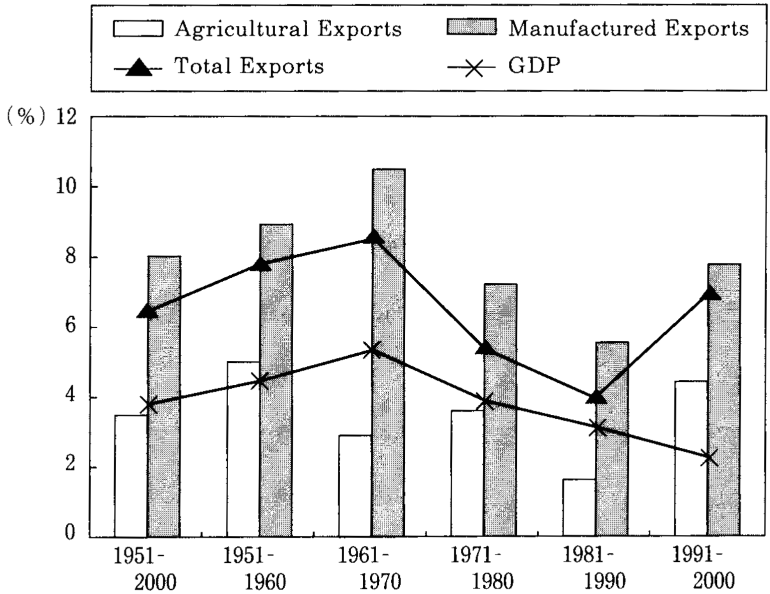
These movements and their effects require careful examination in all its aspects. It is also to be pointed out that Japan is faced to *sangyo-kudoka*, the possible process of "de-industrialization" or "hollowing-out", in this latest phase of a rapid redeployment of manufacturing industries.

2. Cross-border redeployment of manufacturing production

World trade has rapidly expanded since the end of the World War II. According to the data from the World Trade Organization (WTO), it has grown faster than gross domestic product (GDP). The average annual growth of world merchandise exports was 6.5% in 50 years from 1951 to 2000, while that of world GDP was 3.8% in the same period (Figure 1).

The share of manufactured exports in total merchandise exports continuously rose from 70% in 1990 to 75% in 2000, as the growth in the exports of manufactured products has consistently surpassed that of the exports of agricultural and mining products in 50 years.[2] In the meantime, the world exports of commercial services stood at about one fourth of the total merchandise exports in the 1990s. As shown in the figure, the fast-growing manufactured exports have pulled the growth of total exports and GDP over the last half-century.

Figure 1 : Global Average Annual Growth, Merchandise Exports and GDP, 1951-2000



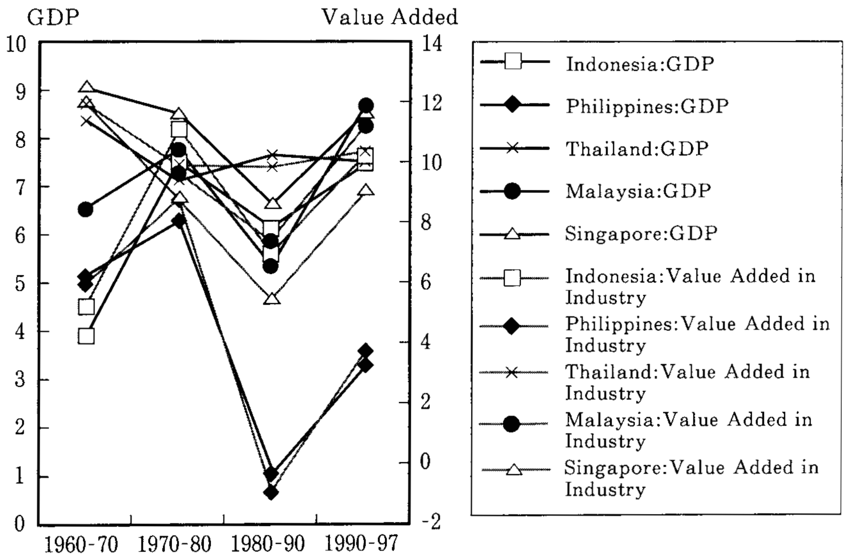
Source: Data from The Asian Development Bank, *Asian Development Outlook 2002*, p. 163.

Analyzing these trends, Kofi A. Annan, Secretary-General of the United Nations, says in the recent annual report of the United Nations Conference on Trade and Development (UNCTAD) that "In today's globalizing world economy, no country can sustain growth or achieve development without active participation in world trade."[3] He does not forget to add that all the countries need exports to help them raise standards of living and escape poverty.

Geographically, however, world trade has concentrated on some regions and economies, and the data point to the growing share of East and Southeast Asian economies both in the world exports and in the exports of Asia and the Pacific.

Figure 2 shows the respective economic performances of the five ASEAN countries, original members of the Association of South-East Asian Nations, from 1960 to 1997. The ASEAN 5 marked a relatively high economic growth in several decades until Thailand was faced to a sudden currency crisis in July 1997. It is to be pointed out that the economic growth of Southeast Asian countries, higher than the average growth of world GDP, was recorded in their industrialization process closely linked with "globalization" centering on the restructuring of world manufacturing pro-

Figure 2 : Average Annual Growth Rates (%) of GDP (left) and Value Added in Industry (right)



Sources: Data from The World Bank, *World Development Report, various issues.*

duction.

Foreign direct investment (FDI) has played a significant role in the worldwide restructuring of industrial production and the appearance of transnational corporations (TNCs) in manufacturing industries. To carry out industrialization, Southeast Asian countries have introduced wide-ranging incentives including the reduction or exemption of customs duties and corporate taxes, and actively attracted gigantic manufacturing capital of the industrialized countries and other capital in electrical/electronic, automobile and different high-technology industries. Positively corresponding to the worldwide industrial restructuring by private capital, Southeast Asian countries have stimulated the global redeployment of the manufacturing industries.

Table 1: Trade Activities of Japanese Manufacturers (1996)

(Units: US$ million, %)

	Exports			Imports		
	Total exports	Exports by Japanese firms	Japanese share of exports	Total imports	Imports by Japanese firms	Japanese share of imports
Thailand	55,789	25,091	45.0	73,484	11,079	15.1
Indonesia	48,059	11,157	23.2	42,945	6,586	15.3
Malaysia	78,246	14,884	19.0	77,797	10,520	13.5
Philippines	20,543	5,604	27.3	31,756	3,686	11.6

Source: Japan External Trade Organization, *JETRO White Paper on Foreign Direct Investment 1999*, p.42.

Among the five ASEAN countries, Singapore is a typical city-state where TNCs play a leading role in every field of its economy. According to the statistics, FDI has occupied some 80% of total fixed capital in the Singaporean manufacturing sector over the last several decades. Other ASEAN countries have, while prohibiting or restricting FDI inflows in certain sectors, actively induced foreign investment into capital-intensive, export-oriented industries. The typical case is the electrical and electronic equipment industry. In Thailand, electrical equipment accounted for 36% of the cumulative total of manufacturing investment between 1979 and 1996.[4]

Japanese manufacturers has played a core role in Southeast Asian manufacturing industries. The table points to the extremely high share of Japanese firms in total manufacturing exports from the four ASEAN countries. It has originated from the massive redeployment of Japanese manufacturing industries that has transformed the region into a big production base for Japanese manufacturers.

3. Marked tendency to shift-to-China

Indicating that the crisis-ridden regional economy was recovering, Southeast Asian real GDP growth rate rose to 5.9% in 2000 from 3.8% in the previous year. However, regional economic growth fell down to 1.9% again in 2001.

Depending highly on international trade and investment, Southeast Asian economies are quite vulnerable to the fluctuations in commodity exports and FDI flows.

The drastic turnaround of Southeast Asian economies stemmed from the collapse of world information & communication technology trade. Singapore was most severely affected by the collapse of ICT trade in such items as office machines and telecommunications equipment, and economic growth rate of that country declined to 2.0% in 2001 from 10.3% in the booming year 2000. As the world semiconductor chip market shrank by 31% in 2001, those economies highly dependent on ICT trade suffered most heavily.

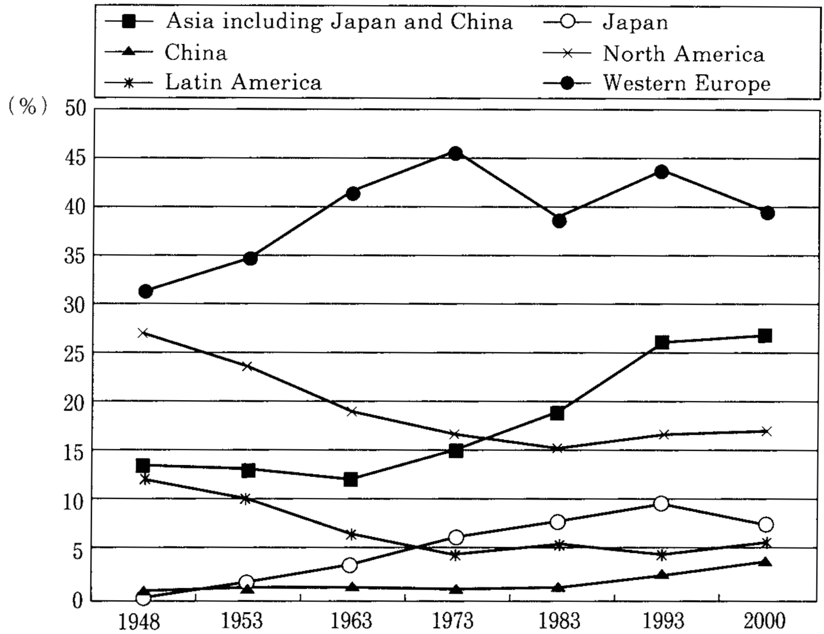
The sudden economic slowdown also came from a sharp decline in FDI inflows owing to the global relocation and re-relocation of manufacturing production. New foreign investments decreased and foreign-owned companies withdrew one after another from the region. Taking Japanese manufacturing for an instance, a number of manufacturers have, since the crises, almost simultaneously tried to relocate or re-relocate production into new sites, in China among others, seeking for cheaper labor and bigger market opportunities.

A survey by the Japanese Cabinet Office shows that Japanese representative manufacturers have a strong tendency to redeploying production across the national border. The inquiry was conducted in January 2002 on more than 2,300 manufacturing companies listed on Tokyo and two other Japanese stock exchanges. It is noteworthy that 60.6% of the repliers were engaged in overseas production in the fiscal year 2001, a sharp rise from 40.3% in fiscal 1990. The CAO findings indicate that nearly two thirds of Japanese representative manufacturing firms have advanced abroad to be transnationals. According to the survey, some 80% of the repliers prefer China as a new production site.

Figure 3 tells that China's share is fast growing both in world exports and Asian exports.

Japanese manufacturers have shifted their production activities to China in a wholesale way since the economic and financial crises. Manufacturing activities have been relocated not only directly from home factories but also from different production sites scattered in Southeast Asia. According to a report by the economic paper Nikkei in July 2002, Japanese big manufacturing companies including Hitachi, Toshiba and Matsushita, have closed or reduced as many as 22 factories in Thailand, Malaysia, Singapore, Indonesia and the Philippines. The total number of the dismissed personnel is estimated at about 17,000. Pointing to the fact that an average monthly wage of a worker reaches \$421 (about 49,300 yen) and \$198 respectively in Singapore and in Kuala Lumpur, as against \$43～106 in Shenzhen, China, the paper points to the growing wage gap as a key factor of manufacturing redeployment.[5] Another factor is China's big market potentiality.

Figure 3: World Merchandise Exports by Region and Selected Economy



Source: Data from The World Trade Organization, *International Trade Statistics 2001*, p. 30.

Japanese maquiladora factories operating in U.S.-Mexican border areas are also affected by the sharpening competition among the developing countries. An average income in the maquiladora factories is now estimated about seven times higher than in China, and the Japanese manufacturers are beginning to consider that they are losing the benefits of operating in maquiladoras as labor costs are increasing and customs duties and corporation taxes have been levied on them in accordance with the regulations of the North American Free Trade Agreement (NAFTA) since 2001.

For instance, TV sets imported from China to the U.S., either smallsized or large-sized, is much cheaper than those assembled at maquiladora factories in the border areas. According to a survey conducted by the Japan Maquiladora Association in March 2002, more than 40% of the Japanese manufacturing companies replied they are to curtail production or evacuate from Mexico to other countries including China, Vietnam and Thailand. The manufactured exports from maquiladora factories amounted to $7.7 billion, or nearly a half of the entire manufactured exports from Mexico in 2001, but 350 factories have evacuated and nearly 240,000 employees have lost jobs since then.

As a "world factory", however, China is now faced to a number of challenges: the widening income disparity between the rich and the poor; the mounting rural-urban regional disparity and the spreading underemployment and unemployment owing to the bankruptcies of state-owned enterprises (SOEs). Nikkei, the Japanese economic paper, reported last April that almost one third of all the manufactured goods produced in China in 2001 had remained unsold. The worsening environment is another difficulty confronting China.

In the latest phase of the global restructuring of manufacturing industries, Japan is faced to a pressing challenge to create new employment. Japanese big manufacturing companies, specifically in the electrical and electronic equipment industry, closed more than 120 factories in various parts of Japan in 2001. Some of the factories were relocated in Malaysia and other Southeast Asian countries, and some went directly to China in search of abundant, cheap labor. The average wage level in China is as one thirtieth of that in Japan, and manufacturers can obtain a huge sum of extra profits by crossing the national border.

The worldwide redeployment and restructuring of Japanese manufacturing industries have deeply affected Japanese economy and society. The Japanese industrial structure has rapidly been transforming, and the

Japanese Ministry of Health, Labour and Welfare last year published an estimate that as many as 19 million employees on the regular payroll are forced to change jobs in five years. As the center of Japanese industrial structure is gradually moving from manufacturing industries, the ministry has pointed to the necessity of massive labor flow from manufacturing to service industries including medical service, welfare and information.

According to the estimate of the Ministry of HLW, more than 10 million employees are forced to switch jobs in different industries. Is it possible for Japan to develop the high value-added, technology- and knowledge-intensive industries and create so many job opportunities in five or so years? However difficult, it is surely the most pressing challenge facing today's Japan. As aforesaid, Japan is to respond quickly to a possible *sangyo-kudoka,* "de-industrialization" or "hollowing-out" process in the rapid globalization of its own manufacturing industries, and at the same time exert effort to build up a global governance system in the times of "globalization".

4. Summary and conclusions

World trade has rapidly expanded since the end of the World War II. It has grown faster than GDP, led by the fast-growing manufacturing trade. The share of manufactured exports in total merchandise exports sharply rose to 75% in 2000. The recent UNCTAD report says, "In today's globalizing world economy, no country can sustain growth or achieve development without active participation in world trade."

FDI has played a significant role in the worldwide restructuring of industrial production and the appearance of manufacturing TNCs. The ASEAN 5 have recorded a considerable economic growth, higher than the average growth of world GDP, over the last several decades. It is to be pointed out that their high-rate economic growth has been attained in the process of industrialization closely linked with restructuring and globalization of world manufacturing production. Japanese FDI inflows have played a core role in trade and growth in this region transformed into a big production base for Japanese manufacturers. The data show an extraordinarily high share of Japanese firms in total manufacturing exports from the ASEAN5.

Since the economic and financial crises, Japanese manufacturers have shifted their activities to China in a wholesale way. Taking the electrical machinery industry for an instance, Japanese investment in China rose by 380% in fiscal 2000. Japanese manufacturing TNCs including the big electrical and electronic equipment firms, have redeployed a considerable number of their factories from Japan and other places to China, seeking for cheaper labor and bigger market opportunities. In the meantime, Japanese manufacturers have reinforced a certain number of their production sites existing in Southeast Asia.

The worldwide redeployment and restructuring of Japanese manufacturing industries have deeply affected Japanese economy and society. According to an official estimate, this country needs to develop the high value-added, technology- and knowledge-intensive industries and create more than 10 million new job opportunities in five years. Japan is to respond to a possible *sangyo-kudoka*, "de-industrialization" or "hollowing-out" process in the rapid globalization of its own manufacturing industries and at the same time to make every effort to build up a global governance system in the times of "globalization".

Notes:

1 Japan External Trade Organization, *JETRO White Paper on Foreign Direct Investment 2002*, p.20.

2 The Asian Development Bank, *Asian Development Outlook 2002*, p.162.

3 United Nations Conference on Trade and Development, *World Investment Report 2002*, p.iii.

4 Japan External Trade Organization, *JETRO White Paper on Foreign Direct Investment 1999*, p.32.

5 *Nihon-Keizai Shimbun* on July 25, 2002.