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Japanese companies’ investment strategies in Poland (review and prospects)

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It is my great pleasure to be given this opportunity to write about the future of economic relations between Japan and Poland.

Three years will have passed next March since I started my mission in Poland as a General Manager in the Polish Branch of a Japanese Trading Company. While making my best efforts to expand my own businesses, I was appointed president of the “1st Japan Festival in Warsaw” in 2013 and president of Shokokai (Employers’ Union of Japanese Companies) in 2014, which has given me many opportunities to hold discussions with various people and to attend various meetings, conferences and seminars.

This article arose from my attendance at the Seminar “Japan day” held at the Ministry of Economy on 3 July 2014. I was invited as a speaker at a panel discussion, and there I got to know Prof. Jolanta Młodawska-Bronowski, who kindly asked me to attend, as one of the speakers, another conference entitled “2014 – New Opportunities for Japan and V-4 Cooperation” at the University of Lodz on 24 November 2014. Thereafter she asked the speakers to offer their thoughts as a monograph, and I said “SURE” without deep thinking. This seemed like a bad decision and this annoyed me for the last several months because I am just a business person who is not requested to write an academic article even in the Japanese language, let alone in English.

However, I would like you to understand one thing. When I see the current situation of Japanese companies in Poland, I know that Japanese home electronics industries have become less competitive and are losing their innovativeness. And as for the investment in Poland, we can see this not positive trend as well. And the number of our SHOKOKAI’s membership increase is sluggish.
However I do not think that business relations between Japan and Poland are past their prime. This is the result of the transformation of the relations along with the stable development of the Polish economy. And I believe that from now on, Japan and Poland can be better partners than before by making up for each partner’s weak points and taking advantage of the partner’s strong points. Here I would like to show my understanding about the relationship until today and describe what we need to do for further development and cooperation towards the future. This is the reason why I have been struggling to say something in English about the relationship.

First of all, I would like to repeat my excuse that I am not a student or economist and I am not even a good English writer. So what I present here is not supported by any authorized data or widely known theory but just based on my actual experience. I am not sure whether this text will contribute to your understandings about the theme, but I will be happy if it will give you a little bit different view on the relations between Japan and Poland.

I would like to mention how I understand the current Polish economy. Poland is not yet categorized as an advanced country but definitely is no longer a middle-income country. That is, Poland is in the very transitional stage from middle-income country to an advanced country.

But when one country jumps up to an advanced country, such leap does not rely only on manufacturing. It usually occurs with the development of innovative technologies which generate higher productivities and additional value. Otherwise it can be caught in the so-called “middle-income country trap” which could be seen in some of the South East Asian countries. On the other hand, Poland’s population is said to be shrinking (and ageing) due to the low birth rate and the emigration of the young generation. Thus it is likely to be inevitable for Poland (don’t worry – the same thing is happening in most of the advanced countries) to enter into the stage of a “low birth rate and aged” society. Before such a gloomy future becomes a reality, Poland should work hard to prepare well for it by enhancing the overall productivity by innovative technologies, because only a society with high productivity can maintain its quality of life at a high level.

Next I want to talk about “how the Japanese have changed their investment strategies in Poland.” A lot of Japanese manufactures rushed to Poland and built up or planned to build up their factories before Poland became a member of the EU. I think it was a strategy for Japanese companies to penetrate into the EU market by building up their production base in Poland to export to Western Europe or Russia/CIS. This strategy was supported by the relatively cheaper but high quality labor force and
huge incentives from the public side. Instead, the Japanese investors were expected – by Polish government – to create additional employment.

Among them, the automobile-related industries and flat-screen TV related industries came to Poland as a *keiretsu* group and did contribute to Poland by creating large additional employment. (It is said that the total employment created by the Japanese companies is approximately 40 thousand persons.)

However, investment based on low labor costs and incentives is usually the business model for developing countries and gradually this business model has become un-workable along with Poland’s continuous development.

The EU accession in 2004 and the “Lehman shock” in 2008–2009, as well as the commoditization of flat-screen TVs were turning points. As a result of these events, the investment strategy of Japanese companies has been changed. After 2004, the incentives to investment have come under the control of EU regulation. And afterwards that huge investment in greenfields has been gradually decreased. The never-ending economic growth in Poland, which has pushed up labor costs, has diminished the attractiveness to simple-assembly makers. Such industries were/will be forced to leave for the eastern countries sooner or later.

And due to the commoditization of flat-screen TVs, which damaged Japanese companies so badly, not a small number of Japanese companies were obliged to retreat from Poland. Finally, the Lehman shock/global credit crunch, which evaporated demand all over the world, damaged all the industries, including Japanese companies. Here, however, it also unexpectedly revealed the stability and attractiveness of the Polish growing domestic market as compared with other EU areas.

Before the Lehman shock, Japanese companies recognized Poland mainly as an export base to the EU or Russian markets. But after that, they re-acknowledged Poland as a market where 38 million people are making efforts to improve their lives continuously. Consequently, investments targeted to the domestic market have become more active. And to penetrate into the domestic market, i.e. to buy existing Polish companies with their marketing staff, is easier than to invest in a new factory.

Furthermore, once the Polish domestic market is targeted, it is natural that such companies set up R&D departments to study the local preferences and learn how to adapt their products to the markets. Thus, Japanese companies have transformed and diversified their investment strategy, that is, from the “investment in developing countries” model – with cheap labor and incentives for a production base – to an “investment in advanced countries” model, where investors are bound not by labor costs nor by incentives but by the nature of business itself.
Now I have given you my short view on both the Polish and Japanese situations. Now the question is: where will the relations between Japan and Poland go? How will they be developed?

There are many kinds of answers to these questions. Among them, I would like to emphasize one key word – “technology.”

As you may know Japan, which is famous for being one of the countries with highly advanced technologies, is at the same time the most rapidly aging country in the world, with a low birth rate. Because the labor population is decreasing, Japan has to look for good places to transfer its technology instead of investing in Japan. So for Japan, Poland is still an attractive country, as a country in EU, to develop its technologies. It has a stable and growing domestic demand, political stability, legal-governance, and an educated young generation.

Poland, before the aged society becomes reality, should push itself to develop its society to catch up with the “Western Europe” level of economic growth, supported by advanced industries. For Poland, Japan can be one of the best technology providers, the same as the EU countries or the US. When one country has to provide its technologies outside, and the other needs to develop its industries, each can be a better partner for the other.

The problem once again is: “How to realize this?” Needless to say, Japanese technologies have been already transferred as “investment in green field”. But I believe there are more ample examples of companies in Japan which can help to differentiate Polish manufacturers from their competitors.

It is said that one of characteristics of the Japanese economy/industry is a huge number of SMEs (small and medium enterprises) which have their own original and distinguished technologies in niche fields, which sometimes wish to be the biggest share in the world (global niche), but do not have enough management resources to expand their activities all over the world.

I would like to consider one case which shows hidden Japanese competitiveness.

In home electronics segments, Japanese companies have been losing their competitiveness. But if we see the inside of the cases, a lot of important parts are still made in Japan.

Everybody knows that Korea is a one of strongest countries in home electronics, but only a few people know that Japanese part makers are important partners for Korean home electronics companies. In fact a lot of the parts made in Japan are imported by Korean home electronics companies. There is also a not widely known fact that in the 21st century the number of Japanese Nobel Prize winners in the field of science ranked third, next to the US and UK. The fourth was Germany.
So what I would like to stress here is that, apart from a big-scale investment in an SEZ (special economic zone), which can be reported in a famous newspaper or TV news program, there are many, many entrepreneur-minded companies, both in Japan and Poland, at the SME level. And if they have the measures to communicate and collaborate at a grassroots level, we can expect some unexpected chemical reaction.

Sometimes it could be a Japanese company’s acquisition of a Polish SME, or Polish company’s acquisition of a Japanese SME with distinguished technology, or sometimes partial investments in each other, or just a license trade of technology transfer. It is not necessary stick to an investment in an SEZ. (I had better add that needless to say large size investment in green field is still important.)

Now I have reached my conclusion. The more communication and collaboration, including technology transfer between Japan and Poland, the more it will contribute to both countries’ future. Especially important is the SME level.

To realize this, I would like to suggest building up a database of companies at the SME level in both countries where entrepreneur-minded companies can look for their best partners. I think public support is needed. And on the Japanese side, JETRO (Japan External Trade Organization/governmental organization under Ministry of Economy, Trade and Industry), and the Poland branch can offer similar information for free.

And although it is not related to this theme directly, direct flight connections between Japan and Poland would definitely accelerate the above. It does not sound very important. However, the absence of a direct flight creates the image that Poland is far away from Japan, or Japan is far away from Poland. I believe direct flights might shorten the psychological distance dramatically.

My dream is that Polish entrepreneurs who have planned to emigrate to the UK will find new business possibilities with the Japanese technologies and make up their minds to stay in Poland and start successful businesses based on Japanese technologies. I do not want to think that this is just a daydream.

Streszczenie

Yoshito Okada rozpoczyna od przedstawienia aktualnego stanu gospodarczego Japonii i Polski i ich pozycji konkurencyjnej na światowych rynkach. Zwraca między innymi uwagę na wyraźne osłabienie konkurencyjności i innowacyjności japońskiej branży elektroniki użytkowej. Z kolei,
w opisie gospodarki polskiej na czoło wysuwają się spostrzeżenia, że znajduje się ona obecnie w fazie przejściowej – od gospodarki o średnim poziomie dochodów do gospodarki kraju wysoko rozwiniętego. Aby to przejście faktycznie nastąpiło, dalszy rozwój nie może obejmować jedynie przemysłu przetwórczego, ale przede wszystkim opierać się na implementacji nowoczesnych technologii. Jest to wyzwanie szczególnie istotne w warunkach zmniejszającej się liczby ludności (spadek liczby urodzeń, emigracja zarobkowa) i „starzenia się” społeczeństwa. Jeśli Polska nie sprosta tym oczekiwaniom, może wpadać w pułapkę pozostania w grupie państw o średnich dochodach, jak stało się to w przypadku niektórych krajów Azji Południowo-Wschodniej.

W drugiej części artykułu autor analizuje ewolucję japońskiej strategii inwestowania w naszym kraju. Wspomina, że jeszcze przed przystąpieniem Polski do UE wiele japońskich firm zdecydowało się wybudować tu swoje fabryki (inwestycje typu „green field”), a powstała w ten sposób baza produkcyjna miała stać się przyczółkiem eksportowym do krajów Europy Zachodniej lub Rosji/WNP. Taka polityka znalazła uzasadnienie w niskich kosztach siły roboczej i ogromnych zachętach inwestycyjnych ze strony polskiego państwa. Jakkolwiek rozwój w oparciu o znaczące środki publiczne i niskie koszty pracy jest właściwy dla krajów rozwijających się, stopniowo przestał być adekwatny wraz ze wzrostem jakości życia i towarzyszącym mu wzrostem gospodarczym. Bezpośrednia zmiana strategii inwestycji japońskich w Polsce wiązała się z trzema zjawiskami: (1) wejściem Polski do UE; (2) upadkiem Banku Lehman Brothers i pęknięciem spekulacyjnej bańki wzrostu; (3) upowszechnieniem telewizorów z płaskim ekranem i pojawieniem się koreańskich konkurentów. W czasie globalnego kryzysu ekonomicznego w 2009 r. Polska okazała się jedynym europejskim krajem, który odnotował dodatni wzrost gospodarczy.

Ten ostatni fakt dopełnił zmiany w postrzeganiu naszego kraju z tranzytowego na docelowy, jeśli chodzi o japońskie strategie inwestycyjne. Zdaniem Y. Okady, w obecnej sytuacji korzyści ekonomiczne mogą odnieść obie strony, a podwyższenie poziomu technologicznego polskiej gospodarki może z powodzeniem dokonać się z udziałem strony japońskiej. Jest to wniosek z rozważań zawartych w artykule. Oryginalność podejścia polega na wskazaniu, iż współpraca między naszymi krajami to nie tylko duże japońskie BIZ (bezpośrednie inwestycje zagraniczne) w Specjalnych Strefach Ekonomicznych, lecz przede wszystkim kontakty biznesowe i przepływ innowacyjnych technologii między małymi i średnimi przedsiębiorstwami z obu stron. A japońscy partnerzy mają w tej dziedzinie z pewnością bardzo wiele do zaoferowania.
Economy

New Opportunities for Polish-Japanese Cooperation: Diagnosis and Prospects

edited by Jolanta Młodawska-Bronowska

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