Summaries

Development of Business in China by Japanese Multinationals and the Significance of Japanese-Taiwanese Business Alliances

Osamu Kakuta

The Chinese economy is rapidly taking on gigantic proportions, and is very likely to become the world's largest economy in the not too distant future. For Japan, this means that an enormous market is taking shape next door. The degree to which a position can be built in that market will be of decisive significance in competition among the world's multinational companies. Despite that, however, Japanese capital has not built an adequate position in China's burgeoning market. This is because Japanese capital has not properly evaluated the Chinese market due to the combined effects of an undervaluation of the importance and growth potential of that market, and a lack of advantage in the competition among providers of international capital.

In contrast, Taiwanese companies were among the first to invest directly in China. They are believed to have been making investments significantly greater than reported and have established solid production and sales networks inside China, building positions much larger than those created by Japanese capital.

A range of measures will be needed for Japanese capital to build a solid position in the domestic Chinese market, but among the most important are alliances with Taiwanese companies. In the mutual advantage Taiwanese and Japanese companies have for each other, there are complementary relationships. Appropriately sharing profits with Taiwanese companies and incorporating the advantages of doing so could hold great significance for Japanese capital occupying an important position in the Chinese market going forward.

The Formation and Organization of Labor Markets by Japanese Multinationals in China and Taiwan

Mitsuaki Kusahara

The primary motivation for Japanese multinationals to enter China, it has been pointed out, has changed in recent years from utilizing that country’s abundance of inexpensive labor, to securing access to China’s growing local market.

Utilization of abundant, inexpensive labor is a key element in the composition of the supply side, and intentions to sell in China – and secure shares of the local market – have a regulating impact on the demand side. However, when motivations to enter China include elements of multipolarization of overseas production or sales locations, the motivation to utilize inexpensive labor takes on strong significance in terms of the competition to develop markets in third countries and responding to demand in the Japanese market by sending products there.

Phenomena that have emerged in China's changing employment structure have meant important changes in the expansion and depth of China's domestic markets, but they also express rapid increases and evolution in China's productivity. This paper, addressing these developments in terms of the business environment for Japanese multinationals, examines them from a perspective with unified treatment of the formation and organization of external and internal labor markets, and both the production-element and demand sides, in China. At the same time, it clarifies the characteristics of China’s external and internal labor markets by drawing comparisons with those of Taiwan.

The Construction of Production Chains between Japanese and Taiwanese Enterprises in Mainland China: The Foreign Direct Investment and the Formation of International Subcontracting Production by SMEs

Hisakazu Fukushima

Against a background of global economic instability and opacity, global production network systems led by multinational companies and buyers are attaining greater breadth and depth, and evolving, as parts of global value chains (GVCs). These systems revolve around direct investment by and among Japanese, Taiwanese, and Chinese concerns in Japan, Taiwan, and China. Given this development, products have become global commodities or the output of global manufacturing, rather than of a particular country. This paper analyzes the relationships, and diversity thereof, of these global production systems as supply chains, and ultimately as manifestations of international subcontracted manufacturing.

Chapter 1 clarifies issues. Chapter 2 looks at the characteristics of the direct investment structures of Japan, Taiwan, and China; directions with regard to the overseas business endeavors of Japanese small and medium enterprises; component procurement and product sales by overseas subsidiaries; and new developments in direct investment relationships between Japan and China, Japan and Taiwan, and Taiwan and China. Chapter 3 identifies production networks spanning Japan, Taiwan, and China, based on global supply chains, and examines specific industries - among them the automobile and home electronics/appliance industries, and Taiwan's providers of outsourced manufacturing services. Amid talk of "China plus one," this chapter seeks to illuminate the "golden triangle" relationship of Japan, Taiwan, and China. Chapter 4, taking the view that Japanese small and medium enterprises are seeking to develop business overseas because the companies to which they sell their products are demanding them to do so, describes how their international production networks amount to the overseas transfer of a Japanese-style subcontracted production structure, and the formation of international subcontracted production for multinational companies. It also sheds light on the process by which this formation takes place.

The final chapter emphasizes the importance of strengthening and expanding the Japan-Taiwan-China alliance based on equality and reciprocity, as the direction that Japanese small and medium enterprises should take.

Japanese, Taiwanese and Chinese Trilateral Alliances and Economic Growth Strategies: Promoting an Asian Business Network for a Peaceful Industrial Order

Koichi Okumura
Xiaona Li

In the latter half of the 1980s, the Cold War structure remaining in Asia served as the backdrop for the birth of electronics manufacturing under "Strategic Vagueness" by Taiwanese companies under contract to US IT companies (internationally outsourced production as joint development manufacture [JDVM] and joint design service manufacture [JDSM]) in a new business pattern that spanned the United States, Japan, Taiwan, and China, and quickly grew and expanded. Silicon Valley companies transferring development and manufacturing to Asia began a global trend that was joined by Japanese IT giants such as Sony, Panasonic, Hitachi, Toshiba, NEC, Sharp, and Epson, and drove the development of Chinese production utilizing Taiwanese managerial resources. Meanwhile, Taiwan became a strategic center for the global production activities of IT industries across the world.

In the 1990s, Foxconn and other manufacturers of semiconductors, personal computers, communications devices, and consumer electronics, as well as over 400 auto parts manufacturers established local manufacturing networks in mainland China. From 1991 through June 2012, approximately 40,000 investments were made by authorized Taiwanese companies. These investments accounted for 63% of total invested funds and adding investments made in other geographic areas brings the total to over 80%. For the US and Japan, Taiwan's IT industry centers became vital national interests, and China, anxious to speed its technological development, relied on Taiwanese companies for all aspects of semiconductor development and production. The strategy of industrial development utilizing Taiwanese managerial resources became indispensable for establishing China as the "world's factory." In 2010, China and Taiwan entered into the Economic Framework Agreement (ECFA) and Economic Partnership Agreement as steps toward economic integration. With the fifty-year-old Cold War structure having collapsed, Taiwan has now become the Asian center for multinational corporations, and China, the world's number one country in terms of exports (as of 2008) and number two country in terms of GDP (as of 2011).

Japanese companies are expanding the Japan-Taiwan-China collaborative business pattern to ASEAN, Southeast Asia, and the Middle East. China, in a post-ECFA development, is moving to establish hegemony by becoming deeply involved in the economies of ASEAN countries, where real economic power lies with the capital of overseas and ethnic Chinese. By also elevating its assertions of maritime dominance in the East and South China seas and becoming more confrontational with countries including Japan, Vietnam, and the Philippines, it has created conditions in which it is simultaneously trying to advance the expansion of its economic relationships and hegemony.

The Progress of Japan-Taiwan-China Alliance and the Activity of Korea's Companies

Kwak Yangchoon

Even as the global economy fell into chaos and stagnation with the Lehman shock, the rapid growth of the Chinese economy continued with no major deceleration, and China is now taking on the role of underpinning the global economy not only as "the world's factory" but also as "the world's market." With advanced countries not yet fully on the road to recovery, most East Asian countries are beginning to see steady recoveries in economic growth, led by exports to China. China already boasts the world’s second largest GDP and is forecast to eclipse the United States and become the world’s largest economic superpower in 2030. For multinational companies in advanced countries, therefore, the kind of position they build for themselves in the Chinese economy has taken on vital importance.

Japanese companies made the most of their geographic advantage to invest directly in China. Nevertheless, with not a few constraints posed by the history of relations between China and Japan and by insufficient awareness of local conditions, they have astonishingly lost their advantage to US, European, and South Korean companies and are now seen as incapable of winning in the Chinese market. In contrast, Taiwan, with the establishment of the Ma Administration, has rapidly deepened its economic relationship with China and elevated the presence of Taiwanese companies. For their part, Japanese companies are reacting effectively with a new strategy of using a Japan-Taiwan alliance employing Taiwan’s economic/industrial system to pursue low-cost, high-volume production in mainland China. Production in China for sales in China and emerging markets, via close Japan-Taiwan partnerships, is beginning to have impacts throughout East Asia as a new international division of labor and form of collaboration in 21st-century Asia. Together with the spread of FTAs, this is laying the groundwork for an East Asian economic community.

For the Japan-Taiwan alliance to succeed there are still many issues to overcome. However, if Japanese companies are seeking success in overseas markets, and China, in particular, partnering with Taiwanese companies appears to be one option that will increasingly demand consideration going forward.

Environmental Changes Surrounding Japanese Investments in China Utilizing Taiwanese Managerial Resources

Shingo Ito

Beginning in the 1990s, the Japan-Taiwan alliance underwent a qualitative change, with the stage for the alliance expanding from Taiwan to third countries and regions. A typical example can be seen in Japanese companies investing in China by utilizing Taiwanese managerial resources. Since the end of the 2000s, however, there have been new changes in the conditions surrounding this investment model. More specifically, there have been 1) changes in the Chinese investment strategies of Japanese and Taiwanese companies because of changes in the Chinese investment environment, 2) a change in the strategic value of Taiwan as a Chinese business portal following the start of the Ma Ying-Jeou Administration's growth strategy utilizing China, and 3) concerns about the declining presence of Taiwanese companies in China. Regarding 1), both Japanese and Taiwanese companies continue to view China as a promising market for development, and it is thought that the formation of investments in China utilizing Taiwanese managerial resources for market development purposes will continue. Nevertheless, with rising wages and concerns about economic instability in China, and moves afoot to diversify investment to Southeast Asia, observers are anticipating a rise in opportunities for investments in Southeast Asia utilizing Taiwanese managerial resources. Concerning 2), factors such as conclusion of the ECFA are acting as incentives for Japanese companies to invest in Taiwan, and could lead to further investments in China utilizing Taiwanese managerial resources. The ECFA, however, has produced only minimal opening, and its power as an investment incentive for Japanese companies is weak. The impact of post-ECFA agreements, therefore, will greatly affect future developments. As for 3), catch-up by Chinese companies is causing concerns about the declining presence of Taiwanese companies even in IT - Taiwan’s mainstay industry. That one of the greatest advantages for Japanese companies of investing in China by utilizing Taiwanese managerial resources has been access to the various mainland Chinese networks of Taiwanese companies points to the possibility that an ongoing decline in the presence of Taiwanese companies will cause Japanese companies to reduce their investments in China through that approach. Furthermore, with Japanese companies examining the future of their utilization of Taiwanese managerial resources to invest in China, there is a need for more extensive research on changes in a) the foundations of the relationships Japanese and Taiwanese have built on faith in each other and b) Taiwanese company awareness of Japanese company strengths.

A Study of the Post-Welfare State in EU

Koichi Kanada

Welfare states in their developmental stages were supported by Keynesian economics. Keynesian economics is an economic management approach based on the nation state, and the welfare state is a system that, premised on the autonomy of the national economy and managed by the state, aims to deliver social protection to citizens. In welfare states, therefore, the state regulates domestic markets and strives to achieve economic growth and full employment, while redistributing income. Faith in the Keynesian welfare state, however, declined with stagflation and fiscal deficits beginning in the 1970s. Neo liberalism emerged as a result of welfare state criticism. The politics of neo liberalism emphasizes citizens achieving independence from state protection and aims to achieve a transition to a Hayekian minimal welfare state.

The workfare policies advanced within the politics of neo liberalism had the punitive character of driving the unemployed off of welfare. In contrast, the "Third Way" politics of the UK adopted workfare, which aimed to bring the unemployed into the labor market by providing them with job training. Welfare benefit approaches implemented through such active labor policies, were adopted by Northern European states and, as "flexicurity," are now standard throughout the EU. Such developments suggest that Keynesian welfare states are transitioning into Schumpeterian workfare states that aim to strengthen competitiveness by improving the quality of workers. This is reducing citizen reliance on social safety nets and forming labor markets that are comprised of diligent, highly skilled workers and suited to an era of globalism. In reality, though, the supply of high-quality, highly skilled workers is limited, and it is possible that the Schumpeterian workfare state will ultimately function to shunt large numbers of people into peripheral, complementary labor markets.

The Welfare State in Europe and the Old Pension Scheme in the Czech Republic

Shuichi Ikemoto

This paper 1) provides an overview of the unique characteristics of the welfare state in Europe from Rawls' perspective and 2)how the classification of states based on welfare state regimes came to be. It also 3) raises the question of how state typology based on prior research could be applied to Central European states, and, 4) as a case study, describes in outline the old-age pension scheme of the Czech Republic and puts forth a preliminary examination of the kind of welfare state regime the Czech Republic is forming.

While there is a common perception in Europe that citizens maintain a decent standard of living, the economic crises of recent years have made it impossible for European states to continue to meet the basic objectives of a welfare state. This paper, therefore, examines the status of welfare states from the perspective of Rawls' theory. It also addresses the question of what European states aim to be by sorting out the classification of capitalistic states while also reviewing prior studies by researchers such as Soskice, Amable, and Andersen. Andersen, in particular, classifies advanced countries in Europe and U.S.A. as 1) liberal, 2) social democratic, or 3) conservative (the continental European model) regimes. And specialists in Central Europe place Central European states somewhere between conservative and social democratic within Andersen's classification system. This is because they do not use the occupation-based pension systems of conservative regimes, and employ a German-style social insurance system as a funding approach. Indeed, in the Czech Republic, enrollment qualification is based on status as an employee, and not on occupation. Funding is based on a pay-as-you-go approach, with the state stepping in to make up for shortfalls. And the pension scheme is of the defined benefit type, with investment managed by the Ministry of Social Affairs and Labour and Czech Social Security Administration. In recent years, however, pension funding has been tight, and so the basic pension system has been supplemented with the adoption of a secondary system. The latter is a defined contribution scheme managed on a pay-as-you-go basis with a five-percent contribution rate. Investments for this system are managed by investment funds designated by the state. A third type of pension – a savings-type system that is a voluntary, defined contribution scheme - also exists, but the basic (public) pension system accounts for the bulk of pension benefits. In light of the above, Potucek says that the Czech Republic and other Central European states – because their basic pension systems are managed like insurance systems and are not based on occupation – fall somewhere between social democratic (Northern European) and conservative (continental European, in particular, German) as regime types. Comparing them to other European states, Potucek says that Central and Eastern European states, as immature civil societies, share the

common characteristics of 1) a lack of cohesive social awareness, 2) no experience with parliamentary democracy, 3) a lack of governing capability, and 4) the importation of neoliberalism amid confusion immediately following the Eastern European revolutions. As such, Potucek raises the possibility that the Czech Republic, despite its being between Northern European and German as a regime type, could be classified as Central European-based on the immaturity of its civil society and political culture.