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**“Globalization Impacts on Chinese Economy
– Focusing on the Roles of Japanese
Transplants in Development of Management and
Production System in China and their
Socio-economic Effects”**

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Introduction

China has experienced and accelerated a rapid industrialization and economic development in these two decades. One quite important aspect should be noted that it has occurred in the global context of structural transfiguration of world politico-economic regime of the postwar Pax Americana, one of the very salient features of which is the globalization. The globalization impacts have exerted huge impacts on Chinese industrial and economic trajectory, interacting with the endogenous conditions of China. This paper first discusses briefly the general viewpoint of the "decline and transfiguration of the postwar Pax Americana" perspective to grasp the characteristics of Chinese economic growth and reforms in these two decades, then focuses on the dynamism of the characteristic industrial and economic development in the Pearl River Delta area in South China, centering in the Japanese transplants (including contract manufacturing). The arguments will shed a light on one of the very specific aspects and problems of the current Chinese market economy.

I The emergence of the international framework for the industrialization and economic development of Asian region -- the "decline and transfiguration of the postwar Pax Americana" perspective

The United States built up the postwar Pax Americana regime under its hegemony based on the dominant politico-military and economic power in the postwar era. In Asian area, Japan and other East and Southeast Asian countries were built into the regime. China was contained and excluded from the postwar Pax Americana regime in the Cold War. It constituted one component of the regime in a negative way, so to speak.

The postwar Pax Americana regime broke down and entered into the huge structural transfiguration in the mid 1970s and thereafter. Its major cause was the malfunction of the U.S.

postwar “Sustained Growth” capital accumulation mechanism, mainly because of the decline of industrial competitiveness of the key industries of the postwar capitalism, i.e. automobile, electronics and general machinery, iron & steel, etc. It should be noted that the decline and reorganization of the postwar Pax Americana regime -- the dramatic end of the Cold War is definitely a part of it -- has provided major dynamics for the rapid industrialization and economic growth in Asian regions including China. Its most important aspect has been the emergence and deepening of the so-called Pacific Ocean Triangular (Japan-United States-Asia) structure since the late 1970s and then the ever-increasing globalization impacts. The dynamics of its emergence is brought about by the decline and transfiguration of the postwar Pax Americana economic regime after the mid 1970s in the following way, we assume.

The decline of the postwar Pax Americana economic regime and its impacts So long as the postwar *Pax Americana* regime was the inseparable framework of the postwar corporate system, the “crisis of mass production economy” was not limited to the U.S. Actually most of the other advanced economies faced similar problems in the early 1970s. The decline and disintegration of the postwar *Pax Americana* politico-economic regime especially constituted the fundamental cause of the crisis. The lost basis and frameworks of the U.S. postwar corporate system in the late 1960s and the 1970s constituted a fundamental cause of its crisis.

The most salient character of the U.S. postwar corporate system was the *Mature Oligopoly* regime, which incorporated three major subsystems, i.e. the bureaucratic controls and organizational structure, the American-style mass production system and *traditional* labor relations. The preconditions under which this system worked were being lost by the early 1970s as a result of the dissolution of the integrity of the postwar *Pax Americana* regime, the nucleus of which was the U.S. postwar corporate system itself. Therefore, an interactive process of decline in the U.S. postwar corporate system and in the postwar *Pax Americana* politico-economic regime progressed in the late 1960s and 1970s.

Two factors which emerged in the late 1960s and the 1970s were the most important in this context: 1) increased cost pressures, and 2) rising market uncertainty under the intensified market competition. The progress of those factors in the late 1960s and the 1970s constituted the foremost problems for the working of the U.S. postwar corporate system¹⁾.

¹⁾ First, energy and labor costs immensely increased because of the advancing hyperinflation in the late 1960s and the early 1970s, and then again in the late 1970s. In the late 1960s, inflationary economic expansion was accelerated in the process of the final phase of the dollar crisis. The first oil crisis in the 1973 decisively aggravated the inflationary spirals. The CPI increased more than 10% in the late 1960s and the early 1970s. Responding to those price hikes, wages rapidly increased through price indexation system of wage - that was an institutional apparatus of the postwar wage determination. The price indexation of wages through COLAs (Cost of Living Adjustments) prevailed more positively in increasing number of labor contracts, causing hikes of contracted wage rates in the 1970s. This decisively worsened the wage-price inflationary spiral structured in the postwar corporate system, resulting in the “wage explosion”. Inflation continued even in the stagnating economy and the U.S. economy experienced a typical

As the result of these developments in the 1970s, the greater instability of market demand and uncertainty severely damaged the *mature oligopoly* regime of the postwar corporate system in major U.S industries (i.e. automobile, electric and other machines, steel industries, among others). The high cost structure, the increased competition, and the enhanced instability and uncertainty of the market - all of these made it very difficult for the American major industries to maintain their *mature oligopoly* regime. They also revealed the inherent limitations of the American-style (Ford=Taylor-type) mass production system and the postwar *traditional* labor relations, which worked under the *mature oligopoly* regime in those industries. It brought about the difficulties of the postwar American corporate system. Thus U.S. major firms in the postwar key industries experienced serious competitive problems. Responding to the situations, U.S. major firms have pursued major restructuring and reorganization of the postwar corporate system toward more competitive strategies in domestic as well as overseas markets. Those movements greatly promoted the global mega-competition and globalization impacts, on the one hand.

Responses by Japanese major firms On the other hand, the break down and the subsequent transfiguration of the postwar Pax Americana regime also caused big problems to Japanese manufacturing firms. After the recession of 1974-75, Japanese "High Growth" era came to an end. Even the world economy entered into the low growth era. Facing the shrinking domestic demands and high costs, Japanese major firms strengthened export drives the U.S and Europe. Consequently there emerged the long-lasting problems for Japanese firms of increasing trade frictions with the U.S. as well as with Europe, and the rapid appreciation of the Yen. which have been constituted two major factors to promote the overseas production operations by Japanese major manufacturing firms.

stagflation in the late 1970s. Then, the second oil crisis hit the economy in 1979.

Second, the worldwide low growth of the major advanced economies in the late 1970s, coupled with the large-scale income transfer to OPEC countries, seriously shrank market demand, and accelerated international competition. The major U.S. manufacturing companies faced immense internal and external competition, especially from Japan and Asian NIEs. In the commodity-type or low-tech products sector, competitive pressures were increased from the lower wage areas of East Asia and Latin America. This led U.S. companies to not only cut costs and increase efficiency, also to shift to high value-added products. The mature industries with middle technologies or more standardized technologies, such as automobile, electric machines, steel, and non-electric machines, faced severe price competitions and had to respond them through more product differentiations. Those situations increased the necessity to accelerate innovations in the product and process technologies. They helped promote the technological progress as a whole and especially the growth of *micro electronics* (ME) and *information technology* (IT).

Third, widening foreign exchange rates fluctuations under the floating-exchange rate system made the standards of international competitions unstable. Cost and price differences fluctuate in accordance with exchange rate changes, thus altering the competitive positions among domestic and foreign companies. This also forces the major companies to reorganize their international procurements activities and overseas production networks.

U.S. rapidly widening trade gaps with Japan, largely caused by the accelerated export drive by the Japanese major manufacturing firms, aggravated trade frictions with U.S. centering in automobile, electronics and machinery which accounted for the largest parts altogether of the U.S. Japan trade imbalance. Coupled with the ongoing appreciation of the yen exchange rate against the U.S. dollar, Japanese exports to the U.S. faced big difficulty. Consequently two major responses emerged by Japanese manufacturing firms. One was the start of the large scale local production operations in the U.S., Canada and Mexico. It was mainly due to their efforts to overcome directly the export difficulties. The other response was their expansion of the local production in Asian regions centering NIEs particularly in electronics industries to seek the runabout route to exports to the U.S.¹⁾ They made use of export oriented development strategy of NIEs, including FTZs.

Consequently, there emerged a Pacific Ocean triangular trade network among Japan, Asia and the United States. It provided the international framework to promote the industrial developments in ASEAN and China¹⁾, as well.

Deepening of the Pacific Ocean Triangular Structure Japanese FDI culminated in the late 1980s and in the early 1990s. While the U.S. Japan and Europe-Japan trade frictions still continued, domestic labor shortage and high wages caused by the development of the "Bubble" economy extremely high yen after the "Plaza Accord" in September of 1985, low capital costs under the "Bubble" economy. All of those factors heated up the Japanese FDI. in that period in North

¹⁾ The color television case, in which the trade frictions with the U.S. aggravated in the late 1970, typified the movements. Especially after the voluntary export restriction and tariff regulation under the Orderly Market Agreement in 1977, though Sony and Matsushita preceded it, Japanese major electronics firms started the local production in North America. Around the early 1980s, they established large local TV assembly transplants one after another in the U.S., including the acquisition of U.S. firms' TV factories they also started the TV chassis and assembly plants, together with the relating parts and components factories in Mexico (border area) to make use of offshore production system under the Maquiladora.

In automobile industry, trade frictions with the U.S. worsened in the early 1980s by the increasing difficulties of the U.S. Big Three. The demand shifts to compact cars in the U.S. automobile markets after the first oil crisis vastly increased the Japanese cars and the severe recessions after the second oil crisis aggravated the situation. Japanese major car makers limited by the resulting Voluntary Restraints Agreement, which originally restrained Japanese automobile export to the U.S. up to the 1.68 million units per year and later to 2.5million units until 1989, Japanese auto-assembly makers started one after another established their local transplants and launched large scale local production in the U.S. (partly in Canada). Their Japanese suppliers also began their local production. Although the high yen trend temporarily reversed in the early part of the 1980s, the U.S. trade deficits against Japan widened under the increasing "twin deficits" of the U.S. budget and the current account. The U.S. government increasingly took protectionist measures to curve Japanese exports to the U.S., including anti-dumping and other restrictive actions. Trade frictions intensified in semi-conductor, facsimile, power tools and other machinery, one after another. Whereas Japanese major companies in those industries launched their local production in North America, they expanded their production in the Asian area. Japanese companies particularly in electronics industries started their local production on a large scale in NIEs, whereas in Europe, which constituted the next largest markets to the U.S. for their major products responding to the intensified trade frictions.

America and Asian regions..

In Asia, Japanese local production operations, especially in electronics industries, were further extended to ASEAN regions from NIEs. Industrial and economic success of NIEs not only caused intensified trade frictions with the U.S. and other advanced countries, but also brought about the rising production costs due to wage hike and increasing labor disputes in the proceeding democratization of the society. Responding to these limitations of NIEs as production sites for export, Japanese firms shifted their production bases to ASEAN Four (Thailand, Malaysia, Indonesia and Philippine). European and U.S. firms MNEs as well as even NIEs -- Taiwanese, Korean and others-- firms went along with them. Those movements of foreign MNEs accelerated ASEAN Four economic and industrial development and the expanding trade networks of industrial products among the East and South East Asian countries thus deepened the "Pacific Ocean Triangular" structure. It provided the main frameworks for the rapid Asian industrial developments as the "World Growth Center".

In this way, the "decline and reorganization of the Pax Americana" exerted decisive influences on Chinese economic development path by business strategies and production operations of Japanese and other foreign global mega-enterprises in China amid global mega-competitions. As a matter of fact, China has achieved industrial development and economic growth, particularly in the coastal areas, heavily depending on foreign capital and firms under the "economic reform and open-door" policy.

Anyhow thus the characteristic trajectory and some of the peculiar aspects of Chinese economic reform and developments should be clarified particularly in light of the dynamism as described above, including globalization impacts, brought about by the decline and reorganization of the postwar Pax Americana regime.

In the next section, we focus on the some important cases of the production operations by Japanese leading firms in the Pearl River Delta (PRD) district for these two decade, which typify the major socio-economic effects on the regional (also the national) economy of China, and discuss the major aspects of the socio-economic effects by Japanese production operations in China on its regional economic and managerial developments, including management and technology, labor relations and labor markets, regional industrial concentration, and their vicissitudes. The discussion is mainly based on the past field researches in the region.

II. Local Production Operation of Japanese Electronics Firms in the Pearl River Delta area and their Effects on its Industrial Development

The PRD area, or South China District more generally, is the most advanced industrial region in China based on the past industrial accumulation, even though the competition with the rapidly developing Yangtze River Delta area, i.e., Shanghai, Suzhou and Wuxi, etc. However, the circumstances surrounding the area have been rapidly changing since the mid-1990s, particularly in these several years. The notable recent change is in labor situations, including the increasing labor shortage and accelerating wage hikes and labor unrest. In addition, vast extension of the automobile production by major Japanese automobile makers will have big impacts on the district economy, coupled with the expanding domestic markets and significant expansion of domestic markets and

the reduced import taxes due to the WTO. All of these circumstances are affecting much the strategic positions and operations of Japanese transplants there. Moreover, there have been added effects, as the backdrop, of the rapidly changing pattern of the international division of labor among Asian NIEs, ASEAN and the "World Factory" China, which has been induced by the intensified global mega-competition, and general shifts of the Beijing and provincial governments industrial policies. The progress of economic reforms and prevailing market economy also have brought about widening socio-economic distortions and social problems, especially in rural areas

(1) Governmental industrial policy Shifts

One important factor that has affected recent shift of industrial policies of the Beijing government is the response to widening socio-economic gap between inland and the coastal areas. Overlapping it, the problems relating to the reforms of the state owned enterprises and their modern enterprise-tization have exacerbated since the early 1990s by the accelerating transition from the past socialist planned economy to market economy. The Beijing and local governments have especially faced the various tasks and aggravating social problems such as the reforms and disposition of the state-owned enterprises with inefficient and old systems, provision of adequate social security system to cope with the increased unemployment caused by the disorganization of the "Unit" system of the socialist planned economy or corruptions and rash of farmers unrests, and so on. To contend with these tasks and problems, the policies have been shifting toward pursuing more balanced development of the national economy by means of promoting the development of Chinese own modern firms and pushing ahead the inland economic development, not depending too much on foreign firms. The tenth Five-year Plan (2001~05), although it lost the role to direct the socialist planned economy and become the guidelines of the economic policies, while it still aims at a certain high economic growth, incorporated various plans for adjustments of economic structure, measures for environment problems, correction actions of the income gaps between coastal area and inland areas, etc. The policy for the adjustment of economic structure shows the strategy to heighten the industrial structure, getting away from the dependence on foreign capital and cheap labor, together with accommodating the problems caused by the accelerated market economy. The "**Great Development Plan for Western China**", announced in 2000 is included the Five-year Plan as a target of the Plan with special priority. Although it is unclear whether it works or not, it clearly strives out to reduce the economic gap of the inland areas through the promotion of the inland economic development and to reinforce the social stability of Whole China. New automobile policy, announced in 2004, set the principle toward the reorganization and promotion of the Chinese automobile industries, by means of the joint venture with foreign major auto makers. It aims at, even though it still depends on the foreign capital, nurturing the Chinese automobile and the relating industries to achieving the devilmment of the broad industrial base of the national economy.

There have been already emerged revisions of the existing development policies in the Beijing government in line with these directions. For example, it revised the preferential treatment incentivesⁱⁱ⁾ for foreign companies in the Special Economic Zones and others, including the

reduction or abolishment of the import tax exemption for parts and materials used for production to export and value-added tax redemption, preference treatments of income taxes for foreign firms. They definitely aim at eliminating the disadvantage of the state-owned enterprises with foreign firms, together with nurturing domestic suppliers of parts and materials.

Recently, they adopt the restraining policies of the open-up of provincial or city level new special economic zones or disapproval of the individual investment applications to cool off the too heated economyⁱⁱⁱ⁾.

(2) Labor problems -- increasing labor shortage, wage hikes and spreading instability

The changing labor situations seem to be also very important, partly caused by the shifts of the governmental policies. After around the mid-1990s, especially in Shenzhen, tendency of wage hikes has been getting considerable due to the inflow restrictions under the domiciliary register regulation and increased minimum wages. Its wages have been at the highest level in China, surpassing the Shanghai area.

In Shenzhen foreign firms have moved toward reduction of operation or shift the production sites outside the Special Economic Zone. Japanese firms also have moved their factory to the neighboring Tongshan and other inland places in the PRD area. Those movements have deepened the scale and scope of the industrial concentration there. Recently they increasingly tend to build new factories in Shanghai and Suzhou and other coastal areas or inland China. Reflecting the situations, The industrial structure of the PRD is shifting from labor intensive industries to more technology-intensive and hightech IT industries. Guangdong Provincial Government already unveiled their policy toward locating hightech industries in the coastal areas and labor intensive industries in inland^{iv)}. As a matter of fact, Shenzhen is moving toward the direction of financial and commercial center, as well as the businesses network hub service center, because of the notable wage hikes and limited land space,

Anyhow labor problems seems to be one of the most important factors of in the PRD, where industrial development has depended on cheap and abundant influx of migrant workers--or farmers workers -- from inland China. Labor shortage has emerged and wage hikes and labor costs increase have been further accelerated^{v)}. In addition, in these several years particularly from 2004, even labor disputes and unrest have prevailing there. These changed labor situations, coupled with the installment of the improved labor standards with labor hours and overtime work regulations, affect much the production operations of the Japanese transplants in the PRD. Recently the introduction of unemployment and social insurance systems adds the problems^{vi)}. The governments began to instruct firms to include social taxes (unemployment medical pension etc.^{vii)}

This policy has a big influence on labor costs. In the take-home earnings labor contract which prevails in the area, and also in the per head labor cost contract, it is said that there is a general

tendency for firms to pay the social security tax and income tax as a part of paid wages to the workers and not to admit it causes labor disputes. In Shenzhen it is necessary for firms to pay more than minimum wages to hire workers. In addition to them, they have to pay 120~130RMB as social security tax. As the result, it is reported that average labor cost per worker for firms is well over one thousand RMB. The advantage of labor costs in the major part of the PRD compared to the many of production sites in ASEAN is rapidly diminishing, even though it is still advantageous taking account of the other conditions,

(3)Expansion of the domestic markets and increased competition

The changing labor conditions discussed above have affected much the strategic positions of the Japanese transplants in the PRD areas as production sites for export. Furthermore, increased importance of Chinese domestic markets and intensified competition are added to them.

One of the major factors is the effects of China's participation in the WTO. China has taken priority of the participation, which means the enrolment of China into the global economy, in order to promote the reforms of the state-owned enterprises among others. In the process of the preparations, China had reduced the import tariffs (30% reduction on average). After the approval of membership of the WTO in December 2001, the pace of the tariff reduction has been accelerated. This intensified the competition in the domestic markets. Import tariffs on electronics products reduced to 9.9% in January, 2003. By 2005, those on industrial goods and agricultural products were reduced to 10% and to less than 14%, respectively. In 2006, those on automobile stepped down to 25%. Thus the participation in the WTO, the general average level of China's import tariffs went down, which has brought about intensified competition of the locally produced goods with imported goods, whereas the tax reduction of imported parts and materials give the local production an edge. But price down pressures, especially in electronics industries, have been increased mainly due to the excess competition brought about by the rapid growth of Chinese firms.

3. The vicissitudes of Operations and management methods in Japanese transplants in the PRD area.

Those major changes of circumstances have strong pressures on the operations and management methods in Japanese transplants in the PRD area. Generally they currently have the following characteristics as a whole, according to the results of our surveys in the area so far.

First, short term female emigrant workers occupy the major part of shop floor workforce. Actually this is characteristic aspect of the whole area. The standard term of employment is for one year. Shorter labor contracts of a half year or three month-term are seen in some cases. The contracts are renewable but workers counterchange in every two or three years. Separation rates are relatively high. Recently the number of temporary and casual workers, due to the market fluctuations and wage hikes. The sources of emigrant workers have shifted to more inland. For example, one company located in Dongang (surveyed in 2002), one third of workers come from Shanxi province and rest of them mostly from provinces of Guangxi, Henan, Sichuan and Hubei. 97% of production workers are female short term (two years on average) workers. Their

recruitment of them is consigned to the local governments who are the counterparty of the contract manufacturing. In the other case of a contract manufacturing, located outside the second boarder in Shenzhen, most of the work force (female) have been employed for over two years to less three years(as of December 2004).

Because of these short term employment, it is difficult to organize Japanese-style shop floor organization. In the Japanese-style shop floor, workers are trained into the multi-skilled through OJT and job rotation and they are upgraded or promoted to the first line supervisors or Mainenancers with accumulating careers. It is also hard to adopt Japanese-style (team-type) work organization and to conduct Japanese-style labor management, which base on the muili-skilledness of workers, administered by the experienced supervisors with well knowledge of the works.

Second, many of them adopt the "cell" production system. The system is suitable to small-lot production with variable volume and variety of products. They are the methods to be able to achieve drastic reduction of equipment costs compared with belt-conveyor mass production lines. It is easier to adopt them for electronics assembly and parts industries with more automated and small size products.

In the 1990s almost all production lines of large Japanese transplants in China in electronics industries, especially assembly lines would be organize by manual works on belt conveyors, except in the surface mounting processes and molding processes. Simple mass production lines prevailed. Lines were specialized and work tasks were simplified to conduct large lot production of one or limited variety of products with short-term migrant workers. However, the "cell" production methods have become widely used to deal with the tendency toward increased fluctuations of the production volume and variety, and shortened delivery cycles. Production innovation strategy of Japanese parent companies help promoted the adoption of them in their overseas transplants. It should be noted that they are suitable methods to the PRD areas where separation rates of workers are high, because they are able to minimize the costs of the separation of workers. A certain level of multi-skilledness is needed to achieve the efficient "cell" production system. It requires adequate education and training. The long accumulation of experiences of operation in China enables many of the Japanese transplants surveyed to cope with the requisites of "cell" production system. 5S and most the basic level of work managements seems to achieved already. General level of production management has improved rapidly in these days.

In general recently the prevailing supply chain management (SCM) shortens the delivery cycles and induces smaller-lot production in variable volume. Product life cycles are also shortening, sometimes for half a year, even for three months in electronics products. These changing situations has increasingly necessitated the Japanese local production operations to conduct the very meticulous management of the production line, production planning and procurement process, as well as QC &QA, etc. intensifying the application of Japanese-style management methods. For example, nowadays it is getting to be required more to organize the efficient lines in accordance with the detailed production planning incorporating fluctuating production volume, variety of quality requirements and delivery times. Belt-conveyor mass production lines are used when the enough production volumes are secured. Otherwise to make use of the "cell" is a choice.

They make use of various types of cell" production and combination of them-- one-man stall type, the U-shape type and the T-shape with five to tens of workers, sometimes with standing or

sitting works, etc. In other cases, "cell" production lines are reverted to mass production lines. There has also emerged a general tendency toward more automatization and mechanization. Even in highly automate insertion processes of PCBs, the radial and large parts insertion processes, which used to be largely conducted by manual works, are now more automated.

There has also emerged a general tendency of more mechanization and automatization. It seems to reflect mainly the following factors: (i) the higher quality and precision requirements, (ii) wage hikes of workers, (iii) more or full transfer of production processes from Japan, (iv) enhanced local capability of maintenance.

Moreover in these days, in many cases, a clear trend is observed that there is no large volume production in Japan and even trial production for full volume is conducted in China. Also more of the R& D functions are transferred to China. The local transplants are getting more to be the production sites with full functions. Accordingly the localization of personel is in progress, including maitenancers and operation management. Japanese expatriates have been reducing the number. There are cases in the PRD areas that Japanese firms are making good use of Taiwanese and Hooknoses as engineers and middle-managers. However, it is interestingly pointed out in the hearings that sometimes they cause troubles in the recent situations of the increased labor disputes.

As the results of those movements and efforts by the firms, the production operations of Japanese transplants especially in the PRD -- maybe as well as in China as a whole-- have largely changed their shapes from the labor-intensive mass production.

4. The end of historical roles of contract manufacturing in the area

Under the new circumstances Japanese transplants in the PRD area are moving ahead on reorganization of products among their production sites, The accumulation of experiences of operations and management in the PRD area seems to provide ample basis for their production operations in other areas in China, However, one significant aspect of the new situations in the PRD is getting notable. That is the end of the historical role of the contract manufacturing characteristic to this area. The minority joint ventures have shown its limitations, as well.

As a whole the South China and the PRD areas are still characterized as major production sites for export in China. It turns to be true with Japanese local transplants. However, though strategy of playing both sides of export and domestic sales had already appeared in the late 1990s, varying extent firm by firm, more recently the direction to focus on the domestic markets are getting clearer. In fact, de importance of domestic market for sales of various consumer goods is increasing in South China and the PRD area, due to the economic growth. At the same time local procurement of parts and components for export production is also increasing, though most of them are mainly

still from Japanese and Taiwanese or other foreign companies^{viii)} It is a result of large industrial concentration of electronics industries there. Taking advantage of the benefits from local sales together with the various favorite treatments as well, "transfer shipments" procedures are prevailing. It is the method that after finishing the customs clearing procedures to export to Hong Kong, actual shipments are done directory to customers. Recently it is reported that the way to use bonded warehouse system in Shenzhen is spreading.

Of course it is not the case that the simple localization of the whole business process of procurement--production--sales is in progress in China. High quality and low price key devices and components from Japan as well as from Taiwan, Korea, Malaysia and other Southeast Asia are still quite important in electronics industries, even in PCs and the related products of which largest production site is South China area. In this respect, processing trade pattern via Hong Kong still continues, in which bringing parts and components from Hong Kong into China and assembling or processing them in China to export via Hong Kong, even in joint venture or 100% owned business. In these year the increased cases have been reported to establish international procurement offices in Hongkong as the distribution financial and information hub in the region. However, it is

getting more difficult to implement labor management and upgrading production management.^{ix)}

Japanese firms conduct actual works and operation management on shop floor in most cases of contract manufacturing in electronics industries. However, the recent aggravated labor situations of labor shortages and labor unrests reveal the limitation of the contract manufacturing system. Local town or city governments as contractors previously undertook recruit inland migrant workers and played major roles in decoupling of them and handling labor disputes. In the joint ventures, Chinese counterpart took the similar roles.

As a whole, it appears that the basis for the joint venture or contract manufacturing is getting lost changing circumstances in the PRD area conditions, even though the situations vary in the cases. It is generally bereaved that, aiming at implementing Japanese-style meticulous labor management or harmonious labor relations, Japanese firms break up the existing contract manufacturing contract, or that they reduce contract manufacturing and increase local production in their own plants or in other joint venture plants. The contract manufacturing historically characteristic to the PRD area is now facing a major turning point.^{x)}

5. The impacts of the automobile production by Japanese major automakers in the PRD areas

Japanese major auto makers have began the large scale local production operations in Guangzhou and its vicinity, which much affect the regional economy of the PRD areas. Relating to them new industrial concentration of automobile industry is in progress in the western part of the areas such as in Foshan and Shuntak, etc. China is experiencing a rapid motorization wave in these days. Responding to the new automobile policy of the Beijing Government, Guangzhou and its vicinity are becoming one of the major centers of automobile production. Honda, which has expanded motorcycle production in Wuyang Honda, a Joint venture with Guangzhou Motors Group in Guangzhou (founded in 1992), founded a new joint venture with Guangzhou Honda Automobile Co., Ltd. and started the local production operation of automobiles in 1999 with capacity of thirty thousand units per year and expanding smoothly, assembling Accord, Odyssey and Fit models (Saloon and Hatchback types). Now its capacity has reached 240,000 units. Second assembly plant was finished November, 2005 and total annual capacity amounts 360,000 units altogether in 2006. Also construction of Honda's first car assembly plant in China specialized for export was

completed in December 2004, a joint venture of Honda Motors (65%) with Guangzhou Motors Group (25%) and Dongfeng automobile (10%) in the Guangzhou Development Zone of Technology. They started production of compact car "Jazz" based on Fit model in February 2005 to export for European market. Total investment is one billion RMB with 50,000 unit capacity per year. Press parts. Guangzhou Honda Automobile and Dongfeng Automobile supply press panels & parts and engines parts respectively.

Nissan also founded Dongfeng Automobile company, Ltd in Wuhan, on the basis of the comprehensive strategic agreement with Dongfeng Motors Group signed in September 2002 and aim at the full line production of six models of cars, trucks, busses and other commercial vehicles. They have a plan to produce 220,000 units of cars and 330,000 units of commercial vehicles by 2006. In Guangzhou, Aeolus Motor Corp., subsidiary of Dongfeng Automobile started production of Sunny (new model) in Huadu automobile industrial park near new Baiyun International Airport. In addition, they built R&D center, which takes up the functions of Dongfeng Automobile R&D center to promote the development of Nissan cars for Chinese market.

Guangzhou Toyota Motor Co., Ltd. (GTMC), a joint venture with Guangzhou Automobile Co., Ltd., start the production operation of CAMRY in the mid-2006 and is constructing an engine plant inside the vast Nansha Automobile Town in the Nansha Development Zone in southern Guangzhou to produce engines. They will produce 400,000 units of cars and 700,000 units of engines per year respectively by 2010.

There are already many expansions of production capacity by new suppliers as well as the expansion of the existing ones. The start of the large scale production operations by Japanese Automobile Big Three and relating suppliers will promote the new industrial concentration accumulation of the area. The area will be one of the major production sites in China in the future.^{xi)} However it will have big impacts too. It is reported that orders and productions of electrical machinery and electronics parts are increasing from automobile in some cases. Manufacturing of auto parts need more precision and durability as well as higher quality and reliability, compared with that of consumer electronics goods. The Japanese local plants in electrical machinery and electronics industries are required to enhance the technology and management level. Moreover, higher skills are needed in Automobile assemble processes. It will much affect the labor markets of general workers as well as of maintainancers and skilled workers. It is quite probable that the new situations will have big impacts on the labor situations in the PRD which has depended on the ample influx of migrant workers.

These situations may show one of the changing patterns of development path of the China in the near future.

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Table 1 Comparison between the Pearl River Delta area and Shanghai area.

Note 1 Six cities of Shenzhen, Tongan, Guangzhou, **Fushan, Chunshan and Suhai**
JETRO Guangzhou Office, December 2004

Table 2 Minimum wages in the PRD area

i) See, Kawamura[2003a], Section 1. The notion of the "Pacific Ocean Triangular" structure and its significance seem to be well prevailing in Japan. See Economic Planning Agency [1988], Chapter 3, and Twu [1988]:22-47, [1990]:25-28.

ii) For details of the preference treatments of the special economic zones, see the Council of Local Authorities for International Relations (Beijing Office)[2004].

iii) See, Nihon Keizai Shinbun (August 2, 2003)

iv) Hearings from Guangdong Provincial government officials in 1997.

v) Data provided by JETRO Guangzhou Office, December 2004 and *The Economist*, <http://www.economist-japan.com>, October 9, 2004, Ashahi Shinbun, December 2, 2004 and local hearings in December, 2004.

vi) Many of Japanese firms determine basic wage and commission of manufacturing in conjunction with the minimum wage regulation (which was introduced on January 1, 1994). The minimum wage in Shenzhen Special Economic zone was notably increased by 28% in 1994, 20% in 1995. In 2002, it increased 3.6% to 595 RMB, compared with a year before--outside the Special Zone was 450 RMB). Local governments began to concern the absorption of the labor forces by Shanghai and Suzhou and their vicinities and announced the increase of minimum wages by 25-30% in Tongan and Guangzhou in November 2004. In 2005, the minimum wage increase was even higher. All of the monthly minimum wages in all seven scales (280 - 510 RMB range) were increased to 352-684 RMB range.

vii) From hearings from Companies and data provided by the JETRO Guangzhou Office. In

Shenzhen, burdens of social security costs are relatively low, because out of 2.3 million people covered by the pension insurance --six hundred thousand of which are registered population in Shenzhen--, the retired are only forty thousand. With the national integration of pension insurance in 1998, the burdens of firms and employees are nationally 20% and 8% respectively, whereas the transitory arrangements are introduced in Shenzhen. The burdens of firms and employees of other social security programs of medical cares , unemployment insurance ,injuries, dependants assistances and supplemental medical cares vary region by region.. See, Table Six 1-3, pp.20-22. Governments have instructed firms to include the social security insurance fees – injury, pension medical and unemployment ---in the payments to employees, other than wages.

viii) Data provided by the JETR, Beijing Center, September, 2004.

ix) Omitted

x) Four determinant factors can be singled out that affect the business strategies of Japanese firms in the PRD or in China as a whole. First, the special preference treatment, Second, i reduction of import taxes, Third, expansion of Chinese domestic markets, Four, labor situations, especially labor costs and labor unrests. We may add the electric power supply and infrastructure. The combination of these four (or five) factors may determine the strategi positions of the factories in China as the production sites for export, or for Chinese domestic markets, or even to import products from Southeast Asia to supply for domestic markets, or cases of high grade goods from Japan.

xi) Data provided from JETRO Guangzhou Office and hearings from firms, in December 2004.