



Kobe Gakuin University East Asian Industry and Economy Research Center *News Letter*

Vol. 1 No. 3 (February 2005)

ERC

East Asia Industry and
Economic Research Center

518 Arise, Ikawadani-cho, Nishi-ku, Kobe 651-2180 TEL +81-(0)78-974-4829 FAX +81-(0)78-974-5856

E-mail : asia@eb.kobegakuin.ac.jp
http : //www.erc-kobegakuin.prg

Contents

2004 Kobe Seminar	1	Asia Strategy of the Kyushu Business Community ...	5
Kobe Seminar Program	2	Current Status and Issues of	
Status and Future Prospects of Japanese		Japanese Companies in Thailand	9
Electronics Manufacturers in Asia	2	2004 Kobe Seminar	12

Hosted by East Asian Industry and Economy Research Center, Kobe Gakuin University

2004 Kobe Seminar

The East Asian Industry and Economy Research Center (ERC) has benefited from five years of grants from the Ministry of Education, Culture, Sports, Science and Technology as an "Open Research Center Establishment Enterprise" and accordingly conducted activities with the objective of proposing industrial policies in ASEAN and China, and providing businesses with useful information. (Actual studies and research began in 2000.)

This kind of regional research was done in the past under as joint research between universities in Japan and the local area, and resultantly was heavy on academism. The ERC emphasizes contacts with businesses and governmental authorities over the cooperation between universities, in order to promote research and survey activities in the local area.

Fortunately, with the cooperation of the Ministry of Economy, Trade and Industry and the Japan External Trade Organization, the ERC has produced considerable results over these past three years. Also, as a part of those activities, important businesspeople and governmental officials have been invited to productive talks in Bangkok for four consecutive years from 2000 to 2004, and, with assistance from the Ministry of Education, Culture, Sports, Science and Technology, to talks in Kobe in each 2002 and 2003. Also, this past September marked the first seminar staged in Shanghai, China.

As a continuation of these activities, the ERC staged a seminar in Kobe on November 27 (Sat.) this year. At this seminar, we heard presentations by Masakazu *TOYODA*, Chief of the Commerce and Information Policy Bureau of the Ministry of Economy, Trade and Industry, and Yutaka *TAKIMOTO*, who has long written about economics for the Asahi Shimbun Company, as well as a report of the latest findings by Professor Takeshi *YOSHIMI* of Kobe Gakuin University who has been studying Japanese businesses in Thailand for more than twenty years.

Here following are synopses of those lectures. I hope that they prove useful to readers.

Takashi SEKI

Director, East Asian Industry and Economy Research Center



Kobe Gakuin University East Asian Industry and Economy Research Center
Kobe Seminar Program

Date: November 27 (Sat.), 2004

Place: No.11 Bldg., Conference Room, Kobe Gakuin University
518 Arise, Ikawadani-cho, Nishi-ku, Kobe

“Status and Future Prospects of Japanese Electronics Manufacturers in Asia”

Masakazu *TOYODA*, Bureau Chief, Commerce and Information Policy Bureau, Ministry of Economy, Trade and Industry

“Asia Strategy of the Kyushu Business Community”

Yutaka *TAKIMOTO*, Assistant Bureau Chief, Editorial Division, Seibu Head Office, Asahi Shimbun Company

“Current Status and Issues of Japanese Companies in Thailand”

Takeshi *YOSHIMI*, Professor, Faculty of Economics, Kobe Gakuin University.

Coordinators ... Megumi *NAKAMURA*, Professor, Faculty of Economics, Kobe Gakuin University

Yasumasa *TAKEJI*, Professor, Faculty of Economics, Kobe Gakuin University

“Status and Future Prospects of Japanese Electronics Manufacturers in Asia”

Masakazu *TOYODA*, Bureau Chief, Commerce and Information Policy Bureau, Ministry of Economy, Trade and Industry

In talking about the current status and future prospects of Japanese electronics manufacturers in Asia, I inevitably will end up talking about Japan in as far as what Japanese electronics manufacturers should examine in Asia in order to develop.

I am the Chief of the Commerce and Information Policy Bureau of the Ministry of Economy, Trade and Industry. With regards to commerce, we are in charge of services, and with regards to information, we cover the information industry and information services. Over the past three years, I have been able to visit a number of manufacturers on behalf of the Ministry of Economy, Trade and Industry.

If I may speak frankly, about three years ago, Japan’s entire manufacturing industry had lost its confidence, and only now are they slowly regaining it. Though they are regaining their confidence, to be honest with you, it will never be the same. Right now the big

question is “can they develop in the future?” It is my intention to give you my answer to that today, with regards to the electric and electronics industries. As for the question “can Japan’s electric and electronics industries continue to grow in the future”, the answer is “yes, they can, but they must change their development models” in my opinion. I will be talking today about how they must change these development models and one major aspect of that topic, which is a successful coexistence and coprosperity with East Asia, China and ASEAN. I will be speaking about how Asia and Japan’s electric and electronics industries will intertwine from that perspective.

I would like to begin by telling you what I think. I personally feel that the environment surrounding Japan’s manufacturing industry and particularly the electric and electronics industries changed in the 1990s. The biggest environmental change was the development of Asia. Up until the 1980s, Japan stood out in Asia as an IT powerhouse, but today China, the countries of ASEAN, Korea and Taiwan make some things better than Japan. As a result, the situation has changed from where Japan could enjoy stable development to where development is necessarily unstable. An abstract image I use to describe the situation is that of an airplane flying through the clouds. If the plane increases its altitude, it can emerge from the clouds and fly stably. But, the clouds keep getting bigger, requiring the plane to constantly seek a higher altitude. And, the clouds tail the airplane as it climbs. Hence, it must climb even higher. When



thinking about the current business model, this is the image that comes to mind.

1. Position of the IT Industry in Japan

(1) Position of the IT Industry in the Japanese Economy ① (against GDP)

This is the position of Japan's IT industry looked at in terms of GDP. Japan's GDP is ¥942 trillion in production value. A strong 40% of that came from the manufacturing industry. The IT industry generated ¥66 trillion in hardware and software ¥14 trillion, which together account for about 15% of the manufacturing industry's position. It is bigger than the automotive industry. Total employment is at about 50 million people. Of that, about 20% work in the manufacturing industry. The IT industry is about 20% of that, which is again higher than the automotive industry. Net exports for the entire manufacturing industry are about ¥19 trillion, which puts Japan in the black. The IT industry accounts for about ¥7 trillion of that, while the automotive industry makes about ¥8 trillion of that. So, most money from exports is made from the IT and automotive industries. Looked at in terms of trade, these two industries are the driving force of the Japanese economy.

(2) Position of the IT Industry in the Japanese Economy ② (against total market value)

To understand the position of the IT industry, you must look at the IT industry in terms of total market value. The electric machinery field accounts for 14% of the total value of the first section of the Tokyo Stock Exchange. It produces a large share of Japanese industry.

2. Differentiation of Intelligent Home Appliances, the "Baby Tiger": Comparison against PCs

(1) Two main sectors: Market map

How is the IT industry positioned in the electric and electronics industries? If looked at in terms of competitive strength, the IT industry has two main sectors: PCs and intelligent home appliances. The core of the intelligent home appliances are the thin panel TVs, digital cameras and home appliances that can connect to networks. Overall, there are content platforms, finished products and information services, but PCs generate ¥9 trillion and intelligent home appliances generate ¥14 trillion. The intelligent home appliances make more money. The figure also includes the white home appliances, therefore the environment is about ¥10 trillion.

(2) Production trends: Main products of two sectors

Two representative intelligent home appliance products in 2003 were the LCD TV and DVD burner-players. Come this year, they have grown between 50 and 100%. Computer growth has been about 10%. Last year saw negative growth. Right now, intelligent home

appliances are growing strong.

(3) World market share of main products (2003) ①

If we look at the current situation in terms of competitive strength, the PC sector has market share in PCs, MPUs, DRAMs and OSs. Japan's share is extremely small. With intelligent home appliances on the other hand, Japan stands out. With the exception of cell phones, LCDs, digital cameras, PDPs, DVDs and intelligent home appliances have a big share of the world market.

(3) World market share of main products (2003) ②

Copiers, digital copiers and color page printers have about 40% of the market. Japanese color inkjet printers and cell phones have about a 10% share of the world market. Cell phones do not account for a high share of intelligent home appliances.

(3) Market share of main products (2003) ③

Japan's share of the white appliances – washing machines, refrigerators and air conditioners – is low. They have emerged in China who has a huge market.

(4) Position of two sectors and Japanese businesses

You have seen the position of Japanese businesses with regards to PCs and intelligent home appliances, but if we divide it up into set products, semiconductors and OS software, the highest share of the world market in all PC sectors goes to the USA. In the intelligent home appliance field, Japan has a high share because of LCDs, semiconductors for intelligent home appliances, MCUs and system integrated OSs. Accordingly, there is a big difference between the PC sector and the intelligent home appliance sector. I will attempt to explain why in the next topic.

(5) Structural differences of two sectors

The PC sector uses a horizontal model for the division of labor, whereas the intelligent home appliance sector uses a vertically integrated model. The horizontal division of labor model has lost a large share of the semiconductor and software market to Western businesses. On the other hand, the vertically integrated model delivers high quality from parts to finished products via a highly integrated structure, which is the forte of Japanese businesses. Later in my discussions of Asia, I will make a connection between the keyword "modularization" and integration. Whereas a horizontal division of labor has a modular structure, a vertically integrated model, which the automotive industry is a representative example of, has an integrated structure, and this is what the electric and electronics industries are at present. I will deal more with this integrated structure and modular structure later when talking about Asia, but the point is that production models differ between the intelligent home appliance and PC sectors.

(6) Industrial structure of intelligent home appliance sector (Displays)

The difference in production model is evident if you would look

at the intelligent home appliance sector. From the end product to the raw materials, Japan's share gets only higher the farther down you go with displays and LCD TVs. Japan's share of production equipment and materials is about 90%. Down in the lower area are integrated businesses.

(7) Direction that the intelligent home appliance sector should take
If I may say something else about intelligent home appliances, a feature of theirs is that they connect to networks. Taken in that sense, intelligent home appliances can be divided into three tiers: digitalization, network building and platform development. A digital device connects to a network, while a platform means to connect from outside of one's home, which all together is one type of multifunctional model. Music distribution is that way. Japan's intelligent home appliance sector is still at stage 1, digitalization. We will eventually be in the second and third stages. Before the third stage, there are still many possibilities. What will happen before the third stage? PCs will be about the same. There are two approaches to networking: from the intelligent home appliance industry or from a PC base. Japan will enter from the intelligent home appliance side because of its advantageous position. Coming from the PC side means having to climb the same mountain again, and Japan is not strong there.

(8) Life solutions and desirable industrial structures

The top triangle includes network building and platform development. Though there are Matsui Securities, NTT Docomo and Rakuten, platform development is higher up and it must continue as an extension of intelligent home appliances until merging with services. Any attempt to provide new services is still way off in the macro picture.

3. Situation of the Intelligent Home Appliance Industry

(1) Recent situation of the electric and electronics industries (as a whole)

Let us look at the situation of electronic and electric equipment manufacturers. Have revenues been assuredly rising for intelligent home appliances? This shows the ordinary profit trend of large electric equipment companies, but they all seem the same. Three years ago, they were all in the red. Now, they have recovered. Keeping in mind that revenues were not high, sales for all ten companies together were ¥47 trillion, while operating profits were ¥1.3 trillion. Operating profit rate was 2.8%. Samsung of Korea had ¥4 trillion in sales, but their operating profits were half of the ten companies combined with an operating profit rate of 16.5%. IBM's operating profit rate was 37%. Intel's was 25%.

(2) Recent situation of the electric and electronics industries (by company)

This is a comparison of Japanese and American companies in the intelligent home appliance services seen from the perspective of profitability. If we look at the three indicators of sales, operating profits and total market value, Sony, Matsushita and Hitachi have half the sales of GE. Their operating profit rate is 10 to 15 times more. Microsoft does not change in terms of sales, but their operating profits are 10 or more times higher.

(3) Comparison of Japanese and American companies

I will turn my talk to Asia at this point. This shows the economic growth rate of major countries. You have Japan, the USA, China and ASEAN. In 2004, Japan may be revised downward to 3%, but the USA is at 4% and China and the others are high. China's is particularly high. Europe is at 2%. What is clear is that Asia is strong.

4. Rapidly Growing Asia (Omitted)

5. Strategies for Enhancing Competitive Strength in the Intelligent Home Appliance Industry

Taking everything that I have showed you as a pretext, I now want to think about whether Japan's intelligent home appliance industry can maintain its competitive edge in Asia, what might be necessary to do so and what new models there are. There are eight directions for strengthening international competitiveness in the intelligent home appliance industry. Selection and concentration: a company specializes their scope of business slightly more, therefore selection and concentration are important. The number of employees may decrease as a result. Technological development. Thorough prevention of the outflow of proprietary technology. Searching for dividing points with Asia. Human resource development. Use of trade tools. Promotion of security assurances. This last one has to do with security; as intelligent home appliances start networking, security will become more important. And, the e-Japan strategy for promoting networking.

(1) Enhancing earnings power and "selection and concentration" ①
Why are selection and concentration necessary? The goliaths are Samsung and IBM. Both are selecting and concentrating fields. All Japanese businesses are doing the same thing. They are tripping each other up. Most are promoting selection and concentration, but still much more needs to be done.

(1) Enhancing earnings power and "selection and concentration" ②
This is a slightly advanced example from the semiconductor industry. Japan used to have the top share of the world semiconductor market. DRAMs were made by ten or more companies, but now there is only one. Elpida Memory is ranked fifth in the world, but they just went public recently and have grown rapidly.

(2) Promotion of technological development ①

The royal path to competitive strength is technological development. In my analogy of the plane in the clouds, technological development equates to increasing the altitude. The particularly important technologies are semiconductors, flat panel displays and high speed routers that control the direction of information on the internet at high speed. The intelligent home appliance industry must head in the direction of technological development.

(3) Thorough prevention of the outflow of proprietary technology ①

This includes the protection of intellectual property, concealing ideas in black boxes, domestic production of strategic technologies, prevention of industrial espionage, and prevention of hostile mergers and acquisitions. In 2006 and beyond, Japanese businesses will be easy targets for purchases. Therefore, action must be taken.

(4) Searching for dividing points with Asia

This is an international comparison of integrated structures and modular structures. It comes from “Japan’s Philosophy on Manufacturing” by Takahiro *FUJIMOTO*, but if we try to look at modular and integrated structures from the perspective of comparative advantages, how would everything come out? Where are Japan’s specialties? Operations-emphasized integrated products. In Europe, it’s design and brand-emphasized integrated products. In the USA, it’s intellectually-intensive open modular products. In Korea, it’s asset-intensive open modular products. In China, it’s labor-intensive open modular products. ASEAN has labor-intensive integrated products. I will skip the reason why, but, in Asia, it is for cultural and historical reasons. Though this includes the infringement of intellectual property rights, on this pretext, there are six ways to search for dividing points with Asia, I believe. This is my personal opinion, but I will present it with impetus.

Maximize the time it takes to catch up with further technological development. Increase one’s altitude that others must make up. Delay the expansion of the clouds.

It is necessary to ensure a balance between China and ASEAN. China has gone too far. ASEAN needs more reviewing.

The third is to understand the differences between modular and integrated structures, and between China and ASEAN. Not only must development be balanced but also Japan’s model must be integrated based on a solid understanding of the differences between China and ASEAN.

The fourth is that ASEAN’s vertical coordination is easy to get familiar with. It is strong with intelligent home appliances. China is either a question of a horizontal division of labor or acquisition of the Chinese market (high end). And, think about the four advantages areas of Japanese businesses. Integrated products and parts. Integrated parts are supplied via a horizontal division of labor. Design-oriented integration (European style) and service-oriented

integration. When considering the competition with Asia, it would be better to reexamine the balance between integrated and modular.

(5) Development of highly skilled human resources ①

Needless to say, Japanese businesses are investing less in human resources. During a slump, they do not spend money on training. And now, they are asking for reduced taxes on investments. Promote e-learning. Besides, from the corporate side, it would be better to use e-learning.

(5) Development of highly skilled human resources ②

This is an example of e-learning from Stanford University. They use it mostly in engineering. The university has 5,000 students enrolled in it. They sell ¥1.6 billion and it costs then ¥400 million. Corporate earnings rate is high. Reason being that classes at school have basically been done away with. It does not cost them anything. They emphasize maintaining the quality of the content.

(6) Use of strategic trade tools ①

This is the issue of banning imports of Taiwanese LCD TVs pushed by Sharp. They have a preliminary injunction to ban imports and sales because of intellectual property rights.

(6) Use of strategic trade tools ②

Compensatory duties (CVD). Examine the possibility of anti-dumping tariffs.

(7) Promotion of security assurances ①

Security issues will emerge as intelligent home appliances start networking.

(8) Promotion of the e-Japan strategy ①

The e-Japan strategy is the framework for Japan’s electric and electronic industries to launch new services, build networks and develop platforms, if they make home appliances as intelligent home appliances. It sets as the target Japan becoming one of the most powerful IT countries in the world in five years (2005). The internet diffusion targets are 30 million households using high speed access and 10 million households using super high speed access. The problem is that demand is still low. This is partly to blame on the fact that networks have not been built.

(8) Promotion of the e-Japan strategy ②

The importance of the last spot on the user end. Japan is still eleventh in online governmental services. Hospital reception (payment required for diagnosis) needs to go online. Hospitals are submitting papers to insurers. Can that be done online? Korea is 72.5% online, while Japan is at 0%. 20% of Korea’s teleworkers are employed for IT, while in Japan, it’s 5.8%. It will be important to promote usage in the future.

I believe that these will be the conditions for Japan to develop in the future.

Asia Strategy of the Kyushu Business Community

Yutaka *TAKIMOTO*, Assistant Bureau Chief, Editorial Division, Seibu Head Office, Asahi Shimbun Company

I am currently the Assistant Bureau Chief of the Editorial Division at the Seibu Head Office of the Asahi Shimbun Company. My job is mainly to produce the morning edition newspaper everyday, but there are three of us who do this. We take turns on a night shift every three days. I'll work till 3:00 AM and get home at about 4:00. The next morning, I'll get up around 10:00 and flip on the TV to watch Korean programs. At 10:45 on weekday mornings, KBC, the Kyushu Broadcast Company, shows Korean dramas. Korean is piped in the morning and I am curious as to whether its from Seoul or Pusan. They call it a Korean boom. On their satellite channel, NHK broadcasted "Fuyu no Sonata". In this morning's newspaper, the Asahi Shimbun carried a big story about fans stampeding to see Yon-sama. Some older women got hurt and the incident saddened Yon-sama. Since some time ago, you have been able to watch Korean dramas in the morning in Kyushu. I believe it has started in Tokyo, too. According to the TV guide, the Kansai has yet to do this, but in Fukuoka, there are two channels that have morning slots for Korean dramas. This all reminds me just how close the Asian mainland is. The northern end of Kyushu is the geographically closest part of Japan to East Asia. From Fukuoka, Shanghai is closer than Tokyo. Pusan is just 200 km and can be reached in 3 hr by JR's high speed ferry. Nowadays, it is no longer strange to see Chinese or Korean signs in stations in Osaka or Tokyo, though these languages have been around for some time in Fukuoka.

When I visited Osaka, the Midotsuji Road was the only street indication I saw in a foreign language. But, the Japan-Thailand Friendship Society used to be in Osaka. Itochu used to oversee this society. I recall them talking about whether to make signs in Thai. But, that was not done. Today, though there are no signs in Thai, you do see Chinese. On that point, Kyushu made the first steps to provide Asian infrastructure a long time ago. I heard the other day that opening a market of Japanese goods in Korea would boost



sales in Kyushu. Within that kind of an environment, the people of Kyushu are certainly very much interested in East Asia.

Kyushu Economy and Yellow Sea Rim Economic Zone

Today, in Kyushu, you hear of a Yellow Sea Rim Economic Zone. On November 16, The Organization for East Asia Economic Development (OEAED) was launched with the vision of a Yellow Sea Rim Economic Zone extending from Kyushu and Yamaguchi to Korea and the Gulf of Chihli, and the area north of Shanghai. The idea is to create an economic zone that crosses national boundaries, centered on 10 cities in Japan, Korea and China on the Yellow Sea. OEAED was launched with the bold initiative of developing the Yellow sea rim area as an economic zone similar to NAFTA and the EU. The idea was put forth by the mayor of Kitakyushu. The ten cities are Kitakyushu, Fukuoka, Shimonoseki in Japan, Pusan, Incheon and Wonsan in Korea, and Dalian, Tsingtao, Tianjin and Yantai in China. Also taking part are mayors and business people from chambers of commerce and industry of the Liaodong Peninsula and Shantung Peninsula. The secretariat is located in Kitakyushu and there are four committees on distribution, manufacturing, environment and tourism. They not only discuss things but conduct business where business can be conducted. All ten cities are port cities, therefore they are hoping to activate the region by reducing port fees and simplifying customs procedures. They want to forge a regional FTA. Japan's local governments are starting to get involved in that. Osaka and Kobe may already have something in the works. OEAED released a joint statement declaring that "the mayors and chambers of commerce and industry in the ten cities will work together as OEAED to contribute to the development of the Yellow Sea Rim Economic Zone" and that "the development energy will come by coordinating competition between participating cities." Amongst the ten cities, there will be five joint projects promoted in the future. One of those projects is to forge a regional FTA. Another will provide support to businesses wanting to make inroads into foreign markets in the zone. Another aims to make the zone a model area for balancing environmental protection and business activities. Another will develop tourism brand strategies and examine ways to utilize e-commerce, simplify customs procedures and standardize environmental regulations. Because the discussions are not between countries, there are matters that can be accomplished and others not, therefore starting with what can be done, they are looking for

opportunities to deepen economic relations across a wide area.

So, what is the parent organization, OEAED? Three years ago in 1991, the East Asia Cities Conference was staged. This initiative has been promoted on the local level. The launch was a product of more than a decade of efforts by local governments, economic circles and, as the satchel of wisdom, some local universities.

What is a Yellow Sea Rim Economic Zone? What is a regional FTA? What has the relationship been between Korea, China, Northern Kyushu and Yamaguchi during this time? Where did the Yellow Sea Rim vision come from? The northern end of Kyushu used to be an energy hub. It was home to the heavy and petrochemical industries, and thrived by shouldering part of Japan's economic development. It was home to Mitsui and Iwano, though it was not a "Seishun no Mon", there were coal heaps and it was a mining town. Later, energy policy was changed and the economic environment changed, so the mines were closed and a period of desperation began. The southern part of Kyushu is a farming economy, but liberalization has also made agriculture a hard business. The situation provoked thoughts that governments cannot do it alone. In the people of Kyushu was planted the belief that originality was needed. This was the spur to regional internationalization. The idea was born to do something with nearby East Asia based on local originality.

Both China and Korea have economic relations with Japan, so exchange within an area of the Gulf of Chihli and Yellow Sea long preceded the establishment of diplomatic relations. International exchange activities promoted by China and Korea extend to nearby Northern Kyushu and Yamaguchi, so the group felt it was possible to create an economic zone between Japan, China and Korea.

Economic Exchange in the Yellow Sea Rim Economic Zone

The state of economic exchange in the Yellow Sea Rim Economic Zone today puts Chinese exports to Korea at just under \$20 billion and imports at just under \$30 billion. Originally, trade between China and Korea began in the 1970s as indirect trade via Hong Kong and Singapore. According to customs statistics in Korea, 1975 was the start of imports from China, which in that year were valued at \$180,000. When China advocated a policy of openness to the outside in 1979, Korea started shipping textiles to China via Hong Kong. Via Japan, they started dealing in coal and other minerals, however the Hong Kong route accounted for more than half of all trade, while indirect trade via Japan and between Pusan and Shimonoseki using regular shipping lanes made up the difference. Later, trade grew and, in fact, expanded suddenly in 1983 when the hi-jack incident occurred and China and Korea cooperated in resolving the issue. But, already the exchange pipe was wide open. Of course, both ends of the pipe had reasons to expand trade.

Korea wanted to import oil together with Japan. When the oil shock occurred, they put every effort into the Middle East market. Korea maintained their high economic growth, but when the second oil shock hit in 1979, energy conservation became big and a surplus of oil was actually left over. Alternative energies were developed, world oil demand declined and prices fell. Producing nations also began with retrenchment finances and Korea, which had developed business with the Middle East at the time, was hit hard economically. Then, countries wanted to approach China, which, though communist, was starting to change and open up their economy, in order to replace the Middle East. This same feeling was felt in Korea. For China, modernization necessarily meant bringing in heavy and petrochemical industries and procuring imports, therefore they wanted to approach Korea with whom they had supportive economic relations. Since that time, Korea has imported coal, natural textiles and vegetables from China, and exported synthetic textiles like acrylic and electric machinery to China. That trade gradually increased and, when it reached a certain size, holes were opened in the political walls. Around this time, the concept of "separation between public and private sectors" came into play. Before diplomatic relations were established, trade was conducted on the principle of separation between politics and business, but because China and Korea touch each other, China has to recognize both Koreas. Then came the new principle of separation between public and private sectors. What was done in the outlying areas would be left up to those areas, while on the governmental level absolutely nothing was done to contact Korea. Any sort of exchange with Korea on the individual business level was private business. So, as long as public organizations from Korea were not acting as direct trade organization, China gave tacit consent and that was called the separation of public and private sectors. Under this concept of a separation of public and private sectors, trade was conducted with tacit approval, which is why China delegated authority to outlying areas. This is how trade progressed between Korea and China around the Yellow Sea.

In 1990, China created an office for the China Council for the Promotion of International Trade as an international commission with consular services. Korea also created a public trading company for China with consular services, and trade progressed without restrictions in a format almost as if diplomatic relations were established. In the meantime, ferry service began between China and Korea, so business was being done between China and Korea before Japan entered the Yellow Sea.

At this time, the Yamaguchi Bank was the only regional bank to open a liaison office in Tsingtao. Their Pusan branch had acted as a go-between for customers and state-run companies in Tsingtao. The Kyushu and Yamaguchi areas have these kinds of

local banks. Between Pusan and Incheon in Korea and Dalian and Tsingtao in China, a network of a certain size formed for the flow of people, goods and money. By gaining the participation of Kyushu and Yamaguchi, an economic zone layer was added to the complementary relations. That is how the Yellow Sea Rim Economic Zone got started.

In the meantime, what was happening in Japan? In the latter half of the 1980s, the yen appreciated following the Plaza Accord. By 1988, the yen increased 100% in value from ¥222 to the dollar to ¥121. To counter the change, businesses started moving their production bases to Asia. From NIES, they relocated to ASEAN and again to China, which incited fears of a hollowing out of the domestic industry, but within the flow of things, the economic relations between Japan and East Asia in NIES, ASEAN and China became tighter. Japanese businesses brought a division of labor and differentiation. From the mid 1980s, an East Asian economic block was built with East Asia an integral part. Within all of this, regional areas expanded economic exchange between themselves. And, the catalyst for promoting direct economic exchange on the regional level came when regional ports began to internationalize.

The opportunity to internationalize ports came with the second appreciation of the yen in 1993, but cost reductions were necessary countermeasures to the rising yen. How could businesses lower shipping costs? There were only five ports with established international shipping lanes: Tokyo, Yokohama, Nagoya, Osaka and Kobe. Before that, imports went through customs at these five ports and then were trucked overland, so the best way to reduce those costs was to transport cargoes to the nearest port so as to minimize land freight costs. Because they reduced land freight costs, regional ports internationalized. So where were the destinations of these regular international shipping lanes? As a matter of fact, Pusan was a hub port in East Asia. From the mid 1990s, shipping from Pusan to regional ports that newly opened up regular shipping lanes increased sharply, reaching as many as 50 ports with routes to Pusan. Parallel to this, regional airports commenced regular flights to Seoul. There are certainly even more today, but two years ago there were 18 airports serving Korea. In fact, Korea has upgraded its sea and air links to the point that other areas now use Incheon International Airport as a hub rather than Narita Airport. On the tailwind of progressive internationalization of the ports and airports, local businesses started doing international business directly. The internationalization of regional areas progressed rapidly because of governmental diplomacy and exchange in the private sector. Amongst the local businesses of Kyushu, there were those who moved overseas at the request of customers. In most of those cases, a venture was involved.

Nevertheless, there are some cases where it cannot be generalized whether a venture is the right way to go or not. The President of Showa Tekko, an air conditioner manufacture who did not set up operations in an industrial park in Dalian, had this to say, "The majority should got to China. If small companies leave and start making things in China, we will have to start thinking about how to hedge the risk." According to this president, the Chinese are more capitalist-minded than Japanese businesspeople. Even if the Japanese are in the majority, they won't get it right. Small businesses will definitely not get it right. The venture company created by Showa Tekko has but one Japanese employee. From the president down, everything is handled by Chinese staff. The Chinese handle the capitalist business. Japanese businesspeople cannot go that far. I was impressed by his words that gentle business cannot compete in China.

East Asian Infrastructure in Kyushu and Yamaguchi, and Regional FTA

I would like to now talk about the current state of East Asian infrastructure in Kyushu and Yamaguchi. Yamaguchi Bank has its head offices in Shimonoseki, but what features them is that they are aggressively developing operations in the Asian region. They opened liaison offices in Pusan in 1973, in Tsingtao in 1984, Hong Kong in 1986 and in Dalian in 1987. And, the trend continues to Bangkok and Jakarta. In 1986, the Pusan office was promoted to a branch and after that the offices in Hong Kong, Tsingtao and Dalian followed suit. Before diplomatic relations were normalized, Yamaguchi Bank had offices in Tsingtao and Dalian and a branch in Pusan, therefore the bank provided intermediary services for local Korean businesses and Chinese businesses, as well as services for businesses wanting to make inroads into China. In Tsingtao, the only Japanese bank is Yamaguchi Bank. So, it played a financing role.

Fukuoka, Kitakyushu and Shimonoseki, all of which manage ports, are aggressively promoting port sales, but on November 4, Kitakyushu and Incheon, Korea signed an agreement to promote the distribution and exchange of goods between their ports. Both enlist a port authority to handle core management operations, and both are thinking to sign similar agreements with Dalian, China. In the Yellow Sea Rim Economic Zone, an attempt is being made to open up a new distribution route to Incheon instead of Pusan. Kitakyushu and Fukuoka are building intellectual Asian infrastructure. Kitakyushu has built the International Center for the Study of East Asia Development and stages forums to promote research. They have created research organizations such as the Asian Pacific Center to provide local businesses and residents with information.

Kitakyushu got Shimonoseki involved with sister-city programs with Dalian and Tsingtao in China and Incheon in Korea. In 1991,

they created a 6-city network, which became the East Asian City Network in 1994. Recently, they have been doing more than just talking as they have cooperated in specific business ventures. They are looking for new business in which they can apply their advantages. Results have yet to emerged so it is unknown what exactly they will be doing in the future.

The Kyushu Bureau of METI is providing support to local businesses based on their organization and what they can do and cannot do, under the banner of "Coexisting with East Asia". They are encouraging local businesses to transfer production technology to China and Korea. Specifically, they created a production technology exchange council together with the Ministry of Science and Technology of China and, in 1993, created an economic exchange conference with Korea. Then, three years ago in 2001, the seven prefectures, two specially designated cities and economic organizations of Kyushu joined together in the interest of exchange and cooperation with coastal areas in Korea and China on the Yellow Sea, and created Yellow Sea Economic and Technology Exchange Conference in cohort with the Chinese Ministry of Science and Technology and Ministry of Foreign Trade and Economic Cooperation, the Korean Ministry of Commerce, Industry and Energy, local governments and economic organizations. This unto itself strengthened cooperation in trade, technology transfers and human resource exchanges. And, other modes of cooperation are being used around the Yellow Sea. In 2000, the regional bureau launched the only international department ever. Events like that are promoting cooperation.

It is sometimes written in the newspapers about a Korean Straits Economic Zone between Pusan and Ulsan in Southeast Korea and Northern Kyushu around Kitakyushu and Yamaguchi. One part of the Yellow Sea Rim Economic Zone is this Korean Straits Economic Zone. The automotive industry started in this area. Wonsan has Hyundai, Pusan has Renault and Fukuoka has Toyota. Nissan also has a plant in the area. Daihatsu is in Oita. The other day, Toyota announced that they were filing for permits to build an engine plant in Kanda to build 220,000 engines. Parts suppliers build factories around the automotive plants, so there is the possibility of ties between the two getting stronger in the Korean Straits Economic Zone. China will also lower import tariffs on automobiles in July the year after next. They also have parts tariffs to be set at 10%. They are also thoroughly enforcing restrictions on the number of imports, so Daihatsu and Toyota are making cars in Tianjin on the Gulf of Chihli. In Korea, they're in Taegu on the west coast. The vehicles and parts made in the Korean Straits Economic Zone can be exported to China. The division of labor and cooperative networks of the automotive industry in the Yellow Sea area are not simple

and the workings will eventually become visible. Recently, not just production capacity but also zero emissions and other goals have become important, but regional cooperation should be possible with regards to the disposal of waste cars. The dreams only get bigger. That is just one way of thinking. Whether it becomes a reality or not will determine the fate of a regional FTA.

At the Santiago meeting of APEC, FTAs were the core theme. FTAs are viewed as propulsion engines. Japan has been in various negotiations and is ready to sign with the Philippines. So, what about Korea? They have an agreement with Chile, but farmers are strongly opposed to it, so it has yet to be ratified. China is not at a point to sign onto FTAs, but a lot is going on. In November two years ago, at the ASEAN Summit, leaders from Japan, China and Korea met and proposed an FTA for the three countries. China put forth the proposal. If you consider the trade between Japan, China and Korea, and then note the triangle they form, it seems like a winner from one side and a loser from another. Trade within the triangle of Japan, China and Korea seems entirely possible. When it is handled between nations, it is never a simple ordeal because of agricultural issues, etc. But, when considered in terms of Kyushu, Yamaguchi and the Yellow Sea Rim of China and Korea, it appears to mutually beneficial. Marine products are also exported to Korea. Delicious fish is sent from Hakata. With this train of thought, free trade would be somewhat restricted, but the question is whether a regional FTA can be achieved or not. This thought is shared by the Kyushu economic world.

Some ideas are favored nation status and reduced port fees. Since there are some things that can be done and others that cannot, we should lower our guard on that which can be done and try to make it a standard. There are many ways to determine the zone, but I think it would be possible by limiting it to trade ports. On the Fukuoka and Yamaguchi side, there are import promotion zones, Kitakyushu and Shimonoseki. On the Korean side, there is Pusan as a duty free zone. These thoughts were added to discussions as to whether or not an FTA could be forged for a restricted area. That is what is going on.

Since the mid 1980s, a middle class society has grown in and around regional economic zones and cities like Seoul, Shanghai, Taipei, Hong Kong, Bangkok and Singapore. A land has been found where cultural products can be commonly enjoyed. Certainly, anyone who has watched "Fuyu no Sonata" will understand that there is nothing strange about watching and listening in Korean. It reminds me of places like Roppongi and Aoyama. They live in a luxury apartment. It is beautiful and Korea and Japan speak the same language; they are inseparable. You drive a Japanese car and listen to Korean pop music. You go to eat at an America-style steakhouse. And, nothing would seem strange about it if this were an Indonesian doing this.

I believe there is a market beyond borders in the Yellow Sea Rim Economic Zone that pivots on an axis of Chinese production grade. It should be considered an East Asian and Chinese production zone.

They have started writing new rules for a region of 10 cities in Kyushu, Yamaguchi, China and Korea, and they are working towards a goal.

Current Status and Issues of Japanese Companies in Thailand

Takeshi YOSHIMI, Professor, Faculty of Economics, Kobe Gakuin University.

We previously heard policy theories based on solid data from Bureau Chief TOYODA, and a high level presentation on strategies for regional economies from Mr. TAKIMOTO. My presentation will be about the situation of Japanese businesses with production operations in Thailand. There are – I believe – some very interesting analyses, but I may seem like I am grumble at times, so please bear with me.

Towards the end of his presentation, Mr. TAKIMOTO mentioned the cultural fusion of Asia. Well, some nineteen years ago, there was an industrial zone south of Bangkok known as Samut Prakan. After visiting a company there, I went to a Chinese restaurant for lunch. There, on a large screen TV, Teresa TENG was beautifully singing the Japanese songs “Shinrai”, “Toki no Nagare ni Mi wo Makase” and “Kuko”. She was singing in Chinese. The scenery was a bunch of Thai locals eating and listening carefully to Teresa TENG singing a Japanese melody in Chinese. It was interesting. Thai music is slow tempo, which is different from popular music in Japan. There are many Chinese people in Thailand, but only the older generations understand Chinese; most of the people in the restaurant did not understand it. Nonetheless, they were listening attentively to Teresa TENG. I thought to myself that it has now come to this. It hit me that a single culture, human sensitivity and so forth were gradually become communalized across all of East Asia. That unto itself was a very interesting experience, but what I want to talk about is that the impressive large screen TV was at the time, ten year ago, made by – I think – Panasonic Thailand, Hitachi or Toshiba, but nowadays it’s Samsung. While the people of a cultural Asia have come to share the same world on the one hand, the economic reality is that we are in midst of harsh competition. Whereas Japan once owned the entire

home appliance market of South East Asia, over these past two or three years, Samsung has captured 50% of the color TV market of Thailand and Korean-made white appliances are stealing market share, putting Japan in a very precarious situation.

Competition with Products Made in China

I would like to explain the severe economic situation by giving you some specific numerical figures.

To begin with, I will talk about Korea’s inroads into Southeast Asia and the relationship between electric, electronic and same part manufacturers and China. The force that is going head-on with Japan in Thailand is Korea, but international markets are flooded with electric products and parts from China. This goes for the North American and European markets as well. On markets worldwide, China, Korea, Taiwan and Japanese manufacturers in Southeast Asia are fiercely fighting it out in established and popular parts fields. China has low manufacturing costs. Home appliances made in Thailand are priced about 20% higher than those in China in an overwhelming number of cases. There is also a difference in labor costs, but many parts manufacturers are concentrated in China, so China is in a better position in terms of material procurement and this markedly shows in manufacturing costs. However, there are companies with manufacturing costs a whole 20% lower than in China. There are companies that are putting up resistance to China by reducing costs by their own means such as improving productivity by 20 to 30% and even 80% in some cases with cell production systems. In any case, what should be noted most here is that usually costs are 20% higher in Thailand than in China.

Product prices are about the same as those of Japanese manufacturers in China. Thai loses in terms of production costs, but as a product, there is not much difference in price because of the country’s welfare system or the fact that they employ people unnecessarily or for some reason I do not know. However, though the price may be the same amongst Japanese manufacturers, when compared against Taiwanese and Hong Kong manufacturers, there is no comparison even when surplus costs are taken into consideration. Just to give you an example, when it became necessary under the rules of the Chinese



government to absorb surplus costs, the Japanese companies operating in special economic zones are kept under close watch, so they cannot pull any tricks. But, the Taiwanese and Hong Kong businesses speak the language and are blood-related and territorial; they build a factory in a special zone but actually produce the products in the remote countryside. Come evening, they deliver the products to the special zone and then ship them from there. And, the welfare bureau can't catch them. This is real and indicates just how competitive China is.

Technology Transfer and Human Resource Development in Thailand

To counter the products made in China, many businesses are making efforts to increase their technological level via human resource development and to innovate production by introducing cell systems and so forth. So what sort of technological level should be established by developing human resources? Ordinary technology, workplace management required for daily activities, work standardization, maintenance, process control, quality control, factory management ... as far as I investigated this, asked questions and got answers, most companies responded that they had "established targeted levels for the most part. Technology was transferred to Thai staff." Several businesses replied that "instruction by Japanese is needed." In asking companies, I found that there are many cases where diverse problems remain even in ordinary technology fields. The current state of applied and developmental technology levels and transfer to Thai staff. There are plenty of problems in this area. As applied technologies, there is dealing with equipment trouble, troubleshooting with defects, technology for dealing with situations that obstruct everyday production activities, but when it comes to technologies for making improvements, there are many categories of technology that are not transferred to Thai staff. As far as companies having completed the first step of applied technology, that being to deal with equipment trouble and troubleshooting with defects, and having qualified lines on which 80% or more of the technology has been transferred to local staff, there were four companies: B, E, F and G. In all cases, all of the ordinary technology of these companies is excellent and they have transferred all of that to local staff. The companies that completed the transfer of ordinary technology and have Thai staff handle daily production activities without a hitch, have good records in terms of application. I think, at this point, it would be good to look at specific problems by dividing companies into two groups: one which must develop and utilize ordinary technology, and the other which has completed this stage and is thinking about application and development. I think the companies can be roughly divided into

those who have taken all of steps up to development and those that are still having problems with ordinary technology.

Keeping in mind the two specific groups, this table shows survey results from last year to this year. We surveyed industrial sectors that process electric products and parts, automotive parts and food. There are three categories in "Development-minded", "Partially interested in development" and "Ordinary technology user", but this development-minded group has clearly stated that they are "involved in development" and "have five or more development engineers". Partially interested in development companies "have four or less development engineers involved in everything up through product improvements."

The next table summarizes responses on work standardization. To the question "Have you broken down work into basic operations and researched the optimum work format that is free of excess and waste?", *** answered "Yes, we have." Companies A through E, which are of the development-minded group, all answered, "Yes, we are already doing that." Development-minded companies score 100 points even in technical fields. With regards to work, companies A through E answered, "Yes, actively" to the question "Do workers and supervisors actively provide opinions and proposals?"

To the question "Do you measure standard time?", all companies showing good performance answered yes. Those with low performance records do not. Work time is determined by adding a margin to net time, but companies A through E use the same margin as in Japan. Regarding this margin, company E has a smaller margin than in Japan as they lowered it from 10% to 5%. On the other hand, companies with poor performance records have a larger margin, which in one case was twice as large. In terms of efficiency, the lower on the table, the more problems there are.

To the question "Are process control and power control properly taken care of?", most of the companies A through E answered that Thai staff take care of that, but company I responded that planning is done in Japan because process planning cannot be done in Thailand. They have brought over the system from the mother plant just the way it is. However, with the 5Ss, the lower group and some cases of ordinary technology users scored high. This makes me suspect that all that they can do is to work harder.

For what concerns process control and overall completeness, those on the top end of the table have completed everything. The farther down you go, they are practicing it, but they do not understand the theory. The Japanese play a big role. What is the most important thing in Thailand? Development-minded companies said, "training development engineers". Farther down the table, the answer was "cost management and normal level jobs have still not been accomplished."

As for quality control, development-minded companies operate on the same level as Japan, but ordinary technology users are in a worse state than in Japan. All of the companies at the top of the table are OK with QC. There are some “problems with workers”, but farther down the table, there are problems not only with workers but supervisors as well. QC has not penetrated the workplace. QC awareness is low even amongst supervisors and executives. How far should Thai staff be made to deal with defects? The Thai staff are the ones who discover and understand defects, but many companies responded that “Japanese are still necessary”. The companies towards the top of the table not only have Thai staff identify and analyze defects and build and implement countermeasures but also have only Thai staff building their entire quality control system. This does not happen with the companies at the lower end of the table.

For what regards their view of the current business environment, the companies towards the top of the table have a very optimistic view, believing that “everything is OK for now because of thorough quality control and cost reductions made by streamlining production on current lines for the product lineups” and that “everything will be OK with some manual adjustments to the current lines and production transfer from Japan.” In contrast to this, many of the companies at the lower end of the table said that they would “lose out to international competition unless new products and new product designs are handled in Thailand.” So, they are divided into two groups. As far as their basic positions are concerned, they are again divided into two groups: those that are aware that “thorough development means the difference between winning and losing” and those that believe “it will suffice to continue as is using existing quality control and making efforts to reduce costs.”

Required human resources and scholastic achievement. For example, what is needed to be a development engineer? Company A already has seventy development engineers. Nine are Japanese. Most are college grads, while some come from technical trade schools. Company B has ten engineers, one of which is Japanese. They are all college graduates. Company C has seventy, which includes three Japanese. Most are from technical trade schools. Company D has twenty college grads. And, they want to hire twenty more. They want to hire them from the King Mongkut’s Institute of Technology and make them development engineers. Company E has seven college graduates and two from technical trade schools.

There are two groups of companies: those that train development engineers and those that do not. To the question “Can you turn a graduate from a technical trade school into a development engineer?”, many companies answered that they “can but it is better to have college graduates”. Why is this kind of question necessary? Amongst the Thai college graduates, job-hopping is frequent.

Japanese companies who are looking for human resources that will make at least a ten year commitment accumulating knowledge and experience as part of the company’s core technical team, must rely on technical trade school graduates by force. Therefore, if they can train the technical trade school grads, then OK, but it was strongly voiced that, though they can train technical trade school grads, because it is hard, they prefer college grads. Most of the local staff at the businesses towards the top of the table can perform CAD.

Polarizing Companies

It seems evident that companies have polarized into two groups. What makes me doubtful is that there are many businesses with local presidents who claim they are “not worried” yet in the same breath they say, “you can never win without development or thorough use of cell production systems.” If I were to randomly pick fifty companies and ask them the same question, ten would respond that “you cannot beat the competition without strengthening all of your technological capabilities.” I think there would be forty companies who executives have an optimistic outlook that says, “everything will be all right just as is.” However, there are people who adamantly believe that a “company cannot survive in an international market without having Thai staff handle part design and development or without building a system for quickly bringing products to market.” Of course, there are those who do not believe “that is necessary.” I honestly want to know how they are doing.

During my one year of professorship at a Thai university, I asked several presidents from the textile world “if they were not investing”, to which they replied “that is actually what is happening.” Though I did not know this figure at the time, back then, Japanese textile manufacturers did little to increase production. When I asked them, most said they were not investing. It was hard enough capturing the local market. They said that they would recover by introducing state-of-the-art weaving machines from Japan. In the end, because they temporarily lost the local market to Thai companies, they introduced the latest weaving machines, made good quality textiles and converted to exports. In the early half of the 1990s, Japanese textile manufacturers in Thailand extolled the spring of pink roses and made oodles of money, paying up to 70% in dividends. However, now China has emerged and they are faced with a tough situation. Though management is excellent, they followed the same pattern every time. These local executives did not feel it was their responsibility to innovate just because their Thai counterparts were investing. The abuse that occurred with one particular type of headquarters policy formulated in Japan, which told subsidiaries in Thailand “not to manage the company that way; the Thai operations are nothing more than a production plant, therefore do as you are

told,” caused the Japanese textile manufacturers of the 1980s to be defeated by local Thai companies. Today, the electric manufacturers are facing this kind of problem. As long as the headquarters policy positions the Thai subsidiary as a production plant and insists that they raise production efficiency by thoroughly implementing the 5Ss rather than think of something new, local executives will not take any action to pose resistance to China and Korea by looking seriously at the situation and spending money on new risks. The headquarters in Japan is a big problem.

Secondly, there is an awareness problem. On a college exam, you mark A, B, C and F. To give a company an “A”, the company must always be thinking even when they are making money, must listen to what people have to say and must study, and the better of these would, in my opinion, be flexible and have considerable margins. A “B” would be a company that does not study when things are going well, but listens to what people have to say when things are not going well. They would study. “C” is a company that does not study even though things are not going well. They don’t listen to what people have to say. However, they hustle on their own. Though they may be successful, they may also fail because they stick to the ideas of a single person. They work hard on their own. An “F” is a company that has no ideas and takes no action. Many of the companies in Thailand get a “B”. Right now, presidents should really be thinking about how to rebuild their systems amidst the difficult situation.

There are some presidents who are giving it their all. But, an overwhelming majority of them do not know what to do. I myself want to grab them by the head and, because there are knowledgeable people in Thailand, ask them what is the problem!

With that, I would like to conclude my presentation. Thank you for your attention.

2004 Public Seminar

Date/Time: March 29, 2005/13:00 ~ 17:00

Place: No.11 Bldg., Conference Room, Kobe Gakuin University
518 Arise, Ikawadani-cho, Nishi-ku, Kobe

Theme: Current State of Human Resource Development in Shanghai

Presenter: Shi Quin, Principal of High Field Japanese Language School, Advisor to Est Consulting

East Asian Industry and Economy Research Center C/O Kobe Gakuin University 518 Arise, Ikawadani-cho, Nishi-ku, Kobe, Japan 651-2180
e-mail chief@erc-kobegakuin.org TEL +81-(0)78-974-4829 FAX +81-(0)78-974-5856

East Asian Industry and Economy Research Center 33/130 Room 2602,26th Floor., Wall Street Tower Building,
(Bangkok Office, Thailand) Surawongs Rosd, Bangrak, Bangkok 10500, Thailand T.J. Bridge
e-mail chief@erc-kobegakuin.org TEL +66-(0)2-266-4995~7 FAX +66-(0)2-266-4998