Preface/Acknowledgments

Japan’s postwar economic growth in that space-confined, mountainous, and resource-scarce archipelago, about the size of the State of Montana in the US, but with almost a half of America’s population, is nothing but a story of great structural transformation, a transformation that has made Japan join the ranks of the advanced economies as the world’s second largest economy over as short a span of time as less than three decades after World War II.

It has been nearly four decades since I began to study some early phases (1950–75) of Japan’s transformation and the roles of foreign direct investment (FDI) and knowledge transfer as facilitators of industrial upgrading. With an eye to achieving the national goals of caching up with the advanced West, Japan created a unique set of institutions in the early postwar period, and actively employed industrial – and other macro-organizational (Dunning, 1992) – policies to assist its private sector to gain international competitiveness in a number of high-productivity manufacturing sectors. The upshot was high growth throughout the 1960s.

As the decade of the 1960s drew to its close, furthermore, Japanese multinational corporations’ (MNCs) activities began to become noticeable worldwide. In the early 1970s, their overseas investment grew very rapidly in both numbers and value, against a backdrop of rising labor shortages at home, the ever-expanding need to secure overseas supply sources of industrial resources, and the appreciation of the yen that made home-based production and exports increasingly more costly but overseas production more profitable. These early phases of Japan’s economic growth and Japanese MNCs’ international operations were examined in my books, Japan’s Technological Challenge to the West, 1950–1974: Motivation and Accomplishment (MIT Press, 1974) and Multinationalism, Japanese Style: The Political Economy of Outward Dependency (Princeton University Press, 1979; paperback edition in 1982).

Ever since, I have kept track of the evolution of the Japanese economy and its accompanying cross-border business activities. My continued analyses have been published in conference volumes, journal articles, book chapters, and books – just to cite a few monographs, for example, Japan’s General Trading Companies: Merchants of Economic Development (co-authored with Kiyoshi Kojima; OECD, 1984); Recycling Japan’s Surpluses for Developing Countries (OECD, 1988); Business Restructuring in East Asia: Cross-Border...
Institutions, industrial upgrading, and economic performance in Japan

M&As in the Crisis Period (co-authored with James Zhan; Copenhagen Business School Press, 2001). The present volume draws, and expands, on many ideas presented in publications, and presents my most recent thinking and ideas on the vicissitudes and current state of synergistic interactions between Japan’s structural transformation and international business operations.

Indeed, many significant changes have occurred – are occurring – in the motivations, characteristics, and patterns of international business activities emanating from and penetrating into the Japanese economy, as it has gone through a series of structural upgrading from low to higher, and still much higher, value-added stages since the end of World War II. At the start of the 1970s Japan was already on its way to joining the ranks of advanced countries, but its industry was still dominated by traditional heavy and chemical industries that caused some serious environmental and ecological problems at home – all the more because of its cramped homeland space. Japan then strove to build up less-resource-intensive, environmentally less straining, higher value-added, and knowledge-based industries, notably automobiles and electronics.

One major accomplishment of such efforts has been the successful innovation of world-class assembly techniques that has converted mass production into so-called ‘lean production’ (originated as the Toyota production system). It is the new method of organizing production in such a way to eliminate wastes in work processes, work-related motions, materials, and material handling. This homespun organizational and technological innovation has given a decisive support for Japan’s structural transformation, export competitiveness, and overseas investment activities.

With the newly gained strength in manufacturing, exporting, and international business operations, Japan’s industrial activities inevitably outgrew the domestic market and became inexorably outer-bound and outer-dependent, thereby advancing into the global economy. Home was no longer an optimal base for manufacturing and service production. Particularly notable was Japan’s ever-deepening economic integration with other East Asian economies, constituting a geographical cluster that is now the world’s fastest growth region. Japan’s industrial production has become increasingly embedded in East Asia as a unitized/integral space of operations, though its marketing and procurement networks are spun around the world. Paradoxically, the success of economic nationalism (originally intended to avoid reliance on foreign interests and secure self-autonomy) has thus deepened Japan’s dependence on the rest of the world, forcing Japan to play the game of both regionalism and globalization.

Japan’s rapid catch-up modernization in the postwar period was, indeed, the first sign of the East Asian miracle. Japan’s success did exert, and still
continues to exert, a significant impact on neighboring economies as a role
model to emulate. On the other hand, a host of economic and institutional
predicaments recently experienced by Japan may equally serve as reminders
of the undesirable consequences of Japanese-style catch-up strategy that other
countries need to heed and avoid.

The major focus of this study is the process of industrial upgrading that
Japan went through during the second half of the last century and on the roles
of institutions and the political economy in facilitating or retarding such
structural transformation. The so-called ‘flying-geese’ theory of economic
development is used as the overall framework of analysis, along with many
other conceptual models, to examine from an evolutionary perspective how
Japan has climbed the ladder of economic growth one rung at a time. The
stages framework is used, but the inter-stage causal links are the primary focus
of analysis.

Completion of this study owes a great deal to many who have long
encouraged me to finish this new monograph. Professor Emeritus Kiyoshi
Kojima of Hitotsubashi University, Tokyo, the main torch-carrier of the
original flying-geese theory in Japan as a protégé of Professor Kaname
Akamatsu, who introduced the theory in the 1930s, has been a constant source
of inspiration and intellectual guidance. I am greatly appreciative of his long-
lasting friendship and constructive exchanges of ideas with me.

A word of deep-felt gratitude also goes to Professor Emeritus John H.
Dunning of both Reading University, UK, and Rutgers University, US, for
more than 20 years’ warm friendship and tutelage. He honored me with an
appointment as a Visiting Esmee Fairbairn Senior Research Fellow at the
University of Reading, UK, in 1983. I have also been invited to many of the
numerous academic conferences he has organized, several of which were held
in such memorable places as Lake Como (Italy), Brussels (Belgium), Bangkok
(Thailand), Rotterdam (the Netherlands), and Madrid (Spain). As a result I
have had invaluable opportunities to explore the key topics related to
international production, Japanese MNCs, and East Asian industrial
dynamism. Many of the ideas presented in this study originated from my
participation in his conferences.

I am similarly indebted to Professor Jean-Louis Mucchielli of the
University of Paris I: Panthéon-Sorbonne, France. He kindly invited me to the
Sorbonne as a short-term visiting professor on three occasions (May 1994,
February 1996, and May 1996) – and as a speaker at the 1994 Sorbonne
Colloquium on Stratégies des Firmes Multinationales et Impacts des
Délocalisations (June 9–10, 1994) and at the 1996 Sorbonne Colloquium on
Globalisation et Régionalisation dans les Investissements et le Commerce
(May 30–31, 1996). I am deeply grateful for his generous hospitality and the
intellectual stimuli he gave me. Some of the ideas I explored and presented at
the Sorbonne are incorporated in this book.

I must also add Professor Colin Dodds, President of Saint Mary’s University, Halifax, Canada, and Professor Emeritus Gavin Boyd of the same institution, to my list of individuals to whom I owe an intellectual debt. They organized a series of conferences on different aspects of international business starting in 1998 and invited me to three of those conferences as a speaker. This book includes many of the analyses I presented at Saint Mary’s University.

I likewise enjoyed the good fortune to conduct research and organize my thoughts on the topic of this book as a Visiting Foreign Professor (Gaikokujin Kyakuin Kyoju) at the Institute of Social Science, the University of Tokyo, during the fall semester of 1996. I am thankful to the Institute for the kind hospitality and generous financial support that made my stay not only productive but quite enjoyable as well. Special thanks go to Professor Tetsuo Abo, then at the Institute, my personal host, who graciously made a number of privileged professional arrangements for me, the most important of which was to lecture in his seminar class. I benefited immensely from interacting with, and learning, from other faculty members of the Institute, notably Professor Haruki Wada, then director of the Institute, Professor Akira Kudo, Professor Masahiro Kawai, Professor Juro Hashimoto, and Professor Hirokuni Obata.

The three-month research fellowship awarded to me at the East-West Center, Hawaii, in the spring of 2001 was equally supportive of, and highly conducive to, my study. Dr Dieter Ernst of the Center was an excellent host during the tenure, according me an intellectually productive environment that greatly enhanced my research output – despite the enticing distractions of the beautiful Hawaiian beaches.

More recently, I have become enormously indebted to Professor Hugh Patrick of Columbia Business School, who has generously given me strong support in various ways such as writing letters of recommendation and painstakingly commenting on my paper on the flying-geese paradigm (which was later published in the Journal of Asian Economics). Above all, the appointment he kindly gave me as Research Associate at the Center on Japanese Economy and Business, Columbia Business School, is one of the greatest honors and privileges I have received in my academic career.

Last but not least, my most recent appointment as a Visiting Professor of International Economics and Business Administration at the International Christian University (ICU), Tokyo, during the spring quarter of 2004 was an additional god-sent opportunity to observe first-hand how the Japanese economy was rebounding from a more than a decade-long stagnation. I am thankful to Dr Norihiko Suzuki, President of the ICU, and Professor Kano Yamamoto for inviting and giving me a memorable spring and an early summer in Japan. At the start of the spring term I fully enjoyed the gorgeous canopies of cherry blossom for which the ICU campus is well known.

Terutomo Ozawa

Fort Collins, CO, USA,
at the foot of the beautiful Rockies,
Summer 2004