JFTC Essay Competition 2007, Prize for Excellence

# The Win-win-win Globalization and Japanese Companies

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（summary）

Financial globalization is one of the key trends that have reshaped the global economy. Meanwhile, countries have become more interdependent and competitive than ever. With the surge in capital flows, the rise of developing countries, and intensified global competition, how should Japanese companies compete and thrive?

I argue that synergy between Japan's technology and human resources with the rise of financial globalization is a critical factor for Japanese companies' success in the next stage. Three things need to accompany the synergy. First, Japan needs to leverage the international capital flows. The acquisition of capital will help Japan secure an advantageous position. Second, Japanese companies should remain to be "leading geese"[1] by constantly strengthening their competitiveness and capability of *leverage* in technology, finance, and human resources. Third, by being "leading geese", Japanese companies can reinforce their brand image and create more demand for their products through collaboration and leverage of resources in emerging economies.

Japan is an export-oriented economy. The threat for the Japanese companies is not only from other countries' companies, but also from the huge gap between its economic powers and its Asian friends'. To prop up its growth sustainability and further growth, Japan needs to help fill the gap. In this matter, I am convinced that Japanese companies can create demand and renews their brand image at the same time by contributing to the stability and poverty reduction in the region. As Japanese population began to shrink, the efficient utilization of low-wage labor and the acquisition of brainpower in developing countries will help solve the labor-force problem and help expand Japanese companies` operation, share, and brand in the global economy.

I believe that the combination of Japanese technology and global capital can produce win-win-win outcomes for the participating stakeholders. It does not only benefit Japanese companies and the capitalists but also help push host countries of investment out of poverty. It is, thus, the interest of Japanese companies to realize that combination.

1 See "flying geese theory" by Akamatsu, Kanae.1962

(full text)

## The Win-win-win Globalization and Japanese Companies

### 1. Introduction

The last decades of the 20th century witnessed the wide spread of market capitalism around the world. This was possible by the leaps in technology and trade, the dismantling of Berlin Wall, and the failure of socialism. Global capitalism has been marked by the rise of transnational corporations (TNCs) and the development of global financial markets. It has contributed to the new boom economy in the US and many parts of the world, creating millions of jobs and lifting millions of people from poverty. It has brought about cornucopia of affordable commodities for consumers in developed countries and the spread of technology and capital to many parts of the world.

At the dawn of 21st century, global capitalism is taking into a new form; financial globalization. The flow of funds across nations has reached the highest historical level. International capital mobility is one of the key trends that have reshaped the global economy. East Asia, for instance, is progressing in its industrialization and financial integration with the experience of 1997 crisis. Middle Eastern countries have begun to fear about its running out of oil and gas and, therefore, put more oil money into investment and development to shift from oil-dependent economy. Meanwhile, oil money which used to flow into western countries is now making its way to Asia after the September 11 attack and US aggressive policies on petroleum dollars since then.

The universe of TNCs consists of roughly 70,000 firms, with more than 690,000 subsidiaries and millions of suppliers[2]. With such an intense competitive environment and with the surge in capital flows including oil money, how should Japanese companies compete and thrive?

This essay intends to discuss on how Japanese companies should deal with the recent trends of international capital flows and seize new opportunities to remain pioneers in the harsh wind of globalization.

I argue that synergy between Japan's technology and human resources with the rise of financial globalization is a critical factor for its success in the next stage. Three things need to accompany the synergy. First, Japan needs to leverage the international capital flows including oil money. The acquisition of capital will help Japan secure an advantageous position. Second, Japanese companies should remain to be "leading geese" by constantly strengthening their competitiveness and capability of leverage in technology, finance, and human resources. Third, by being "leading geese", Japanese companies can reinforce their brand image and create more demand for their products

[2] World Investment Report Overview, 2005, p.4. UNCTAD, United Nations.

through collaboration and leverage of resources in emerging economies.

## 2. Japan and Financial Globalization

Globalization encompasses many things such as international trade, international flows of information, exchanges of ideas and culture, and global movement of civil society. In this essay, financial globalization refers to the movement of capital and financial firms across nations. It has been one of the most important trends in the world economy in recent decades. International capital flows in 1975 was $57 billion. Since then, the flows have been substantially increased to $1.4 trillion per year[3].

Financial globalization has many potential benefits including particularly more efficient global allocation of resources. In this regard, I believe that Japan, with comparative advantages in technology and human resource, can reinforce further R&D and its economic expansion by taking benefits of the financial flows and attracting foreign capital into the companies. The synergy between its know-how and capital can create more advantages for Japanese companies to be global pioneers. The collaboration and leverage of technology, capital, and brainpower in both developed and developing countries can help Japanese companies expand and gain greater share in the global market.

### 2.1 Japanese Companies and Oil Money

The hike in oil price in recent years increases income of Middle Eastern countries, which have to seek places and industries for investment of these accumulated assets. Abu Dhabi Investment Company (ADIC) of United Arab Emirates, for example, is managing assets estimated at $600 billion[4], and is one of the most influential institutional players in the global market.

Before September 11, 2001, most of the funds were flowing to western countries with low-interest rates. The strict regulations by western countries on oil money after the terrorist attack, however, have forced ADIC and other Islamic countries to reshuffle their portfolio and divert their investment home and to other Islamic emerging economies. The direction of oil money flow was also influenced by the fact that oil-rich countries are now thinking about the efficient use of their assets. They started to put more emphasis on Islamic finance for the development of Islamic countries. Their strategies focus on the “new silk road” which ranges from Northern Africa through the Middle East to Indonesia and Malaysia. Oil money, which used to flow into western countries, is now making its way to rising economies in Asia.

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[3] Bank of International Settlement: 47th Annual report, June, 1976, and 74th Annual report, June 2004.

[4] http://www.adic.ae/about.php. See also at www.wikipedia.org/eng/adia

Nonetheless, these countries need technology for their investment despite their ample capital. In this regard, Japanese companies can fill the gap by absorbing the capital and using the leverage of its technology and human resources including the potential brainpower in host countries.

I believe that the synergy between Japanese technology and global capital can produce win-win-win outcomes for the participating stakeholders. It does not only benefit Japanese companies and the capitalists but also help push the host countries of investment out of poverty.　It is in this sense that Japan should leverage its relatively good relation with muslim countries to collaborate in oil money's investment. By doing so, Japanese companies can expand operations, gaining greater market share and enhancing Japanese brand image in Islamic world and other emerging economies.

### 2.2 Tokyo as a World Financial Center

Because capital is an essential ingredient for investment and production, each country has to compete to attract capital to its benefits. Unfortunately, Japanese financial companies are still weak compared to their European and American counterparts. To seize the opportunity in the era of financial globalization, Japanese financial companies need to improve their capacity and know-how in financial sector.

Though Japan is the world's second economic power Tokyo, its capital, has not become a competitive financial center and is still far behind London, New York, and even Singapore.

The concentration of the financial sector in Tokyo will help attract more investment and improve the productivity growth of financial sector in Japan. This will also lay a basic foundation on which domestic Japanese companies can have access to global finance and opportunities to go more global.

In this sense, a more competitive tax policy and more sound business environment for the financial sector should be encouraged.

## 3. Be Local Worldwide and Seize Win-win-win Opportunities

Japan itself serves as an extraordinary example for the benefits of globalization. Japan completely isolated itself from the rest of the world from 17th century, allowing only one Dutch ship per year to land in Nagasaki. When commodore Mathew Perry and his black ship arrived on the Japanese shore in 1853 to force Japan to open to trade with the United States, Japan opened up to the rest of the world. This eventually led to the Meiji restoration in 1868 through which Japan became fully engaged in the global economic system. In 1870, Japan was a backward country. However, by the early of 20th century, it was one of the strongest nations in terms of technology and wealth.

The world has become globalized and more interdependent than ever. An economic crisis in a country both directly and indirectly affects many parts of the world as can be seen in the East Asian Crisis in 1997. The under-development and slow growth in one part of the world means slow and poor demand for world's production and could plunge the world's economy into recession.

According to the World Investment Report in 2005, Japanese companies are less transnationalized than their European counterparts. To compete and thrive, I argue that Japanese companies need to keep strengthening their competitiveness and pursue further outward expansion. Efficient leverage on their technology, global capital and its direct investment in emerging economies is a critical tool to make them thrive.

Investment in emerging economies, first, provides them with access to natural resource, low-cost labor, and easy access to local markets. Second, Japanese companies are supposed to gain more share, expand market and production, and improve their brand image through the best utilization of resource and brainpower in the host countries.

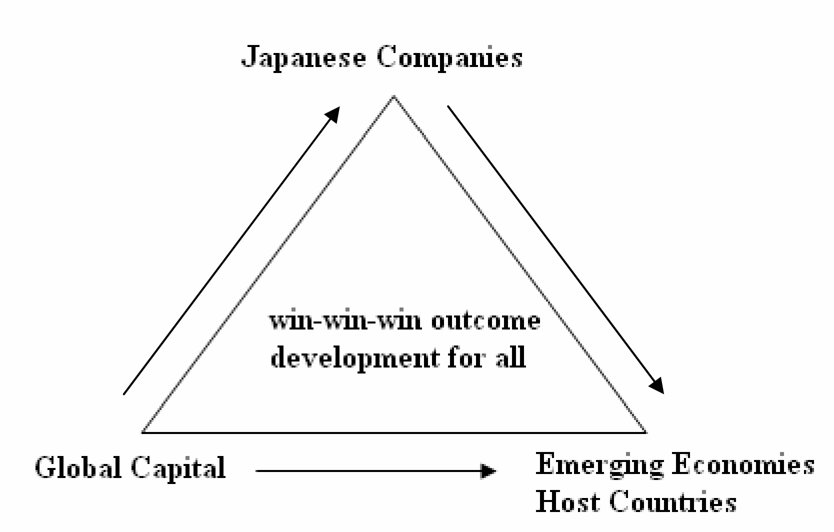
Foreign investment is a process which produces outcomes that reinforce growth and benefits for all. Japanese companies' investment provides jobs and helps raise living standard of the host country. This development will translate into demand which then opens another window of opportunities for Japanese firms.

China is an example. One should not ignore the fact that economic growth of China helped push Japan out of recession years ago. There were fears that the rise of China would threaten Japanese companies' opportunities. However, the collaboration by both countries and the Japanese investment proved the pessimists wrong. Today, China is among the biggest markets for Japanese export.

South-East Asia nations serve as another example. The development of these countries has been catalyzed by Japanese investment and then translated into market demand. When people of this region graduate into middle class, they need electronic appliances and automobiles, products in which Japanese-dominated industries have the advantage.

Foreign investment can be in the form of operation expansion and outsourcing to other countries. Outsourcing is viewed by some as merely a means of cost-saving, and is associated with job loss in Japan. Nonetheless, employees and firms should not be short-sighted. True, there are firms which outsource to emerging economies just to reduce costs. However, I believe that Japanese companies can do better. Outsourcing should not be simply about cost reduction, but should be to acquire knowledge talent to innovate faster and more cheaply in order to grow larger, gain market share, and employ more and different brainpower. They should outsource to win, not to shrink.

Furthermore, through investment, Japanese companies can leverage the local brainpower with their capital and know-how to sharpen their strength, gain greater share in the market, and help develop host countries.




The global economy is not zero-sum. Developing countries need capital and know-how to grow. Japanese companies' outward expansion in those emerging economies is a win-win strategy because the investment helps develop host countries and create more demand for its products and services along with that development. Then, the capital investment into Japanese companies reinforces Japanese companies' strength and capacity, creating win-win-win opportunities. Japanese companies' investment and collaboration with domestic firms can help bring together the low-cost labor, high technology, and capital. This combination will reinforce the market power and global development.

## 4. Competitiveness in Global Capitalism

In the global competitive report 2006-2007, Japan ranked seventh[5]. So far, Japan has been leading in terms of technology and innovation. It produces some of the best multinational corporations in the world such as Toyota, Nissan, and Sony, to name just a few. This has been possible by extensive investment in R&D for new technology and constant improvement of product quality.

With the same pattern, I believe that Japan will continue to lead only if it leads in the technological development and innovation. Today, the low-cost and efficient labor in developing countries, particularly China, creates a harsh competition in manufacturing. Japanese companies will be caught up by latecomers and might be over-passed if it fails to produce new technology to stay as fore-runners. China and other emerging economies are becoming more efficient not only at producing but also learning new technology. This means that Japanese companies need to work harder in R&D.

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5 http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm

In terms of financial know-how, Japanese companies are behind their European and US counterparts. In the era of financial globalization where finance can be used a leverage, Japan needs to strengthen its competitiveness to attract the flow of capital. Oil money, for instance, needs technology for its investment's success, and Japan can share its technology based on win-win basis. The investment from oil money could be again leveraged to activate Japanese economies and its competitiveness in the world.

### 4.1 Securing Brainpower

To compete in this fast globalizing world, appropriate and good-quality education will play important role in competing with one another. More resources shall be invested in the high quality of study, R&D for new innovation and technology.
Despite the fact that Japan is rich in human resource, Japanese brainpower alone can not cover all fields of the vast global market. Plus, Japanese population is shrinking now. To overcome the labor shortage and to expand its view and market around the world, Japanese companies need to internalize foreign brainpower, enhancing creativity and providing more global products by attracting them to Japan or building R&D facilities worldwide.

## 5. Corporate Social Responsibility (CSR) and Japanese Brand

Global capitalism arrives with large social impacts; it produces not only economic prosperity but also the collateral effect of income equality and environmental degradation between and within nations. Environmental damages brought by some TNCs and financial crises caused by financial globalization gives global capitalism a bad name and makes it a weapon for anti-globalizers. To overcome these problems and to be acknowledged by consumers, Japanese companies need to enhance their CSR and Social Responsible Investment (SRI). By doing so, they first can secure potentials of access to domestic markets and its brand image enhancement.
According to World Bank, Corporate Social Responsibility (CSR) is "the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with all relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda, and society at large"[6].
To grow, developing countries need to import capital and know-how. This creates a chance Japanese companies should take by making the leverage of global capital mobility and its technology. The development in those emerging economies, then, can be translated into demand when people are at the higher rung of standard of living. This creates opportunities for Japanese-dominated industries. Products that are

6 http://www.adbi.org/event/2349.enhancing.corporate.social.responsibility/

“renewable” and “sustainable” represent a huge future industry as more people are climbing into the middle class and appreciate environmental quality and stability. As a result, the demand for environmentally friendly products will increase in the coming years. Japanese companies as “leading geese” in this area can set example for other TNCs. By leveraging the ample capital and utilizing their technologies, Japanese companies will enhance their brand image, thus boosting its market share in the global market.

The mutual benefits between Japanese corporations and developing countries could be lasting if those benefits are not only economic, but also on improved social harmony and environmental conservation. By transferring its cutting edge production technology and its know-how in environmental conservation, I believe, Japanese companies can not only help developing countries deal with environmental problem but also raise its product image and morale of Japanese firms in the international arena.

In addition, by remaining active “flying geese” in the region and the world, Japanese companies could help increase the world’s income on mutual benefits between developing countries and itself. By doing so, Japanese companies can keep and increase its share in the bigger pie and set a model for growing corporate in developing countries and other countries’ corporate in environmental standard and corporate social responsibility.

## 6. The Road Ahead

Capitalism has reigned and the world has become more interdependent than ever. Any retreat by a key player will affect all parties. Cooperation and harmony among nations shall produce win-win outcome.

The combination of low-cost labor, technology, and ample capital creates a win-win-win strategy. With comparative advantages in modern technology, Japan can gain more shares in this development-for-all phenomenon.

21st century is the century of Asia. I am optimistic and strongly believe that Asians can prove this and Japanese companies play important roles in the process. While East Asia and South East Asia are working hard to develop their ability to compete and develop, Japanese companies can help through direct investment, attracting capital, and providing technology to the region on the basis of “mutual benefit”. By doing this, Japanese companies can not only remain as leading geese, but also enhance its image and share in the global economy. This can be so by the fact that development in the region is translated into demand on environmentally responsible product of good quality and very likely with “Japanese brand”.

Thus, Japanese companies need to be aggressive in three dimensions: invest and lead in the new technology and innovation sector, seize the opportunities created by financial globalization, and take advantages of low-cost and efficient labor in emerging economies. Furthermore, I argue that, by utilizing technology and leveraging international capital flow, Japanese companies can contribute to a more strict culture of corporate responsibility in environmental issues among TNCs, help alleviate poverty and create demand which is, in turn, essential for the growth of Japanese companies.

With a strong commitment to cordial relationship, Japan and other countries, especially China, can put their painful histories behind them and focus more on the welfare of the people in the region. Meanwhile, Japan should pay more attention to building a frank and close relationship with Islamic countries, particularly those in the Middle East.

The stability and desire for development-for-all would then create a good and stimulating environment for development of other countries in the region. The development means more demand for products in Japanese-dominated industries such as automobile, electronics, and machinery.

Japan is an export-oriented economy. The threat for the Japanese companies is not only from other countries' companies, but also from the huge gap between its economic powers and its Asian friends'. To prop up its growth sustainability and further growth, Japan needs to help fill the gap economically and politically. I believe that Japanese companies can create demand and renews their image at the same time by contributing to the stability and poverty reduction in the region.

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