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Multinationalization of Japanese firms and dysfunction of companyist *régulation*

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Abstract

Most Japanese large-scale manufacturing firms have reduced their debt loads and accumulated profits since the late 1990s, and many have directed the resulting internal reserves to foreign direct investment. This chain of events has played an important role in establishing within East Asia an international production network. In fact, among Japanese manufacturers in 2012, the overseas production rate amounted for 20%, based on all companies in Japan; it accounted for 35%, based on companies that are developing overseas. Additionally, unlike that seen with European Union and the North American Free Trade Agreement, intra-regional trade in East Asia principally comprises intermediate goods (parts and components); these conditions have made East Asia the world's most important production base. By virtue of the creation of the East Asian production network and the multinationalization of manufactures, Japanese firms have managed to survive in the face of global competition.

Nonetheless, in Japan, multinationalization has been realized at workers' expense, with labor's relative share decreasing and the proportion of nonregular workers increasing. In addition, multinationalization has weakened Japan's export competitiveness. Consequently, the "companyist" *régulation* that has supported economic growth in postwar Japan—namely, the system of Japanese socioeconomic coordination among workers, management, and banks—no longer functions effectively. Two pillars of the companyist *régulation*—employment security in return for workers' loyalty to the company, and management security by main-bank system—have almost completely broken down, except some particular cases.

Under this "post-companyist" conjuncture, the Japanese economy faces stagnation in domestic demand, in terms of both investment and consumption; it has also seen a slump in exports, even under recent yen depreciation. One of the most serious problems Japan faces may be a decoupling of recovering multinationals from the stagnant economy. Japan is no longer characterized as an export-led growth regime. What Japan may need is to create a new nationwide compromise, as well as policies that can overcome economic inactivity and widening inequalities.

The paper is organized as follows.

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Key words

Multinationalization of firms, companyist *régulation*, post-companyism, wage–labor nexus, decoupling of firms and economy

I Introduction

Over the last 20–30 years, Japanese main firms have actively developed their overseas business sectors—especially in Asian countries—and have thus become multinational firms. As is well known, this has played an important role in establishing an international division of labor in the East Asian zone. However, what impacts has this multinationalization had on the Japanese economy and its mode of *régulation*? In short, what relationship can we find between the multinationalization of Japanese firms and structural transformations within the Japanese economy? This study approaches this question while bearing in mind our concept of “companyist *régulation*.” Let us first explain the concept of “companyism” or “companyist *régulation*.”

“Companyism” is a concept that characterizes a mode of *régulation* that supported Japan’s postwar economic growth. This mode of *régulation* is propped up by two main pillars: labor–management compromise on employment security, and company–bank compromise on management security (security of firm’s continuation). In short, companyism rests on both employment compromise and finance compromise.

The employment compromise, the first pillar of companyism, contrasts markedly from the U.S. case. In the case of postwar American Fordism, a wage compromise formulated as <the acceptance of Taylorism (limited job) by workers vs. the provision of productivity-indexed wages by management>, led a growth regime typically seen as “mass production–mass consumption.” In contrast, what led Japan’s postwar growth was an employment compromise defined as <the acceptance of unlimited duties by workers vs. the provision of employment security by management>. In return for the workers’ devotion and loyalty to their company (in the form of accepting unlimited duties), Japanese workers—especially regular male employees employed by large companies—mostly wanted employment security, rather than wage hikes; more precisely, they wanted employment continuation in the company in which they were currently employed. After a trial-and-error period, this demand by workers was accepted by the management, and so-called lifetime employment and seniority-based wages became the “rule of the game” in Japan, or social norms between management and workers.

To bring about a steadier realization of a wage–labor nexus that centers on employment security, it is essential to secure firm continuation (i.e., management security). In postwar Japan, where an indirect finance system was prevailing, a firm would want in the time of managerial hardship to obtain for this purpose, various relief measures (e.g., additional finance, favorable interest rates, and dispatched executives from banks). In exchange for the possibility of receiving relief measures, the company would fix a particular bank as its preferential business partner and shareholder. This finance compromise, the second pillar of companyism, leads to corporate governance by a main bank, and in this way, firm continuation is secured. This is the so-called main-bank system. The main-bank system thus represents a core compromise between the firm and the bank for the purpose of the management security of the firm. This company–bank compromise, together with cross-shareholding and convoy systems, has helped ensure the stability and continuation of Japanese companies.

Employment security in the wage–labor nexus and management security in the finance and interfirm relations—two elements that make one another an institutional complementarity—have formed the kernel of companyist *régulation*. It resulted in high levels of productivity among core workers who engaged in meritocratic competition under employment security, and each company aimed to maximize sales or market share. Companyist *régulation* thus supported an investment- and export-led growth regime in postwar Japan, which in turn led to a high economic growth in Japan

and its status in the world as an “economic power.”¹

However, especially after the 1990s, under certain pressures—such as financial globalization and problems with nonperforming loans in post-bubble Japan—the main-bank system fell into dysfunction, the rate of cross-shareholding among firms decreased, and so the conventional measure of enterprise continuation broke down. Additionally, employment security largely contracted, due to a drastic increase in the number and proportion of nonregular workers. As a result, since the late 1990s, both employment security and management security fell into a crisis, and thus led to a crisis of the companyist *régulation*.

Such is the concept of companyist *régulation* and its contemporary transformations in Japan, which we have hitherto discussed (Yamada 2000; Yamada and Hirano 2012). Given the aforementioned background, the current study focuses on the relationship between Asian deployments of Japanese firms (especially manufacturers) and their effects on companyist *régulation*. What does the multinationalization of Japanese firms mean for the firms themselves, and what does it bring to the Japanese economy as a whole? First, we outline the international division of labor in East Asia, and the role and position of Japanese firms therein (Section II). Then, we clarify how the multinationalization of Japanese firms has taken place, by analyzing corporate finance and behavior (Section III). In addition, by provisionally naming “post-companyism” the increasingly changed and paralyzed state of affairs of companyism through the multinationalization of Japanese firms, we discuss problematic post-companyist circumstances that are now affecting the Japanese socioeconomic configuration (Section IV). Finally, this paper closes with some conclusions and prospects (Section V).

II Japan and the international division of labor in East Asia

In this section, we confirm some basic facts concerning the international division of labor in East Asia; this division of labor has formed in tandem with the multinationalization of Japanese firms.

1. Development and characteristics of the East Asian production network

The trade structure in the contemporary world is roughly envisioned as a triangle with the following poles: “United States and Europe,” “China and the ASEAN,” and “Japan and the NIEs.”² This triangular structure has gradually formed since the 1990s, around the machinery industry (transportation equipment, general machinery, electrical machinery, etc.), in which East Asia³ has comparative advantages. The position and role of each pole are as follows.

- (1) Japan and the NIEs produce intermediate goods (parts, components, and processed goods) in a capital-intensive process, and export them to China and ASEAN.
- (2) China and ASEAN assemble the imported intermediate goods in a labor-intensive manner, into final goods (consumption goods and capital goods); they then export them to the United States and Europe.
- (3) The United States and Europe consume the imported final goods.
- (4) In short, a trade structure has become established worldwide, containing the following roles: parts production (Japan and the NIEs), assembly production (China and ASEAN), and final consumption (the United States and Europe).

¹ See Yamada (2000: Figure 1.1).

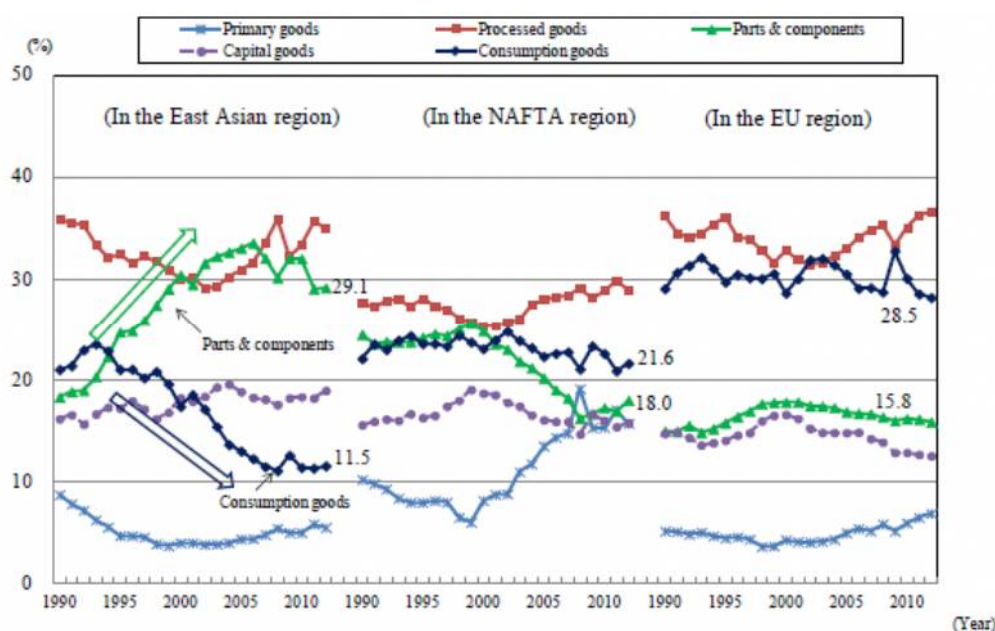
² See METI (2005: Figure 2-3-10).

³ Here, we use the word “East Asia” to denote Asian newly industrializing economies (NIEs) (i.e., South Korea, Taiwan, Hong Kong, and Singapore), Association of Southeast Asian Nations (ASEAN) members (the five original members of Thailand, Indonesia, the Philippines, Malaysia, and Singapore, and the five new members of Brunei, Vietnam, Laos, Cambodia, and Myanmar), China and Japan. Singapore is both an NIE and an ASEAN member. In the ASEAN statistics that follows, some countries may be omitted.

The presence of East Asia in the world economy has been rapidly enhanced, by virtue of this triangular trade structure. In 1985, the nominal gross domestic production (GDP) of East Asia was about one-half that of the United States; however, in 2010, the GDP of East Asia surpassed that of the United States, and is now poised to surpass even that of the European Union (EU).⁴

While export goods from East Asia to other regions have mainly involved final goods, intra-regional trade within East Asia has considerably consisted of intermediate goods. This constitutes the most salient trade-related feature of the East Asian zone, and it is abundantly clear when we compare intra-regional trade goods with those of other international economic zones (e.g., those comprising the EU and the North American Free Trade Agreement [NAFTA]), as seen in Figure 1.

Figure 1 Trends in the value of intra-regional trade (composition of goods)



Source: METI (2014a)

In Figure 1, although it is common in all three economic regions (i.e., East Asia, NAFTA, and EU) that the proportion of trade in processed products is the highest, East Asia shows two particular characteristics. First, East Asia shows a high proportion of parts and components trade that has recently undergone rapid growth (i.e., over 30%). Second, East Asia's proportion of consumption goods trade is not only low but has also tended to decline drastically (i.e., recently about 10%). In contrast, in the case of both NAFTA and EU members, the proportion of parts and components trade has been low and dropping (i.e., recently about 15%), and the relatively high proportion of consumption goods trade has been stable (i.e., over 20% in NAFTA and 30% in EU).

The high proportion of intra-regional trade in intermediate goods suggests the high weight of intra-industrial trade, rather than of inter-industrial trade. The presence of both exports and imports within the same industry indicates the existence of a division of process, where intra-regional countries take charge of different processes in order to produce final goods. In short, there has been established in East Asia an international network of process division that centers on the machinery industry. By tightening this production network or supply chain, *de facto* economic

⁴ See Hirakawa (2014: Figure 1.1).

integration has developed in East Asia, leading to the formation of a large cross-border production base.

2. Business activities of Japanese firms in East Asia

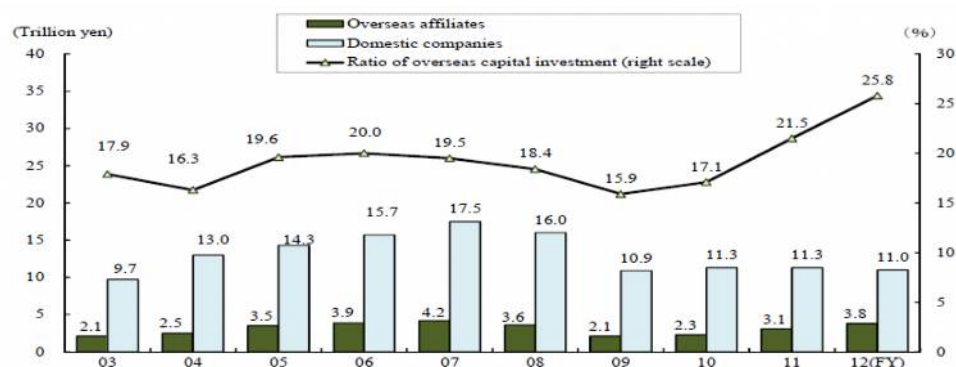
Foreign direct investment (FDI) by Japanese firms, especially manufacturers, has played an important role in the development of this international division of production processes. Although companies from the United States, Europe, South Korea, and Taiwan have also established overseas affiliates in East Asia, the presence of Japan-affiliated companies is much more considerable.

In the late 1980s—that is, in a period of rapid yen appreciation, following the Plaza Accord of 1985—Japanese firms embarked for the first time on large-scale FDI. Consequently, Japan's FDI position amounted to JPY 30 trillion in 2000 and JPY 70 trillion in 2011.⁵ Although at first FDI was principally destined for North America, and mainly from nonmanufacturing industries, manufacturers started to actively establish overseas affiliates mostly in East Asia. Since 1990s and until 2012, the exchange rate has shown a general trend of yen appreciation, albeit with volatile ups and downs in the yen rate. In this context, Japan has increased its weight of investment in Asia, in both the manufacturing industry and overall.

Especially in the manufacturing industry, the number of Japanese overseas affiliates in Asia has tripled, from fewer than 2,000 (about one-half of all Japanese FDI) in 1990 to more than 6,000 (more than 70%) in 2010.⁶ The number and percentage of Japanese overseas affiliates in Asia have almost constantly increased, with no correlation with exchange-rate fluctuations. This means that, in terms of Japanese manufacturers' incentives for overseas development, market factors that project potentially greater demand within newly emerging Asian areas have become more important than cost factors, including wage hikes or measures of yen appreciation.

As a result, as of 1997, the total overseas production by Japanese manufacturers already exceeded that of export; thereafter, the gap widened. In 2012, the overseas production rate of manufacturers amounted for 20%, based on all domestic companies; and 35%, based on those developing their business overseas.⁷ Especially, the overseas production rate of the transportation machinery sector was 40%. Following the Lehman Brothers shock of 2008, Japanese firms' investments in the plants and equipment has continuously increased abroad, but domestic investment has stagnated (Figure 2). This stagnation in domestic investment is a very serious problem, and among the main capitalist countries, it can be seen only in Japan.

Figure 2 Trends in capital investment in overseas affiliates and domestic companies (manufacturing industries)



Source: METI (2014b)

⁵ See METI (2013: Figure III-3-3-10).

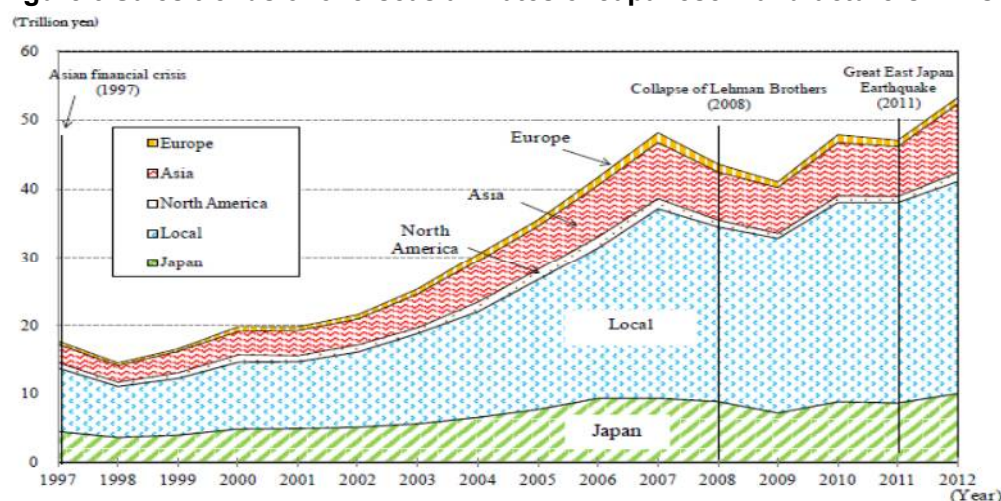
⁶ See METI (2012: Figure 2-2-2-1).

⁷ See METI (2014a: Figure II-3-2-32).

What has been the state of Japanese manufacturing affiliates' business activities in Asia? In terms of sales, although there was a considerable decline on account of the Lehman Brothers shock, figures have steadily grown over the last 20 years, from JPY 20 trillion in 2000 to JPY 50 trillion in 2012. The ratio of local sales has also grown, from 50% in 2000 to 60% in 2011 (Figure 3). The increase in local sales ratio confirms that Japanese firms have, in recent years, placed more importance on market incentives.

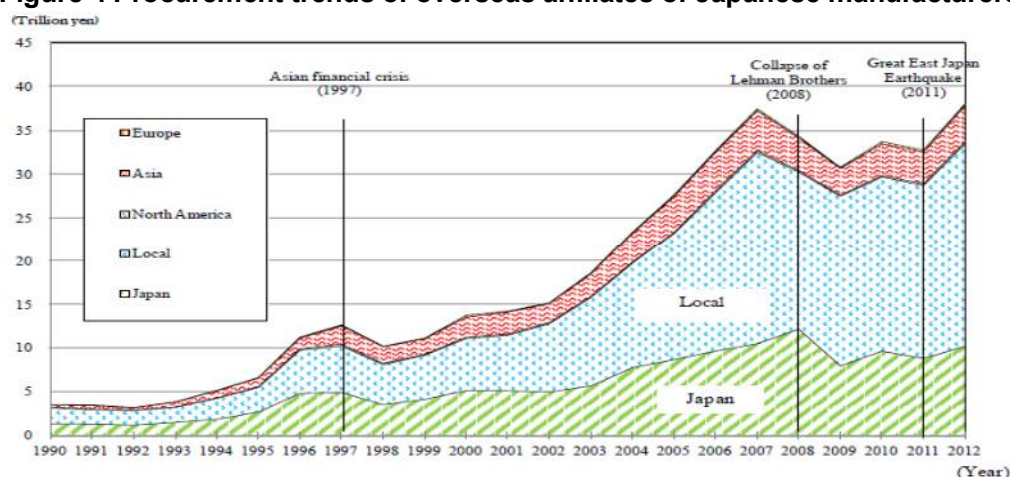
In line with the increase in production and sales, procurement has also increased, from JPY 15 trillion in 2002 to JPY 35 trillion in 2010 (Figure 4). The ratio of local procurement has also increased, from 40% in 2000 to 60% in 2010. On the other hand, total procurement from Japan (i.e., exports from Japan to overseas affiliates) has stagnated since the Lehman Brothers shock, although it did increase favorably prior to that time (Figure 4). The share of procurement from Japan by overseas affiliates of Japanese manufacturers also decreased, from 40% in 1990–1996 to less than 30% in 2012.⁸

Figure 3 Sales trends of overseas affiliates of Japanese manufacturers in Asia



Source: METI (2014a)

Figure 4 Procurement trends of overseas affiliates of Japanese manufacturers in Asia



Source: METI (2014a)

⁸ However, the percentage of procurement from the Japanese overseas affiliates within each country accounts for one-third in all local procurement. So, if one were to combine this figure with that of procurement from Japan (i.e., imports from Japan), the procurement ratio from Japan would be, in a broad sense, about 50% (See METI 2014b: Figure II-3-2-20).

3. Japan's reduced export competitiveness

As evidenced in the reduced share of procurement in Japan by Japanese overseas affiliates, the Japanese economy has possibly experienced a decline in its export-related competitiveness. Special attention must be paid to the fact that, despite positive expectations of export increase and economic growth since the recent phase of yen depreciation (starting from 2012), Japan is still seeing export stagnation and an expansion in its trade deficits. As Japan's main export items comprise general machinery, electrical machinery and motor vehicles (which together account for about 60% of all exports), it will be worthwhile to confirm changes in export competitiveness while focusing on these three categories of export items.

For example, when we measure Japan's export competitiveness in terms of Japan's share of major export items among all world exports, we see that Japan's total export share has reduced by about 50%, from 9.5% in 1995 to 4.9% in 2011 (Table 1). Concerning the three aforementioned main export items, we can see a decline in the share of each: from 15.2% to 8.5% in general machinery, from 18.0% to 11.9% in motor vehicles, and, in particular, from 17.2% to 6.5% in electrical machinery.

Table 1 Japan's share of major export items among world exports

Rank	Items	Export amount (Billion dollar)	Share (%)	Share in the world exports		
				1995	2000	2011
1	General machinery (HS84)	171	21.9	15.2	11.5	8.5
2	Motor vehicles (HS87)	148	18.9	18.0	16.1	11.9
3	Electrical machinery (HS85)	129	16.5	17.2	12.8	6.5
4	Precision machinery (HS90)	46	5.8	19.4	17.7	9.1
5	Iron and steel (HS72)	42	5.4	11.8	10.7	9.4
6	Plastics (HS39)	30	3.9	6.3	6.0	6.0
7	Organic chemicals (HS29)	25	3.1	10.1	8.0	6.2
8	Precious stone, precious metal (HS71)	17	2.2	1.4	1.7	3.2
9	Mineral fuels (HS27)	16	2.1	1.0	0.3	0.8
10	Rubber (HS40)	15	1.9	11.8	11.1	6.8
-	Total export amount	784	100.0	9.5	7.8	4.9

Source: METI (2013)

III Multinationalization of Japanese firms: their mode of behavior and its result

1. New platform: improvement in firms' finances at their workers' expense.

The low yen exchange rate—caused by the monetary easing in 2013—led to an increase in the values seen in the Japanese stock market in anticipation of an economic recovery. However, while the change in monetary policy did bolster the economic recovery, the platform for the change began much earlier, when Japanese firms began improving their financial health. In particular, two important changes took place, as follows.

- (1) A decrease in liabilities and an increase in net assets: Since the late 1990s, Japanese firms have been reducing their liabilities and increasing their net assets, although sales stagnated.⁹
- (2) Profits generated by reducing labor costs while sales stagnated: An increase in net assets occurred because firms were able to increase their profits each year.¹⁰

These changes were brought about by reducing labor costs. The labor's relative share had a tendency to decline especially from the late 1990s to 2008; this suggests that improvements in firm

⁹ See Iwase and Sato (2014: Figure 2).

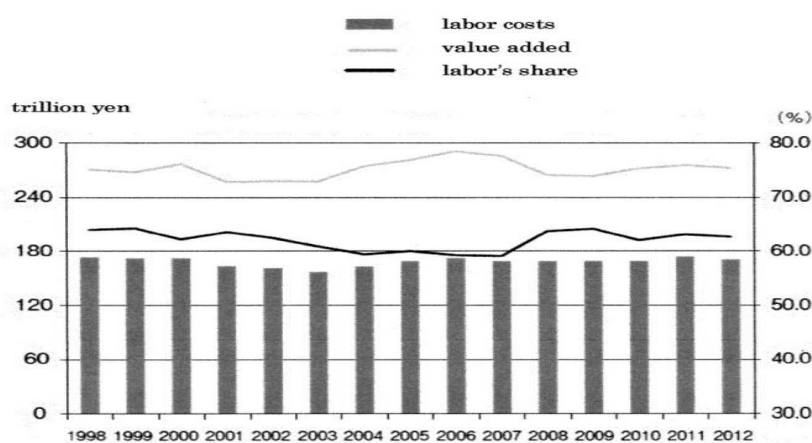
¹⁰ See Iwase and Sato (2014: Figure 6).

finances came at the workers' expense. Figure 5 shows this tendency: increases in the profit rate came about by reducing labor costs.

On the whole, workers' lives became more difficult and domestic demand stagnated: the latter of these conditions restricted domestic production and investment.

However an increase in profit share and a decrease in liabilities prepared Japan for economic growth, as the growth regime of the Japanese economy from the late 1990s to the 2000s was complex and comprised of profit-led and debt-burdened regime (Nishi 2012, 2014).

Figure 5 Labor's share, value added and labor costs



Source: Ministry of Finance (2014)

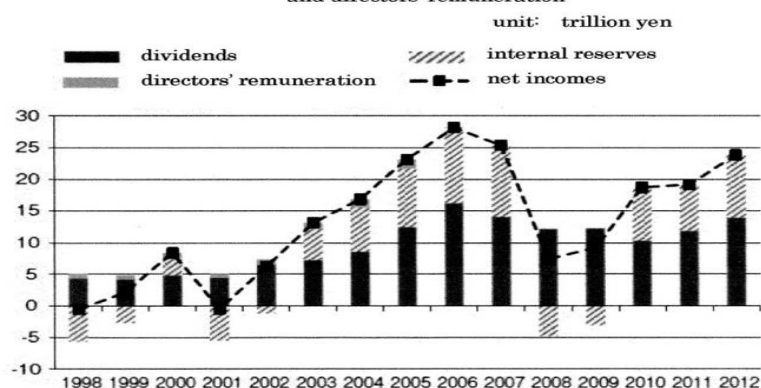
Financial Statement Statistics of Corporations

2. Increases in internal reserves and foreign direct investment

Firms can use profits in various ways, including stock dividends, capital investment, wage increases in the next period, or internal reserves. However, given the long period of wage stagnation and the decline in the labor's relative share, it is clear that these profits have not been invested in wage increases.

In Japan dividends have not been fluctuating in proportion to profits: rather they have remained constant and have not in any way fluctuated as internal reserves have (Figure 6). This suggests that managers may be paying close attention to valuations of their firms on the stock market.

Figure 6 Net incomes, dividends, internal reserves, and directors' remuneration

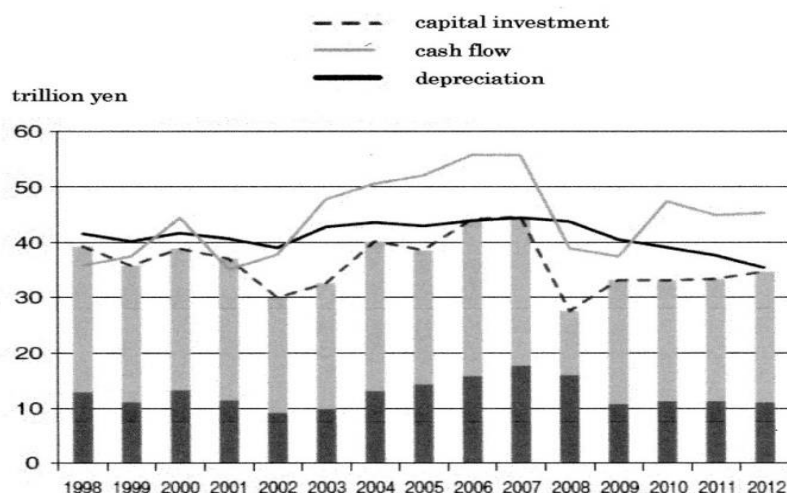


Source: Ministry of Finance (2014)

Financial Statement Statistics of Corporations

Finally, changes to capital investment fell to an extent greater than depreciation (Figure 7).

Figure 7 Changes in capital investment, depreciation and cash flow



Source: Ministry of Finance (2014)

Financial Statement Statistics of Corporations

cash flow = internal reserves + depreciation

Thus, a considerable sum of firms' profits was stored as internal reserves.

To recognize forms of these internal reserves, we need to examine variations in firms' assets and liabilities.

According to Table 2, there was a JPY 133.6 trillion decrease in liabilities between 1998 and 2008, when the subprime crisis occurred. On the other hand, there was a JPY 232.5 trillion increase in net assets. The retained earnings within net assets almost certainly refer to internal reserves. They amount to about JPY 150 trillion: enormous amount. The assets that grew the most were investments in securities (e.g. stocks and bonds).

Table 2 Variations in assets, liabilities and net assets, and their contribution ratios between 1998 and 2008							
unit: trillion yen, %							
Assets		variation	contribution ratio	liabilities and net assets		variation	contribution ratio
Current assets	cash and deposit	9.7	0.7	current liabilities	notes payable	-32.9	-2.5
	bills receivable	-20.2	-1.5		accounts payable	-13.5	-1.0
	accounts receivable	3.0	0.2		short-term debt	-56.7	-4.3
	securities	-8.2	-0.6		allowances	-0.1	0.0
	inventory	-19.1	-1.5		others	10.9	0.8
	others	18.4	1.4	fixed liabilities	bonds	-5.3	-0.4
	land	15.0	1.1		long-term debts	-51.9	-4.0
fixed assets	construction account	3.1	0.2		allowances	6.8	0.5
	tangible fixed assets	-59.0	-4.5		others	9.3	0.7
	intangible fixed assets	0.8	0.1	net assets	capital stock	20.4	1.6
	investment in securities	117.7	9.0		capital reserves	39.9	3.0
	others	28.7	2.2		others	23.5	1.8
					retained earnings reserves	4.9	0.4
					reserve fund	49.8	3.8
deferred assets		0.1	0.0		retained earnings carried forward	94.0	7.2
total assets		90.0	6.9	others		-8.9	-0.7
				liabilities and net assets		90.0	6.9

Source: Ministry of Finance (2014)

After the subprime crisis—namely between 2009 and 2012—we see a tendency similar to that seen before the crisis. In that period the retained earnings amounted to JPY 35.6 trillion (Table 3). The assets that grew the most were, again, investments in securities (e.g. stocks and bonds).

Table 3 Variations in assets, liabilities and net assets, and their contribution ratios between 2009 and 2012							
unit: trillion yen, %							
Assets		variation	contribution ratio	liabilities and net assets		variation	contribution ratio
Current assets	cash and deposit	10.9	0.8	current liabilities	notes payable	-1.2	-0.1
	bills receivable	0.2	0.0		accounts payable	5.4	0.4
	accounts receivable	7.1	0.5		short-term debt	-23.2	-1.6
	securities	1.2	0.1		allowances	1.3	0.1
	inventory	-7.6	-0.5		others	8.4	0.6
	others	-7.2	-0.5		bonds	-6.1	-0.4
fixed assets	land	-8.3	-0.6	fixed liabilities	long-term debts	-15.3	-1.1
	construction account	-2.4	-0.2		allowances	0.4	0.0
	tangible fixed	-20.3	-1.4		others	-12.1	-0.8
	intangible fixed assets	-4.1	-0.3		capital stock	-0.7	0.0
	investment in securities	34.2	2.4	net assets	capital reserves	-4.1	-0.3
	others	-5.0	-0.3		others	6.7	0.5
					retained earnings	1.3	0.1
					reserves	-14.8	-1.0
deferred assets		1.0	0.1	others		4.8	0.3
total assets		-0.2	0.0	liabilities and net assets		-0.2	0.0

Source: Ministry of Finance (2014)

These investments included the purchase of stocks in related companies—as a part of the traditional relationship among Japanese firms—as well as direct investments in overseas affiliates (Figure 8).

Figure 8 Foreign direct investment and stock of related companies



Source: Nikkei NEEDS - Financial QUEST (2013)
Ministry of Finance, cited from Isobe (2013)

Japanese FDI has grown although the yearly amount has fluctuated. Growth is clearly seen in the overall balance of FDI by Japanese firms. A regional breakdown of Japanese FDI (Table 4) indicates that most of it targets North America, with Asia trailing second.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Asia	49,311	53,230	58,421	64,267	76,416	88,187	107,653	132,986	159,570	175,645	212,708	257,755	288,923	310,283
China	8,699	10,043	12,408	15,296	20,208	24,655	30,316	37,797	49,002	55,045	66,478	83,379	93,215	98,132
NIES4	23,153	23,733	24,923	24,934	29,506	32,708	39,042	46,560	52,237	58,607	68,438	78,577	93,373	98,026
Hong Kong	6,543	5,506	5,471	5,686	6,275	6,715	7,776	9,129	11,716	13,048	15,542	17,127	18,383	19,820
Taiwan	3,565	3,646	3,779	4,348	5,455	5,932	6,328	7,742	8,830	9,349	10,351	11,778	13,333	11,808
South Korea	4,192	4,391	5,245	5,074	6,602	8,251	10,669	12,103	12,180	12,603	15,043	17,968	25,594	29,850
Singapore	8,853	10,190	10,428	9,826	11,175	11,810	14,270	17,586	19,511	23,608	27,502	31,703	36,063	36,549
ASEAN4	15,568	17,546	18,782	21,507	23,806	27,657	34,313	42,055	44,600	48,441	58,394	72,431	77,159	88,324
Thailand	4,767	6,113	6,287	7,650	9,909	11,677	14,839	19,776	20,529	22,748	27,789	35,178	35,040	44,581
Indonesia	4,765	5,029	5,589	6,738	6,520	7,681	7,457	8,315	8,528	9,491	11,946	15,816	18,427	19,787
Malaysia	4,003	4,316	3,936	3,959	4,080	4,803	7,763	8,184	7,743	8,017	9,972	11,211	13,312	13,204
Philippines	2,033	2,088	2,971	3,161	3,296	3,496	4,253	5,780	7,800	8,186	8,687	10,225	10,379	10,752
North America	138,455	144,876	140,982	143,385	146,967	156,189	163,230	183,776	234,957	240,246	262,339	286,176	301,042	348,222
United States	132,222	140,651	136,190	139,195	142,302	150,152	156,411	174,199	226,611	230,948	251,805	275,504	286,529	331,439
South America	21,020	20,700	18,167	21,975	26,588	33,064	39,291	54,749	90,794	99,056	106,978	122,223	119,162	109,325
Oceania	10,151	8,119	11,852	13,632	15,091	12,961	13,794	19,617	21,624	36,175	43,865	54,114	66,492	59,022
Europe	56,789	71,044	73,136	88,715	103,437	94,277	120,972	148,748	165,435	179,052	193,499	231,001	252,884	273,039
EU	54,795	68,721	70,531	85,791	101,417	92,140	118,852	145,280	161,783	174,881	182,194	215,484	237,800	259,153
West Europe	56,447	70,607	72,404	87,573	101,886	92,453	118,657	145,884	161,649	174,939	188,861	225,482	246,152	267,006
East Europe	341	437	732	1,142	1,551	1,824	2,315	2,864	3,786	4,112	4,638	5,519	6,732	6,033
Middle East	793	885	893	900	1,022	1,685	2,038	3,066	4,164	4,453	4,928	5,298	5,065	5,298
Africa	758	625	1,232	2,052	1,628	1,332	2,701	3,895	7,325	5,734	6,145	8,081	6,892	12,077
Worldwide	278,445	300,868	305,585	335,911	371,755	388,197	449,680	546,839	683,872	740,364	830,464	957,703	1,040,463	1,117,267

Source: JETRO.(2014)

However, in terms of the number of overseas affiliates, Asia accounts for more than 90% of the increase over the last 10 years (Table 5).

Table 5. Variations in numbers of corporations by region between 2000 and 2012

and 2012

		unit::number,%			
			variation (number)	variation (%)	percentage contribution (%)
Worldwide			8360.0	55.8	100.0
North America			-100.0	-3.0	-1.2
	United States		-71.0	-2.3	-0.8
South America			250.0	26.2	3.0
Asia			7990.0	110.3	95.6
	China		5170.0	204.3	61.8
		Hong Kong	403.0	49.3	4.8
	ASEAN4		1298.0	52.4	15.5
	NIEs3		694.0	36.3	8.3
Middle East			45.0	58.4	0.5
Europe			152.0	5.7	1.8
	EU		193.0	7.9	2.3
Oceania			-12.0	-2.1	-0.1
Africa			35.0	25.7	0.4

Note

ASEAN 4: Indonesia, Thailand, Philippines and Malaysia

NIEs 3: South Korea, Taiwan and Singapore

Source: Calculated from METI (2003, 2014b)

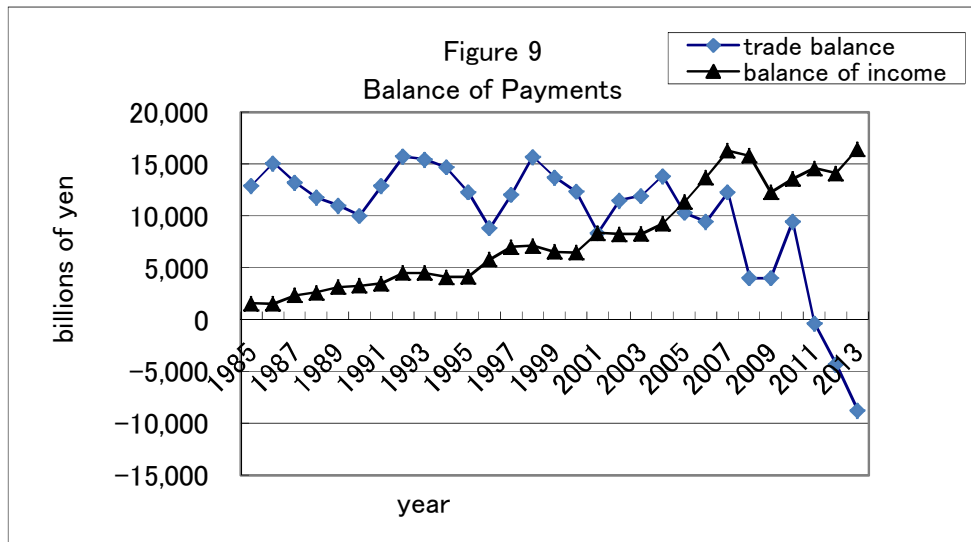
These figures show that Japanese firms have augmented their investment in stocks and bonds by directing much of their internal reserves toward FDI especially in Asia.

This multinationalization of Japanese firms allows them to allocate their resources worldwide in an efficient manner. In fact, both the local sales ratio and local procurement ratio in overseas affiliates have been on the rise over the last ten years as shown above: this has led to an increase in their competitiveness.

3. Three problems for the Japanese economy

Nevertheless there are three problems that relate to the aforementioned changes.

The first is that a recovery in firm performance does not necessarily mean a recovery in the Japanese economy. While multinationals have improved their finances, Japan's trade balance has recently fallen down into a deficit situation (Figure 9). This indicates Japan's weakening of exports, which can in turn indicate a decoupling of Japanese firms from the Japanese economy.



Source: Bank of Japan (2014)

The second problem is that changes in corporate governance can result in a change in the distribution of profits. The labor's relative share was decreasing till 2007 and after that time it remained rather constant (Figure 7). This means that the firms' recovery of competitiveness came at their workers' expense. It also means that workers' position vis-à-vis managers became weaker than it was before. It appears that managers' position in the stock market became more fragile than before on account of a loss of management security otherwise inherent in companyist *régulation*. Over all, the relationships among shareholders (or investors), managers and workers are different from how they were before.

The third is that not every Japanese firm invests abroad. There are multinational firms and national firms. And while the former can allocate their resources worldwide, the latter generally cannot. Additionally it is easier for the former to respond immediately to growing needs vis-à-vis newly emerging markets than the latter, because of the proximity to the market. These circumstances give rise to a new FDI differential between these firm types.

It seems that these three problems, taken together, have brought about a collapse in companyist *régulation*—something by which the Japanese socioeconomy has been controlled even in the presence of some confrontations.

IV Problems in post-companyism

In what follows we clarify the three aforementioned problems—namely the decoupling of Japanese firms from the Japanese economy; changes to the relationships among shareholders, managers and workers; and the differential between multinationals and nationals.

1. Changes to the relationships among shareholders, managers, and workers

Let's begin with the second problem, namely changes to the relationships among shareholders

(or investors), managers, and workers.

Managers are valued by investors in the stock market given the loss of management security caused by the collapse of the main-bank system. It was at this point that changes to the relationships among shareholders, managers, and workers started.

Japanese firms burdened with debt that had been created by the burst of the economic bubble in the early 1990s have been, since the late 1990s, reducing their liabilities and increasing their internal reserves. In this course, managers derived profits by reducing wages on one hand, while on the other hand they made dividends larger than before to cope with stock market pressures (Figure 6). We find here a change in the relationships among investors (or shareholders), managers, and workers under companyist *régulation*, where managers usually negotiated with workers given management security. Therefore, the relationship between workers and managers was primary, and that between shareholders and managers was secondary. Furthermore cross-shareholdings stabilized the relationship between shareholders and managers. In other words, the wage–labor nexus occurred prior to the financial nexus. However, under post-companyism—in which some new elements emerged that led to the dysfunction of companyist *régulation*—with a lack of management security otherwise provided by the main-bank system, managers cannot be allowed to remain, in the absence of a positive vote of confidence at the shareholder general meeting. Therefore they cannot neglect valuations in the stock market in advance. As a result, while managers can reduce labor’s relative share they cannot avoid increasing dividends. In fact firms have maintained their dividends since 2001 even in the absence of internal reserves (Figure 6). We find here a transformation of the institutional hierarchy: from superiority of the wage–labor nexus to that of the financial nexus.

However, this superiority of the financial nexus, as seen in Japan, is not the same as that seen in the United States. While there is a negative correlation between financial income (dividends, capital gain etc.) and capital accumulation among large U.S. firms in the manufacturing sector, there is a positive correlation between them in the Japanese manufacturing sector (Orhangazi 2008; Nishi 2014). Therefore it appears that forms of institutional hierarchy vary by country.

In brief, under post-companyism, the continuation of a firm is brought about by managers’ efforts and without the aid of the banks. In the transition from companyism to post-companyism, on one hand, shareholders became stronger than before in their relationship with managers; managers became stronger than before in their relation with workers on the other hand. These changes are indicated by the increase in internal reserves, the maintenance of dividends, and the reduction in labor’s relative share.

Nevertheless traditional employment compromise has not necessarily disappeared from the manager–worker relationship in Japan. Employment security has endured among regular workers. Nonetheless the nature of the compromise therein is likely subject to change, as suggested by changes in managerial objectives. According to data captured through questionnaire surveys executed by Research Institute of Economy, Trade and Industry in 2011 and Small-medium Enterprise Agency in 1998, while the old managerial objective was to increase sales, the new one is to increase profits.¹¹

Increased sales can be connected to employment, in that workers are involved in pursuing the objective. On the other hand, increased profits cannot be connected to employment as management can dismiss employees in order to bolster profits. Nevertheless, as the continuation of firms would give regular workers in long-term employment some advantage in terms of employment security, it is possible that some compromise exists, related to an increase in profits between regular workers and managers. They could compromise all the more as it is nonregular

¹¹ See Morikawa (2012: Table 2).

workers who are first exposed to unemployment risk. Regular workers take employment security in exchange for bringing about productivity gain through long-term skill formation. Besides, increased profits provide a basis for compromise between investors and managers, as more dividends could be paid out to investors, and more internal reserves to managers. Therefore compromise among investors, managers and workers in post-companyism would focus on increasing profits. It is here that we see the germination of a new compromise that has not yet fully taken hold.

2. Decoupling of Japanese firms from the Japanese economy

Next, we will clarify the decoupling of Japanese firms from the Japanese economy.

As mentioned, since the late 1990s, Japanese firms have been reducing their liabilities and increasing their net assets; nonetheless, Japan has since 2011 been accumulating a trade deficit. Japan's exports have not increased in quantity, in spite of a low yen exchange rate since 2012. This has mainly resulted from the reduction of variety in Japan's export goods—a reduction caused by the transfer of production to foreign countries (Furukane 2014). The variety would not easily recover, even if the exchange rate were to fall. A platform by which they could increase production has not been prepared, as capital investment in Japan has not generally increased. On the other hand, overseas affiliates can send higher remittances to their headquarters than before, given the devaluation of the yen. As a result, the income balance has increased and the income account surplus has grown. It may seem that there is no decoupling of Japanese firms from the Japanese economy, but it is indeed occurring. A chronic trade deficit translates into a loss of employment opportunities. Besides, investment income—one of the components of the income balance—belongs to companies or investors, and if they do not combine it with real investment or consumption in the domestic market, it will not drive economic growth forward.

Table 6 Variations in GDP, consumption, capital formation, FDI and income balance

	economic growth rate	variation in consumption	variation in gross fixed capital formation	variation in foreign direct investment	variation in income balance
1997	2.2	2.1	0.1	5.1	21.1
1998	-2.1	-1.0	-8.3	-0.4	1.5
1999	-1.5	0.3	-2.7	-8.1	-8
2000	1.0	-0.1	-0.1	11.8	-1
2001	-0.9	0.5	-4.4	8.1	29.1
2002	-1.3	-0.2	-7	1.6	-1.6
2003	-0.1	-0.6	-1.7	9.9	0.2
2004	1.0	0.4	-0.4	10.7	12
2005	0.0	0.8	0.7	4.4	22.7
2006	0.6	0.7	2.1	15.8	20.8
2007	1.2	0.3	0.8	21.6	18.8
2008	-2.3	-0.7	-2.9	25.1	-3
2009	-6.0	-3.2	-12.9	8.3	-22.2
2010	2.4	0.9	-1.6	12.2	10.5
2011	-2.3	-0.8	0.7	15.3	7.4
2012	0.8	1.2	3	8.6	-3.3
2013	1.1	1.8	4.3	7.4	16.6
mean value	-0.4	0.1	-1.8	9.3	7.2

Source: Cabinet Office (2014), JETRO (2014), Bank of Japan (2014)

When we compare variations in GDP, consumption, fixed capital, FDI, and income balance, it is clear that GDP, consumption, and investment have stagnated while FDI and income balance have, on average, grown to high levels (Table 6). This suggests that there is little correlation among them. In addition to stagnation in the export industry, neither FDI nor an increase in foreign-source income has brought about greater consumption or investment, until now. This means that Japan's

export-led growth regime is nearing its end, and that there is a decoupling of the activities of multinational firms from the Japanese economy. The influence of the decoupling on companyist *régulation* is too much.

Companyist *régulation* centered on the compromise between management and regular workers at the firm level, but it was simultaneously complemented by a hierarchical labor market and inter-firm relationships on a national scale (Isogai, Ebizuka and Uemura 2000). There was a ripple effect of growth from firm to firm, and so the overall economy grew. However, the spillover effect has almost stopped, as multinationals rarely transact with domestic firms; therefore, its dysfunction is much more enhanced by the decoupling of multinational firms from the Japanese economy, in addition to the considerable increase in the proportion of nonregular workers. Even if workers and managers were to reach some compromise at the firm level under such post-companyist circumstances, it would be very difficult to bring about relevant *régulation* in the Japanese economy. In this sense, the influence of the multinationalization of firms on companyist *régulation* is overly large.

Nevertheless, if the wages of workers in multinational firms increase and they are expended within the domestic market, Japan might see economic growth. Is this probable, in reality? To answer this question, it is essential that we analyze the third aforementioned problem: a new differential between multinationals and nationals.

3. Differential between multinationals and nationals

Do wages increase in multinational firms? In Japan, under the condition of a low yen exchange rate, they probably increase on account of the products of multinationals entering the international market. In 2012, the overseas production rate among manufacturers was 35% based on all the companies developing their business overseas; especially, the rate of the transportation machinery sector was 40%, as mentioned. Under such circumstances, their products can compete in the international market, where the price is decided in the key currency—namely, the U.S. dollar. Therefore, if the yen were devalued, product prices could be reduced; additionally, the wages of Japanese workers could decrease in U.S. dollars, in the case of yen devaluation. If multinational firms do not reduce their prices to the same extent to which the yen is devalued, they could accept a wage increase for Japanese workers. An indication of change vis-à-vis wage increases began during collective bargaining in the Japanese style “Spring Offensive” of 2015.¹² Almost all Japanese car-makers (e.g., Toyota and Nissan) have accepted considerable wage increases; other multinational companies (e.g., Hitachi, NTT, and Fuji Film) have followed the lead of these automobile manufacturers (The Nikkei 2015).

However, not every firm can accept wage increases. For firms whose products are sold solely on the domestic market, it would be very difficult to accept wage increases, as the competition is severe. As a result, the wage differential would expand between multinationals and nationals, and if the amount and scale of wage increases were limited, the expansion of consumption demand would also be limited. Under such circumstances, it would be very difficult for the macro-economy to be socioeconomically coordinated at the company level.

We have analyzed three problems—namely, changes to the relationships among shareholders, managers, and workers; the decoupling of Japanese firms from the Japanese economy; and the differential between multinationals and nationals. These problems can likely paralyze companyist *régulation*. In some multinational firms, it seems that a new compromise is being formed among

¹² Collective bargaining is generally held at the firm level in Japan. “Spring Offensive” was introduced as platform for which labor unions would surpass individual negotiations. It is a united campaign by labor unions, led by Industrial Unions. It is launched every year between March and April, the main aim of negotiations being higher wages.

shareholders, managers, and workers, but it is difficult to predict whether or not such a compromise will spread nationwide.

V Conclusion

We examined above how conventional companyist *régulation* fell into dysfunction through the multinationalization of Japanese firms, as represented by large exporting manufacturers. We also examined the problems that the Japanese economy currently faces. We refer to the actual situation in Japan as “post-companyism,” where companyism is paralyzed and in flux. However, the post-companyism means not a new mode of *régulation* that supplants companyism, but only a certain transition within contemporary Japan.

The post-companyist transformation process is marked not by rapid changes or tipping point, but by a series of gradual institutional changes (Thelen 2004). In other words, in today’s Japan, on one hand, some elements of companyism—such as employment security for regular workers in large enterprises, in spite of its reduced range of application—have survived by virtue of the effect of path dependence; on the other, we can see the expansion of new post-companyist elements: the breakdown of the main-bank system, an increase in shareholders’ pressure, the augmentation of nonregular workers, and increased FDI gains, *inter alia*.

Table 7 Companyism and post-companyism in Japan

	Companyism	Post-companyism
(1)Period	1960s – 1980s	Definitively since 2000s
(2)Superior institution	Wage–labor nexus	Financial and international relations
(3)Labor–management compromise	Employment security vs. acceptance of unlimited duties	Higher profitability vs. employment security for limited regular workers on the basis of firm’s continuation
(4)Management–finance compromise	Management–main bank compromise on firm’s continuation	Management–shareholder compromise on more dividends vs. management autonomy
(5)Principal business objectives	Sales amount (market share, growth of the firm)	Profitability (return on assets, value of the firm)
(6)Response to foreign market and its consequences	Export to the United States Surplus in balance of goods	FDI to East Asia Deficit in balance of goods Surplus in balance of income
(7)Effects on growth regime	Supporting the investment- and export-led growth regime	Not leading to a new growth regime

Source: Authors

More precisely, as shown in the Table 7, (1) post-companyism has appeared definitively since the beginning of the 21st century, and (2) financial and international relations have taken a dominant institutional domain position, and supplanted the wage–labor nexus, which has fallen into a subordinate position in the institutional hierarchy. (3) This has resulted in an increase in the number and proportion of nonregular and precarious workers, given the reduced coverage of employees guaranteed by employment security, and the imposition on workers of expenses such as declines in

wages and labor's share. (4) Behind these transformations in the wage–labor nexus, there has existed a collapse in the management security system by way of the main banks and cross-shareholdings, and this has led instead to increased stock market pressures on the firms. To shareholder pressure, management has responded by providing greater dividends, and increased their own internal reserves precisely in order to maintain relative autonomy of management from shareholders. In short, firms have realized increases in both dividends and internal reserves, at the expense of workers.

As for principal business objectives, (5) Japanese firms have come to attach importance to profitability (e.g., return on assets) rather than to sales amounts (e.g., market share) to ensure their continuation by virtue of their own efforts and responsibilities. Japanese firms have come to pursue firm value rather than firm growth. A narrow compromise around profitability may be virtually established among shareholders, managers, and only a few workers, while a great percentage of them are excluded. (6) Given the contraction of Japan's domestic market due to long-term deflation and an increase in emerging markets in East Asia, Japan's principal firms—which hold ample internal reserves—have embarked on full-scale FDI in Asia. Consequently, while the Japanese economy is experiencing a large surplus in terms of balance of income, following a gradual decline in trade surplus, it now has concerns about serious trade deficits. (7) We can no longer call the Japanese economy an “export-led growth regime.” The new paradigm of the Japanese economy which would supplant the conventional regime remains to be seen.

Under the post-companyist state of affairs, the Japanese economy is now suffering from stagnation, in terms of both exports and wages—or, from a slump in both external and domestic demand. How can these difficulties be overcome, so as to “heal” the Japanese economy under a new growth regime and mode of *régulation*? We make here a few suggestions.

First, Japan should promote new domestic demand. Japan, whose society is rapidly aging, needs to substantially expand its medical and social services. Concurrently, expansion in education and training services is essential to enhancing skills among youth and forming a wide-ranging middle class, and thus also to halting growth in the number and proportion of nonregular workers and widening inequality. Mechanisms in Japan such as active labor-market policy are needed to link education and training to employment. In any case, a new system that copes with these new and urgent domestic demands is needed, in addition to traditional consumption demands.

Second, Japan needs to open itself to meeting a more diversified set of external demands. Although Japan's main export items have comprised products from the machinery industry, Japan's competitive decline in this industry will be inevitable, given how emerging industrial countries are swiftly “catching up.” It is true that the export of high value-added products—such as industrial machinery for multipurpose processing—remains at the core of Japan's exports and economy, this alone cannot bring about recovery in the Japanese economy. New export industries must be explored, such as the cultural industry (e.g., animated film, *manga*, Japanese cuisine), infrastructure industry (e.g., high-speed railroad, waterworks, gas services), and a tourist industry that accepts more foreigners.

Third, Japan needs to focus more on a domestic-oriented return of any surplus balance of income. Overseas affiliates of Japanese multinationals register large surpluses, and if they were to be reinvested in countries other than Japan, then they will not contribute to Japan's economic revitalization. What will be important in Japan will be to forward the surplus balance of income toward both research and development investment and plant and equipment investments. To bring foreign-source incomes back to Japan, the enactment of policies that remove obstacles within taxation system (e.g., those for more flexible application of “the extraterritorial income exclusion system”) could be a positive move (METI 2008; Shimizu and Sato 2014). However, such a taxation system would not automatically translate foreign-source income into domestic expenditures; given

that a certain proportion of the earners of foreign-source income comprises affluent individuals, the domestic return of surplus must be generated by imposing a high tax rate on their incomes.

Of course, companyist *régulation* cannot cope with the above tasks—and companyist *régulation* itself is already in dysfunction in Japan anyway. The most serious problem in contemporary Japanese economy consists in the absence of a new mode of *régulation* that will supplant companyism. The first step to a new Japan will be achieving the “political will” on the part of central and local governments to bring about the aforementioned policies, as well as “associative activities” on the part of companies, groups, organizations, and regions to cooperate with such government.

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