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"Rethinking the Cooperation and Competition between East Asia and Japan

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Rethinking the Cooperation and Competition between East Asia and Japan

- **How to deepen/strengthen further linkages between Japan and East Asia through further cooperation and competition in both private and public sectors in Asia for achieving further prosperity**

Issues in the public sectors and private sectors



- **How to strengthen governmental cooperation and how to construct institutional integration for complementing private business activities**
- **What is the ‘optimum’ regionalization strategy in Asia under their globalization strategy. In other words, future prospects for international division of labor in the field of R&D, brand making, production and marketing among Asian, Western and Japanese firms in Asia**

How to strengthen governmental cooperation and how to construct institutional integration

- **How to obtain maximized benefits from further liberalization of trade and FDI (including pre-establishment National Treatment), more strengthened linkage of cultural and human resource interchange and closer coordination of natural resources and environmental issues through constructing regional integration framework, while minimizing difficulties**
- **The role of FTA/EPA in the Asia Pacific region**
- **The role of sub-regional development projects achieved by related countries**
- **The lessons from other regional integration, above all, EU**

What is the ‘optimum’ regionalization strategy in Asia under their globalization strategy.

- **Japan’s MNCs have two purposes in their FDI in Asia, which are “efficiency seeking” FDI and “market seeking” FDI.**
- **Efficiency seeking” FDI is to supply parts and to assemble final products, which are exporting to Japan and USA, EU, other Asian countries and other markets.**
- **“Marketing seeking FDI” is to supply goods to local markets.**
- **No doubt, “Marketing seeking FDI” will become more important.**
- **What are lessons from other Asian and Western countries in “Marketing seeking FDI” , especially, in marketing and human resource management ?**

Competition and Cooperation between MNCs and local firms in host countries

(Shigeki Tejima)

- **International division of labor of Japanese MNCs among Asian NIEs, ASEAN countries and Japan is mainly in the form of international networks between Japanese affiliates and related companies**
- **International division of labor can be good cooperation between MNCs and local firms in host countries through closed or open networks.**
- **Local firms in host countries can obtain much opportunities, including technology, managerial tools, sales networks etc. of foreign MNCs.**
- **Some local firms has transformed into MNCs based on developing countries and can be rivals of MNCs based on host countries. It may cause sever competition in future.**

Recent Economic Development By region through inward FDI (Foreign Direct Investment) (Shigeki Tejima)

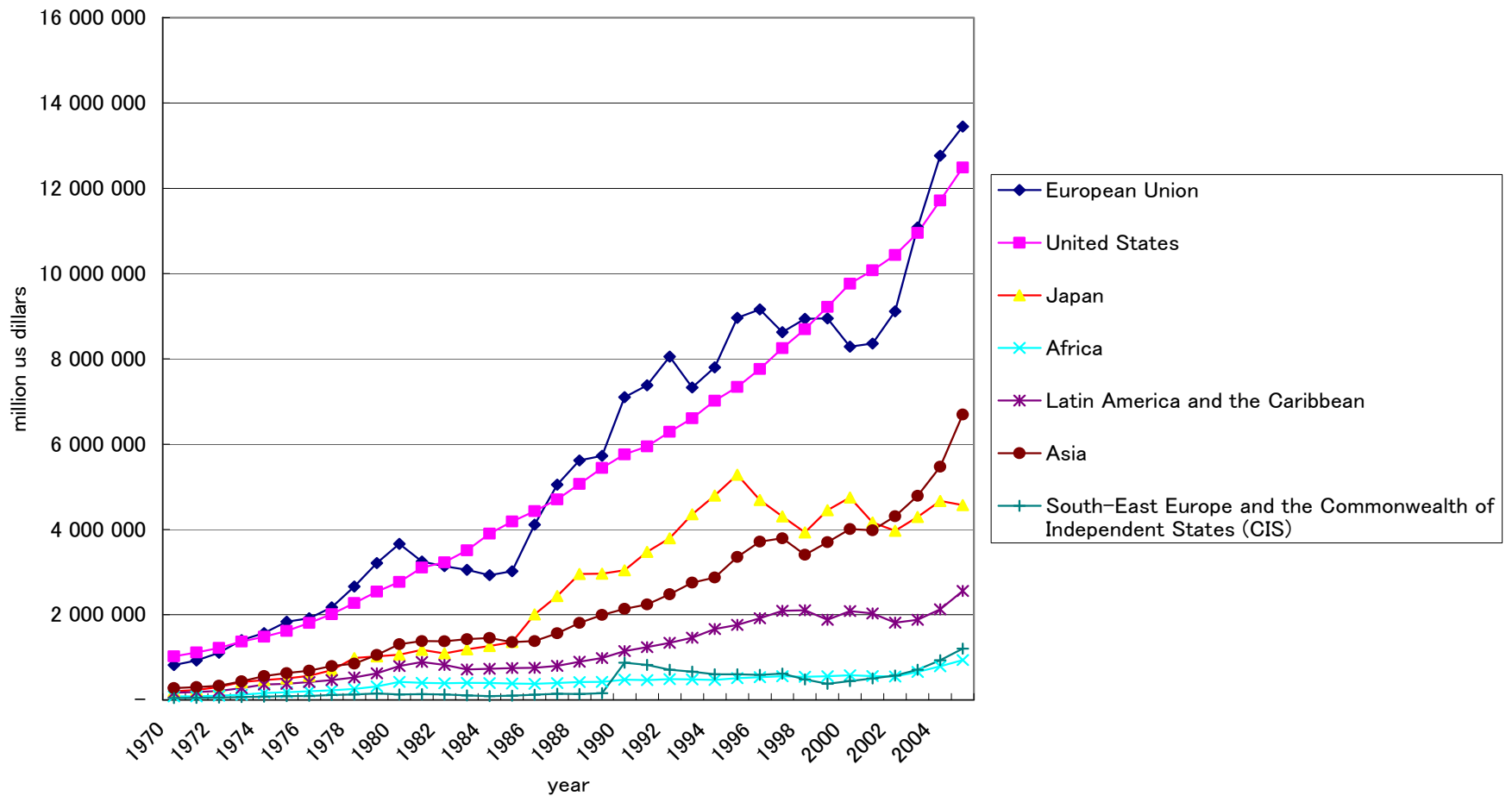
- **Drastic change in the perspective of Economic Development of developing countries in relation to the growth of developed countries**
- **Prominent success of Asia, especially, East Asia, in achieving high economic growth through inward FDI and accelerated export prompted by foreign MNCs affiliates.**

Effects of FDI liberalization in Investment agreement on Trade, Investment and Development (produced by Shigeki Tejima)

- (1) FDI liberalization in investment agreements accelerate FDI flow through improving good governance of host countries and business environments for foreign companies.**
- (2) Accelerated FDI inflow stimulates more employment in host countries, more sophisticated technology transfer and, in general, more vitalized economy of host countries.**
- (3) FDI liberalization, which attract more inward FDI, is an effective way oriented toward a sustainable development of host countries.**

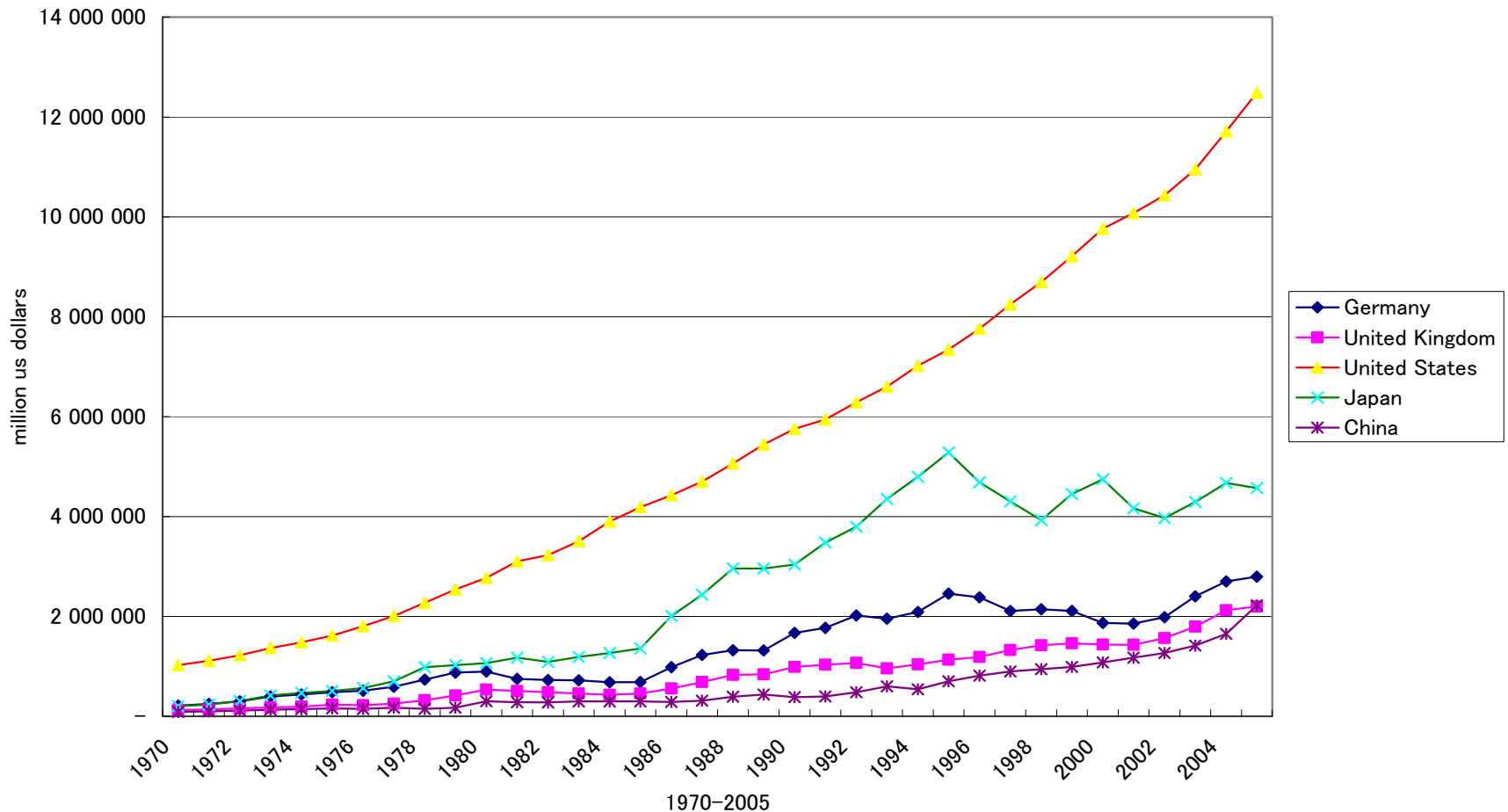
Recent Economic Development (GDP Growth) By region ((Compiled by Tejima from UNCTAD data : unit; million us dollars)

Nominal GDP by region/country 1970–2005



Recent Economic Development (GDP growth) of largest Countries (Compiled by Tejima from UNCTAD data : unit; million us dollars)

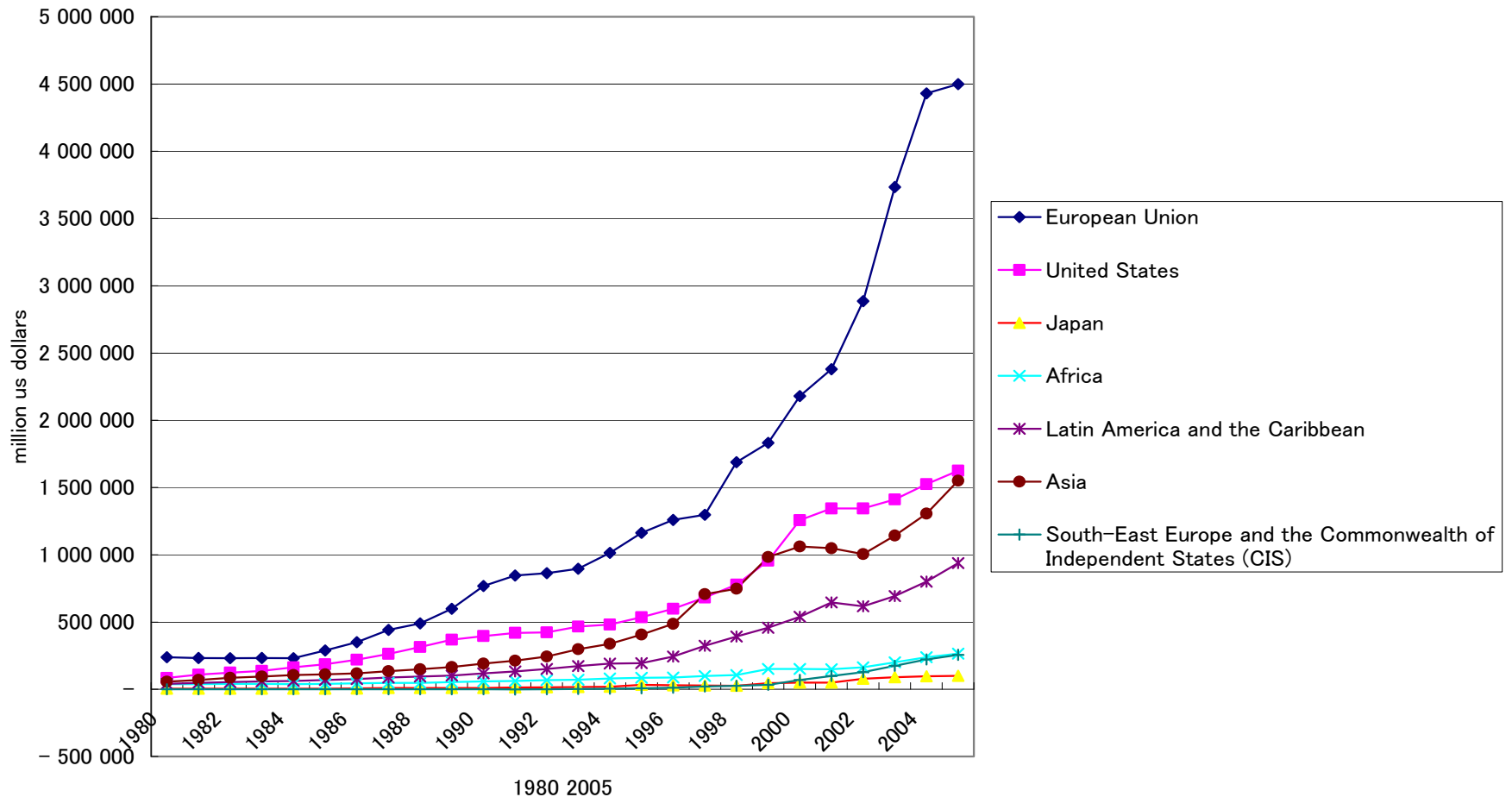
GDP by five largest countries



Inward FDI stocks by major regions countries

(Compiled by Tejima from UNCTAD data : unit; million us dollars)

Inward FDI stocks by regions countries

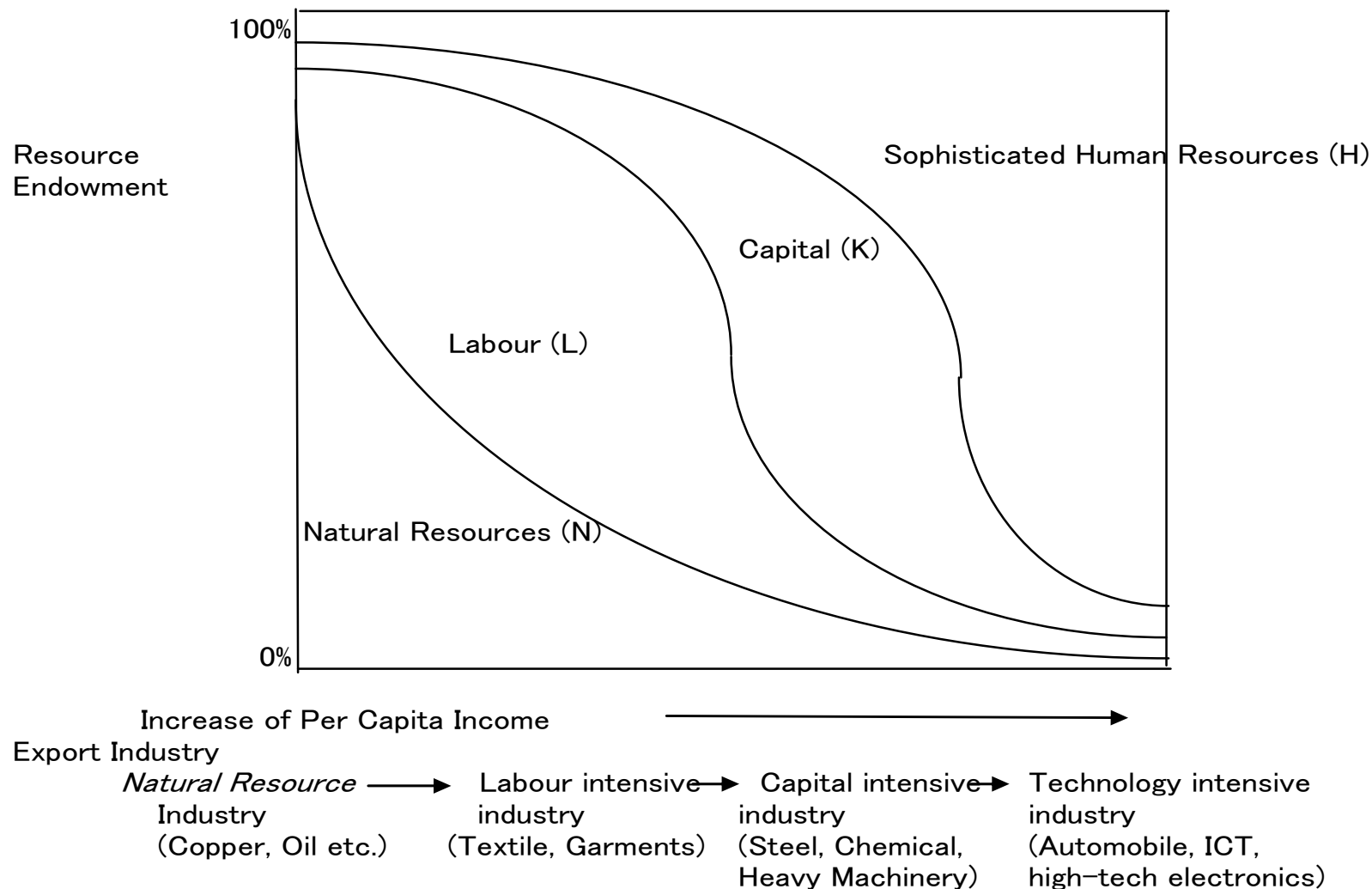


The Pattern of Economic Development in East Asia in comparison with Japan

(Shigeki TEJIMA)

- **(Japan Pattern) Economic Development of Japan in the past 140 years was achieved through the development of domestic market and continuous change of export industries, reflecting the changing resource endowment of the country. The role of foreign MNCs (multinational corporations) was relatively small.**
- **(East Asia Pattern) East Asian countries follow the same pattern of Japan but it has been accelerated by the export promotion policy, which is closely connected with the promotion of inward FDI.**

The change of competitive export industries, reflecting the change of resource endowment of the country



“Commoditization” from Specialty products to commodity (Shigeki TEJIMA)

- **Accelerated shortening of life cycle of newly developed “Specialty” products**
- **Discriminated products can be easily transformed to commodity products through simplification and modularization of “Specialty” products.**
- **In most of the commoditized products, severe competition for lowering price to the bottom cannot be avoidable.**
- **Developed countries and their MNCs can easily lose competitiveness in such commoditized items while developing countries and their MNCs can become competitive.**

Prominent development of ICT industries

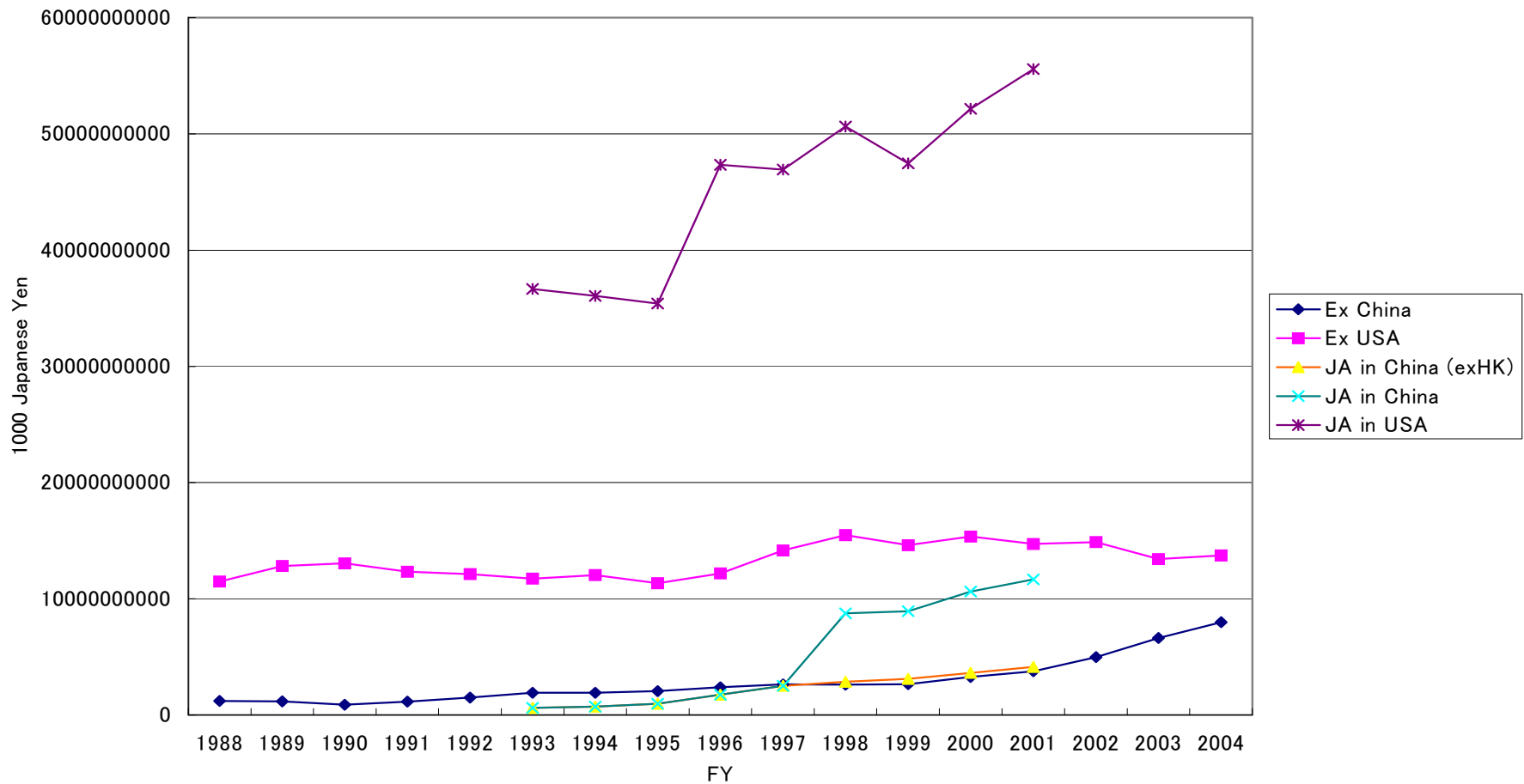
(Shigeki Tejima)

- **ICT industries have achieved well international division of labor between developed countries and developing countries.**
- **MNCs based on developed countries are more concentrating basic research and development of new products for the world market. They also try to set up “de facto standard” for new products.**
- **Firms in developing countries try to concentrate on production of commodity products, which have enough good quality and very competitive prices.**
- **Some of MNCs based on developing countries have followed the strategy of developed countries’ MNCs.**

Japanese Affiliates sales in USA has been far larger than Japan's Export to USA and similar situation

happens in Trade and FDI regarding China *(produced by Shigeki Tejima with MOF and METI (Ministry of Economy, Trade and Industry data))*

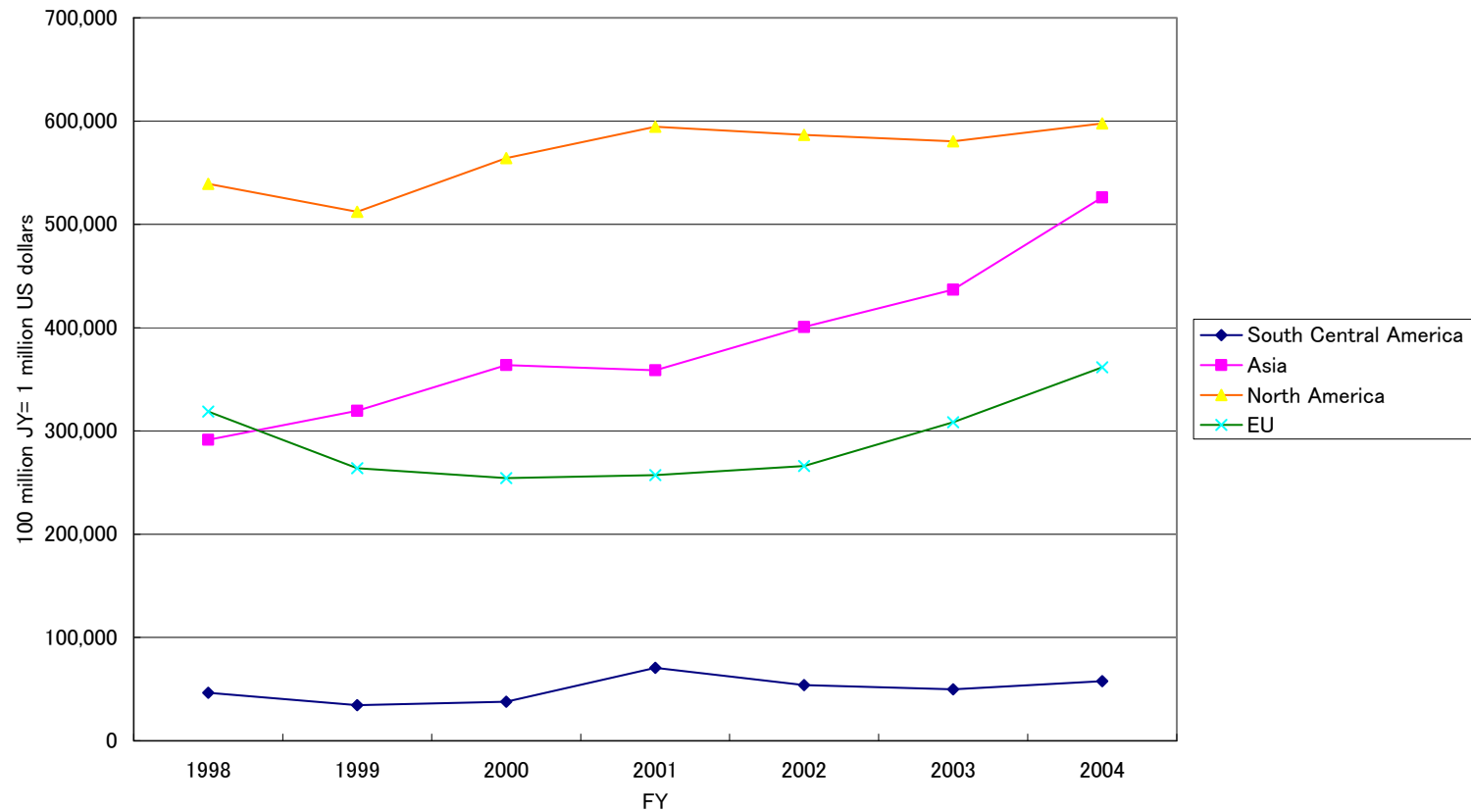
Japan's Export to USA, China and Japanese Affiliates' sales in USA and China



Japanese Affiliates sales by region in all industries

(produced by Shigeki Tejima with METI data: Unit:100 million Japanese Yen=about 1 million US dollar)

Japanese affiliates sales by region for all industries



Japanese Affiliates sales by region in all manufacturing sectors

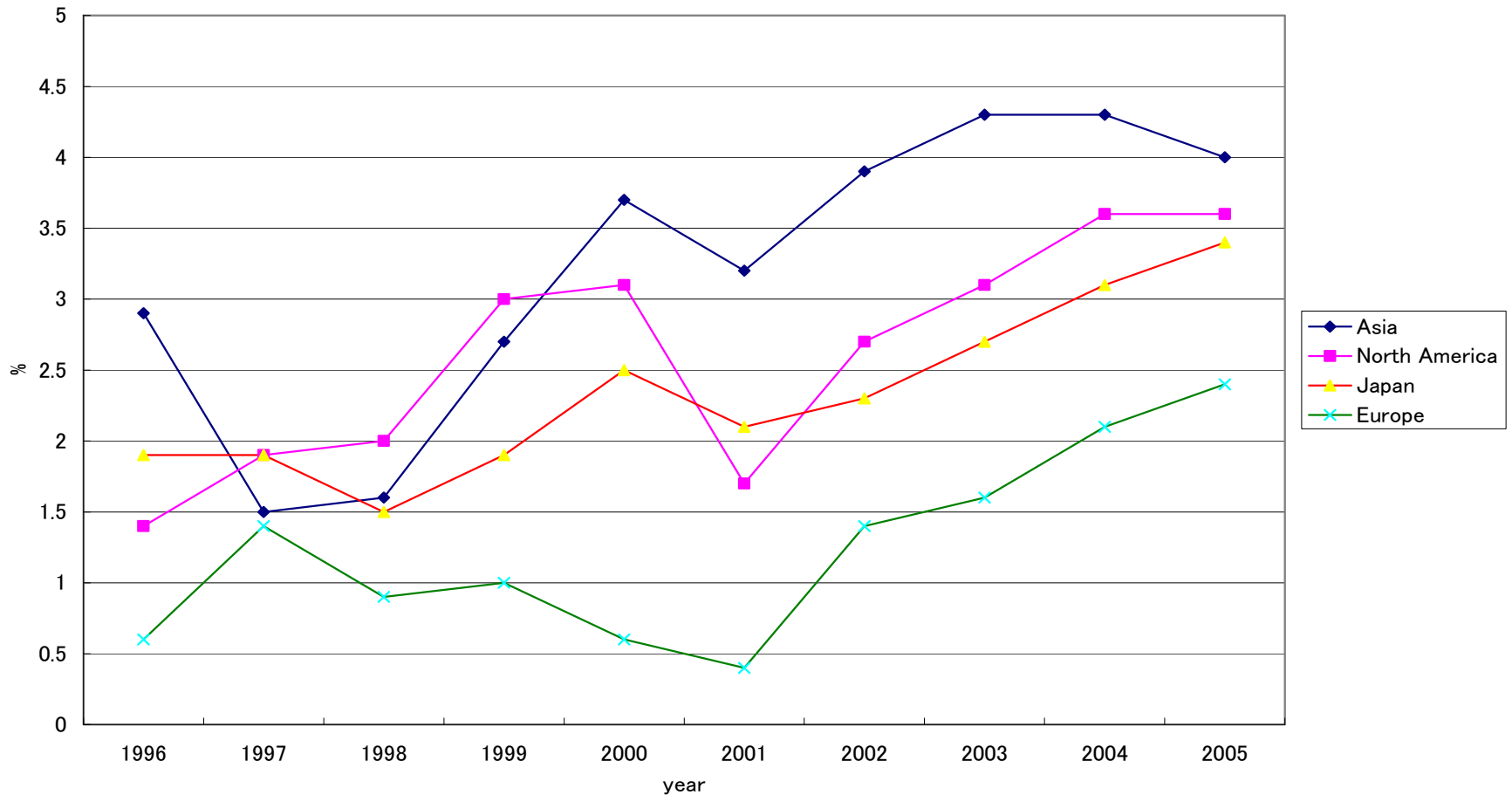
(produced by Shigeki Tejima with METI data: Unit:100 million Japanese Yen=about 1 million US dollar)

Japanese affiliates sales by region all manufacturing



Profitability of Japan's FDI (METI)

Sales profit ratio of Japanese affiliates and head offices



Competitiveness of Japan's MNCs

(produced by Shigeki TEJIMA)

	Demand	(I) Large demand for high value added and high priced specialty products	(II) Large demand for low priced commodity products
Supply			
(1) Production of specialty parts and final products		(A) Automobile industry	(D) Cost competitive East Asian producers
(2) Production of Specialty parts, Development of innovative products		(B1) Sophisticated parts industry, (B2) design or parts, which has influences to the assembling firms	(E) Cost competitive East Asian producers
(3) Production of commodity products		(C) Industries of de facto standard	(F) Cost competitive East Asian producers

Growing Middle markets

Demand Supply	(I) Large demand for high value added and high priced specialty products	Growing middle market with well-qualified but lower priced	(II) Large demand for low priced commodity products
(1) Production of specialty parts and final products	(A) Automobile industry →	well-qualified but lower priced "National Vehicle"	(D1) Cost competitive East Asian producers ←
(E2) design or parts, which has influences on the assembling firms	(B1) Sophisticated parts industry, to the assembling firms → (E2) design or parts, which has influences on the value of final products	Which can be competitive, Japanese, Asian or Western firms	(D2) Cost competitive East Asian producers ←
(3) Production of commodity products and parts	(C) Industries of de facto standard		(D3) Cost competitive East Asian producers

Tasks for Japanese MNCs in their global business (produced by Shigeki TEJIMA)

- **Japan's MNCs in (A) industry maintain their own management ways in every place in the world, based on the mutual reliance between employers and employees and between parts suppliers and assemblers. they continue to establish production bases globally in order to preserve large scale markets in the world**
- **Japan's MNCs in (B2) and (C) industry have to strengthen their competitiveness through aggressive outward FDI, relying on foreign human resources and open networks of MNCs based on developed and developing countries.**

Host countries' policies for promoting Japanese FDI

- How to respond appropriately the task of Japan's MNCs, including small and medium scale firms
- FDI liberalization policy
- Good governance of FDI (Transparency, Accountability, Predictability, Commitment)
- Pre- Post- National Treatment
- Infrastructure
- Good access for Japan's MNCs to prominent local human resources in host countries
- Protection of IPR
- Large (potential) markets of "Specialty" goods for Japan's MNCs