

***Sinking Japan and Floating East Asia:
The Case of the Financial and Chemical Industries***

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The 1990s, the last decade of the 20th century, is said to be the “lost decade” for the Japanese economy and companies. The crises of the Japanese economy and companies have been lasting until today, and the “lost decade” changed to the “lost 2 decades”.

The result of the discussions in this paper strongly suggests that the essence of the crisis in Japan that emerged during the 1990s was not a crisis of the overall economic system (or the overall corporate system), but a crisis of the financial system (or the corporate finance system). If we expand perspectives, however, to the 2000s, that is the second “lost decade”, we see that two interrelated problems—the production system becoming inferior to the financial system, and the effects of the “investment suppression mechanism”—serving as backdrops to the crises in the Japanese economy and enterprises.

It is very important for rebirth of the Japanese economy and enterprises to utilize vital power of East Asia region. We should introduce a new approach of “competitive advantage of regions” in stead of Michel E. Porter’s *The Competitive Advantage of Nations*.

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The result of the examination of this paper strongly suggests that the essence of the crisis in Japan that emerged during the 1990s was not a crisis of the overall economic system (or the overall corporate system), but a crisis of the financial system (or the corporate finance system). Given that Japan maintained a large current account surplus even during the 1990s (Japan’s trade surplus, which was 10 trillion yen in 1990, widened to 14 trillion yen in 1999, the last year of the decade), we should state that the production system basically remained healthy, while the financial system plunged into crisis mode.

If that is the case, the prevailing notion of lumping Japan’s economic system and corporate systems together and stating that they “succeeded” after the oil crisis through the 1980s but “failed” in and after the 1990s lacks precision. In reality, we should say that the production system continued to “succeed” throughout the phase starting with the oil crisis through the 1980s and the period in and after the 1990s, while the financial system continued to “fail” consistently during the phase starting from the oil crisis through the 1980s and the period in and after the 1990s. Only after introducing an accurate historical view can we build an interpretive model that explains the two

phases in a unified and consistent manner.

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According to the research of H. Shioji and the others in 2008¹, many manufacturing companies with headquarters located in East Asia composed of Japan, Korea, Taiwan and China keep high international competitiveness. See from industrial angle, the total value of global market share occupied by companies from East Asia reach 91% of motorcycle, 88% of shipbuilding, 75% of digital still camera, 75% of bicycle, 46% of steel, 43% of automobile and 41% of semiconductor.

Shioji and the others work on clarifying “why industries with competitiveness advantages center upon East Asia” through industrial analysis of competitiveness and specification structure of the above 7 industries. And Shioji supposes following 4 kinds of occasions basing on whether innovative changes happened on either side when industry spreads from nations starting early to nations starting later: ①only happened in nations starting early, ②happened on neither side, ③happened only in nations starting later, and ④happened on both sides, and reach the above result by deploying his tentative assumption of great interest as ①nations starting early keep their advantages, ②advantage transmits from nations starting early to nations starting later, ③ overwhelming advantage of nations starting later is built up, and ④coexistence of the advantages by compartmentalization. Through the consecutive analysis, it comes to be clear that steel (high grade), shipbuilding (middle ship), automobile and digital still camera belong to ①, steel (low grade), shipbuilding (large ship), bicycle belong to ②, motorcycle is ③ and semiconductor is ④. According to this, in East Asia, (a) industrial transmission was carried smoothly to nations starting later by spread of Japanese Model. Furthermore, (b) innovative transmission happened actively in both nations after that. So we can find the answer to “why manufacturing industries with competitiveness advantage center upon East Asia” from the fact that (a) and (b) continuously happened.

In contrast with that the common view on industry development theory, the flying geese theory, just consider occasion ②, Shioji and the others shed light on the occasions ①③④ either by bringing up the concept of the innovative transmission after industrial spread. This is their biggest advantage. It is a pity that just as Shioji said himself, the generalization of overall analysis result was omitted in the said research. So the relativization of the flying geese theory is just half finished. We must work on digging down the international competitiveness of region further basing on the research result of Shioji and the others.

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The flying geese theory of K. Akamatsu dealing with industrial development

¹ Shioji, Hiromi ed., “*Higashi Ajia Yui Sangyo no Kyosoryoku*” (Competitive Advantage of East Asian Industries), 2008, Kyoto: Minerva Shobo.

pattern of nations starting later, it described the geese bevy is formed gradually during the long term of import⇒national production (instead of import)⇒export⇒regress (catch up of new nations which started later). It can be displaced by putting the participant of the international competitiveness on some commodity into the flow as developed country⇒middle developed country⇒developing country. It can also be compared as the geese bevy in this case. And the flying geese theory supports each other with the product life-cycle theory of R. Vernon who tried to explain the procedure of production lifecycle introduction⇒growth⇒maturity⇒decline.

But the recent pattern of industry development shows complexity neither the flying geese theory nor the production lifecycle theory can explain. I would like to pick up a case of Japanese chemical industry in this paper.