The hollow men

The deindustrialisation of Japan may be neither as complete nor as damaging as feared

At a time when the "hollowing out" of Japan's economy, in train now for three decades, is widely perceived to be accelerating, the country's industrialists must feel they cannot win. For years they have been accused of being left behind by a fast-changing world. Their risk-averse management, ponderous decision-making and emphasis on market share over profitability have seen them overtaken by nimbler rivals in South Korea and China. In the words of Yuki Kuboshima of Deloitte, a consultancy, Japanese business lost 10-20 years as it embraced globalisation in the markets it did business in, but not in its management.

Since March 11th last year, however, Japanese firms have been under fire for almost the opposite reason: being too quick to react to the cataclysmic earthquake, tsunami and subsequent nuclear meltdown. For this reason, wrote Yoichi Funabashi, a former chief editor of the Asahi Shimbun daily, shortly after the tsunami, senior industrialists were careful not to mention the "C" word (China) when discussing their plans. Fleeing troubles at home by moving production there looked unseemly and unpatriotic.

According to Ulrike Schaede, professor of Japanese business at the University of California in San Diego, about one-fifth of Japanese manufacturing already takes place outside Japan. For electronics, the proportion is more than 30%, and for cars just over half. Pessimists fear this process will leave post-industrial devastation in its wake back home. In Japan "industry and employment are on the verge of collapse," lamented Akio Toyoda, boss of Toyota, a huge carmaker, in May.

Industrial decline in Japan has been much less rapid than in some other rich countries. According to OECD data, in 2000-08 manufacturing employment in Japan fell by about one-tenth, compared with about one-fifth in America and a quarter in Britain. Even so, pessimists point out, the former export powerhouse is running persistent monthly trade deficits.

The 2011 disasters intensified the pressures driving Japanese manufacturers overseas. For years the yen's strength has defied the weakness of the economy. Just after the tsunami, rich-country central banks had to co-ordinate intervention—not to prop the currency up, but to stop its further appreciation. Some economists argue the yen cannot defy gravity for ever. Most businesses, however, have to plan for an indefinite high-wire act.

Takehide Takahashi of the Japan Auto Parts Industries Association (JAPIA), a lobby group, says he has given up hope of a weaker yen. Sony, an electronics giant, has long been globalising production. It says that, by increasing the proportion of its dollar-based costs, it has reduced its sensitivity to dollar-yen movements "essentially to zero". However, it is harder to shift costs to the euro area, so it loses ¥60 billion ($730m) in operating profit for every one-yen appreciation in the exchange rate with the euro.

The new big worry is electricity. Just before the Fukushima nuclear disaster, nuclear power provided almost 30% of Japan's electricity, and the government planned to increase that to 50% by 2030. Since last month Japan for the first time in decades has been without any nuclear generation. A reliable supply of relatively cheap electricity can no longer be taken for granted.

The yen and electricity are only two of a long list of worries. There is the risk of another earthquake—especially a long-feared "big one" for Tokyo. A shrinking population means a dwindling domestic market. Corporate taxes are high, and the labour market rigid. And as others race to sign bilateral and regional free-trade arrangements, Japan is largely a spectator.

A number of factors, however, are slowing the rush for the exits. The first is that so much production in the most vulnerable industries has already shifted. Then there is the vexed question of where to move to. China, with the magnetic pull of its huge, fast-growing economy, tops the list. But there are worries about rising Chinese labour costs, the rule of law, the security of intellectual property, a recent economic slowdown and even, with a leadership tussle apparently under way, political stability.

Other favoured countries for Japanese outward investment face troubles of their own. Thailand, one of the most popular destinations, is far from a paragon of stability itself. Moreover, having suffered the agony of the tsunami at home, many Japanese firms then faced supply-chain disruption from floods later in the year in Thailand. Though described as a "once in 50 years" disaster, many fear floods could recur quite a bit sooner.

So for some, keeping production in Japan remains attractive. In May Toyota's Mr Toyoda promised to keep large facilities in Japan. Masami Doi, a Toyota spokesman, says that of the 9.6m vehicles it will make this year, 3.4m will be made in Japan, with nearly half of them to be exported. Mr Doi insists this is a commercial decision, based on the value of Toyota's highly skilled Japanese workforce. But Mr Toyoda said carmakers had to work hard to "make Japan healthy and make Japan smile". That sounds more like a national mission, or, to be cynical, a concern for the brand's image, than a focus on the bottom line. Other carmakers, however, are less committed to staying at home.

With neither bang nor whimper

Japan is already uncompetitive in a range of products, from tumble-dryers to DVD players. But optimists argue that it is carving out niches in higher-tech materials, chemicals and components that are then assembled into consumer goods elsewhere. In other words, it is moving up the value chain just as it has always been advised to do. After so many years of trade surpluses, it is disconcerting to lurch into deficit as exports slow and imports—especially of energy—surge. But one reason the yen remains strong is that the current account remains healthily in surplus. That is thanks in large part to flows of income from investments overseas. Hollowing out—shipping jobs overseas, and sending profits home—does have its compensations.

Fonte: The Economist, London, v. 403, n. 8788, p. 48, 9-15 Jun. 2012.