

Cheap Imports that Signal A Quiet Revolution

By Takahiro Takesue

Tatsuo Iwata has a camera in hand, but he is not asking anyone to smile for the birdy. He is holding one of the cheap 35mm compact cameras that last year began flooding into Japan from the Asian NICs, the fast-growing newly industrialized countries of South Korea, Taiwan, Hong Kong and Singapore. These cameras are bad news for a man like Iwata, head of medium-sized Japanese camera manufacturer Iwata Enterprise Co. "Someday Japan's entire compact camera market may be taken over by NIC products," he says. "And middle-range producers like us will be the ones who suffer."

Iwata Enterprise has no factories of its own. Specializing in product design, it leaves most of the actual production work to partners in the NICs. Iwata then imports the goods into Japan for sale on the domestic market.

Bitter boomerang

It is an approach that has stood him in good stead for years. But now local companies in South Korea, Hong Kong and Taiwan are starting to churn out compact cameras of their own design, and that means bad news for Iwata. "We've been producing in the NICs where costs are lower in order to compete with the big Japanese camera makers," he explains. "We had to teach the people in the NICs our assembly technology so they could do it. Now they're becoming our biggest rivals. I suppose that's what is meant by the 'boomerang effect.' It's a strange feeling, I can tell you."

The term boomerang effect—the consequence of sharing production and design technology with up-and-coming competitors in the Asian NICs—has long been on the lips of Japanese executives concerned about the long-term international competitiveness of Japanese industry. For camera makers, however, it has ceased to be mere alarmist talk. Last year, 1,760,000 compact cameras were imported into Japan, a 50% increase from

the year before. Of the total, some 1 million came from the Asian NICs. Ranging in price from ¥5,000 to ¥10,000 (\$40 to \$80 at the rate of ¥125/\$), they cost less than half as much as comparable Japanese products.

Cameras are not the only example. Since early 1987, the Japanese market has begun to overflow with products from the "four dragons" as the Asian NICs are often called. The immediate cause of this situation is the rapid appreciation of the yen, which has turned NIC products into instant bargains for newly price-conscious Japanese consumers.

Now the influx is reaching impressive volumes. Just look at imports of home electrical appliances in 1987 from the four NICs. Compared with a year before, imports of videocassette recorders increased 9.1 times, color television sets 16.2 times, and electric fans 2.3 times.

In the past, Japan imported little but household goods and cheap clothing from its newly industrializing neighbors. Now, to some Japanese manufacturers at least, those are beginning to sound like the good old days.

When it comes to precision machinery, the Japanese are the biggest fans of their own nation's products. The same manufacturers that have captured world markets also enjoy the absolute trust of their customers at home. Or at least, that has been the conventional wisdom. Now, though, electrical appliances from the NICs are selling like hot cakes.

Of course, prices are part of the reason. But there is another important factor, which is that many of the most popular new products from the Asian NICs are classic niche products, exploiting corners of the market overlooked or written off as unprofitable by manufacturers in Japan.

Minoru Mukai of the nationwide Jusco superstore chain, explains, "There's long been a myth in Japan that products won't sell unless they are loaded with special functions and gadgets. As a result, it's in the area of simpler, basic products that

NICs are making their biggest inroads."

One of the hit products of 1987 was headphone stereos made in Taiwan. Retailing for ¥2,980, the headphones could play a music tape. They let the listener adjust the volume, but apart from that they didn't even have a rewind button. But sales volume quickly surged past 700,000. Then there are the playback-only VCRs from South Korea. No recording from television, but plenty of viewing pleasure from prerecorded tapes. Can more than 100,000 Japanese consumers be wrong? Maybe Japanese consumers are tired of getting more than they need for more of their money than they want to spend. Instead, they are flocking to the simple, reasonably priced products of the NICs.

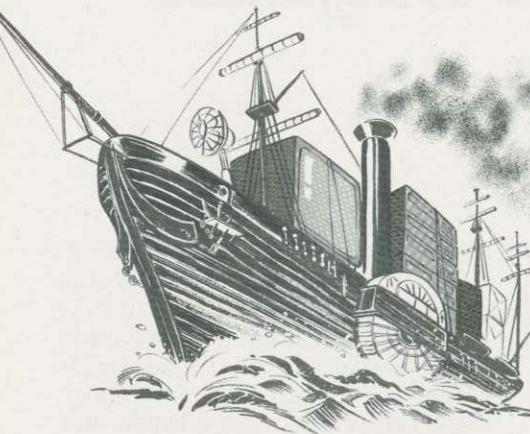
NIC products now are big business in the eyes of Japanese distributors. And with such powerful friends to help them out, imports from the Asian NICs have had an easier time getting into the Japanese market than anyone would have imagined only a few short years ago.

Attractive items

Seibu department store has opened a special corner for NIC products in its stores, and has been trying its hand at "planning imports," instructing its NIC suppliers on the kinds of items most attractive to Japanese customers. Jusco Co. began carrying eight major NIC products last year, from VCRs to refrigerators, and raked in ¥1.1 billion in sales. "This year," says a company spokesman, "we're looking toward ¥4 billion."

Until only a few years ago, such stories would have been inconceivable. One had to go to little-known discount shops to find manufactured products from other Asian countries. This year, however, the big distributors are getting into the act as NIC products become more acceptable to Japanese consumers.

Yet not all the talk about imports from NICs is good. Most distributors put their own brand names on the goods they sell,



and while they do indicate the country of origin—be it “Made in Taiwan” or somewhere else—it is often necessary to look closely to find the telltale label.

Distributors are quick to defend such practices. “A few years ago a major trading company tried selling South Korean compact cameras under the original brand name,” explains one industry official. “It was a disaster. It’s still difficult to sell NIC products as is, especially in rural areas of Japan.”

The retailer, adds Jusco’s Mukai, “has to take responsibility for product guarantees when selling imports from the NICs. They have to keep inventories equivalent to about 10% of all the merchandise they sell to deal with breakdowns or to cannibalize them for parts. They need their own repair shops. If they just sell products and then wash their hands of them, they lose consumer confidence. It takes a lot of work to sell NIC products.”

So far, manufacturers in the Asian NICs have not been willing or able to provide after-sales service for their goods. This is something which Seiichiro Sato of medium-sized trading company Dai-ichi Shoji Co. finds exasperating. “When you order merchandise from South Korea, they say it will be delivered in two months,” he says. “Often, though, it doesn’t come in on time. You can’t do business if you’re out of inventory. It’s a real headache. Moreover, low prices mean small profit margins. It’s not really as good business as it looks.”

Yet there seems no end to distributors eager to start handling products from the little dragons. As the high yen shrinks export business for trading companies, they have to rely more on imports. With the strong yen a fact of life for the foreseeable

future, Japanese stores will almost certainly be overflowing with NIC products. This is good news for consumers, but for many Japanese manufacturers it signals the start of a scramble to survive.

Last year was one that Japan’s home electrical appliance industry would like to forget, largely because of more than 2 million electric fans which poured into the Japanese market from foreign producers, selling for only ¥7,000–¥8,000 at a time when Japanese companies were charging around ¥20,000 for comparable models. The market was thrown into confusion.

“The entire Japanese market for electric fans only totals some 3.8 million annually,” says an industry insider. “Manufacturers were in a panic. The market turned into a melee. Even Matsushita lowered its prices, and Matsushita normally never lowers its prices. Some Japanese fans were selling for as little as ¥9,000.”

Clearly, NIC products can knock the blocks out from under Japanese product prices, and fans are not the only example. The appearance of playback-only videocassette recorders, analysts say, has already resulted in price cuts for Japanese video decks ranging from ¥10,000 to ¥20,000. No wonder some businessmen are unhappy. “It’s like a return visit by Commodore Perry’s black ships,” one analyst said.

Shifting overseas

Of course, Japanese companies are not standing idly by. Take audio system maker Aiwa. Last year Aiwa released a new compact stereo system selling for under ¥100,000 (\$800), less than half the going market price. Moreover, the system is built, not in Japan, but at the company’s Singapore plant. The move astounded the rest of the industry, which had assumed that the extremely sophisticated technology required of audio systems was beyond the ability of Singapore and the other NICs to duplicate.

Today more and more Japanese manufacturers are shifting to overseas production. The heart of their strategy is to preserve their price competitiveness by

relocating production to Southeast Asia where costs are low. It is, in short, a way of protecting themselves from the high yen. But at the same time, it is proving an effective counter to the challenge of rapidly rising imports from NIC manufacturers. Now most Japanese companies are producing their lower-priced items at local subsidiaries located in the Asian NICs, then importing the output into Japan for sale on the domestic market. Although they are still technically “Japanese” goods, they have actually slipped the bounds of product nationality.

However, most of these local production subsidiaries are still only making the least sophisticated, lowest-priced lines of goods. That is because they were assumed to lack the technical expertise to do anything more sophisticated. Aiwa’s experience has turned that thinking on its head, and paved the way for producing even top-of-the-line products overseas.

“Presently our ratio of foreign to domestic production is 2 to 8,” says Aiwa’s Etsuo Owada. “We intend to raise this to 5 to 5. Certainly NIC products are a threat in the lower price ranges, but Japan still is far more advanced in high-performance products. It will take quite a while for them to fill that gap.”

The influx of products from the Asian NICs is clearly causing a quiet revolution in Japan’s distribution mechanisms and industrial structure. It is helping accelerate the process of deindustrialization. It is even possible that, in time, Japanese manufacturers will concern themselves solely with planning, design and other work on the “software” side of production, while leaving the actual assembly work to other countries. It has happened before in the United States. In that sense, the flood of imports from the Asian NICs could be a shot in the arm for tomorrow’s Japan. In the years ahead, it is Japan’s “software” rather than its hardware that will be put to the test. ■

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