

JAPAN LEAVING THE EARTHQUAKE BEHIND





Photo: xtczb

Although the Great East Japan Earthquake left the Japanese economy on shaky ground, there are few corporate administrators that feel the Japanese economy has been pushed to the brink.

Of course, the topics taken up by TV, newspapers, business journals and other key mass media always have a pessimistic tone. This type of pessimism is only natural since a large earthquake did in fact occur. It is more important to look at corporate managers who are much shrewder.

I will return to this conclusion later but first let us look at an overview of what occurred as a result of the great earthquake.

The earthquake destroyed the industrial infrastructure of the Tohoku region. In particular, many of the precision component plants that manufacture semiconductors and other instruments, for which Japan is well known, were damaged. The international competitiveness of Japanese electronic component makers is very high and these companies hold a share of more than 40% of the global market for electronic components. Furthermore, many of the Tohoku plants produced niche components and so the impact was very large.

Moreover, transport infrastructure – railways, roads, ports and other means

– was also greatly damaged, making it impossible for the transport system that delivers components, agricultural products and such to function in an accurate and timely manner. Toyota is renowned for its ‘Just in Time’ production system that it devised and spread throughout the world. However, due to the fact that parties don’t carry inventories in this system, it operates on the premise that the transport infrastructure is fully in place. Due to this, the great earthquake led to a temporary failure of accuracy and timely delivery. Therefore, the supply chain collapsed and this collapse had an impact the world over. The reality that the procurement of components is today a global process, and that the collapse of a supply chain in a global system does not mean the impact is limited to that country but spreads across the globe, was revealed.

The stock, foreign exchange and other capital markets reacted promptly. The earthquake happened at 2:46pm and so there was only 14 minutes of trades left on the Japanese stock markets. At first glance it appeared as though few trades had taken place on the market. However, futures investors began to trade in the evening and the Nikkei futures traded at night on the Singapore exchange plummeted to a stock price of below 10,000 yen. The yen exchange rate rapidly responded to this and drove the yen up to a record high. The market was clearly in turmoil.



As a result, rumor swiftly traveled around the world that the Japanese economy was in danger and then on the next day the reality of the nuclear accident at the Fukushima No. 1 Power Plant was revealed. The rumors related to this spread the sense of crisis throughout the world at an accelerating pace.

Presently this is not the time to determine whether these developments were a natural evolution from the major string of disasters, or whether it was a catastrophic phenomenon in which unexpected events generated further unexpected events. The role of this article is to accurately analyze the present circumstances of dangers arising from the disasters, to explore the path that the Japanese economy must take again and to examine the individual strengths of Japan.

Four months have already passed since

the earthquake. What is the present situation of industry after its catastrophic condition immediately following the earthquake? The supply chain, the collapse of which had been the greatest worry at the time, is now in the midst of a recovery.

Stating our conclusion first, the resilience of Japanese corporations is amazing. In particular, the large corporations take action fast. For example, in the case of the automobile industry, an industry everyone seemed to be worried about, Toyota Motor Corporation completed its recovery by the end of June or in only three and a half months. Honda Motor Co., Ltd. has also indicated it will finish recovery operations by the end of August. Here and there, small- and medium-sized enterprises have not recovered to normal, but superior components companies that are related to these large companies

have recovered with the support of those companies and are already playing a role in the restoration of supply chain functionality.

Let's analyze a case to determine why this was possible.

IHI Corporation is one of the leading manufacturers of Japan. At the time of the earthquake, IHI had in place a program it had developed for itself and group companies that it would implement in times of emergency as in earthquakes, where the company's existence itself is

in danger. This contingency plan was in fact “beaten” by the earthquake a bit, since the schedule had called for complete implementation including education and application by the end of March for all group companies. Still the group stuck to the program – the Administrative Division immediately established a Disaster Management Center after the earthquake and reported this to the president who immediately began to execute the plan. One specific aspect of the implementation involved the Soma Factory in Fukushima Prefecture. This factory, which serves as a base for manufacturing engine components for aircraft, suffered huge damages that far exceeded forecasts and all of its functions were completely stopped. However, the factory received aid and support from other plants based on this program and was fully operational in a mere two months.

Compare this to the fact that the government still has not set up appropriate disaster management measures and one clearly sees that the reactions and countermeasures of private companies were fast and appropriate.

Japan is basically respected throughout the world as a country that specializes in making components and products. A good example of this is the core components for precision equipment, etc. In recent years, companies from Taiwan, South Korea and China have emerged as leaders in this field and it is commonly

known among businessmen that these companies are fiercely competing against each other including for price.

In part because of the emergence of these firms, rumors like the following began to flow after the March 11 quake; “There will be a drastic drop in the supply of core components from Japan and components of China will cover this.” Some even said that this would further encourage Japanese manufacturers to move their factories to China.

Of course, what is interesting is what really happened. In the short term, production shrank as the supply of components to leading IT manufacturers dropped. In the case of the previously mentioned automobiles also, the slowdown in the supply of components forced manufacturers to reduce production. Interestingly, German components were used as substitute components at this time rather than Chinese components.

Many of the products manufactured in Japan are not general-use products but rather high value-added products. Most of these products are manufactured by small- and medium-sized enterprises. Many of the SMEs in Japan take pride and joy in their technology and skills that enable them to accurately create products to a precision of several tenths of a millimeter. This leads to their familiar nicknames of “artisan’s work” or “God’s hands.”



Therefore, none of these rumors actually came true.

The ability of Japanese corporations to flexibly and promptly adapt to situations is not limited to manufacturing. In the process of recovering from the devastation of World War II, Japanese industry showed its toughness in a variety of scenes. The common aspect to these different scenes is the awareness of a goal where the people involved knew what needed to be done to survive. This was true during the 1974 Oil Shock as well. At the time, Japanese industry depended on exporting, and the Oil Shock led to skyrocketing production costs. The pain was particularly keenly felt because this coincided with the shift of the yen from a fixed-rate system to a floating rate. Again the same is true of the ultra-high appreciation of the yen that occurred in 1995 when the yen temporarily entered the 70 yen level. It is true that companies rapidly moved production bases overseas (primarily China and Southeast Asia) in order to survive, but most of what they moved were the general-use components, not the high value-added components. In other words, they instituted measures realistically.

Since the earthquake, the industrial world has been examining industrial

reorganizations, including mergers and acquisitions. Survival strategies are behind this approach but the companies are also preparing for an aggressive large-scale business development in the future.

On May 31, Japan's largest steel firm, Nippon Steel, filed an application with the Japan Fair Trade Commission to approve their merger with Sumitomo Metal Industries. If approved, the iron and steel industry will be concentrated into the two groups of JFE Steel and Nippon Steel and the Sumitomo Metals Group. Behind this merger strategy is the increase in iron and steel demand centering on emerging countries and the status of global competition surrounding supply.

In the housing industry, the JS Group commenced a large scale tie-up with Sharp in April. JS Group is the name of the Tostem Group that acquired Tostem, INAX and Sunwave. Of these, the five key firms were merged as LIXIL. Obviously there is no need to point out that behind the tie-up is the eco-business they want that, like solar power generation and LED lighting, is being driven at ever greater speeds due to the nuclear power plant accident.

There is also the case of the pharmaceuticals industry that is motivated within the global reorganization of their industry to acquire overseas companies using the appreciated yen.

Of course not all industries are this proactive. There is the securities industry that is considering another round of reorganization due to the slumping stock market, which is deteriorating due to the slowdown in the capital markets. Additionally, the nonlife insurance industry, which already consolidated into three groups, may be looking at further reorganization due to declining performance arising from earthquake insurance payouts. Shakeouts and/or acceptance of foreign capital injection are also expected in the travel and hotel industries, which are suffering drastically as a result of damages propelled by rumors.

However, temporary decreases in demand and worsening performance due to rumors and other factors are problems that will be resolved eventually.

What is even more important is the extent to which the growth potential of industry is encompassed by the entire industry

of Japan and the form in which that encompassed power will be demonstrated in the near future. And now, four months from the earthquake, the seeds are unquestionably beginning to sprout.

Those involved in finance and investment clearly see the "sprouts" as good opportunities for proactive long-term investments.

The Japanese industrial world is a powerful force blessed with diverse high value-added products and superior manufacturing capabilities, and that Japan has survived and grown through various tribulations, including the earthquake, to become a stronger and more resilient entity.



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