

New Direction of the Japanese Economy: Strong Yen and Hollowing out of Japan. No. 3
“Excellent opportunity to make a quantum leap into the world” (September 30, 2010,
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Recently we have seen grave concern in Japan as drastic fluctuations of the yen exchange rate “hollow out” the nation. Almost every day we find more corporations making investment overseas and/or transferring their value chain activities from Japan to overseas. Many companies claim that they have no other choices but to move out of Japan in their attempt to compete globally. They see a number of current trends hampering their efforts to compete effectively in the global market: a stronger yen, high corporate tax, government policy increasing regulation for part-time workers, as well as government inaction on the current economic situation in the world. We often get the impression that the hollowing out of Japan is imminent and will lead to further decline of the country.

I see the recent debate and the choice between domestic and international — as if it is a trade-off—both misleading and constraining. It is clear that the 21st century will see more trade-offs quickly disappearing. What we can expect in the 21st century is both an increase in integration and in the visibility of diversity. Expanding overseas does NOT mean that companies ignore domestic market and activities. When companies make an investment and transfer the value chain activities overseas, they do not necessarily replace domestic with the overseas. Companies also compete and collaborate at the same time. It is not Either OR choices, and if it is perceived as such, it will limit our creative potential.

In this article, I argue that the recent phenomenon of seemingly hollowing out will provide a great opportunity to depart from the illusion that Japan is not integrated or inter-connected with the rest of the world. It will be a superb opportunity to create a sense of urgency among companies, individuals and the government and force us to think seriously about what each one of us needs to do to survive and prosper in today’s world.

The world is opening up as boundaries of different kinds—whether it is boundaries of nations, industries or organizations—are quickly disappearing and diminishing in significance. In this borderless, dynamic and intensifyingly competitive world, to

compete successfully companies are free to define the competitive arena, seek and decide on the business domain, regardless of where they originated. A market such as Asia, with rapid growth of population and of income, is much more attractive than the shrinking and mature Japanese market characterized by aging and Western markets which are plagued by the possibility of double dip recession. The companies are free to target a market that has higher growth potential than their home market which is mature. They are free to scan the world and select the place which is best in terms of the combinations of skill level and cost of human resources, of infrastructure and the context for competition. Only the companies which seek and capture this type of freedom can have superior performance in the globally-interconnected world. It is quite natural, therefore, that the companies with the aspiration to become truly global leave Japan if she offers a relatively inferior business environment.

The clear policy statement of Rakuten, an e-commerce site, and Fast Retailing with Uniqlo stores to force English communication capabilities among the employees and not to promote those without it to higher positions has stirred the young generation. Both companies have the ambitious goal of competing effectively in the global market. An explicit policy of enforcing English communication within each company serves as a strong warning for the other companies which have offered little but lip service for developing “global leaders” over the past three decades. The key to competitive advantage in the current “knowledge-based economy” is how to identify and develop people with knowledge and judgment regardless of their physical location and then have them join the endeavor to achieve the objective of the organization. Companies are required to attract and retain people of high caliber from anywhere in the world. The fluctuating exchange rate will force the companies to hire people outside of Japan and thus encourage them to develop the capability to assess high potential no matter which country people are from. It will also offer excellent opportunity for the competent Japanese to operate beyond the domestic market.

The choices that companies face today are NOT domestic versus overseas, closed (own) versus open (collaborating with outside organizations), permanent Japanese employees versus non-Japanese professional. The decision is how to combine their assets/ capabilities inside AND out to design a new way of operating business activities.

We need to go beyond the traditional tradeoff of domestic versus overseas and cooperation versus competition. They are no longer the OR choices, but offer the possibility of the new AND paradigm. The key to competitive advantage is how to

combine own core assets/competence AND the assets found outside of the organization in the world, and offer new value to the world quickly. In other words, what companies face today is the strategic shift from OR choices to the AND paradigm.

So a hollowing out of Japan may actually have some benefits. It may provide a wake-up call for companies to seriously identify their new choices. However the question remains for individuals, in particular, the young generation. If companies move their value chain activities overseas, there will be decreased employment opportunities offered in Japan. It will be the young generation who will suffer as they have no place to go. If the young generation is not given the opportunity to get a job, the world-class technological capability of Japan will not be passed on. The young generation will be shut off from the opportunity to acquire basic knowledge, techniques and wisdom often available in the work place. .

If we broaden our perspective to recognize the opening up of the world and the progress of ICT (Information & Communication Technology), however, the hollowing out of Japan will bring even greater opportunity to individuals. It will make them aware of the excellent opportunities outside for them to develop capabilities and skills that make them employable in the globalizing world. The full employment at the large Japanese established corporations with tradition and brand will NOT be the only option open to them.

Companies with vitality and calculated risk taking are accessible for those of the young generation with a global mindset. More and more opportunities to work for foreign companies and ventures are opening up. The growth potential of the emerging companies offers tremendous opportunities for developing a general management perspective, faster promotion and broader responsibility for the young generation with strong will to operate in the world. The number of managerial positions increases as their operations expand to the corner of the world. Positions in upcoming companies in emerging economies offer broader and more opportunities for young people to develop new business, get exposed to the total value chain and gain leadership training.

The choices open to individuals are not between domestic versus overseas, well known established companies versus upcoming companies with little awareness. The young generation is given freedom to explore much broader job opportunities to develop their own capabilities and to be given more responsibility.

What about those individuals already with a job and who are not so young? Are there any other options for them than remaining in their current job? Protecting their

current position and vested interest, is in fact, limiting the potential. They can explore the world where their knowledge, skills and experience accumulated in the past are highly appreciated.

For example, rapidly growing Asian companies will have an urgent need to hire people with production engineering capabilities. They want to acquire the knowhow which has made the Japanese manufacturers world-class. It will offer excellent opportunity for the competent Japanese to operate beyond the domestic market. Their knowhow and experience will be appreciated more and make them feel proud of their work.

What should the government do? Unlike companies and individuals they are not free to move out. Public policy matters are usually limited to the domestic market. The government needs to think what it can do in the globalizing world, and what it can do for the individuals who may not be able to move in reality.

Unprecedented global collaboration has made all of us escape from the Depression. However, the national boundaries still define the law, tax system and regulations. The government should not focus their attention only on domestic matters as the opening of the world and disappearing of boundaries will continue regardless.

The critical role of the government is to improve the business environment which makes the country more integrated/interconnected by ensuring a level playing field. The government should make every effort to make known to the world the unique strengths and assets of Japan and so help Japan compete more effectively in the world. The competitiveness of the country, as well as that of the company, is determined by its ability to access high global talent. (See Figure 1 indicating correlation between Access to Talent and Global Competitiveness Index)

Many governments compete fiercely in order to attract corporations, by setting up physical infrastructure such as transportation and telecommunication, revising tax policy and macroeconomic policy. They know that the private sector is the one that helps improve the standard of living in addition to the economic development. Some governments have begun adopting the open talent mobility policy to attract and retain people of high skills, as a skills gap for high talent is expected throughout the world in coming decades.

As the information and knowledge is now disseminated almost instantaneously, an excellent business environment can attract companies with a good track record of improving the standard of living. If the government is serious about improving the

quality of the business environment, then by making it open, we can attract many distinguished and talented people from all over the world. We can ensure that the world will become aware of the hidden assets of Japan. These include, for example, excellent technologies in the environment and energy fields, practical creativity to market products and services, attention to details for customer satisfaction, and above all, the excellent people who underpin these strengths.

When the companies and people of Japan, even though they have focused on the domestic market, look beyond the boundaries to interact head on with excellent global companies and global high talent, they are stimulated and driven to develop their inherent potential to the maximum. Today it is possible to combine “plus-sum” competition AND collaboration, and not “zero-sum” competition OR collaboration as both parties try their best to attain higher goal.

We cannot afford to wait for the action of the government. We cannot just lament our misery. Instead we should take this opportunity to expand to the world. If we move now, we can still make it. Hollowing out is nothing to be afraid of, as it can signify the new beginning.