

“Ka-Ki-Ku-Ke-Ko” Businesses Will Save Local Regions

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Abstract

Amongst 20th century regimes, developed countries enjoyed comparative advantage with regard to knowledge, research, education, and other human capital-intensive activities. As emerging countries continue to grow, nowadays, a huge number of scientists and engineers who have received higher-level education in developed countries are gradually but steadily returning to their home countries. One might ask whether developed nations would enjoy a comparative advantage if there were no difference among countries' quality of human capital and if all nations were able to provide the same added value, even to their remote regions. If Asian and African countries maintain their current growth rates, virtually every nation in the world will become a middle-income country sometime during the first half of this century. In addition, for middle-income countries to transform into developed countries, developing the human capital of the huge middle class is essential. Due to their close connection with local communities, infrastructure investment is essential for expanding and developing Ka (“tourism”), Ki (“education”), Ku (“lifestyle”), Ke (“health”), and Ko (“communication”). No country has ever achieved sustained high growth without maintaining a remarkable growth in infrastructure stocks in these fields. Such public investment does not shut out private-sector investment but rather induces it. With the government setting the stage for the emergence of new industries, a supply of healthy and educated workers, travelable roads, and a reliable electricity supply, private companies capable of generating profits—whatever their field of business—can increase their earning rates. One key to this depends on whether emerging countries have the capacity to manage success; another key is whether developed countries have the capabilities and resolve to respond to the expanding presence of emerging countries.

Keywords: Infrastructure, Regional Growth, Asia, Poverty Alleviation, Creativity

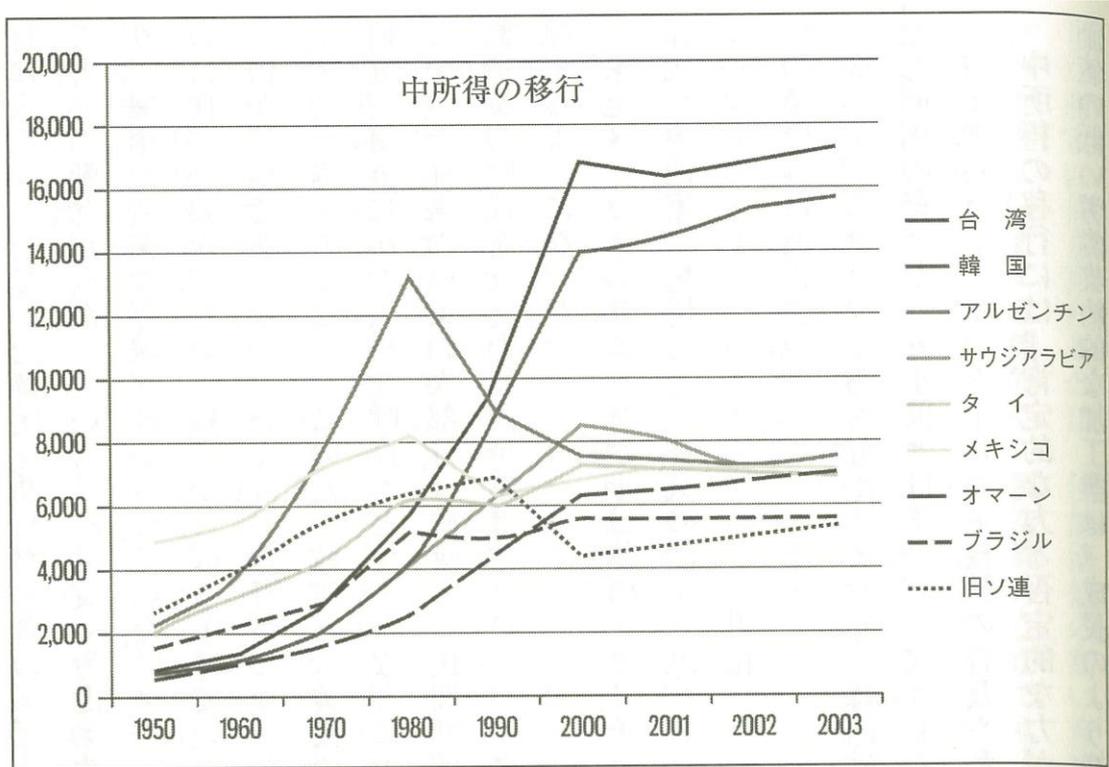


Figure 1. The Birth of Middle-Income Countries (World Bank, 2008): many countries are joining the ranks of middle-income countries. Of these, only a small number are transitioning into developed countries.

The Shock of Economic Growth

Economic growth in Asian and African countries has been striking. If per capita income in Europe and North America continues to grow at an annual rate of 1.68%, as it has over the past 30 years, the GDP of countries in these regions will approximately double by 2050. However, if growth is sustained at the current annual rate of 2.47%, the per capita income of regions outside of Europe and North America will increase fivefold over the same period. By 2050, the European and North American share of the world economy will fall below 30%, a percentage on par with pre-1820 economic levels (Goldstone, 2010). Consequently, of 204 countries and regions, more than 185 will become middle-or-higher income countries. Many countries in Asia and Africa will develop into middle-or-higher income countries.

The number of developing countries remains steady at around 20; however, most are island states or small countries, and their population comprises only a small percentage of the world population. The world economy of the 20th century comprised two opposing developed and developing regimes. By contrast, the world economy of the 21st century comprises an overwhelmingly large number of middle-income countries, and these

should be regarded as regimes competing to join the ranks of high-income countries.

These are the global economic scenarios presented in the so-called “Spence Report” (World Bank, 2008). Stimulated by this report, many magazines, such as *Foreign Affairs* and *Future Policies*, are debating over many economic and regional policy issues.

Concerns for the Economies of Developed Countries

The Spence Report identifies several essential policy issues regarding the future of the economies of developed countries in the global context. In particular, the future of the underdeveloped areas of developed countries can be considered serious.

Amongst 20th century regimes, developed countries enjoyed comparative superiority with regard to knowledge, research, education, and other human capital-intensive activities. Developed countries led the way in scientific and technological innovation and in the production and fabrication sectors of the manufacturing industry, which use established technologies and processes. They set up bases in developing countries, where wage rates are lower, and established international specialization (division of labor) systems. As emerging countries continue to develop economically, a huge number of scientists and engineers who have received higher-level education in developed countries are gradually returning to their home countries. The extraction of human resources from developed countries is accelerating, while the standard of higher education in emerging countries is rapidly improving. Furthermore, many international journals devoted to emerging countries have recently appeared. One might ask whether developed nations would enjoy a comparative superiority if there were no difference among countries’ quality of human capital and if all nations were able to provide the same added value, even to their remote regions. The market for high-level human capital has always been global. Although developed countries maintain their competitive advantage, the competition can be regarded as having already begun.

Due to advances in transportation and telecommunications technologies, multinational enterprises are choosing production bases from an international perspective. We theoretically demonstrated that continuous improvements in transportation and transaction costs contribute most significantly to the economic expansion of emerging countries but that developed countries also enjoy indirect benefits through reductions in product prices (Xu et al., 2010). This scenario rests on the premise that developed countries specialize in the development of knowledge and technology. However, if the disparities in human capital stock between developed and emerging countries diminish while the economic scale of emerging countries increases, what measures should developed economies employ to survive?

By the middle of the 21st century, most consumer durables such as cars and household appliances will be purchased by the middle classes of developing countries. The World

Bank (World Bank, 2008) estimates that, by the year 2030, the size of the middle class in developing countries will grow by 200% over its 2005 size to reach 1.2 billion. This means that the middle class population of developing countries will be more than the population of the United States, Europe, and Japan combined. It has been argued that manufacturing can take one of two strategic stances to this massive consumer market. The first is a model in which multinational enterprises such as Apple and Google compete for a single international default standard (i.e., the one-size-fits-all standard). The second is a strategy of localizing products based on the local context, such as in the successful example of Maruti Suzuki India Limited in the Indian market. This involves the joint development of models for new, flexible standards that are suitable in each country (i.e., the one-finds-own-size-standard) based on alliances between countries. Willingly or not, Japanese enterprises will have to choose one of these business models; achieving both simultaneously is impossible.

Constructing flexible standardization models requires new business management techniques, business models, and systematic platforms that focus on the development of elemental technology and assembly technology—at which Japanese enterprises excel—and on-site application capabilities. Flexible standardization models are designed for transitioning from specification code standards to performance code standards; it is necessary to advocate specifically for international standard models related to new technology development/business management that are normative.

Commoditization and Japan's Galápagos syndrome

Globalization presents Japanese enterprises with two difficult problems. First, they are concerned about the dramatic drop in product prices due to the rise of South Korean and Chinese enterprises. Basic research and technology investment require enormous amounts of funding, whereas copying leading technologies and developing differentiated technologies is far cheaper; follower companies are able to free ride on the technology investment expenditures of leader companies. There are also limits to the protection of intellectual property rights provided by patents and other mechanisms. In such cases, technology prices that are normally high are lowered through the commoditization of cutting-edge technology. Pre-existing enterprises are unable to recoup the development costs of their upfront investments and are forced to withdraw from the market.

In addition, the international standardization of Japanese-manufactured products is lagging, and the Japanese market is becoming isolated from the rest of the world, as happened to the mobile telephone market, in a phenomenon known as the “Galápagos syndrome.” In a world where one international standard model dominates the international market, the Galápagos syndrome leads to complete defeat. However, new flexible standard models that pursue localization strategies suited to each country aim to

create Galápagos markets in every nation. To achieve this, it is strategically important for countries to undertake technological investments in order to create high domestic contexts with complex domestic content, meaning, and functions. However, it is not possible to bring the high-priced products of high domestic contexts into the middle-income markets of emerging countries; a localization that adapts to the local context is essential. To achieve the transplantation of context and localization, the creation of a high domestic context is necessary; no low context can exist without a high one.

In developed countries, employment opportunities with manufacturers able to provide adequate income will surely decrease. However, if manufacturers move operations overseas, the spillover effect on R&D and product development will diminish, which would impair the world economy. In order to overcome this dilemma, domestic technology investment based on the creation of high contexts and the localization of overseas contexts must be achieved simultaneously. The Galápagos syndrome is not the problem; the problem is how to achieve localization of the Galápagos syndrome effect while at the same time preventing the commoditization of technology.

The Silicon Valley Model Cannot be Imitated

Silicon Valley is a unique area. It has a diverse cultural background, with 36% of the population born overseas and many technology professionals speaking languages other than English at home. Of the top 25 graduate schools in the United States, eight are located in California, and 44% of technological workers have completed graduate school. Some 15,000 high-tech companies are located in Silicon Valley, and 450,000 of its working population of 1.7 million are employed in high-tech-related occupations. Although Silicon Valley's population comprises 1% of the American population, Silicon Valley's patent applications represent 12% of the total number submitted nationwide. Venture capital investment in Silicon Valley comprises 41% of the nation's capital investment. In his book about the creative class, Richard Florida (Florida, 2002) points to the "three Ts" as the key factors in the economic growth of Silicon Valley: "technology," "talent," and "tolerance." In *The World is Flat* (2005), Thomas Friedman points out that innovation occurs in every possible place in the computerized world, arguing that the concept of "place" is being diluted and that, despite advances in computerization in Florida, face-to-face communication remains important for the generation of high-context, progressive ideas. In particular, the creative class—which is engaged in progressive innovation—is a rare global resource. The more high-context and difficult the words used in this rare resource's communications, the higher their spatial



Figure 2. “Hospitality” Type Service (Japanese-style Inn): Service production based on dialogue between producers and consumers is the basis of Japanese-style creative services.



Figure 3. High-context Service: the Gion district of Kyoto has provided high-context services for around 280 years while at the same time evolving service content (Hassaku Day).

concentration becomes, producing a winner-takes-all situation. It is thus virtually impossible for Japanese cities and regions to compete with the Silicon Valley Model using the same logic; they must compete using a different creative model.

The Japanese-style Creative Service Model

Japanese-style creative services are high-quality services influenced by Japanese nature, culture, history, and lifestyle. The functions (contents) of the services, the venues

and opportunities for providing services, and a common knowledge (context) are shared implicitly by producers and consumers while providing a background for the creation of new value (Kobayashi 2012). For example, service value is created through the interaction between producers and consumers in such fields as Japanese-style inns, Sushi bars and Japanese-style restaurants, individual enrichment lessons, lifestyle, health services, community magazines, and Web networks. These services differ fundamentally from Silicon Valley-type services, in which producers unilaterally create services and provide them via markets. Japanese-style creative services are unique in being formulated and selected through relationships between the producer and consumers over a long period of time, resulting in highly structured high-context services. Japanese “hospitality,” “attentiveness,” and “long-term relationships of trust” are characteristics of these high-context services, which feature the mutual enhancement of evaluations between customers and providers, the generation of new knowledge through these evaluation and enhancement processes, and dynamic/symbiotic relationships (reflecting continuity within change and change within continuity). The author would point to “Ka (*kanko*, or “tourism”), Ki (*kyoiku*, or “education”), Ku (*kurashi*, or “lifestyle”), Ke (*kenko*, or “health”), Ko (*komyunikeishon*, or “communication)” businesses as a field expected to produce high-context services. These businesses are dependent on contexts rooted in their regions, making trade extremely difficult.

As high-context systems are generally difficult to imitate, their value cannot be easily compromised; therefore, they can be easily sustained once established. It has been pointed out, however, that, because contexts and values differ, high-context systems pose security for scalability disadvantages when used between different communities and regions, such as creating large-scale systems and globalization. However, in regions where cultural capital such as context and values are shared, differentiation can be easily achieved with even a small investment, and many menus can be offered.

As shown in Figure 4, the Silicon Valley Model is a business model that provides a small number of product menus with a massive investment. Economic growth under the Silicon Valley Model occurred through a spirit of tolerance for the emergence of talent that—to borrow the words of Richard Florida—“creates new technology.” This is a model that achieves success through a small number of elite entrepreneurs building upon the failures of innumerable nameless entrepreneurs.

By contrast, the Japanese-style Creative Service Model has a spirit of tolerance for copying contexts between innumerable small-scale entrepreneurs sharing cultural capital. Tolerating copying allows an extremely large number of menus because it minimizes fixed production costs (see Figure 4).

Furthermore, the joint creativity of producers and consumers accelerates the renewal of context and increases the accumulation of context, generating a high-context and

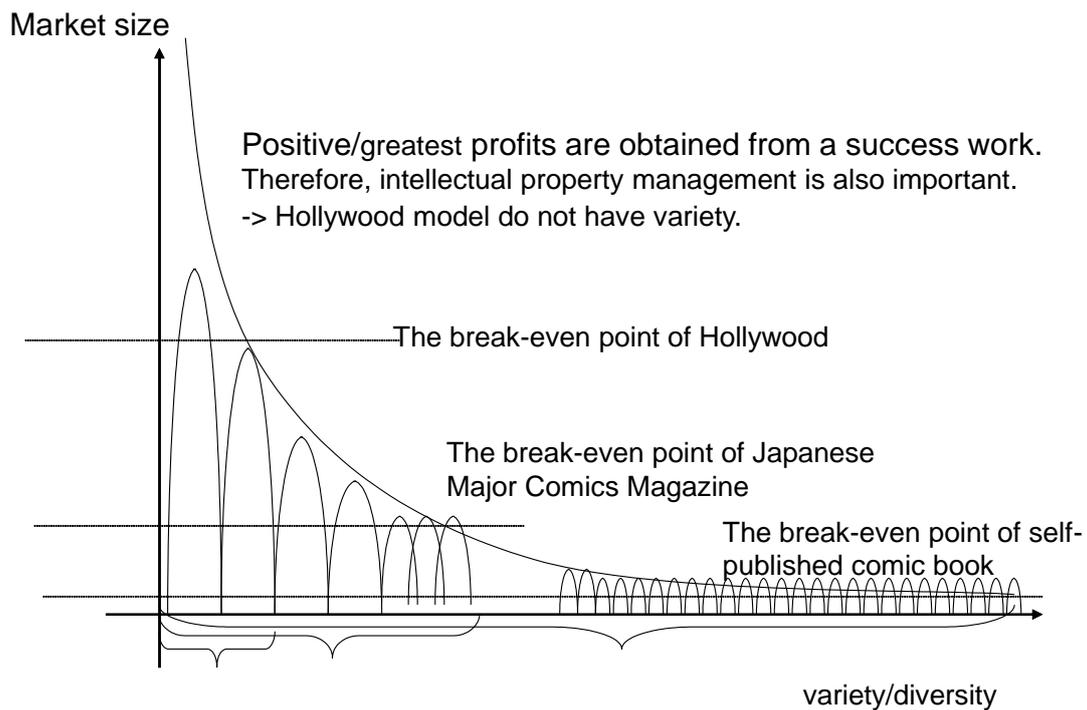


Figure 4. Silicon Valley Model and the Japanese-style Creative Service Model

detering the imitation (i.e., copying) of other regions. For small cities and regional areas in Japan to survive amidst globalization, each region needs to fully utilize its cultural capital and instruments in order to nurture and develop high-context “Ka-Ki-Ku-Ke-Ko” businesses.

Integral Services

The manufacturing world contains two types of product architecture, design ideas about how products, as systems, should be broken down into subsystems and how best to define the relationships (interfaces) between them. In modular architecture, “because each part—that is, module—has self-contained functions, even when parts that have been designed separately are afterwards gathered together and assembled into a product, overall the product will be excellent” (Fujimoto, 2004). By contrast, integral architecture is a way of thinking “that realizes products as total systems through a delicate balance between numerous parts resulting from the fine mutual adjustment of design parameters” (Fujimoto, 2004; p. 129). Japanese manufacturing used to dominate the world largely because of the Japanese-style comparing-and-adjusting techniques used in integral-type parts as well as in cars, motorbikes, and household appliances. Manufacturing industry markets are currently dominated by modular-type architecture. The achievement of modularization enabled, for example, Dell Computer Corp. and Apple, Inc. in the United

States to focus on design (the assembly of modular parts) and enabled China to commercialize this design with its high-volume production capabilities. Consequently, market regimes competing for one-in-the-world (one-size-fits-all) standard models emerged.

Professor Maekawa of Kyoto University (Kobayashi, 2002) states that similar differences between business models exist in the entertainment world. For example, in the South Korean entertainment industry, members of groups such as Shojyoidai and KARA who have extraordinary faces and great figures are brought together and are presented to audiences as a complete song-and-dance product; there is no schematic diagram of fans watching over the growth of their idols. Within these industries can be found the quintessential modular-type characteristics of “each part (face, figure, song, dance, etc.) having a self-contained function, and so even when parts are gathered together and assembled into a product, overall the product is excellent.” By contrast, Japanese idols (such as pop stars) do not necessarily begin with exceptional beauty, figures, singing skills, or dancing ability. While each part is incomplete by itself, when assembled, the parts have a charming appeal. By interacting with fans, these idols aim for completion (perfection) as entertainers. The process is also a “commercial product,” with idols moving forward from their incomplete state through shared creativity and evolution with their fans. This state overlaps with the characteristics of the integral-type architecture through which Japan used to showcase its uniqueness in the manufacturing field.

Japanese-style high-context services continue to penetrate the international market in various forms (Figure 5). Even fields initially regarded as subcultures have the potential for unexpected developments, in many cases through localization via the international plantation of high-contexts. The *Otaku* (“geek”) world is an integral-type service with extremely high-level context. The Otaku market is an idiosyncratic high-context market, but the integration of international markets would allow for success as long as the fixed costs for entering markets were low. The development of Internet search functions is enabling the establishment of an international Otaku market. Such markets cannot grow to a size that would enable them to support the Japanese economy alone, but new creative services may be born from amongst the diverse range of high contexts. Furthermore, if we limit the discussion to regional economies, economies dependent on high contexts may be able to support a region.

Restoration of Japanese-style Comparing-and-adjusting Techniques

Will integral-type architecture reemerge as the leading actor in world markets? The author believes that, if a huge middle class were to emerge in developing countries and if the market for this group expanded on a large scale, this would likely happen through the



Figure 5. Maid Café in Mexico City: the localization of maid café culture on a global scale is beginning.

localization of production based on local (overseas) contexts. Under a new flexible (one-finds-own-size) standard, models suitable to each country and joint development strategies based on alliances among countries are sure to be effective. For this to happen, it is important that local contexts be reflected in products and services. Japanese-style comparing-and-adjusting techniques—a specialty of Japanese enterprises—is required.

In Japanese-style creative services, service providers and users (i.e., customers) mutually compare and adjust their needs, creating value within these processes. As a condition for generating this mutual enhancement, it is essential that trust be built between service providers and users—a trust born from long-term relationships between the two parties.

In the past, Japanese enterprises have thoroughly demonstrated their comparing-and-adjusting techniques within Japan, creating integral-type products that were the pride of the nation. Moreover, the content of these products reflected the industriousness of the Japanese; this was an extremely high-context content that also invited high costs. Consequently, amidst competition over standardization through modularization and price competition, the firms' market competitiveness deteriorated. Competition over standardization through modularization and trends in the commoditization of product technologies can be expected to continue, but flexible standard models—creating integral architecture based on local (overseas) contexts while also based on modules—seem to be the orthodox method.

Towards the Global Expansion of “Ka-Ki-Ku-Ke-Ko” Business

As mentioned, if Asian and African countries maintain their current growth rates, virtually every nation in the world will become a middle-income country sometime during the first half of this century. Although there will be a remainder of around 20 developing countries, these are all small countries whose populations comprise only a small percentage of the global population. The importance of aid to developing countries based on two-nation discussions (as traditionally conducted) is sure to decline significantly. Global poverty will continue but will transform from an international problem into a domestic one. Aid must target not countries but, rather, diverse agents multi-nationally and cross-nationally. How will the resolution of poverty contribute to markets? It goes without saying that social businesses in “Ka-Ki-Ku-Ke-Ko” fields play an important role in the resolution of such domestic poverty issues.

At the core of markets in emerging countries is the huge middle-income class that will be born in the near future. Furthermore, emerging countries face the question of how far their businesses will expand markets for the low-income class and how to involve the high-income class, which is supported by multinational enterprises. In addition, for middle-income countries to transform into developed countries, developing the human capital of the huge middle class is essential. Due to their close connection with local communities, infrastructure investment is essential for expanding and developing Ka (“tourism”), Ki (“education”), Ku (“lifestyle”), Ke (“health”), and Ko (“communication”). No country has ever achieved sustained high growth without maintaining a remarkable growth in public investment in these fields. Such public expenditure does not shut out private-sector investment but rather induces it. With the government setting the stage for the emergence of new industries, a supply of healthy and educated workers, travelable roads, and a reliable electricity supply, private companies capable of generating profits—whatever their field of business—can increase their earning rates (World Bank, 2008).

The GDP generated by developing countries will exceed 50 % of the world’s total GDP within 10 years. Will sustainable growth in the world economy remain possible? One key to this depends on whether emerging countries have the capacity to manage success; another key is whether developed countries have the capabilities and resolve to respond to the expanding presence of emerging countries. The latter is a far more difficult task than the former. As with the recent debate over the Trans-Pacific Strategic Economic Partnership Agreement (TPP), the political tone of developed countries is becoming increasingly introverted, making it difficult for voices appealing for common international interests to garner sympathy. Because the impact of globalization in the short-term is so great, countries have adopted measures running counter to globalization, which has been successful in many ways. In developed economies, however, sectors

producing tradable products must gradually downsize. For non-tradable service sectors and tradable services, the weight of high-context sectors with significant human capital and geographical accessibility will increase. The weight of high-context Ka-Ki-Ku-Ke-Ko business sectors is also expected to increase.

The populations of intermountain regions continue to dwindle. The future for the underdeveloped areas of developed nations that have globalized is extremely uncertain. Conversely, however, although the populations of intermountain regions are decreasing, people also continue to live there.

How is it possible for people to continue to live in intermountain regions? Even with limited resources and an inconvenient living environment, residents continue to practice ways of life suited to their location, maintain traditions and lifestyles, continue local activities (and relationships), and create living environments that also provide a purpose for living. Residents share the context of identity. Identity is not something a person can create alone but is formed through the mutual recognition of local residents. What must be enhanced are local contexts that local residents can share; these are central to regional development, and the role played by Ka-Ki-Ku-Ke-Ko businesses in this process is significant.

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