

**The Transfer of Cutlery Industry from Japan to China:  
What is Left Behind in Japan? What is happening in China?**

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## Two Types of Industrial Transfer

Industries move from one location to another when the factors that have supported the comparative advantage of the former are lost. When we see such transfers of industries from the viewpoint of *ownership*, two types of industrial transfer can be differentiated. One type of transfer is those which are caused by the direct investment by the enterprises that are located in the more advanced location. In this case, the location of production moves from the more advanced location to the less advanced location because of the investment by the manufacturer in the former. The location of the production site moves but the production site is still owned by the same manufacturer. Another type of transfer is those which are caused by the decline of the manufacturers in the more advanced location and the rise of the manufacturers in the less advanced location. In this case, the production sites in the less advanced location are owned by different manufacturers from those in the more advanced location.

In the reports prepared by our Chinese colleagues (“The Study on the Characteristics and Overall Trend of the International and Domestic Industry Transfers in Recent Years”, “International industry transfer theory, the relevant laws, regulations and policies of major countries, as well as experiences, lessons and research”), only the former type is paid attention to, but the latter type deserves more attention when we discuss industrial transfers from advanced countries to China. It is true that, for example, the rise of China as an exporter of electronics products can mostly be explained by foreign direct investments by electronics manufacturers from Taipei, China; Japan; and Korea. But at the same time more and more indigenous manufacturers are involved in the global value chain of electronics industry. For example, Japanese electronics manufacturers, along with the transfer of their factories from Japan to China, have gradually shifted the source of dies from Japanese die manufacturers to Chinese indigenous manufacturers. The rise of demand for dies from Japanese electronics manufacturers and other international manufacturers has stimulated the development of a die manufacturing agglomeration, which is consisted mainly by small and medium indigenous die manufacturing enterprises, in Hengli town in Dongguan, Guangdong Province.<sup>1</sup> The rise of Pearl River Delta as the global production base of electronic machinery, office machinery, toys, and garments is usually attributed to its vicinity to Hong Kong, China, and foreign direct investments from Hong Kong, China; Taipei, China; Korea; and Japan. This judgment might have been largely true until 1990s. But when we take a closer look to the Pearl River Delta now, we find that many indigenous enterprises are involved in the production of components, dies, and end

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<sup>1</sup> Based on the author’s field work in Hengli town, November, 2004.

products of exporting industries. These indigenous enterprises form a number of industrial agglomerations, such as Hengli town, in which many small and medium enterprises engaged in the same business compete and collaborate with each other.

Which type of industrial transfer takes place, either the first type which is caused by foreign direct investment from the more advanced regions, or the second type which is caused by the rise of indigenous manufacturers in the less advanced regions, must be related with the amount of patented technology involved in the industry. In those industries which involve a lot of patented technologies, such as electronics, automobile, and machinery, industrial transfer from the more advanced regions to less advanced regions usually takes place when the manufacturers in the former invests to the latter, because the entry barriers for the enterprises in the less advanced regions are high.<sup>2</sup> But in those industries which involve few patented technologies, such as garment, die, and toy industries, industrial transfer from more advanced regions to less advanced regions takes place along with the decline of the manufacturers in the former and the rise of the manufacturers in the latter, because the entry barriers for the enterprises in the latter are not very high. This theory on the emergence of two types of industrial transfer remains to be tested empirically.

The industry which this paper focuses on, cutlery industry, is a typical example of the latter. The industry is labor intensive and only some unimportant technologies are protected by patents. The largest exporter of cutlery was Japan during 1960s, 1970s, and 1980s, but China has taken over Japan's position since 1990s. The transfer of cutlery industry from Japan to China has entailed the decline of Japanese manufacturers and Japanese industrial agglomerations and the rise of Chinese manufacturers and Chinese industrial agglomerations. The purpose of picking up an industry which may seem to be unimportant as a case study is to address some aspects which are important for local policymakers where industrial transfers take place: how can the momentum for economic growth be maintained after an important local industry disappears?; what is needed to retain and develop a local industry?

### **The Transfer of Cutlery Industry from Japan to China**

The most convenient way to observe the transfer of cutlery industry from Japan to China is to take a glance at the data of cutlery imports by the United States. Figure 1 shows the shares of major partners among the total import of knives by the United States, and

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<sup>2</sup> However, such entry barriers are not always insurmountable. For example, Korean firms such as Samsung, LG, and Hyundai surmounted the high entry barriers of the automobile and electronics industries. Now some Chinese indigenous firms, such as Chery, Geely, and BYD, are challenging the high entry barriers of the automobile industry.

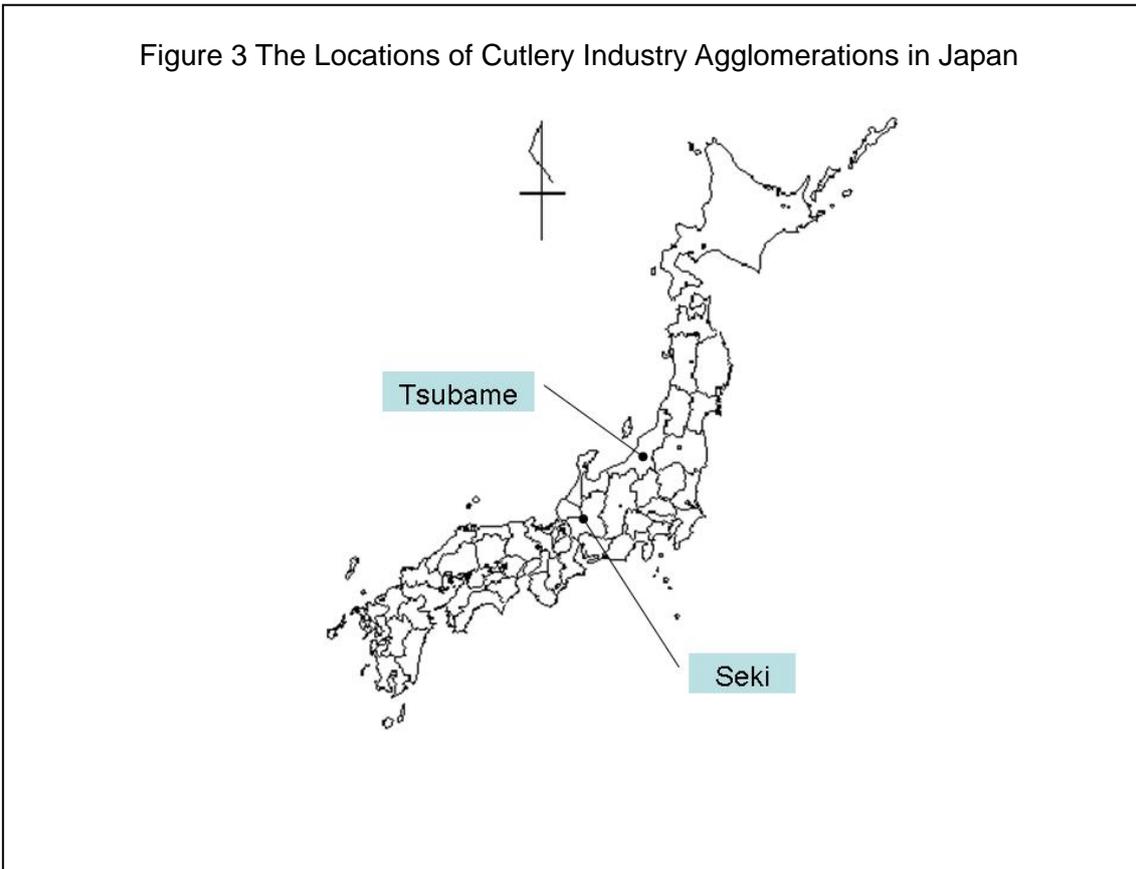
Figure 2 shows similar figures for the import of spoons, forks, and similar kitchen or tableware. In both items Japan occupied 60-70% of total imports by United States in 1970.

The rise of Japan as a major exporter of cutlery occurred in the 1950s. Because exports from Japan to the United States expanded so rapidly and put American cutlery manufacturers under pressure, Japan had to accept a “voluntary” quantitative restriction on cutlery exports to the United States. But still Japan occupied 70-80% of cutlery imports by the United States. The Japanese cutlery industry consisted of two major industrial agglomerations: manufacturers of spoons, forks, and tableware agglomerated in Tsubame city, Niigata prefecture, and knife manufacturers agglomerated in Seki city, Gifu prefecture. (Figure 3 shows the locations of the two cities)

As can be seen in Figures 1 and 2, Japan’s share in cutlery export to the United States started to decline since early 1970s. This was the result of the decline of Japan’s competitiveness in cutlery industry, which had been caused by the appreciation of Japanese Yen and the rise of wages in Japan. After all, cutlery industry is a labor intensive industry, and it is difficult for an incumbent manufacturer to create a high entry barrier by having a proprietary technology.



Figure 3 The Locations of Cutlery Industry Agglomerations in Japan



In the case of knives, Republic of Korea eroded Japan's share in the first half of 1970s., and during the latter half of 1980s, Taipei,China's share rose (Figure 1). However, Japan remained to be the top exporter of knives to the United States until 1994. In this year, even Republic of Korea and Taipei,China's shares had already started to decline. The reason of the persistence of Japan's competitiveness in knives can only be explained by the external economy created by the agglomeration of small and medium knife manufacturers in Seki city.

The export of spoons, forks, and tableware has followed a similar path (Figure 2). Japan's share started to drop, and Republic of Korea and Taipei,China's shares started to rise in early 1970s. Japan's position as a top exporter of spoons, forks and tableware was taken over by Taipei,China, in 1987, and Republic of Korea became the top exporter in 1989, but there was a brief period of restoration by Japan during 1991-92, and after that China has become the top exporter.

In both items China is now by far the top exporter to the United States and its shares are still rising rapidly. China is also the top exporter of cutlery to EU and Japan. In the case of EU, 76% of its spoon and fork imports and 63% of its knife imports is from China in 2006. In the case of Japan, 75% of its spoon and fork imports and 76% of its

knife imports is from China in 2006. China currently dominates the global cutlery trade.

### **What is Left Behind in Japan?**

Japan occupied only 6% of knife imports and only 1% of spoon and fork imports by the United States in 2006. Cutlery industry as an export industry has virtually disappeared from Japan. What happened to the cutlery industries in Tsubame and Seki? Small and Medium Enterprise Research Center (2001) reports the situation of many small and medium enterprises in Tsubame industrial district as observed around 2000. It reports that there were only two manufacturers in Tsubame which had internationally famous brands, and even these two faced severe price competition with competitors from other Asian nations. The other manufacturers had been engaged in OEM manufacturing, which meant that they had supplied products using the brands of other brand owners. These brand owners switched their supply sources to other Asian manufacturers who could provide the same products by lower prices, and hence the OEM manufacturers of Tsumabe lost their business.

The manufacturers who had produced cutlery for exports in Tsubame lost most of their market but the industrial district remained vibrant as of 2000. That is because enterprises in Tsubame developed different lines of business other than cutlery. Some enterprises had entered the production of metal housewares: various types of plates and vessels made of metal that were used in restaurants and hotels. Another enterprise exploited its expertise in processing metals which they had acquired while producing cutlery, and became the provider of specialized processing technology of stainless steel, titanium, aluminum and magnesium.<sup>3</sup> Another enterprise also made use of its expertise in metal processing, and became an internationally renowned supplier of golf club heads.<sup>4</sup> Another enterprise had moved to the production of various household electronic apparatus, such as coffee makers, vacuum cleaners, and lightings.<sup>5</sup> In 2008, in Tsubame city, which had a population of 83 thousand, 16 thousand (20%) were engaged in manufacturing, which was a high proportion in Japan, where only 9% of the population were engaged in manufacturing, and industrial output grew by 22% compared to 1999.

### **What is happening in China?**

Compared to the amplexness of information and studies on Japanese cutlery industry, there are few information and studies on Chinese cutlery industry. In fact, very few

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<sup>3</sup> The name of the enterprise is Toyo Rikagaku Kenkyusho Co., Ltd.

<sup>4</sup> The name of the enterprise is Endo Manufacturing Co., Ltd.

<sup>5</sup> The name of the enterprise is Twinbird.

people know where the cutlery industries are located even in China. According to the author's fieldwork in China, major exporters of cutlery are located in Guangdong province.

Figure 4 The Locations of Cutlery and Metal Housewares Industries in China



There are four industrial districts in Guangdong which specialize in the production of cutlery and metal housewares. Yangjiang city, and especially Yangdong county, which is located in the western part of Guangdong, specializes in the manufacturing of knives and scissors. There are more than 1400 manufacturers in the city which produces knives, scissors, and other cutlery. Xinxing county, which belongs to Yunfu city, has an industrial agglomeration of stainless stewpots. Xinhui district, which belongs to Jiangmen city, has an industrial agglomeration of knives, forks, spoons, pots and pans made of stainless steel. Jieyang city, which is located in the eastern part of Guangdong, is said to be specialized in the production of cheap cutlery sold in the domestic market.

Yangjiang became famous in China for its knife production during 1920s, and some state-owned knife producers were established during the planned economy era of

the People's Republic of China. Until 1980s, the knives produced in Yangjiang were only sold in the domestic market. In 1990, a state-owned knife manufacturer in Yangjiang received a subcontracting order from a Taipei, China knife maker which exported knives to the United States and Europe. Since then, knife manufacturers in Yangjiang started to receive subcontracting orders from manufacturers of Taipei, China, and then they started to get orders directly from the buyers in America and Europe. In the beginning, Yangjiang manufacturers imported knife processing machinery from Taipei, China, but later on local machinery manufacturers learned how to make such machinery. Knife and cutlery production for exports developed rapidly during 1990s, and during the same period, state-owned knife manufacturers went bankrupt and were replaced by private enterprises. Foreign direct investment from Taipei, China or from other countries did not play any role in the development of Yangjiang as a major exporter of knives and cutlery.<sup>6</sup>

The production of steel housewares in Xinhui county emerged in 1970s, but the development of stainless steel houseware manufacturing for exports dates back to 1984, when a merchant from Hong Kong, China, ordered the production of stainless steel houseware from a local agricultural machinery factory.<sup>7</sup> Since then, Xinhui's manufacturers engaged in export processing of stainless steel housewares based on the orders they received from trade houses in Hong Kong, China. Xinhui's stainless steel houseware industry specializes in stainless stewpots. Because the product has only a small market in China, most of the products manufactured in Xinhui are exported to America and Europe. The houseware industry employs more than 30 thousand employees in a country where the urban population is only 100 thousand. There are a few large enterprises in Xinhui's houseware industry: one is Linkfair, which employs 3000 employees, and another is Master, which employs 2400. Even such powerful manufacturers are engaged, for the most part, in OEM business, which means that they supply products that will be retailed under other company's brand name.

### **What is needed to retain a local industry?**

The decline of Japanese cutlery industry and the rise of Chinese cutlery industry may be interpreted as a simple story of industry transfer caused by the change of competitive advantage based on the change of factor endowment of both countries. However, by considering some findings mentioned in this paper, we can see that it is not just a simple story that can be explained exclusively by factor endowment. First, the persistence of

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<sup>6</sup> The information on Yangjiang's cutlery industry is based on the author's interviews made in August, 2008.

<sup>7</sup> The information on Xinhui's stainless houseware industry is based on the author's interviews made in September, 2008.

Japan's competitiveness in cutlery long after the rise of Republic of Korea and Taipei, China. Secondly, the current dominance of China in cutlery exports, while there are many countries in the world that can enjoy as abundant supply of cheap labor as in China. These facts may only be explained by external economy created by the agglomeration of many manufacturers. It was because Japan had two industrial agglomerations, Tsubame and Seki, that Japanese cutlery industry managed to sustain the competition with Korean and Taiwanese cutlery manufacturers which could enjoy cheaper labor. It is because China has Yangjiang, Xinhui, and other industrial agglomerations specialized in cutlery production that Chinese cutlery exports occupy dominant positions globally even if there are many other nations that are not inferior to China in terms of the supply of labor.

However, Japan's experience shows that such industrial agglomerations will lose its competitiveness in the long run. Even China faces the risk of losing its comparative advantage in cutlery industry. How can the cities in Guangdong retain and develop its cutlery industry in the future? One remedy is to establish a famous brand name. In fact, a knife manufacturer in Yangjiang, Shibazi, is trying to establish its own brand in the domestic market by investing in the creation of retail networks. By having a famous brand, the company can create a certain entry barrier. At the moment, such efforts for establishing brand names are made only by individual companies, but it is worth considering creating a 'local brand' comprising the industrial agglomeration as a whole. The experience of Solingen, Germany must be a good example. Another remedy is to develop some proprietary technology and patents. Such effort is partly made by the stewpot manufacturers in Xinhui.

## **References**

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