

Urgent Action Needed to Combat Hollowing-out of Industry

Kan Administration Faces Higher Yen, Other Challenges

By Hiroshi OKABE

Prime Minister Naoto Kan, reelected president of the ruling Democratic Party of Japan (DPJ) in the September 14 presidential election, faces a host of economic policy challenges. High on the agenda are dealing with fears of an industrial hollowing-out against the backdrop of the strong yen, securing jobs, fighting deflation and how to solve the “simultaneous equation” of achieving fiscal reconstruction to help the worst debtor nation among industrialized countries edge toward economic revitalization.

The rising value of the yen is deepening fears of domestic production bases being shut down for overseas relocation. According to a survey by the Ministry of Economy, Trade and Industry, about 40% of Japanese manufacturers say they will consider relocating production abroad if the exchange rate of about 85 yen to the US dollar continues.

Nissan Motor Co. has switched domestic production of its flagship *March* compact car to Thailand while Suzuki Motor Corp. is expanding its passenger vehicle production in India to a level topping domestic output.

“We feel like getting a kick on the back to get out of Japan every day,” says a top executive of a major electronics company. “In the past, there was hesitancy as a company born and bred in Japan to shift our production base abroad in consideration for domestic production and employment. But we will collapse unless we expand our business operations in Asia and emerging countries.”

There were rounds of debate about a possible hollowing-out of Japanese



Photo: Kyodo News

Prime Minister Naoto Kan speaks at a press conference in Tokyo on September 14 after winning a presidential election of the ruling Democratic Party of Japan.

industry several times in the past. Such arguments were in vogue when the yen soared after the 1985 Plaza Accord, when the yen rate reached an all-time high of 79.75 to the dollar 15 years ago and when China began to emerge as “the world’s factory” after 2000.

But the latest debate has different elements. In addition to the yen’s high value, Japanese companies are facing difficulty in securing flexible employment due to Japan’s globally high corporate tax and tightened curbs on the dispatch of workers from temp agencies to manufacturing companies. In addition, Japan has been lagging behind South Korea and other countries in negotiations for free trade agreements, to the detriment of exporters. How the Kan government will tackle these issues as part of its

growth strategy is the key to putting the brakes on an exodus of major Japanese companies.

There are many issues Japan has to deal with to take advantage of the strong yen that works to make imports less expensive. One is securing vital natural resources. Japan is a country poor in natural resources and has to buy not only crude oil but also iron ore, rare metals and various other resources. Fierce battles over such resources are raging around the world. During the DPJ presidential election campaign, former DPJ Secretary General Ichiro Ozawa called for Japan “to buy overseas resources for 10 to 20 trillion yen” while the yen is strong, and his call may be an important point of view under national strategy.

This is a good opportunity for Japanese companies to purchase overseas corporations. Nidec Corp. President Shigenobu Nagamori said after deciding to buy the motor business of U.S. electronics giant Emerson Electric Co.: “We will buy all motor companies around the world.” A growing number of Japanese business leaders who are determined to stake their companies on Asia would move to buy foreign firms on the strength of the higher yen. A strong yen allows Japanese companies to buy products, technologies and services from abroad at inexpensive prices. Expansion of domestic demand has been a daunting task for many years. Overhauling such domestic demand sectors as agriculture and medical/nursing care with the help of the strong yen is likely to be a new challenge worth trying.

Exporting Japanese Comedy to Asia

Genres of “Japan-originated” subculture such as *manga* comics and costume role-play, or *cosplay*, are winning global acclaim. Now comes the move to disseminate Japan’s comedy culture to other Asian countries.

Talent agency Yoshimoto Kogyo Co., which has established itself as a “kingdom of comedy” by producing many comedians and entertainers, is rapidly making inroads to the Asian market. It has set up a joint venture with Shanghai Media Group (SMG) to produce television programs and offer advertising services while engaging in program production and talent spotting in South Korea and Taiwan.

The company launched the Chinese version of Yoshimoto-style comedy shows, *Yoshimoto Shinkigeki*, featuring local comedians in Shanghai in 2008. It has studied differences between Japan and China in how to make the audience roar with laughter in an effort to advance into Beijing in the fall of this year. With the partnership with SMG in place, Yoshimoto plans to sell comedy programs which have already been aired in Japan and hold auditions to find entertainers and singers locally by using its talent-rearing know-how.



Photo: Yoshimoto Kogyo Co.

Chinese comedians on stage in Shanghai: emulating a Yoshimoto-style show

It has also been engaged in the music business. For example, it offered cooperation in concerts of Chinese singer Faye Wong, who enjoys immense popularity in Asia.

The biggest challenge facing overseas development of the comedy business is the language barrier. Yoshimoto is soliciting “videos making people around the

world laugh without subtitling or dubbing” at the Okinawa International Film Festival in which it is involved. This year’s Grand Prix went to footage of an entertainer making funny moves in a large balloon.

Yoshimoto also plans to collect these videos to supply them to Apple Inc.’s iPad tablet computer and entertain foreigners as well.

Asian Hands at Helm in Growing Numbers

Businesspeople with a track record of stints in Asia are rapidly at the helm of Japanese companies one after another in lieu of those with experience in Washington, New York, London and other American and European cities who have long dominated the corporate hierarchy of Japan. These companies are aiming to strengthen their Asian strategies across the board under Asian hands armed with networks of people in regional countries and rich in-depth local knowledge.

Firms such as trading houses and major electronics companies are attaching importance to Asia in appointing key personnel in response to an increase in the ratio of revenues from Asian business. “The top-earning ‘Asian group’ is gradually becoming a mainstream faction which has big influence on corpo-

rate planning,” an executive of a major manufacturer says.

The presidency of Mitsubishi Corp. has long been held by former heads of its US arm, but Ken Kobayashi who assumed the post in June has no experience of US postings although he once served as Singapore branch manager. He won the race for the top post by beating his rivals with experience working in New York and other non-Asian cities.

Major trading houses are boosting profit through development of natural resources in emerging countries in Asia and other regions. The appointment of Kobayashi as Mitsubishi Corp. president is understood to be “a message of the importance of Asia at home and abroad.”

Nobuhiro Endo, who has become NEC Corp. president, has a track record

of selling communications systems for linking mobile phone relay stations in India. Asahi Kasei Corp. President Taketsugu Fujiwara worked in Singapore and was engaged in petrochemical operations.

In addition to these three companies, a growing number of mid-level executives with experience in Asian operations are found at other companies. “It’s a natural trend to see Japanese companies make heavy use of Asian hands because of the priority and importance of their operations,” says a senior official of a large brokerage house familiar with corporate personnel affairs.

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