

Potential Benefits of Intellectual Collaboration between Japan & Europe: The Case of *Fondation France-Japon de l'EHESS*

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In the modern world, characterized by more and more global issues but also by more uncertainties in the wake of the global crisis, policymakers but also citizens need more than ever the help of think tanks, in order to get better knowledge about their fast-evolving environment. This knowledge is not all about technology: social, political and economic matters are also very important. It means that there is obviously no one best way and that think tanks should help us in understanding the roots of diversity in the world instead of providing normative solutions.

It is with this conviction that we created in 2009 an academic think tank, *Fondation France-Japon de l'EHESS* (FFJ) (<http://ffj.ehess.fr/>), in order to welcome more ideas from Japan in Europe, through the eyes of social sciences, and with collaboration of non-academic people. In this article, I introduce one of our research programs, on “Deindustrialization and the Future of Manufacturing in Japan, South Korea, Germany and France” and show that deindustrialization is not solely related to globalization and should not be confused with it. I also argue that manufacturing is still important and there is a future for it in countries such as Japan, South Korea, Germany and France. To understand this point, we have to change the way this issue is addressed.

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Why Create a French-Japanese Academic Think Tank in Europe?

In 1924, after a Japanese initiative led by Shibusawa Eichi, *Maison Franco-Japonaise* was created in Tokyo with the support of the French ambassador, Paul Claudel. As a businessman who can be considered the godfather of modern Japanese capitalism, Shibusawa was convinced of the importance of ideas and intellectual exchanges. In the context of the Taisho period, as Japan had succeeded in the first stage of its modernization but was still lagging behind European countries in scientific fields (including engineering and business sciences but also social sciences), the purpose of *Maison Franco-Japonaise* was to create a place to welcome French researchers and professors, and to promote the importation of fresh ideas. We will celebrate soon the 90th anniversary of *Maison Franco-Japonaise*, and we think that the initial goals have been more than achieved and that Japan has clearly caught up not only with France but with all other European countries in these fields. An institution like *Maison Franco-Japonaise*, among others, has contributed to this catching up by welcoming and promoting in Japan new and sometimes disturbing ideas and concepts. One may think, for example, of the influence of structuralist thinking from the 1950s.

Surprisingly enough, 90 years later, there is still no equivalent in France or in Europe of *Maison Franco-Japonaise*. It means that there is no physical place where Japanese professors and researchers can be welcomed, besides universities and schools that develop their own exchange programs. The context may seem to be not so favorable, as Japan has literally disappeared as a socio-economic

model (despite the increasing presence of Japanese culture all around the world) after two decades of economic stagnation. People tend to be interested in success stories, which is understandable. However, we think that we can also learn a lot from crises. Crises are the times when one should more than ever think about alternatives, when one has to challenge the most accepted views, and when new concepts and ways of thinking should be promoted. More generally, we are convinced that we have to give up thinking in terms of “models” and adopt a more objective perspective on the diversity of socio-economic systems and their evolution.

In the case of Japan this should be even more so, as we argue it should be considered a European country...located in Asia. Being a European country implies the best (democracy, high standards of living, etc.) but also the worst (slow growth, ageing, public deficits, high unemployment, etc.): Japan and many Continental European countries do indeed share many common points. At the same time, there are obvious differences, mainly for geographical and historical reasons. Our conviction is that both Japan and European countries can learn from these differences. To put it differently, Japan helps us to look at Europe with “new eyes”.

This is the main reason why we created the FFJ in 2009. Keeping in mind the vision of Shibusawa and the goal to establish in Paris a true equivalent of *Maison Franco-Japonaise*, we act as an academic think tank that invites Japanese professors and researchers to France, organizes seminars and conferences with European researchers and establishes research programs. Before giving an example of a research program, let me explain why we believe social sciences are so important and why we need *academic* think tanks.

Our conviction is based on the following paradox. We have nowadays more access than ever to various quantities of information that potentially increases our openness to the world. However, at the same time, in this continuous flow of information, it is more and more difficult to understand the surrounding world. Media alone cannot help. In this context, we need the help of social sciences. By social sciences, we here understand not only economics, political science or international relations but also history, sociology, anthropology, psychology, law, and linguistics. Only social sciences can help us adopt an interdisciplinary approach, which is necessary in order to grasp complex issues, as emphasized by Naoyuki Haraoka in his article in this issue. Only social sciences can provide a coherent framework to understand the causalities, to put in perspective, to compare, to generalize beyond particular cases, to adopt a critical viewpoint on what is often only one side of a multifaceted reality (*Faire des sciences sociales. Critiquer, comparer, généraliser*, Editions de l'EHESS, Paris, 2012).

The next problem is that, even for social sciences, national determinants are important: despite an apparently increasingly globalized context, social scientists cannot escape from visions and concepts that are influenced by their national or regional context. Therefore, it is important to have views from the outside, which allow us to go beyond narrow thinking and preconceived notions. From a European viewpoint, it is important to look at Africa, America and Asia.

Let me be more specific in developing the example of our leading research program on deindustrialization and the future of industry and in showing the type of new knowledge that can be expected from our activities.

Research Program on Deindustrialization in Japan, South Korea, Germany & France

Deindustrialization, which is defined as the decrease in the share of manufacturing industries in total employment and/or output, is certainly one of the topics in which the gap between public opinion/perception and academic research is the largest. As for public opinion, deindustrialization is mainly perceived as the result of offshore outsourcing (or offshoring) by domestic companies: this is, for example, the case when a company is closing its domestic operations and opening a new plant abroad, in particular in countries where labor costs are lower. However, academic research on the impact of outward Foreign Direct Investment (FDI) on domestic employment rather shows that it is positive, especially when it is directed to countries with the same levels of development (“It Matters Where You Go: Outward Foreign Direct Investment and Multinational Employment Growth at Home”, Peter DeBare et al. in *Journal of Development Economics*, Vol. 91, 2010). One has in fact

to distinguish two effects. One is a technology effect, which has a negative impact on the labor intensity of a given industry. The other one is a scale effect, which implies a positive impact on the level of output: after having relocated their activities, firms benefit from increasing efficiency through a better division of labor. Most academic studies show that the second effect is greater than the first.

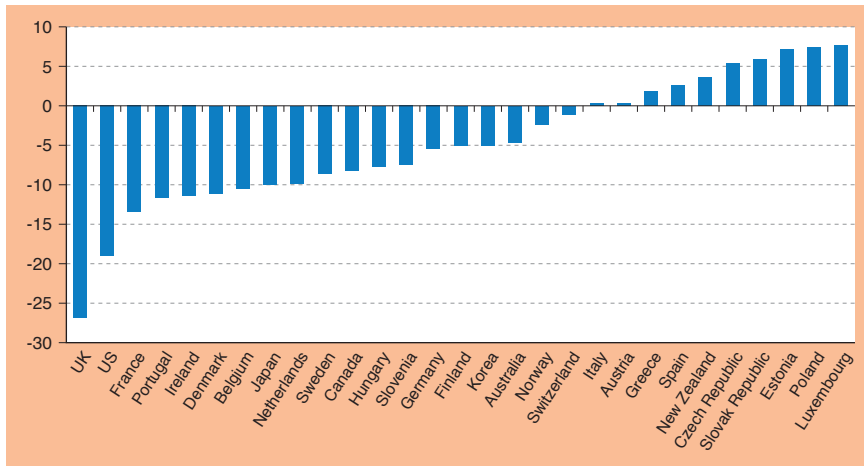
How to reconcile these two perceptions? Are experts right, against public opinion? Things are more complicated and it may be difficult to explain to workers who have lost their jobs after a plant has closed that it will be beneficial to them in the long run. On one side, we have to answer to populism that links globalization and deindustrialization and calls for more protectionism: the experience of Europe in the 1930s tells us enough about how it may end. On the other side, we have to reply to public concerns and provide an objective and critical account of deindustrialization.

From this viewpoint, the most recent research on the impact of outward FDI on employment is particularly relevant, such as the article “Offshoring, Labour Market Institutions and the Elasticity of Labour Demand” by Alexander Hijzen and Paul Swain in the *European Economic Review* (Vol. 54, 2010). Such research shows that, although the effect of the volume of domestic employment is rather positive, there are also negative side-effects on various indicators of job quality that should be considered in public policies. For example, various contributions show that FDIs modify the skill structure of domestic labor demand and increase inequalities. Other contributions show they increase the job insecurity of domestic workers. Finally, recent research has found that outward FDIs have contributed to the increase in non-regular workers and to their wage gap with regular workers.

Moreover, contrary to what is often thought in Europe, where industrialization is often considered as a European problem, with the exception of Germany, this trend concerns in fact most of the OECD countries, though to diverse degrees. What we observe is a change in the international division of labor: while most OECD countries experienced during the last decade a decrease in the share of their manufacturing employment (*Chart 1*), the volume of manufacturing employment has been booming in China since the early 2000s (*Chart 2*). Japan and South Korea are no exception regarding this trend. South Korea, impressively, has caught up with Japan in a few years in regard to this trend of deindustrialization (*Chart 3*), while labor conditions have deteriorated even faster, especially if one considers the evolution of the share of non-regular workers. At the same time, their experience is different from that of France or Germany, which makes the comparison interesting. The sectoral specialization, the industrial dynamics, but also the degree of dependency on international trade indeed differ greatly among these four countries and have to be examined carefully.

CHART 1

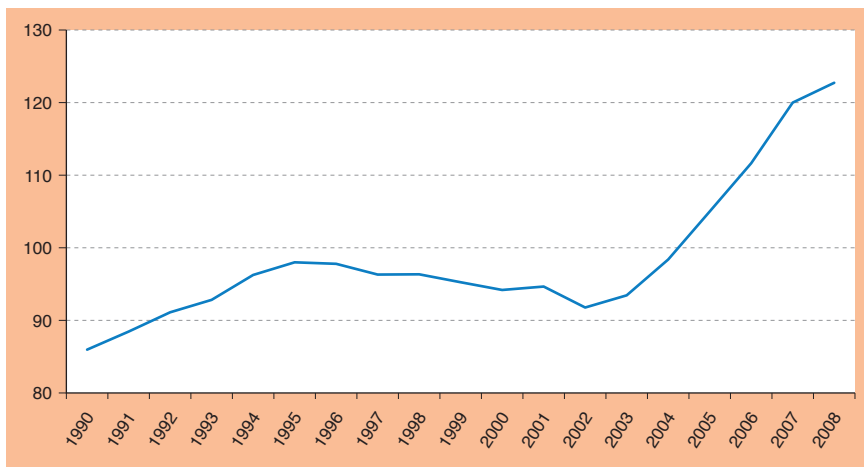
Percentage change in manufacturing employment in OECD countries, 2000-2008



Source: Author's calculation based on STAN database (OECD)

CHART 2

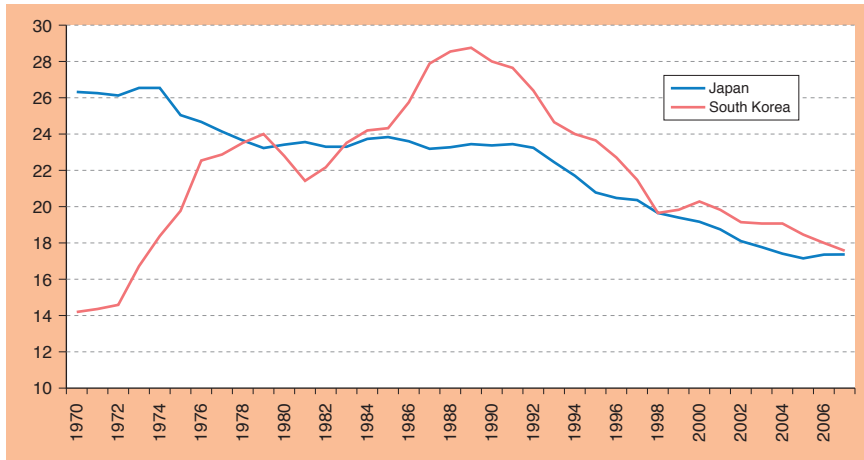
Growth of manufacturing employment in China (in millions)



Source: World Bank

CHART 3

Evolution of share of manufacturing in total employment in Japan & South Korea, 1970-2007 (in %)



Source: Author's calculation based on STAN database (OECD)

Future of Manufacturing

The contribution of the academic research on deindustrialisation does not lie only in the analysis of its international dimension. It also shows that some mechanisms at work are “purely” domestic: in fact, the decrease in the share of manufacturing in the total economy can be interpreted as the result of the very success of development. It has been observed that, as a country is becoming richer (i.e. as per capita income is increasing), one observes a decrease in spending by households on manufactured products, and a rise in spending on services (such as health and education) after a certain threshold is reached. This is in fact in continuity with the first step in the development of economies that saw a decrease in the share of total expenditures on agricultural products and a concomitant rise in spending on manufactured goods. This shift occurred at the time of the (first/second) industrial revolution in countries like the United Kingdom, United States, Germany, France, and Japan.

Moreover, the impact of this demand-side mechanism on employment is often reinforced by a second mechanism on the supply side: the fact that productivity growth is higher in manufacturing than in services, as it is in general more affected by progress in the scientific organization of work and by the impact of innovation.

To these two mechanisms – international and domestic – it is important to add a third, which concerns the changes in the organization of work: during the last decades, many manufacturing companies have outsourced some of their activities (e.g. security and cleaning) to other domestic companies. It creates a statistical artefact that has led to an overestimation of the decrease in manufacturing activities. Even more importantly, it should lead us to ask ourselves about the very nature of manufacturing itself. How to define it? The contribution of Takahiro Fujimoto, professor at the University of Tokyo, is here of special interest as he invites us to reassess the definition of manufacturing that focuses on

monozukuri (literally, things that are made) and rather emphasizes the importance of design (“Architecture-based Comparative Advantage: A Design Information View of Manufacturing” in *Evolutionary and Institutional Economics Review*, 4 (1), 2007).

As a result, deindustrialization is therefore the outcome of at least three mechanisms and it is the duty of academic think tanks such as FFJ to explain this, to measure the respective contributions of these three mechanisms and to conduct international comparisons. For example, Lilas Demmou has shown that in France, which has lost more than 2 million jobs in manufacturing since 1980, the respective contribution of each mechanism in this process is, roughly speaking, 30% (“Le recul de l’emploi industriel en France entre 1980 et 2007. Ampleur et principaux déterminants: un état des lieux” in *Economie et statistiques*, No. 438-440, 2010). However, the international mechanism seems to have become stronger in the more recent period. In the case of Japan, Florimond Bourdeaux, in a study realized by the French Embassy in Japan and sponsored by FFJ titled *Désindustrialisation et délocalisations au Japon depuis 1970* (2012), has shown that the international side of deindustrialization is much less important in Japan than in France. This means that, contrary to what is often heard in public debates, Japan is suffering much less on competitiveness issues than France.

To summarize, our research leads us to take seriously the process of deindustrialization, which is a key phenomenon associated with the evolving structure of the most advanced economies and the changes in the international division of labor. If one recognizes that deindustrialization is inevitable, as shown by various historical studies and international comparisons, we also show that it takes different forms, depending on the time and the country. Moreover, we expect to discuss concerns about deindustrialization. In fact, it fundamentally depends on the causes and consequences. More precisely, deindustrialization is a positive outcome when it is the result of development but negative when it is the consequence of lack of competitiveness. As for these consequences, policymakers should not only focus on the volume of manufacturing employment but also on indicators of job quality such as job status, employment security, wage differentials, and skill structures. Finally, our purpose is to help policymakers to be more pro-active in better taking into account the innovation and international strategies of firms and their impact on industrial dynamics.

What Knowledge to Expect?

More generally speaking, what kind of new knowledge may we expect from a research program such as the one conducted by FFJ? First, our expectation is to contribute to academic knowledge in publishing a special issue of a journal on this topic, which systematically compares, for the first time, these two European

countries (Germany and France) and these two Asian countries (Japan and South Korea). This academic contribution will focus on the international side of deindustrialization. It is the second step of another project we conducted together with Italian colleagues on the heterogeneity of firms’ performance in 2010: for example, we quantitatively confirmed how innovation and internationalization strategies not only matter but also interact (“Why Some Firms Persistently Out-perform Others: Investigating the Interactions between Innovation and Exporting Strategies” by Keiko Ito and Sébastien Lechevalier in *Industrial and Corporate Change*, Vol. 19, Issue 6, 2010). A third and forthcoming step will be an analysis of the conditions of the emergence of new industries, in a project coordinated with Italian, German and French colleagues (“The Path-Dependent Dynamics of Emergence and Evolution of New Industries” in forthcoming special section of *Research Policy*, edited by J. Krafft, S. Lechevalier, F. Quatraro, and C. Storz).

However, our contribution does not limit itself to academic knowledge. We also wish to contribute to the public debate. This is why we will co-organize with the National Graduate Institute for Policy Studies (GRIPS) an international symposium in Tokyo on April 8 and 9 (before a final conference in Brussels in 2014) during which scholars, business people and policymakers will gather and try to answer the following questions (program is available at: <http://ffj.ehess.fr/>):

- How to define manufacturing nowadays, in a context of increasing integration between manufacturing products and services? How can innovation help companies to differentiate themselves from others? How is it reshaping the industrial structures of economies?
- What strategies should multinational companies adopt in the evolving international division of labor? Is there a future for manufacturing in countries such as Japan, South Korea, Germany, and France?
- What trade and industrial policies should governments implement in a context characterized by increasing fragmentation of production, environmental concerns, and energy constraints?

Our expectation is that such research programs and conferences could contribute to a better understanding of deindustrialization and better practices and policies in order to promote manufacturing in OECD countries. JS

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