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**JAPANESE INVESTMENT
IN THE UNITED STATES**

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of the Requirements for the Degree
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CHAPTER I

INTRODUCTION

A - FOREWORD

Japanese enterprise is a fascinating phenomenon - especially to Westerners. It embodies a distinctive set of values that command both attention and admiration.

“Traditionally, Japanese enterprise has been viewed in terms of its cultural homogeneity and cohesiveness and its human relations characteristics that have so thoroughly integrated people management into the strategic success formula of the firm. Books such as *Theory Z* and *The Art of Japanese Management* have been big sellers as people in the West - indeed, in the world - have become intrigued, if not captivated by the expanding competitiveness of Japanese enterprise. The image of these firms in some instances is nearly colossal. They are seen as monolithic and pervasive, racing, as it were, to a destiny of global market dominance.”¹

When assessing Japanese direct investment and its relation to U.S. competitiveness, it is appropriate to define what foreign direct investment stands for. Foreign direct investment is defined as investment that results in ownership of 10 percent or more of the voting securities of a U.S. business enterprise. It does not include foreign investment in financial assets, such as government bonds, bank deposits, or purchases of equities that comprise less than 10 percent of the voting securities of a company.

The international investment policy of the United States is based on the assessment that free market forces will allocate capital flows in the most efficient manner. The United States has consistently welcomed foreign direct investment in this country, providing foreign investors fair, equitable and non-discriminatory treatment both as a matter of law and practice. However, the United States maintain exceptions to such treatment only as necessary to protect national security interests. Such exceptions are few and for the most part limited to investment in easily identifiable sectors (in the areas of national security, certain regulated industries and the development of natural resources).

Japanese Direct Investment in the United States (JDIUS) has in recent years become a major topic of interest. However, in both absolute and relative terms, JDIUS is quite modest. Japan only accounts for about 10 per cent of total foreign direct investment in the United States (FDIUS), a figure which is less than half of the United Kingdom's and that of the Netherlands.² Why then has JDIUS generated such interest?

For one thing, Japan's direct investment growth in the United States has been spectacular. Between 1974-1979, it grew ten fold.³ Although in the 1980s, this growth has slowed, it is still the fastest growing of all the leading industrialized investor countries. U.S. imports with household names like Sony, Honda, Toyota and Sanyo now have made-in-the-U.S.A. labels on many of their products. This investment is not confined to just automobiles and electrical appliances but is visible in many other industries. In steel,

Nippon Kokan is in the process of a \$1.2 billion modernization of National Steel after acquiring a 50 per cent stake in it.⁴ The Japanese have begun to make semi-conductor chips and telecommunications gear in the United States, and are snapping up premium real estate and blue-chip stocks. Japan's trading companies and banks are expanding their activities. Today, about 500 Japanese companies manufacture or assemble in the United States.⁵

B - PURPOSE, SCOPE, METHODOLOGY AND DATA LIMITATION

The purpose of this paper is to analyze data on Japanese Direct Investment in the United States published annually between 1974 - 1991 by the U.S. Department of Commerce and strives to accomplish the following objectives:

- 1) To determine the present characteristics, and any recent trends and issues of Japanese direct investment in the United States.
- 2) To gain a better understanding of the forces which motivate Japanese foreign investment.
- 3) To establish whether there is any correlation between Japanese Direct Investment in the United States and three other factors, namely, interest rates in the United States, foreign exchange rate of the Japanese Yen to the U.S. Dollar, and GNP in the United States as a measure of the market size.

The scope of the study consists of seven chapters. Chapter I is the introduction to this thesis. Chapter II presents the past patterns of Japanese

direct investment worldwide. Chapter III exposes the structure of Japanese direct investment in the United States. Chapter IV exhibits the reasons for Japanese investment in the United States and includes an empirical study of Japanese investment using regression analysis. Chapter V shows the impact of Japanese investment on the U.S. economy. Chapter VI presents the recent trends and issues between the United States and Japan. Finally, chapter VII concludes this paper with a summary of this study.

The methodology used by this study is to identify the major determinants of Japanese investments in the United States, and then conduct a regression analysis to see which variables are significant and which are not. Frequently used terms are quoted in full at their first mention in the chapter and are then subsequently abbreviated. Most of the tables and figures used in this report are derived from data published in various issues of Survey of Current Business by the U.S. Department of Commerce.

Some of the supplemental data used in this report are those of Japan's Ministry of Finance (JMOF) . It should be noted that JMOF data is not compatible with that of the U.S. Department of Commerce. The JMOF data is measured by approvals and notifications, which may differ from actual expenditures. In addition, reinvested earnings and reevaluations of assets are incompletely included, and investment withdrawals are not reported. They are useful for general comparisons of trends and special mention of them is made whenever they appear in the text.

NOTES TO CHAPTER I

¹ Mamoru Yoshida, Japanese Direct Manufacturing Investment In The United States, p xi.

²Figures are derived from information in U.S. Department of Commerce, Survey of Current Business, August 1985.

³ Ibid .

⁴ William J. Holstein, "Japan, USA," Businessweek, 14 July 1986, p. 53.

⁵ Ibid., p.46.

CHAPTER II

PAST PATTERNS OF JAPANESE DIRECT INVESTMENT WORLDWIDE

The history of Japanese foreign direct investment (FDI) can be basically divided into four phases: pre-liberalization, liberalization, post-liberalization, and the present era.

A - PRE-LIBERALIZATION (1945 - 1968)

Japanese FDI was very limited in this period and remained insignificant until the early 1960s. Japan's restrictive policy toward outward investment due to balance of payments considerations; the relative weakness of the yen and low domestic wage rates; all offered little incentive for outward investment. Furthermore, Japan had to concentrate all its resources on domestic reconstruction.⁶ According to data from the Japanese Ministry of Finance, investments worldwide grew fairly steadily at an annual average rate of 22 per cent, reaching \$1.4 billion by the end of fiscal year (FY) 1967.⁷

B - LIBERALIZATION (1969 - 1971)

In 1969, real Gross National Product (GNP) growth of 10.8 per cent was achieved simultaneously with a basic balance of payments surplus of \$2.0 billion. This and the desire of the Japanese government to avoid a revaluation of a very undervalued yen, resulted in the implementation of

measures to promote the import of goods and the export of capital. These measures not only included the liberalization of restrictions on outward investments but also incentives which supported and encouraged outward investments.⁸

Between 1968 and 1971, the growth rate of Japanese worldwide FDI increased to an average 32 percent a year and by the end of FY1971, cumulative worldwide FDI had reached \$4.4 billion.⁹

C - POST-LIBERALIZATION (1972 - 1979)

Beginning in mid-1971, the Japanese government actively encouraged foreign investment as a means of reducing embarrassingly large foreign exchange reserves which were to reach more than \$15.0 billion by early 1972. This resulted in an explosive growth of Japanese FDI between 1972 and 1974, with the cumulative total rising to \$12.6 billion by the end of FY1974. In both 1972 and 1973, cumulative FDI increased at better than 50 per cent per year. In 1974, however, the growth rate was reduced to 23 per cent as the government reinstated controls on foreign capital outflows in response to a reversal in Japan's annual surplus balance of payments position as a result of oil price increases. In addition, corporations reduced investment budgets in the face of the deepening world recession.¹⁰

Japanese overseas investment up to this period has had certain distinctive features. One is the large percentage channeled into the developing countries - over 70 per cent in FY1974, mainly in Asia and South America (particularly Brazil). This is in contrast to other advanced countries which tended to invest heavily in other developed countries. Japanese FDI in

the advanced countries has been highly concentrated in the service sectors of commerce, banking and insurance, while the concentration in manufacturing has been low.¹¹ Another feature of Japanese investment in the early 1970s is the large proportion accounted for by the natural resources sector. This sector, and the sectors of manufacturing and services, each accounted for one-third of total Japanese FDI. More than 93 per cent of natural resource investment has been in mineral and oil and gas development. The bulk of manufacturing investment was concentrated in two capital intensive heavy industries - chemicals and metals - and two labor-intensive industries - textiles and electronics.¹²

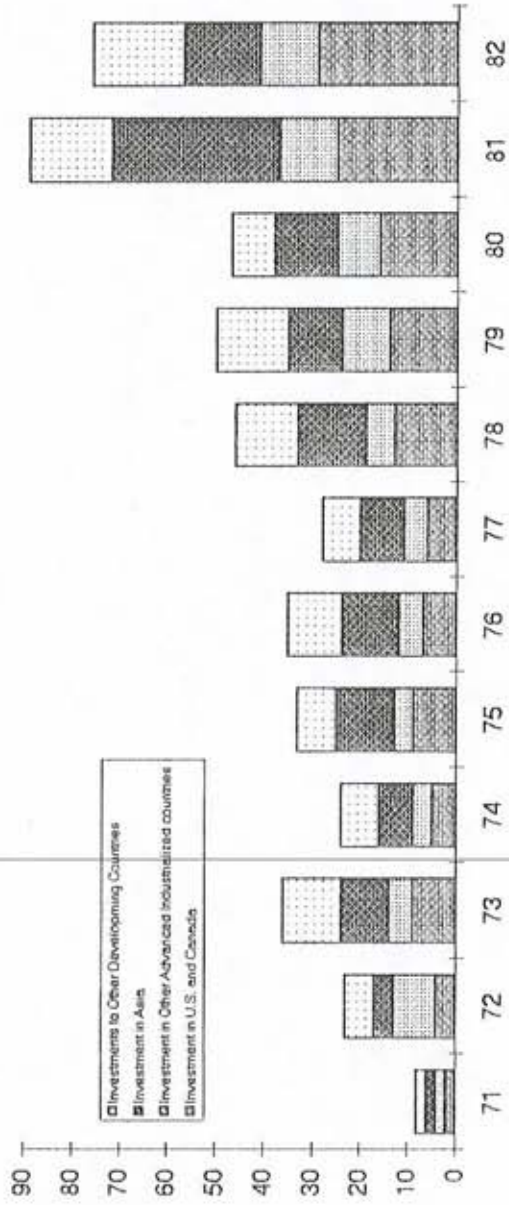
D - THE PRESENT ERA (1980s AND 1990s)

The 1980s has seen a fundamental change in the trend of Japanese FDI. Most notably, as shown in Figure 1, there has been a marked shift towards investment in the developed countries and especially in the manufacturing sector. In 1981, Japan overtook Switzerland to become the fourth largest overseas investor in the world, behind West Germany, U.K. and the United States in ascending order of Investment. In 1982, the proportion of Japanese FDI in the developed countries was 54.8 per cent, compared with 43.7 per cent in 1981.¹³ The United States has been the leading host nation for Japanese investment for some time, and its share is growing. At the end of FY1984, 27.9 per cent of the cumulative total of Japanese direct investment was placed in the United States.¹⁴(See Table 1).

FIGURE I

TRENDS IN JAPAN'S OVERSEAS INVESTMENTS

(\$100 million)



Sources: White Papers of Japan, 1983-1984 Annual Abstracts of Official Reports & Statistics of the Japanese Government (Tokyo: Japan Institute of international affairs, 1985): 89, figure6.

TABLE 1
JAPANESE DIRECT INVESTMENT BY REGION,
CUMULATIVE TOTAL 1951-1984

	<i>Number of Cases</i>	<i>Value in US \$ Million</i>	<i>Percent of Total</i>
NORTH AMERICA	12.276	21.469	30.1
<i>of which</i>			
United States	11.603	19.894	27.9
LATIN AMERICA	4.514	13.020	18.2
<i>of which</i>			
Panama	1.979	4.916	6.9
Brazil	1.274	4.274	6.0
ASIA	10.844	18.027	25.2
<i>of which</i>			
Indonesia	1.319	8.015	11.2
Hong Kong	2.299	2.799	3.9
Singapore	1.665	1.930	2.7
Rep. of Korea	1.207	1.548	2.2
MIDDLE EAST & NEAR EAST	307	2.927	4.1
EUROPE	3.607	9.072	12.7
<i>of which</i>			
United Kingdom	963	2.766	3.9
AFRICA	1.055	3.198	4.5
<i>of which</i>			
Liberia	588	2.296	3.2
OCEANIA	1.710	3.718	5.2
<i>of which</i>			
Australia	1.129	3.153	4.4
TOTAL	34.313	71.431	100.0

Source: J.W. Wheeler, "Japanese Foreign Direct Investment in the United States",
 Research in International Business & Finance, vol.5, (London:JAI Press Inc.
 1986),p 355, Table 5.

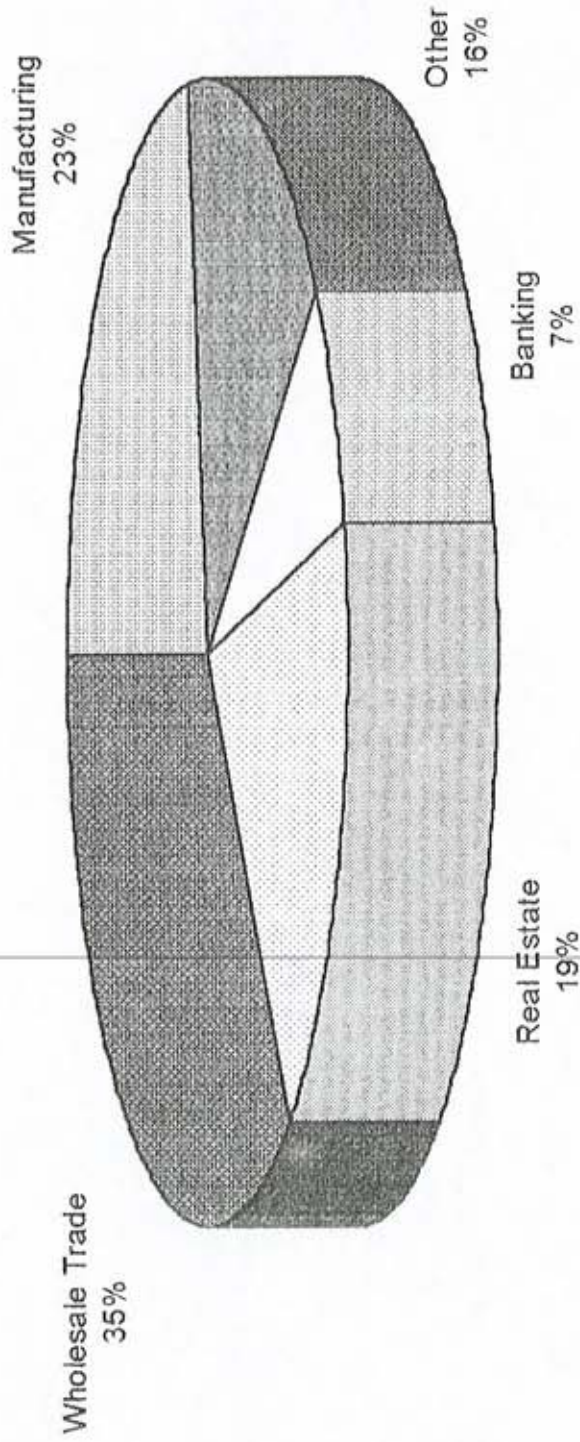
During 1980-88, foreign direct investment capital inflows into the United States from Japan increased the fastest among the major source countries, with an annual growth rate of 29.7 percent. In 1988, Japan's direct investment position, reached \$53.3 billion, the second highest after the United Kingdom. Several factors contributed to the rapid inflow of direct investment capital from Japan: the long-term economic expansion of the U.S. economy, the increase since 1985 in the value of the yen relative to the dollar which shifted relative manufacturing costs, the worldwide expansion in manufacturing investments by Japanese corporations to expand and increase market share, the large supply of low-cost capital in Japan, and concerns about U.S. trade restrictions on imports from Japan.

The largest share of Japan's direct investment in the U.S. economy is in wholesale trade, which includes the U.S. distribution system for imported motor vehicles from Japan. As shown in figure 2, wholesale trade accounted for 35 percent of Japan's total direct investment position. Japan's direct investment in U.S. manufacturing ranked second with a 23 percent share, followed by the real estate and banking sectors.

In manufacturing, Japan's foreign direct investment position in the United States has been rising and ranked fourth in 1988 compared with other countries. As shown in Table 2, Japan's foreign direct investment position in the U.S. manufacturing sector was \$12.2 billion or 10.1 percent of the 1990 total position (\$121.4 billion) for all countries. The United Kingdom's investment position was 37.0 billion, and it accounted for the largest share among the major source countries, 30.5 percent, followed by the Netherlands, Germany, and Japan.

FIGURE 2

JAPAN'S FOREIGN DIRECT INVESTMENT POSITION IN
THE U.S. ECONOMY, BY SECTOR, 1988



TOTAL \$ 53.3 BILLION

Source: Bureau of Economic Analysis

TABLE 2

FOREIGN DIRECT INVESTMENT POSITION IN
U.S. MANUFACTURING BY COUNTRY, 1988

COUNTRY	FDI Position \$ millions	Percent of total
All countries	121,434	100.0
United Kingdom	37,021	30.5
Netherlands.....	17,153	14.1
Germany	13,268	10.9
Japan	12,222	10.1
Canada	9,391	7.7
Switzerland	8,072	6.6
Others	24,307	20.1

Source: Bureau of Economic Analysis

NOTES TO CHAPTER II.

⁶ Felicity Marsh, Japanese Overseas Investment: The New Challenge (London: The Economist Intelligence Unit Limited, 1983), p. 2.

⁷ U.S. Department of Commerce Report to Congress, Foreign Direct Investment in the United States, 9 vols. (Washington, D.C.: U.S. Government Printing Office, 1976), 5: app. G-260.

⁸ Marsh, Japanese Overseas Investment, p. 2.

⁹ U.S. Department of Commerce Report, Foreign Direct Investment 5: app. G-260.

¹⁰ Ibid .

¹¹ Marsh, Japanese overseas Investment, p. 4.

¹² U.S. Department of Commerce Report, Foreign Direct Investment 5: app. G-261.

¹³ J. W. Wheeler, "Japanese Foreign Investment in the United States," Research in International Business and Finance (1986): 353.

¹⁴ This is computed from figures in White Papers of Japan. 1983-84 Annual Abstract of Official Reports and Statistics of the Japanese government. (Tokyo: Japan Institute of International Affairs, 1985), pp. 88-91.

¹⁵ Wheeler, "Japanese foreign direct investment," p.355.

CHAPTER III

STRUCTURE OF JAPANESE DIRECT INVESTMENT IN THE UNITED STATES

A - HISTORICAL PATTERNS

Before 1970, Japanese Direct Investment in the United States (JDIUS) was relatively insignificant. However, in the 1970's and specifically between 1974 - 1978, there was a tremendous upsurge in the level of JDIUS. The stock of JDIUS at year end 1973 was \$152 million while at year end 1978, it had risen to \$2,749, a five year compounded growth of 1,697 per cent or an average annual growth rate of 81.68 per cent. This includes a doubling of JDIUS in both 1974 and 1976. Although the growth rates are outstanding, in absolute terms, the stock of JDIUS was small compared to the other main investor countries. The United Kingdom, Netherlands and Canada still accounted for more than 65 per cent of the total of foreign direct investment in the United States (FDIUS), while Japan's share was only 6.5 per cent. Table 3 shows the stock of foreign direct investment position in the United States by country, for the years 1974 to 1978, while Figure 3 shows the evolution of shares of the main investor countries with direct investments in the United States.

TABLE 3

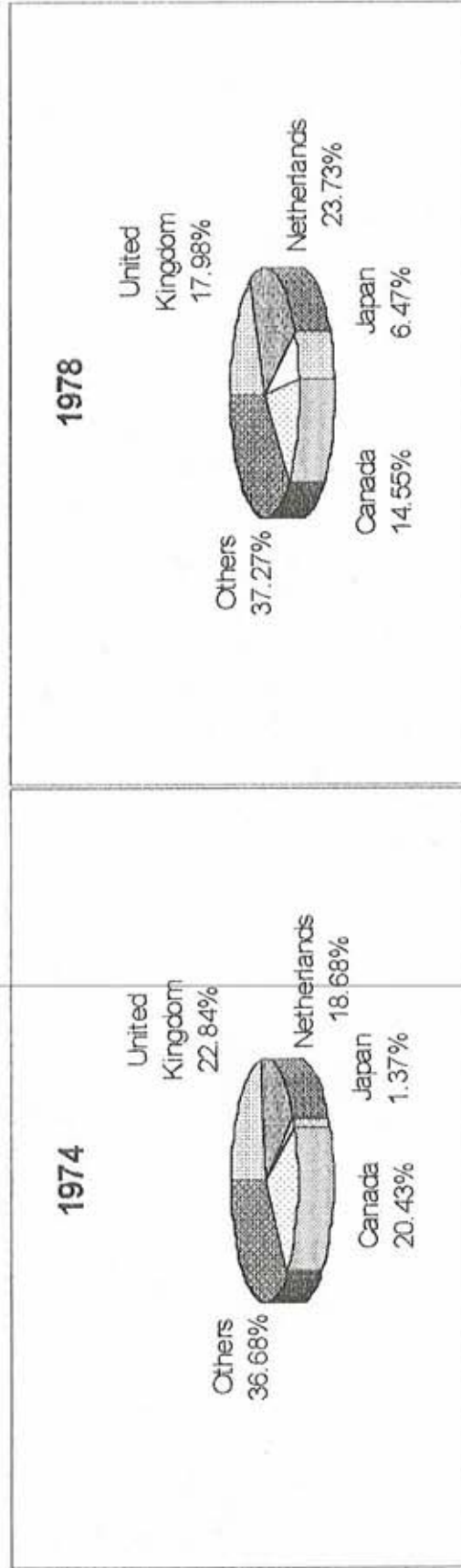
FOREIGN DIRECT INVESTMENT POSITION IN THE UNITED STATES
FOR SELECTED COUNTRIES (SMILLIONS) 1974-1978

	1974	1975	1976	1977	1978
ALL COUNTRIES	25,144	27,662	30,770	34,595	42,471
UNITED KINGDOM	5,744	6,331	5,802	6,397	7,638
NETHERLANDS	4,698	5,347	6,255	7,141	10,078
JAPAN	345	591	1,178	1,755	2,749
CANADA	5,136	5,352	5,907	5,650	6,180
WEST GERMANY	1,535	1,408	2,097	2,494	3,654
SWITZERLAND	1,949	2,135	2,295	2,400	2,879
FRANCE	1,139	1,369	1,570	1,793	1,978
BELGIUM AND LUXEMBOURG	684	789	(D)	1,190	1,303

Source: Survey of Current Business, various issues

FIGURE 3

NATIONAL COMPOSITION OF FOREIGN DIRECT INVESTMENT
IN THE UNITED STATES 1974 AND 1978



Source: Based on data in Table 3

One of the main factors for this tremendous growth was the fact that Japanese firms had developed considerable financial resources and competitive capabilities in the late 1960's. Initially, the success of Japanese exports to the United States made direct investments unnecessary except in sales facilities. Later, it became worthwhile for Japanese firms to begin manufacturing or assembly operations in this country in order to provide better service to their customers, to adapt their products to U.S. tastes and to obtain access to U.S. technology. Furthermore, the Japanese Government encouraged direct investment abroad to reduce large balance of payments surpluses and curb international pressures for a revaluation of the undervalued yen.¹⁶

Other factors include the Organization of Petroleum of Exporting Countries (OPEC) crisis which caused oil prices to quadruple and brought about fears about the security of raw material supply, the increasing Japanese concern about industrial pollution, and the rising wages in Japan. These factors pushed the domestic economy towards high technology, knowledge intensive, "clean" industries and caused raw material processing plants to be located in the countries of extraction. The emergence of trade barriers in a few industries also contributed to Japanese firms shifting some production to the United States in order to bypass existing barriers or forestall erection of new ones.¹⁷

However, what was of great significance, as noted at the beginning of this section, was the fact that Japan's share of FDIUS was growing at a much

greater rate than any of the other investor countries. It was obvious that if this trend continued, JDIUS would be a force to be reckoned with in the near future.

B-PRESENT STATE OF JAPANESE DIRECT INVESTMENT IN THE UNITED STATES.

Indeed, the phenomenal growth rates in the 1970's have in only one decade, not only propelled Japan from an insignificant investor country to the current position of third highest investor country, but they are still continuing. According to the latest preliminary figures released by the U.S. Department of Commerce in August 1986, at the end of 1984, Japan surpassed Canada to have the third highest total of FDIUS. Japan's stock of FDIUS, at the end of 1985, stood at \$19,116 million and accounts for 10.45 per cent of total FDIUS. Although impressive, it is still only about half that of the United Kingdom with \$43,766 million (23.92 per cent of total FDIUS) and that of the Netherlands with \$36,124 million (19.75 per cent of total FDIUS). Table 4 shows the foreign direct investment position of the main investor countries for the years 1979 to 1985 while Figure 4 presents their relative shares of FDIUS for 1979 and 1985. The most recent statistics available on Japanese investments in the U.S. indicates that in the year 1991 it was equal to US \$18 billion, which means that it declined by US \$1 billion as compared to 1985, in a period of six years.

TABLE 4

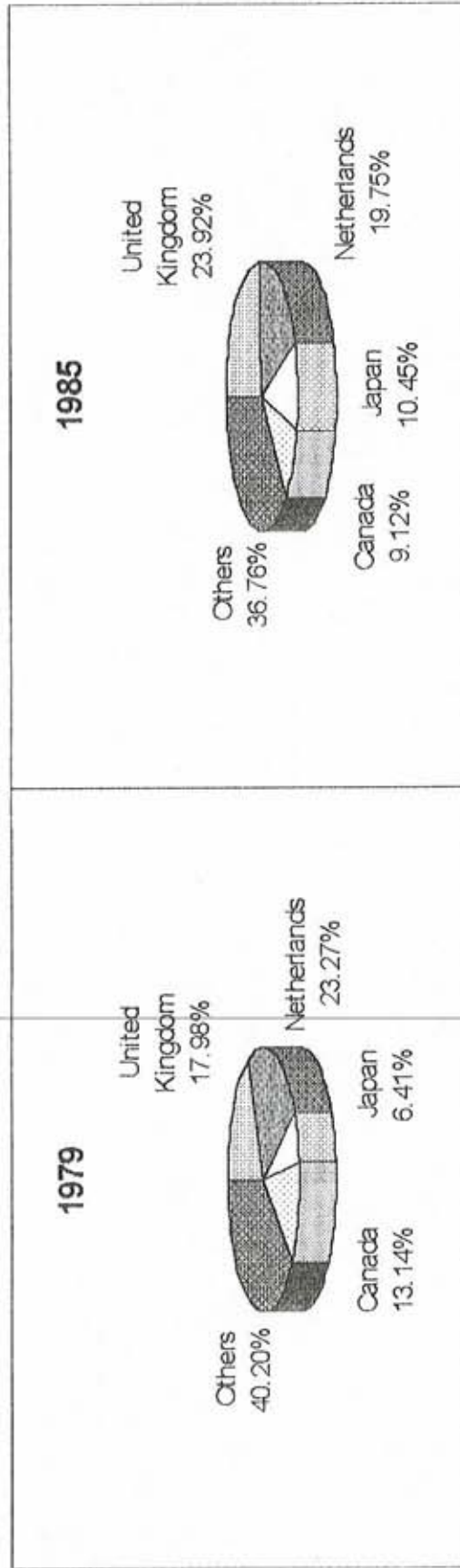
FOREIGN DIRECT INVESTMENT POSITION IN THE UNITED STATES
FOR SELECTED COUNTRIES (\$ MILLIONS) 1979 - 1985

	1979	1980	1981	1982	1983	1984	1985
ALL COUNTRIES	54,462	83,046	108,714	124,677	147,061	159,571	182,951
UNITED KINGDOM	9,796	14,105	18,585	28,447	32,152	38,099	43,766
NETHERLANDS	12,672	19,140	26,824	26,191	29,182	32,643	36,124
JAPAN	3,493	4,723	7,697	9,677	11,336	14,817	19,116
CANADA	7,154	12,162	12,116	11,708	11,434	14,001	16,678
WEST GERMANY	5,665	7,596	9,459	9,850	10,845	11,956	14,417
SWITZERLAND	3,449	5,070	5,474	6,378	7,464	8,349	11,040
FRANCE	2,289	3,731	5,876	5,708	5,726	6,502	6,295
KUWAIT	(n)	335	2,994	3,567	3,606	4,338	3,983
BELGIUM & LUX.	1,564	1,554	1,891	1,904	2,261	2,559	2,872

Source: Survey of current Business, various issues.

FIGURE 4

NATIONAL COMPOSITION OF FOREIGN DIRECT INVESTMENT
IN THE UNITED STATES 1979 AND 1985



Source: Based on data in Table 4.

However, among the top investor countries in the United States with holdings of more than \$3.0 billion at the end of year 1985, Japan's share of FDIUS is still growing at the fastest rate. Between 1980-1985, the average annual growth rate for JDIUS was 33.62 per cent, more than 4 per cent ahead of the United Kingdom's 29.21 per cent and significantly exceeding that of total FDIUS which grew at an average annual rate of 23.21 per cent. Direct investment growth rates for the main investor countries are presented in Table 5. Figure 5 charts the growth of JDIUS between 1980 - 1985.

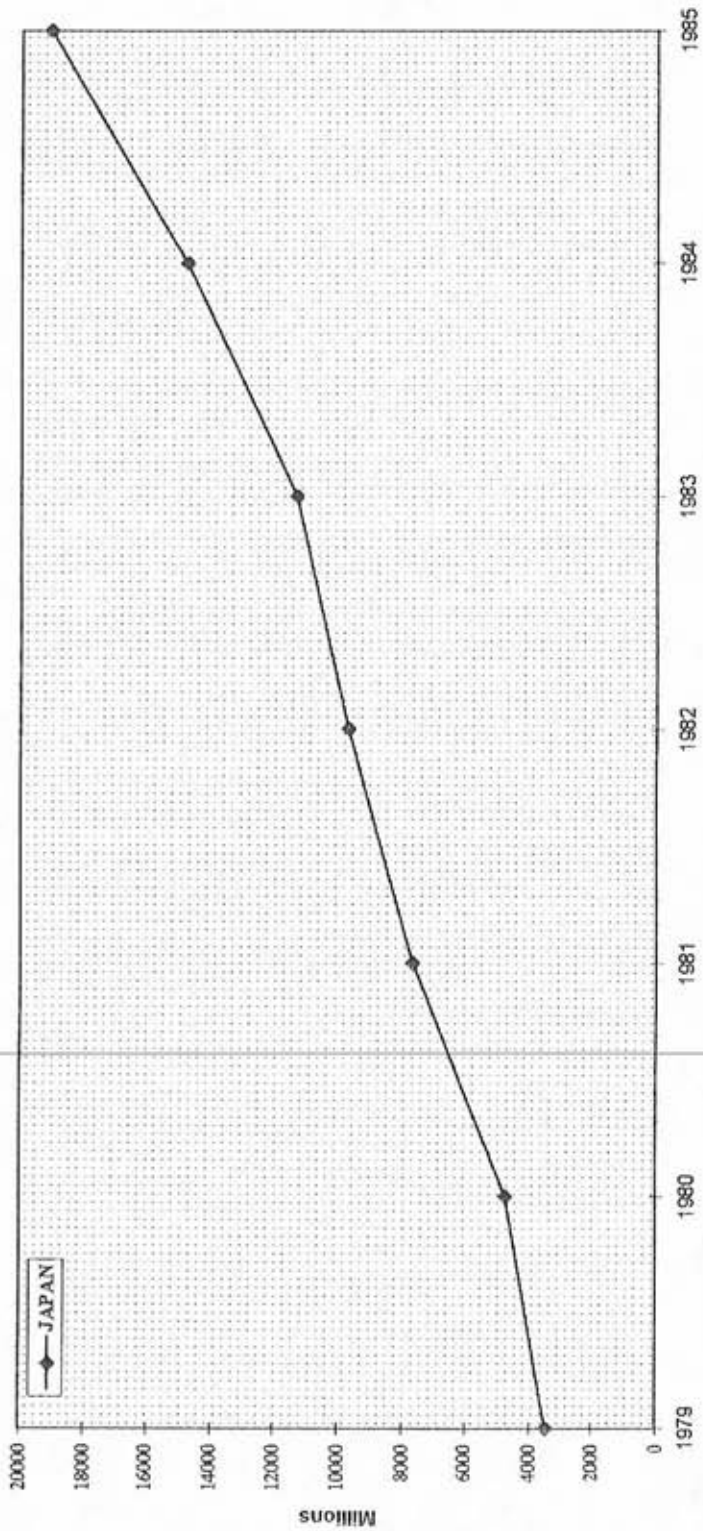
TABLE 5
PERCENTAGE ANNUAL INCREASE IN FDIUS
FOR SELECTED COUNTRIES 1980 - 1985

	1980	1981	1982	1983	1984	1985
ALL COUNTRIES	52.48%	30.91%	14.66%	9.93%	20.08%	11.16%
UNITED KINGDOM	43.99	31.76	53.06	13.02	19.39	14.01
NETHERLANDS	51.04	40.15	(2.36)	11.42	15.58	7.10
JAPAN	35.21	62.97	25.72	17.14	41.53	19.15
CANADA	70.00	(.38)	(3.37)	(2.34)	33.69	9.11
WEST GERMANY	34.09	24.53	4.13	10.10	13.69	16.93
SWITZERLAND	47.00	7.97	16.51	17.03	9.14	35.53
FRANCE	63.00	57.49	(2.86)	.32	15.11	(4.49)
KUWAIT	--	793.73	19.14	1.09	20.30	(8.18)
BELGIUM & LUX.	(.64)	21.69	.69	18.75	46.00	(13.00)

Source: Derived from data in Table 4

FIGURE 5

JDIUS GROWTH 1979-1985



Source: Based on data in Table 4

Not only is Japan's share of FDIUS growing the fastest, it is also one of the most profitable. Japan achieved the highest average annual rate of return between 1980 - 1984 of all the main investor countries (countries with FDIUS greater than \$3.0 billion). Its average rate of return of 11.04 per cent, as shown in Table 6, was just marginally ahead of the Netherlands with 10.78 per cent and that of Belgium and Luxembourg with 10.57 per cent. The average rate of return for all countries was 6.57 per cent, much lower than that achieved by these three countries. The Japanese have not shipped their spoils back to the motherland but between 1980 - 1985, have on the average re-invested more than any one of the main investor countries, more than 65 per cent of their earnings. Table 7 reveals the U.S. re-investment ratios of selected investor countries for 1980-1985.

The Japan Economic Institute in one of its studies revealed that at year-end 1983, of the 334 Japanese-affiliate manufacturing companies in the United States, only 25 were minority-owned. These companies had 479 plants in operation or under construction and employed between 73,000 to 74,000 workers, of which 98 per cent were U.S. citizens.¹⁸ For plant locations, the Japanese overwhelmingly favored California. Almost 25 per cent of all manufacturing plants with Japanese investment were located in California.

TABLE 6

RATE OF RETURN ON INCOME FROM FDIUS
OF SELECTED COUNTRIES
1980 - 1985

	1980	1981	1982	1983	1984	1985	AVERAGE 1980-1985
ALL COUNTRIES	12.56%	7.19%	2.70%	4.28%	6.12%	4.64%	6.25%
UNITED KINGDOM	10.74	7.04	7.87	7.02	6.52	5.87	7.51
NETHERLANDS	20.12	14.17	5.95	6.83	9.90	7.73	10.78
JAPAN	16.53	11.92	4.64	9.64	13.76	9.72	11.03
CANADA	19.16	.89	(5.00)	.09	2.28	4.34	3.62
WEST GERMANY	(1.28)	.62	(5.09)	1.46	6.93	3.84	1.08
SWITZERLAND	5.49	5.48	4.02	6.78	7.20	6.53	5.92
FRANCE	7.44	(.90)	(6.65)	(7.28)	(2.89)	(2.33)	(2.10)
BELGIUM & LUX.	6.99	16.55	10.22	12.20	6.90	4.51	9.56

Source: Derived from data in Survey of Current Business, various issues.

TABLE 7
EARNINGS AND REINVESTMENT RATIOS FROM FDIUS
FOR SELECTED COUNTRIES 1980 - 1985

	1980		1981		1982		1983	
	TOTAL	% RE INVESTED	TOTAL	% RE INVESTED	TOTAL	% RE INVESTED	TOTAL	% RE INVESTED
ALL COUNTRIES	9470	54.67%	5783	50.93%	977	--	3433	2.59%
UNITED KINGDOM	948	84.70%	885	59.21%	1479	44.90%	1629	56.41%
NETHERLANDS	2497	80.54%	2505	79.16%	779	--	1197	34.67%
JAPAN	722	79.50%	730	86.03%	350	33.14%	999	58.56%
CANADA	1795	82.95%	21	--	(788)	--	(97)	--
	1984		1985		1980-1985			
	TOTAL	% RE INVESTED	TOTAL	% RE INVESTED	TOTAL	% RE INVESTED	AVERAGE % REINVESTED	
ALL COUNTRIES	6404	58.12%	5181	21.35%	5181	21.35%	33.26%	
UNITED KINGDOM	1423	58.05%	1562	44.49%	1562	44.49%	60.65%	
NETHERLANDS	2239	76.55%	1775	72.23%	1775	72.23%	54.18%	
JAPAN	1806	73.03%	1600	64.94%	1600	64.94%	66.05%	
CANADA	186	--	618	--	618	--	16.59%	

Source: Survey of Current Business, various issues and author's own calculations.

Almost 25 per cent of all manufacturing plants with Japanese investment were located in California. Table 8 summarizes the above data and shows Japan's locational preferences for manufacturing plants. A good indication of a region's relative dependence on (or attractiveness to) foreign investments by specific nationalities is shown in Table 9. The numbers indicate the ratio of a region's share of investments made by a given nationality, and the region's share of all foreign investments. A number greater than one suggests that a region is relatively heavily dependent or attractive to the foreign investor.¹⁹

New plant construction is the major form of Japanese manufacturing investment in the United States and was twice as popular as acquisitions. The fact that Japanese corporations prefer new investments rather than acquisitions is confirmed by the results of the Japanese Chamber of Commerce.(JCC) of New York survey. Over 88 per cent of the firms which responded began as new operations. This is higher than the results of the other countries reported in the survey which were the Netherlands (55.7 per cent), France (70.9 per cent), Sweden (73.1 per cent), and Switzerland (71.7 per cent).²⁰ For the majority of the Japanese firms in the study, startup offered several advantages over acquisition of an existing U.S. company in establishing their manufacturing base in the United States. These Japanese companies enjoyed, for example, flexibility in location selection, factory layout with a future plan for a possible expansion, and complete control over the amount of initial and subsequent capital expenditures. More importantly, these companies were able to install equipment with production processes familiar to them.

TABLE 8

**JAPANESE MANUFACTURING HOLDINGS
IN THE UNITED STATES, YEAR-END 1983**

Affiliated Manufacturing Companies	334
With Japanese Controlling Interest	309
<i>For which:</i>	
Plants in operation or under construction	479
Employment ¹	73,000-74,000
Plant location: ²	
California	129
Texas	35
New Jersey	27
Georgia	25
Alaska	21
Pennsylvania	21
Illinois	20
Washington	20
North Carolina	19
Michigan	15
New York	15
Ohio	13
Tennessee	11
Indiana	10

Notes:

¹Japan Economic Research Institute (JEI) builds its employment estimates from publicly available information which, in some cases, predates the 1981-1982 recession. Thus, the employment estimate is subject to a wide margin of error.

²Only states with 10 or more plants are listed.

Source: J.W. Wheeler, "Japanese Foreign Direct Investment in the United States", Research in International Business and Finance, vol. 5 (London: JAI Press Inc., 1986), p. 362, Table 11.

TABLE 9

THE REGIONS' RELATIVE DEPENDENCE ON FOREIGN INVESTORS
OF SELECTED NATIONALITIES 1981-1982

	New England	Mid- Atlantic	Great Lakes	Plains	Rocky Mountains	Southeast	Southwest	Far West
Canada	1.25	1.37	1.00	1.06	1.80	.97	.27	.54
France	.70	.80	1.70	2.39	1.52	.63	1.80	.55
Germany	1.14	1.32	.97	1.07	1.10	1.04	.57	.46
Japan	.31	.47	.99	.35	0	1.05	.66	3.31
Netherlands	.99	1.01	1.07	0	0	.74	2.54	.69
Sweden	0	.87	1.11	4.67	2.99	1.08	.88	.72
Switzerland	2.03	.77	.61	.86	0	1.13	.97	.79
United Kingdom	1.11	1.16	1.06	.86	.88	.81	1.04	.95

Source: Jane Sneddon, "Recent trends in Foreign Direct Investment in the United States,"
Research in International Business and Finance, vol. 5 (London: JAI Press Inc., 1986),
p. 23, Table 8.

Starting from scratch, they could transfer or devise their own management systems with freshly hired U.S. employees. Therefore, for these companies startup offered less risk, in terms of organizational control, than did acquisition.²¹

The survey also revealed the following information with regard to sales data. Many Japanese affiliates have relatively low sales (61.8 per cent had sales below \$20 million). On the other hand, 38.2 per cent had sales exceeding \$100 million, of which, only 12.6 per cent had sales in excess of \$500 million. Among the firms in the \$500 million sales group, the largest were trading companies and banking, finance and insurance companies. In the \$101 to \$500 million group, there was a heavy concentration of electronic and appliances and miscellaneous manufacturing firms. The \$21 to \$50 million range was relatively more heavily concentrated in food and beverages, textiles, construction, and real estate firms while in the \$5 to \$20 million category, machinery, textiles and miscellaneous manufacturing firms were somewhat more concentrated. The firms which dominated the less than \$5 million group were construction, chemicals, metals, natural resources, services, and textiles.²²

Another good source of data on FDIUS is the International Trade Administration (ITA) which has undertaken a monitoring program for foreign direct investment transactions in the United States since 1974.

The analysis in this section is drawn from data published by the ITA on FDIUS, Foreign Direct Investment in the U.S. Completed Transactions 1974-1983.²³

The data generally confirms the findings already mentioned. Japanese direct investment activity, as measured by the number of transactions, has been on the rise since the 1970's. In 1981 and 1982, Japan had the third highest number of FDIUS transactions. In 1983, Japan, with 14 percent of all FDIUS transactions overtook Canada to have the second highest number of FDIUS transactions. The United Kingdom accounted for 21 per cent of transaction while Canada had a share of 13 per cent. Table 10 shows the trend of FDIUS transactions for the main investor countries.

This data on transactions is only concerned with the number of FDIUS transactions and is therefore not directly comparable with the Survey of Current Business data which deals with the dollar amount of FDIUS. However, if used together, they can reveal useful insights. For example, since the Netherlands only has a five percent share of transactions but holds the second highest stock of FDIUS, then the dollar amount of each transaction must be relatively large. This is a fact since much of the Netherlands investment is made by one firm - Shell Oil Company.

In terms of location, California, the favored site for Japanese plant locations, is also by far, the most favored site for JDIUS transactions. Between 1974 - 1983, 32.30 per cent of JDIUS transactions took place in California. New York, with less than half the transactions of California, was second with a 14.69 per cent share. The other states who were next in line were New Jersey, Illinois and Texas. They were behind with 4.48 per cent, 4.20 per cent and 3.91 per cent respectively. Table 11 shows the distribution of JDIUS transactions compared to the distribution of FDIUS transactions by states for 1976 - 1985.

TABLE 10

NUMBER OF FDIUS TRANSACTIONS IDENTIFIED BY ITA MONITORING,
BY SOURCE COUNTRY, 1976 - 1983

Country	1976	1977	1978	1979	1980	1981	1982	1983	Total
Canada	19	92	122	180	253	291	161	97	1,215
France	9	34	43	51	52	64	52	48	353
Japan	28	55	58	96	101	129	143	105	715
Netherlands	9	21	32	64	63	58	46	47	340
Switzerland	11	16	42	50	48	36	21	28	252
United Kingdom	36	51	107	147	185	182	180	159	1,047
West Germany	26	53	104	166	171	91	66	72	749
Subtotal Netherlands	138	322	508	754	873	851	669	556	4,671
Antilles	1	3	16	53	79	110	59	46	367
Other Countries	59	103	153	153	228	242	185	149	1,366
Total	198	428	677	677	1,035	1,203	913	751	6,404

Source: Office of Trade & Investment Analysis, International Trade Administration, U.S. Department of Commerce.

TABLE 11

THE MOST POPULAR STATES FOR
JDIUS TRANSACTIONS FROM 1974 - 1985

STATE	% OF JDIUS TRANSACTIONS
California	32.30%
New York	14.69
New Jersey	4.48
Illinois	4.20
Texas	3.91
Hawaii	3.08
All Others	37.34

Source: Derived from U.S. Department of Commerce, International Trade Administration, Foreign Direct Investment in the United States: Completed Transactions 1974-1985, vol.1: Source Country (Washington, D.C.:U.S. Government Printing Office, 1986), pp 88-102.

Using a regional approach did not produce different results. The most popular regions for JDIUS transactions were those which included the most popular states. The Far West region with California had 35.24 per cent of all JDIUS transactions followed by the Mid East region containing New York and New Jersey with 23.22 per cent. The Great Lakes region and the South East region followed with shares of 7.83 per cent and 7.55 per cent respectively.

This analysis on location showed that Japanese transactions were highly biased towards the Pacific and Atlantic coasts of the United States. California, on the Pacific coast, being more highly favored because of its proximity to Japan, and New York, on the Atlantic coast because of it being the main financial center and trading port of the United States. Table 12 compares the regional distribution of JDIUS transactions with those of all investor countries in the United States.

The most common mode of investment by Japanese firms in the United States was new plant construction and/or plant expansions. Twenty three percent of all JDIUS transactions was of this type compared with 11 per cent for acquisitions and mergers. About 14 per cent of JDIUS transactions were real estate purchases. Joint ventures comprised about 7 per cent of JDIUS transactions while equity increases were the least popular mode of investment with less than 2 per cent of JDIUS transactions.

The modes of U.S. investments by Japanese firms is compared to that of all foreign firms in Table 13. The table highlights the fact that while Japanese firms prefer new plant constructions and/or plant expansions as their mode of investment, most other foreign firms prefer acquisitions and/or mergers.

TABLE 12

PERCENTAGE OF FDIUS TRANSACTIONS BY REGION
OF LOCATION FOR JAPAN & ALL COUNTRIES 1974-1985

REGION	JAPAN	ALL COUNTRIES
Far West	35.24%	15.38%
Mid East	23.22	23.55
Great lakes	7.83	8.74
Southeast	7.55	26.30
Southwest	4.62	9.99
New England	2.80	5.42
Plains	2.38	2.37
Rocky Mountain	.70	2.94
Others/Unknown	15.66	5.31

Source: Derived from U.S. Department of Commerce, International Trade Administration
Foreign Direct Investment in the United States: Completed Transactions 1974-1985 vol. 1: Source Country (Washington, D.C.: U.S. Government Printing Office, 1986),pp. 88 - 102.

TABLE 13

DISTRIBUTION OF FDIUS TRANSACTIONS BY MODE
FOR JAPAN AND ALL COUNTRIES FOR 1974 - 1985

MODE/TYPE	JAPAN	ALL COUNTRIES
Acquisition/Merger	11.19%	28.16%
Equity Increase	1.82	4.19
Joint Ventures	6.99	4.10
New Plant/Plant Expansion	23.07	13.67
Real Estate Purchases	13.57	30.06
Others/Unknown	43.36	19.82

Source: Derived from U.S. Department of Commerce, International Trade Administration, Foreign Direct Investment in the United States: Completed Transactions 1974-1985 vol. 1: Source Country (Washington, D.C.: U.S. Government Printing Office, 1986), pp. 88 - 102.

NOTES TO CHAPTER III

¹⁶ See U.S. Department of Commerce Report to Congress, Foreign Direct Investment in the United States, 9 vols. (Washington, D.C.: U.S. Government Printing Office, 1976), 5: app. G-109; and Felicity Marsh, Japanese Overseas Investment: The New Challenge (London: The Economist Intelligence Unit Limited, 1983), p. 2.

¹⁷ Ibid.

¹⁸ Data on the number of plants and the estimated labor force was extracted from Wheeler, "Japanese Foreign Direct Investment," p. 362. The estimated percentage of U.S. citizens in the workforce was provided by Felicity Marsh, Japanese Overseas Investment: The New Challenge (London: The Economist Intelligence Unit, 1983), p. 77.

¹⁹ Jane L. Sneddon, "Recent Trends in Foreign Direct Investment in the United States," Research in International Business and Finance, vol. 5 (London: JAI Press Inc., 1986), p. 124.

²⁰ The Japanese Chamber of Commerce of New York Inc., Japanese Businesses in the United States: Results of a survey of Japanese investors with operations in the United States (New York: Japanese Chamber of Commerce of New York, 1985).

²¹ Mamoru Yoshida, Japanese Direct Manufacturing Investment in the United States.(New York: Praeger Publishers, 1987), pp 61-62.

²² The Japanese Chamber of Commerce of New York Inc., Japanese Businesses in the United States: Results of a survey of Japanese investors with operations in the United States (New York: Japanese Chamber of Commerce of New York, 1985).

²³ U.S. Department of Commerce, International Trade Administration, Foreign Direct Investment in the United States: Completed Transactions 1974 - 1983 vol. 1 : Source Country (Washington, D.C.: U.S. Government Printing Office, 1986), pp. 88-102.

CHAPTER IV

THE REASONS FOR JAPANESE DIRECT INVESTMENT IN THE UNITED STATES

A - REASONS FOR INVESTING IN THE U.S.

Many of the factors which motivate Japanese Direct Investment in the United States are common to all investor countries. The 1974 benchmark study by the U.S. Department of Commerce reported the following major reasons for investing in the United States:²⁴

First of all, the extremely large size of the U.S. market is the most important reason for JDIUS. as a large market is an indication of potential for generating ample profits. Secondly, the democratic institutions and political stability, along with greater freedom from economic controls and government interventions, combined with traditional "open door" policy in regard to foreign investment, and traditional receptivity to new products, methods and ideas, make of the United States a perfect host for foreign investment. Moreover, the U.S. leadership in managerial and marketing Know-how, the efficient and highly skilled labor force, and the technical leadership along with extensive Research and Development capabilities, add to this country's appeal for foreign investment. Finally, access to large supplies of raw materials, and access to capital through well-developed capital markets, contribute even more to this country's attraction for foreign investment.

The International Trade Administration in August 1984, reported other general factors that have caused the rapid growth of FDIUS in recent years. They include: ²⁵

- a) The continuing emergence of large multinationals whose competition with U.S. multinationals in their home market and other countries convinced them that they could compete with U.S. firms in this country;
- b) The depreciation of the U.S. dollar against a number of leading foreign currencies, reducing the foreign currency cost of acquiring U.S. companies, building new facilities and expanding existing ones; dollar depreciation also increased the U.S. dollar cost of exports to U.S. markets.
- c) The narrowing of the spread between U.S. and foreign production costs through 1981, making investment in the United States more attractive compared with exporting to this country;
- d) Relatively high U.S. interest rates (as borrowing costs rose, U.S. affiliates reinvested their earnings and obtained funds from their foreign parents to the extent possible, rather than borrow in U.S. financial markets);
- e) The active pursuit of foreign investors by individual states, especially in the South. Many state governments, plagued by rising unemployment and a sluggish economy, are offering very attractive tax and other incentives to entice foreign firms to invest in their respective states.
- f) Concern about possible increased U.S. protectionism that tended to encourage foreign establishment or acquisition of U.S. facilities to avoid expected trade barriers.

This last reason has been the single most important motivation for Japanese Direct Investment in the United States (JDIUS), and one which is

largely peculiar to the Japanese. Trade policies of developed countries including the United States are becoming increasingly protectionist toward Japanese exports.²⁶ Direct investment allows the Japanese to overcome existing trade barriers as well as preempt the enactment of future ones by manufacturing in their overseas markets.

This motivational factor has accelerated in importance in light of the Reagan administration's latest imposition of 100 per cent tariffs on Japanese mid-size television sets, laptop computers and electrical power tools. This development, coupled with other trade sanction legislation pending before a Congress with democratic majority, should act as a strong catalyst for Japanese firms to increase their foreign investment in the United States through setting up more manufacturing bases. Another unique factor for Japanese overseas investment is its huge balance of payments surpluses and large domestic savings. Since 1968, domestic savings in Japan have overtaken domestic investments.²⁷ These factors combined with a declining domestic investment climate have literally pushed the Japanese to invest abroad.

With regard to Japanese manufacturing companies, the Japan Economic Institute (JEI) has identified a number of factors which induce them to produce in the United States rather than export. These reasons are to cut transportation costs, streamline distribution, maintain closer customer contact and offset the appreciation of the yen. However, again, JEI stressed that the deciding factor in many cases was the threat of protectionism.²⁸

B - REASONS FOR JAPANESE MANUFACTURING IN THE U.S.

When listing the reasons for Japanese direct investment in the U.S., it is appropriate to separate overall direct investment from manufacturing investment, for the reasons for the latter are highly industry specific. The three areas of manufacturing in which Japan's investments are the largest and most controversial are the automotive industry, the electronics and technology industries, and the steel industry. The underlying reasons motivating each industry separately are listed below.

1 - The Automotive Industry

Investment grew in the 1980s after Japan's enactment of the Voluntary Export Restraint (VER) in 1981. The VER in turn became the driving force behind changes in investment patterns and in U.S.-Japan automotive trade. After U.S. imports of Japanese vehicles surged during the oil shock of 1979-80 because of fuel efficiency, the U.S. Government and the United Auto Workers (U.A.W.) urged Japanese vehicle companies to invest in the United States instead of exporting cars to Japan. The United States believed that direct investment would employ American workers, provide sales for U.S. parts producers and lower trade tensions. The Japanese vehicle companies were decidedly unenthusiastic, with the exception of Honda which already had plans to invest.

The enactment of the VER, dollar depreciation and state/local government benefit packages strengthened incentives for Japanese vehicle assemblers to establish manufacturing plants in the United States. In addition, as each additional Japanese automotive company invested, the

remaining companies felt pressure to also manufacture in the United States to maintain their market position vis-à-vis their Japanese competitors. In turn, many independent and affiliated auto parts companies decided to invest to supply the Japanese vehicle assemblers and to increase their sales to the traditional U.S. motor vehicle assemblers. By the end of 1989, about 168 Japanese companies had invested in auto parts plants in the United States, with an employment level of approximately 46,438. In comparison, there is only one wholly-owned U.S. auto parts plant in Japan along with a handful of joint ventures and U.S. licensees.

2 - The Electronics and Technology Industries

Japan's direct investment in the U.S. manufacturing sector for electronics and technology is dominated by large vertically integrated corporations. Several of these Japanese companies, such as Toshiba and Nippon Electric Corp. (NEC), produce a full range of final products, including personal computers, color TV, and cellular and facsimile telephone equipment. Vertical integration extends to all levels of production from semiconductors, electronic components, and production equipment to final products. Employing over 70,000 U.S. workers in 225 plants, Japanese firms have a major presence in this sector.

U.S. trade sanctions were an important factor in explaining Japanese investment in many of the industries, namely, computers and peripherals, color TV, audio, VCR, communication equipment, medical equipment, electronic components, and semiconductors. Other motivations included exchange rate shifts, the low-cost of Japanese capital trends in the U.S.

market, and a need to locate production facilities closer to markets to respond to fast changing technologies.

3 - The Steel Industry

As for the Japanese steel industries, they were motivated to form joint ventures with U.S. steel firms for several reasons. The rising value of the yen since 1985 shifted the relative cost of production in favor of manufacturing in the United States and the U.S. steel industry returned to a period of profitability beginning in 1987. In addition, the Voluntary Restraint Agreements restricting exports from Japan and other countries were negotiated in 1984 and renegotiated in 1989, although Japan's steel exports were below the quota in 1987-89.

Access to the growing number of Japanese auto producers in the Midwest was another motivation for direct investment in U.S. steel production facilities. When Kawasaki announced the joint venture with Armco's Eastern Division, it stated that it intended to be a supplier to Japanese auto producers. National Steel, the second largest Japanese acquisition, primarily serves the auto market. In other instances, Japanese auto producers, such as Honda and Toyota, urged Japanese steel companies to become local steel suppliers and establish U.S. production facilities.

The steel industry illustrates the benefits of foreign direct investment to U.S. industry. The U.S. steel industry needed funds to modernize its facilities, but with cumulative losses of nearly \$12 billion from 1982 to 1986, it had difficulty raising funds in U.S. domestic capital markets. Japanese steel companies, on the other hand, had access to long-term debt at

interest rates of 4 to 6 percent because of excess savings relative to investment opportunities in Japan. They provided a large infusion of capital to modernize U.S. facilities and state-of-the-art technology. The joint projects are producing steel products of higher quality and lower cost which improve the competitive position of the U.S. companies in domestic and world markets, according to a July 1990 report by the House Subcommittee on Economic Stabilization entitled, "Foreign Direct Investment: Effects on the United States."

C - DETERMINANTS OF JAPANESE DIRECT INVESTMENT IN THE U.S.: REGRESSION ANALYSIS

The purpose of this section is to study the effect of interest rates in the U.S., foreign exchange rates of the U.S. dollar to the Japanese yen, and the level of GNP (as a measuring unit for the market size in the U.S.) on the level of Japanese investment in the U.S. The choice of these variables is based on the conviction that the three independent variables, namely interest rates, foreign exchange rates, and the level of GNP are considered as being major determinants of the level of JDIUS, the dependent variable.

The interest rate is the price paid to borrow debt capital and the return on investment. The factors which affect the supply and demand for investment capital, and hence the cost of money, are production opportunities, time preference for consumption, risk, and inflation. The price of capital changes over time as shifts occur in supply and demand conditions.

As for the foreign exchange rate, the Japanese yen was revalued in a significant way after the collapse of the Bretton Woods Agreement in the early 1970s. This and subsequent revaluations narrowed the gap in production costs between Japan and the United States. Combined with the oil shocks in the 1970s and the resultant double digit inflation in Japan, prices of certain natural resources and energy became considerably cheaper in the U.S. than in Japan. As the Japanese yen gets stronger vis-à-vis the U.S. dollar, products manufactured in Japan and shipped to the U.S. become less price competitive.

The large market size of the United States is considered as a very important reason for JDIUS. A large market is an indication of potential for generating ample profits; it also provides an investing firm a margin of error in estimating production volume. The large market size is also critically important for those companies that depend more on economies of scale in production than on unique product differentiation. As quoted: "For firms in mature oligopolies, the most serious entry barrier was in the form of scale". As a first condition, therefore, to investing in the U.S., an enterprise had to have a substantial enough market position there to enable it to produce on a large scale.

For testing purposes, a regression analysis is conducted to establish which of these three reasons are evaluated as being significant determinants of JDIUS and which are not. The subject of multiple correlation-regression deals with the situation in which a dependent variable is associated with two or more independent variables simultaneously. The essential advantage in

using three independent variables is that it allows greater use of available information. This is why the quality of information reached using the higher dimensional regression analysis is often greater than that obtained from a simple regression involving a single independent variable. In our case, JDIUS is considered to be the dependent variable. The other three independent variables to be accounted for simultaneously are: interest rates in the U.S., foreign exchange rates of the U.S. dollar to the Japanese yen, and the Gross National Product in the U.S. (as a unit measure for the size of the U.S. market). For more relevant and reliable results, the regression test was ran twice; once taking into consideration GNP in nominal terms, and a second time taking GNP in real terms.

The quantitative data on JDIUS were taken from "Survey of Current Business" from various issues. As for the data regarding the independent variables, they were provided from "International Financial Statistics" published by the International Monetary Fund (IMF)²⁹. The available data represents a time period of twelve years, from 1974 to 1985. Table 14 lists the collected data on the five variables to be tested.

TABLE 14

DATA FOR REGRESSION ANALYSIS

Year	Interest rate (real) percent	Exchange rate \$/Y	GNP(nominal) in billions	GNP(real) in billions	JDIUS in billions
1974	7.10	300.95	1,412.9	1,548.5	0.345
1975	6.00	305.15	1,528.8	1,528.8	0.591
1976	4.96	292.80	1,702.2	1,618.7	1.178
1977	5.32	240.00	1,899.5	1,704.5	1.755
1978	7.84	194.60	2,127.6	1,779.2	2.749
1979	8.90	239.70	2,368.8	1,820.4	3.493
1980	8.49	203.00	2,732.0	2,732.0	4.723
1981	7.43	219.90	3,052.6	2,784.7	7.697
1982	5.00	235.00	3,166.0	2,713.8	9.677
1983	4.74	232.00	3,401.6	2,809.5	11.336
1984	4.46	251.10	3,774.7	2,993.2	14.817
1985	4.08	200.50	3,998.1	3,073.1	19.116

The two correlation matrices for the two tests are listed in Table 15 and Table 16.

TABLE 15
CORRELATION MATRIX

	Interest rate (real)	FX rate	GNP (nominal)	JDIUS
Interest rate (real)	1.000	-0.175	-0.402	-0.556
FX rate	-0.175	1.000	-0.622	-0.496
GNP (nominal)	-0.402	-0.622	1.000	0.963
JDIUS	-0.556	-0.497	0.963	1.000

TABLE 16
CORRELATION MATRIX

	Interest rate (real)	FX rate	GNP (real)	JDIUS
Interest rate (real)	1.000	-0.175	-0.331	-0.556
FX rate	-0.175	1.000	-0.605	-0.497
GNP (real)	-0.331	-0.605	1.000	0.895
JDIUS	-0.556	-0.497	0.895	1.000

The results of the two tests were as follows:

1 - JDIUS regressed against interest rate in the U.S., foreign exchange rate of the dollar to the yen, and GNP(nominal).

SPSS/PC+

*** MULTIPLE REGRESSION ***

----- Variables in the Equation -----					
Variable	B	SE B	Beta	T	Sig T
GNP(nominal)	6.10096E-03	4.90752E-04	0.88278	12.432	0.0000
Interest (real)	-0.73479	0.26017	-0.20055	-2.824	0.0199
(Constant)	-4.84289	2.45155		-1.975	0.0796

----- Variables not in the Equation -----					
Variable	Beta In	Partial	Min Toler	T	Sig T
Exch.rate	0.04397	0.14199	0.34299	10.406	0.6956
End Block Number	1	PIN = 0.050 Limits reached.			

The estimated equation reads as follows:

$$JDIUS = -4.84289 + 0.00610 \text{ GNP(nominal)} - 0.73479 \text{ Interest (real)}$$

$$R^2 = 0.96196 \quad SE = 1.32140$$

This regression equation has a predictive power of $R^2 = 0.9619$. This means that 96% of the change in JDIUS is explained by the change in GNP(nominal) and Interest rates, while 4% of the change is attributed to other factors.

2- JDIUS regressed against interest rate in the U.S, the foreign exchange rate of the dollar to the yen, and GNP(real).

SPSS/PC+

*** MULTIPLE REGRESSION ***

----- Variables in the Equation -----					
Variable	B	SE B	Beta	T	Sig T
GNP(real)	7.7477E-03	1.20452E-03	0.79864	6.432	0.0001
Interest (real)	-1.06587	0.45491	-0.29092	-2.343	0.0438
(Constant)	-4.45140	4.56838		-0.974	0.3553

----- Variables not in the Equation -----					
Variable	Beta In	Partial	Min Toler	T	Sig T
Exch.rate	-0.13628	-0.26749	0.43692	-0.785	0.4550

End Block Number 1 PIN = 0.050 Limits reached.

The estimated equation reads as follows:

$$JDIUS = -4.45140 + 0.00774 \text{ GNP(real)} - 1.06587 \text{ Interest (real)}$$

$$R^2 = 0.8765 \quad SE = 2.38100$$

This regression equation has a predictive power of $R^2 = 0.8765$. This means that 88% of the change in JDIUS is explained by the change in GNP(real) and Interest rates, while 12% of the change is attributed to other factors.

The results of these tests strongly indicate that the level of JDIUS is highly correlated with GNP, whether nominal or real. This confirms our previous statement of GNP, as a measure of the size of the market, is a major determinant of JDIUS. On the other hand, the exchange rate of the dollar to the yen was not accepted in the regression equation because, relative to the other variables, it was considered to be insignificant.

NOTES TO CHAPTER IV

²⁴ U.S. Department of Commerce, Foreign Direct Investment in the United States (Washington, D.C.: U.S. Government Printing Office, 1976).

²⁵ U.S. Department of Commerce, International Trade Administration, International Direct Investment: Global Trends and the U.S. Role (Washington, D.C.: U.S. Government Printing Office, 1984), p. 20.

²⁶ Jeffrey S. Arpan and David A. Ricks, Directory of Foreign Manufacturers in the United States, 3rd ed. (Atlanta, Georgia: Business Publishing Division, Georgia State University, 1985), p. xiii.

²⁷ Sueo Sekiguchi, Japanese Direct Foreign Investment (Montclair, New Jersey: Allanheld, Osmun and Co., 1979), p. 135.

²⁸ J. W. Wheeler, "Japanese Foreign Direct Investment in the United States," Research in International Business and Finance, vol. 5 (London: JAI Press Inc., 1986), p. 363.

²⁹ International Financial Statistics, (International Monetary Fund), vol. 33 and 39.

CHAPTER V

THE IMPACT OF JAPANESE DIRECT INVESTMENT ON THE U.S. ECONOMY.

Since Japanese investment in the United States (JDIUS) has only recently become of a significant nature, reliable data on its impact on the U.S. economy is scarce. This section does not attempt to verify nor quantify the impact of JDIUS. In fact, it would be impossible to do so, as the impact has both negative as well as positive effects and much of the debate on its effects - particularly the negative ones - are more emotional than factual. It does attempt to shed light on what some of these effects may be - both positive and negative.

A - POSITIVE EFFECTS

1 - Import Substitution

Products which were previously imported are now being made locally. The type of products most affected are T.V. and video equipment, audio and video tapes, semiconductors, machine tools, motor vehicles etc.³⁰

2 - Increased Exports

Japanese manufacturing plants are supplying not only the local market but exporting to third countries as well.

3 - Increased Local Employment

Boosting employment is a major priority of both state and federal government and this resulted in individual states offering very attractive incentives for foreign firms to set up plants in their territories. Japanese firms at year-end 1983 employed more than 73,000 Americans in approximately 479 plants across the United States.

The average Japanese company overseas employs about 171 people, of which it is estimated that 98 percent are resident nationals.³¹ (The simple average for the United States is about 150 employees per plant). Thus, Japanese investment is an important source of employment in the United States.

As shown in Table 17 , the largest areas of investment are industrial and commercial machinery, including computers with employment of 56,421 workers in 1989; electronic and electrical equipment, excluding computers employing 56,064 workers; and primary metals with 41,280 workers. These three industrial groups accounted for 51 percent of total employment in U.S. establishments that are wholly or partly owned by Japanese companies. The top five industry groups, which also include transportation equipment and rubber and miscellaneous plastic products, accounted for 72 percent of Japanese investment in U.S. manufacturing as measured by employment. Other groups with significant concentrations of Japanese investment include food and related products; chemicals and allied products; and instruments, photographic, and copiers.

Table 17

Employment in U.S. Affiliates of Japanese Firms, by Industry Groups

SIC	2-Digit SIC Manufacturing Group	1989 Employment	No. of Plants
35	Industrial & Commercial Machinery, & Computers	56,421	189
36	Electronic & Other Electrical Equipment, Excluding Computers	56,064	191
33	Primary Metals Industries	41,280	70
37	Transportation Equipment	33,591	68
30	Rubber & Miscellaneous Plastic Products	30,188	102
20	Food & Kindred Products	16,350	155
28	Chemicals & allied Products	13,397	155
38	Instruments, Photographic, Optical	12,353	60
34	Fabricated Metals Products	10,316	94
32	Stone, Clay, Glass & Concentrate Products	7,049	38
27	Printing & Publishing	6,752	33
39	Miscellaneous Manufacturing Industries	5,801	41
22	Textile Mill Products	4,824	21
23	Apparel	4,006	23
26	Paper & Allied Products	2,205	14
25	Furniture & Fixtures	2,184	15
24	Lumber & wood Products	425	9
31	Leather & Leather Products	65	1
29	Petroleum Refining & Related Industries	13	1
	TOTAL	303,244	1,275

Sources: Japan Economic Institute, Office of Industrial Trade, Office of Business Analysis.

4 - Help Finance and Reduce the Large Trade Deficit

The United States has a huge and ever increasing trade deficit with Japan. In 1983, U.S. exports to Japan totaled \$21,894 million while Japanese imports to the United States totaled \$41.183 million, resulting in a U.S. trade deficit with Japan of \$19,289 million, an increase of 15 percent over the 1982 figure.³² JDIUS helps finance this deficit by generating a flow of foreign capital into the United States which enables the United States to offset some of its payments for Japanese imports. More Japanese imports are now manufactured in the United States due to foreign investment. This decrease in imports helps to control the ever increasing trade deficit between the two countries.

5 - Benefit Local Component Manufacturers

The fact that Japanese companies are manufacturing in the United States will inevitably mean that they will require component parts from existing local component manufacturers. The potential gains in terms of profits, technology and security for those who are successful in becoming suppliers to the Japanese are tremendous.³³

6 - Promote Greater Cultural and Economic Understanding between the United States and Japan

The Japanese are well-known for their distinctive style of management and unique labor practices. Many U.S. supporters of Japanese foreign investment believe that the influx of Japanese companies together with their divergent management style and labor practices will result in a better

understanding among Americans of the Japanese and vice versa. Many are optimistic that the economic, cultural and social interaction that will inevitably result, will create a unique management style that will be a blend of U.S. and Japanese management practices that could be adopted by U.S. companies and eventually result in increased productivity and vitality for U.S. industry.

The Japanese also believe that their increased U.S. interaction will be beneficial to them. Yoshitaka Satima, vice-president of Mitsui & Co.(U.S.A.) believes that if the Japanese can contribute to the better life of U.S. communities, then this will have a favorable impact on the politician's view in Washington.³⁴ Businessweek quotes a Japanese diplomat as saying, "Direct investment establishes that Japan is a friend and provider of ways and means, not a threat."³⁵

B - NEGATIVE EFFECTS

1 - Weakening of Domestic Industry

Opponents of foreign investment, especially Japanese foreign investment, believe that allowing foreigners to manufacture locally, and with the help of government grants and incentives, will further weaken the competitiveness of local firms and eventually force many out of the marketplace.³⁶

Since much of Japan's manufacturing investment overseas is intended to reduce production capacity in certain industries in Japan and shift that

capacity into various countries abroad, the destruction of domestic industry argument does not have much factual basis. In reality, negative effects on employment due to increased Japanese manufacturing abroad are most likely to be felt in Japan unless it succeeds in creating new domestic industries to replace those transferred abroad.³⁷

2 - No Overall Increase in Employment

This argument is based on the premise that workers employed by Japanese manufacturers would simply offset those workers who lost their jobs in local competitor firms. Furthermore, Japanese companies being more highly automated, would tend to hire less workers anyway.³⁸

Though these arguments are not completely baseless, they are but a fraction of the true picture. Although Japanese manufacturing facilities are known to be highly automated, this does not necessarily have negative implications for employment or even for local competitors. A good example is what happened at General Motors Corporation's auto-assembly plant in Fremont, California twelve years ago. The plant had serious problems and was in danger of being shut down. Management and labor feuded constantly. The absenteeism rate was around 20 percent. There were usually about 5000 grievances or more outstanding, an average of about one for every employee, and strikes interrupted production constantly. In 1982, G.M. closed the Fremont plant and handed it to Toyota Motor Corp. as part of a joint venture called New United Motor Mfg. Inc.(NUMMI).

Today, the change at the Fremont is extraordinary. With almost no new technology, NUMMI's Japanese managers set up a typical Toyota

production, with just-in-time delivery and a flexible assembly line run by teams of workers in charge of their own jobs. They reemployed most of the former United Auto Workers members who wanted work. While G.M. built several models at Fremont, NUMMI only manufactures the Chevrolet Nova. But NUMMI'S 2500 employees can assemble 240,000 cars a year, almost equal to what it took 5000 or more people to produce under G.M. There are only two grievances outstanding, and the absenteeism rate is less than two percent.³⁹

This is an example of how Japanese involvement and investment has revived an ailing local company and increased employment. Although not all Japanese foreign investment ventures are successful, the majority are and as a result, jobs are preserved or increased in the host country.

3 - Adverse Competition for Local Component Manufacturers

Although it is true that local component manufacturers should benefit from the set up of new Japanese manufacturing plants, it is equally true that the arrival of new plants does not necessarily ensure more business. Many Japanese component suppliers are also opening factories in the United States to supply their old customers from back home.

American companies not only complain that Japanese manufacturers are not buying as many parts from U.S. companies as perhaps they should, they also claim that once the Japanese part suppliers are established here, they will be supplying American manufacturers.⁴⁰ Thus, instead of providing an increase in business, the arrival of Japanese manufacturers causes local

component manufacturers to face increased competition for their existing customers from Japanese part suppliers relocating here.

Though this argument is valid, many also contend that it is better to compete with the Japanese on American soil than compete with them when they are in Japan.

C - OTHER NEGATIVE ARGUMENTS⁴¹

In addition to the above negative effects of JDIUS, there have been a number of other concerns voiced by opponents of foreign direct investment in the U.S. (FDIUS). They include:

- 1) FDIUS also undermines national security by influencing government decision-making and is a tool for foreign governments to dictate U.S. policy.
- 2) American workers are at a disadvantage in foreign-owned firms as they are unable to reach the upper rungs of the management hierarchy and are thus excluded from final decision-making.
- 3) Foreign-owned firms are anti-union. Although the AFL-CIO's (American Federation of Labor - Congress of Industrial Organizations) attitude toward foreign investment is generally favorable as FDIUS helps to create and sustain jobs, union leaders perceive that many foreign firms have an anti-union bias.

NOTES TO CHAPTER V

³⁰ Felicity Marsh, Japanese Overseas Investment: The New Challenge (London: The Economist Intelligence Unit Limited, 1983), p. 77.

³¹ Ibid.

³² Source: Japan Economic Institute of America, Year book of U.S.-Japan Economic Relations (Washington, D.C.: Japan Economic Institute, 1984), app. B, p. 122.

³³ Marsh, Japanese Overseas Investment, p. 79.

³⁴ William J. Holstein, "Japan, USA," Businessweek, 14 July 1986, p.54.

³⁵ Ibid.

³⁶ Marsh, Japanese Overseas Investment, p. 77.

³⁷ Ibid., p. 78

³⁸ Ibid., p. 77.

³⁹ Holstein, "Japan, USA", p. 47.

⁴⁰ "Japanese Firms Set Up More Factories in U.S., Alarm Some Americans," Wall Street Journal, 29 March 1985, p. 1.

⁴¹ These arguments are mentioned in "who owns U.S. Industry?" Industryweek, 7 January 1985. pp. 30-34.

CHAPTER VI

RECENT TRENDS AND ISSUES BETWEEN THE UNITED STATES AND JAPAN

A - COMPARISON BETWEEN THE UNITED STATES AND JAPAN

Since the end of World War II, the U.S.-Japan relationship has changed from one-sided one, in which Japan was dependent upon the United States, to a mutual relationship in which Japan and the United States are interdependent upon one another. Also when we look at the position of the two countries in the world in terms of the size of GNP, the U.S. and Japan rank first and second in the world, respectively.⁴² As such, the two countries serve not only as potent engines for the world economy but also occupy key positions in the areas of trade and direct overseas investment.

Two important items critical for comparing the United States and Japan are in terms of quantitative data, namely the trade balance and the balance of payment which includes two elements, the merchandise trade balance and the current account balance. The trade balance is the difference over a period of time between the value of a country's exports and imports of merchandise. In the 1980s such factors as macroeconomic structural disparities between Japan and the United States, Japan's high saving rate, and excess consumption in the Western countries contributed to increasing the Japanese trade surplus, which in 1984 reached US \$45.6 billion.⁴³ Japan's yearly trade surplus continued to climb and in 1991 reached US

\$113.7 billion. Table 18 displays figures for the two countries' balance of trade from 1980 until 1991.⁴⁴ We can very clearly see that Japan has always had a positive balance over the years, as opposed to the United States consistently negative balance.

TABLE 18
BALANCE OF TRADE
1980-1991(US\$ million)

	<u>JAPAN</u>	<u>U.S.A</u>
1980	2,125	-25,481
1981	20,358	-27,978
1982	20,141	-36,444
1983	34,546	-67,080
1984	45,601	-112,522
1985	61,601	-122,148
1986	101,648	-145,058
1987	94,034	-159,500
1988	95,302	-126,986
1989	69,999	-115,917
1990	69,864	-108,853
1991	113,683	-73,436

Source: IMF, *International Financial Statistics*, January 1992.

The merchandise trade balance is defined as the difference between exports and imports. It is one of the most frequently used measures of a country's balance-of-payment performance. Japan ran a deficit in merchandise trade in the early postwar years through the mid-1950s, a time when the national economy did not achieve full recovery.⁴⁵ By the mid-

1970s Japan had increased its international competitiveness to the point where it began consistently to run a surplus in its merchandise trade balance, since the 1980s. Reaching its peak in 1986, the surplus began to decrease in 1987 as a result of expanding domestic demand and the yen's appreciation following the Plaza Accord of September 1985. In 1991 Japan's total trade surplus was US \$77.8 billion, including a surplus of US \$38.2 billion with the United States. Tables 19 and 20 exhibit the balance for the merchandise trade for Japan and the United States respectively.⁴⁶

TABLE 19
JAPAN'S MERCHANDISE TRADE
1979-1991, (US million)

	Total Japanese Merchandise Trade			with U.S.A		
	Exports	Imports	Balance	Exports	Imports	Balance
1979	103,032	110,672	-7,640	26,403	20,431	5,972
1980	129,807	140,528	-10,721	31,367	24,408	6,959
1981	152,030	143,290	8,740	38,609	25,297	13,312
1982	138,831	131,931	6,900	36,330	24,179	12,151
1983	146,927	126,393	20,534	42,829	24,647	18,182
1984	170,114	136,503	33,611	59,937	26,862	33,075
1985	175,638	129,539	46,099	65,278	25,793	39,485
1986	209,151	126,408	82,743	80,456	29,054	51,402
1987	229,221	149,515	79,706	83,580	31,490	52,090
1988	264,917	187,354	77,563	89,634	42,037	47,597
1989	275,175	210,847	64,328	93,188	48,246	44,942
1990	286,948	234,799	52,149	90,322	52,369	37,953
1991	314,525	236,737	77,788	91,538	53,317	38,221

Source: Japan Tariff Association, *The Summary Report: Trade of Japan*.

TABLE 20

**U.S. MERCHANDISE TRADE
1980-1991,(US\$ million)**

	Total U.S. Merchandise Trade			with Japan		
	Exports	Imports	Balance	Exports	Imports	Balance
1980	224,250	249,750	-25,500	20,810	31,275	-10,465
1981	237,044	265,067	-28,032	21,788	37,590	-15,802
1982	211,157	247,642	-36,485	20,692	37,681	-16,989
1983	201,799	268,901	-67,102	21,792	43,348	-21,556
1984	219,926	332,418	-112,492	23,230	60,210	-36,980
1985	215,915	338,088	-122,173	22,148	65,653	-43,505
1986	223,344	368,425	-145,081	26,352	80,753	-54,401
1987	250,208	409,765	-159,557	27,630	84,578	-56,948
1988	320,230	447,198	-126,959	37,185	89,800	-52,615
1989	361,697	477,365	-115,668	43,864	93,531	-49,667
1990	388,705	497,558	-108,853	47,807	89,594	-41,787
1991	415,962	489,398	-73,436	47,213	91,502	-44,289

Source: U.S. Department of Commerce, *Survey of Current Business*.

As for the Current Account Balance, this balance combines net merchandise trade, transfer payments, and net invisibles. Invisible items include expenditures and receipts for transportation, insurance, business travel and tourism, investment income, and interest on loans. Since the mid-1960s, the current account balance of Japan has maintained a consistent surplus except for a few years of the two oil crises in the 1970s. In the first half of the 1980s the current account surplus grew due to a drop in oil prices and to increased exports. However, after peaking as a percentage of the Gross National Product (GNP) at 4.3 percent in 1986 and peaking in

absolute terms at US \$87 billion in 1987, it has since fallen substantially. The fall can be attributed to several factors, including a sharp appreciation of the yen and increase in public investment that were designed to spur domestic demand.⁴⁷ In 1991 the current account surplus of Japan was US \$35.8 billion, or 1.2 percent of the GNP. Table 21 shows the current account balances for Japan and the United States between 1981 and 1991.⁴⁸

TABLE 21

CURRENT ACCOUNT BALANCE
1981-1991,(US\$ million)

	<u>Japan</u>	<u>U.S.A</u>
1981	4,770	6,870
1982	6,850	-8,640
1983	20,799	-44,310
1984	35,003	-98,990
1985	49,169	-122,250
1986	85,845	-145,420
1987	87,015	-160,200
1988	79,631	-126,370
1989	57,157	-106,360
1990	35,761	-62,160
1991	72,901	-8,660

Source: IMF, *International Financial Statistics*, January 1992.

Other items worth mentioning when comparing the United States and Japan, are each country's value of foreign trade per capita and their

respective degree of dependency on foreign trade. Table 22 quantifies these items for the year 1991.⁴⁹

TABLE 22

VALUE OF FOREIGN TRADE PER CAPITA AND DEGREE OF
DEPENDENCY ON FOREIGN TRADE

	Value of Foreign Trade per Capita (1991)		Degree of Dependency on Foreign Trade (1991)	
	Exports	Imports	Exports	Imports
Japan	2,548	1,918	9.3%	7.0%
U.S.A	1,689	2,036	7.4%	9.0%

Source: Bank of Japan, *Comparative International Statistics*, 1992.

The international trade matrix for 1990 (see table 23), reveals that the United States is the Japanese major trade partner, and vice versa. In 1990, Japanese exports to the United States amounted to 31.67 percent of Japan's total exports. On the other hand, United States exports to Japan accounted for 12.36 percent of its total exports.

However, although the percentage of Japanese exports to the United States is declining, it is still the leading trading partner for the United States. On the other hand, Japanese imports from the United States are quite stable, on average, accounting for 22 percent of the total Japanese imports. Table 24 lists the amounts of Japanese exports to and imports from the United States for the three years 1989, 1990, and 1991.⁵⁰

TABLE 23
INTERNATIONAL TRADE MATRIX
1990, (US\$ million)

	<u>Exports to</u>					World total
	Japan	U.S.A	Europe	Industrial countries	Other Countries	
<u>Exports from</u>						
Japan	-	91,121	38,271	168,492	119,186	287,678
U.S.A	48,585	-	63,732	251,170	141,936	393,106

Source: Bank of Japan, *Comparative International Statistics*, 1992.

TABLE 24
JAPAN'S TRADING WITH THE UNITED STATES
1989-1991, (US\$ million)

	<u>Japan's exports to</u>					
	1989	1990	1991	1989	1990	1991
U.S.A	93,188	90,322	91,538	33.9%	31.5%	29.1%

	<u>Japan's imports from</u>					
	1989	1990	1991	1989	1990	1991
U.S.A	48,246	52,369	53,317	22.9%	22.3%	22.5%

Source: Japan Tariff Association, *The summary Report: Trade of Japan*.

A final note here before concluding this section, is the level of foreign direct investment by the two countries. As of March 1992, Japanese direct investment in the United States amounted to US \$18 million, while U.S. direct investment in Japan was only US \$ 1.3 million.⁵¹ On the other hand,

foreign direct investment in Japan by the United States, in 1991, accounted for only US \$1.3 billion . Table 25 displays the amounts of foreign direct investment in Japan by countries.

TABLE 25
FOREIGN DIRECT INVESTMENT IN JAPAN BY COUNTRY
(as of March 31,1992)

	FY 1991 Amount	FY 1950-1991 Total
U.S.A	1,334	9,907
Canada	764	1,093
United Kingdom	431	1,083
Netherlands	323	1,787
Switzerland	176	1,334
Germany	172	1,122
Hong Kong	60	575
France	51	352
Foreign Affiliated Companies in Japan	639	2,721
Other	388	2,797
Total	4,339	22,771

Source: Ministry of Finance, Japan.

B - TRADE RELATIONS BETWEEN THE TWO COUNTRIES.

Trade friction has been a recurring issue in Japan's relationships with the United States since the mid-1950s. Until the early 1980s, friction primarily involved efforts to control rising Japanese exports and to prevent alleged dumping of Japanese products. In contrast, during most of the 1980s Japan's trade disputes with the United States typically involved attempts to gain greater access to the Japanese market. The "Structural Impediments" initiative talks, which began in 1989, marked a new phase by addressing so-called nontariff obstacles to trade between the United States and Japan.⁵²

The very fact that the United States and Japan, the world's number one and number two economies, have engaged in discussions dealing with domestic structural policies is itself a first in the history of economic diplomacy. That these talks took place at all was a reflection of the degree to which Japan and the United States are interdependent and of the responsibilities and capabilities that the two countries bear in the management of world economy, and it is crucial that these structural adjustments be successfully implemented in both countries.⁵³

Beginning in 1993, the U.S.-Japan relationship entered a new phase by the newly elected President Clinton, whose sense of post-Cold War priorities put economic matters first. Assessing the relationship, his administration found the security component to be solid and cooperation on global development and environmental issues to be in working order.⁵⁴ But the economic dimension was badly in need of repair and required a new

perspective on Japan. Japan's import and investment penetration problem reflects a series of long-standing visible and invisible trade barriers that have proved resistant to sectoral negotiations, structural impediment initiatives and investment access agreements.

For months, the big question between the U.S. and Japan was whether the two sides could reach agreement in their so-called framework talks by September 30. If not, would Washington invoke a trade-law provision called Super 301 and impose sanctions? How would Japan react? Would currency markets continue to "punish" Japan by pricing the yen even higher, thus making its exports more expensive?

In one way or another, this game has been played for decades, and the U.S. trade deficit with Japan continues to grow. In 1994 it reached US \$62.7 billion, up from \$41.8 billion in 1990. During the same period, the yen has appreciated 39 percent against the dollar. A strong yen simply hasn't solved the problem, nor it is likely to. The failings of the traditional U.S. approach to Japan are all too evident. That suggests the need for a thorough rethinking of U.S. policy vis-à-vis Japan. The goal should be a serious, long-term focus on the economic imbalance, not episodic trade brinkmanship and yen-dollar crises.⁵⁵ The U.S. government and industry should work together to promote more investment into Japan. That means reversing tax laws and Technology-transfer rules that actually discourage U.S. penetration of technology niches. On the other hand, Japan has the lowest level of per capita foreign direct investment in the industrialized world. For years, Japan discouraged foreign investment to protect its own

industries. Now, however, the yen has soared so high that acquiring land and doing business in Japan seems prohibitively expensive to most outsiders.

That sums up Clinton's dilemma. He can't control dollar-yen values, and multilateral trade deals usually take years to conclude. But the President can't wait that long. His best hope is that the rest of the industrialized world also is growing impatient with Tokyo's mercantilist approach to trade. Although Japan has resisted similar pressures in the past, its exporters have never been forced to live with such a strong yen. That hurdle ultimately could force the Japanese to compromise.⁵⁶

Not to be forgotten, of course, are the macroeconomic forces at work in sustaining the U.S.-Japan imbalance. The U.S. saves too little and consumes too much. For Japan, it's vice versa. Therefore, Americans need to continue to work on their budget deficit, and they need to keep pressing Japan to stimulate its economy. Tokyo's recent decision to cut taxes for three years is positive because it should increase consumption.⁵⁷ But by itself, that probably won't have a big impact on Japan's import of U.S. goods.

In the end, the U.S. shouldn't forsake pressure tactics of the traditional sort. But it can not rely exclusively on them, or on the hope that such macroeconomic factors as a strong yen or slightly improved growth in Japan will narrow the gap. A more comprehensive, systematic approach is required. To redress an imbalance that's been building for years, the U.S. will have to attack the very structure of an increasingly complex relationship.

NOTES TO CHAPTER VI

⁴² Japan Institute of International Affairs. White Papers of Japan: 1989-90 Annual Abstracts of Official Reports and Statistics of the Japanese Government. (Tokyo: Japan Institute of International Affairs, 1991), p.103.

⁴³ Kodansha International. Japan, Profile of a Nation, first edition, (Japan: Kodansha International Ltd., 1984), p.125.

⁴⁴ Japan Institute for Social and Economic Affairs. Japan 1993, An International Comparison, first edition, (Japan: Taiheisha, Ltd. 1993), p.32.

⁴⁵ Japan Institute of International Affairs,op.cit p. 103.

⁴⁶ Japan Institute for Social and Economic Affairs,op.cit pp. 34,37.

⁴⁷ Kodansha International, op.cit p.126.

⁴⁸ Japan Institute for Social and Economic Affairs,op.cit p. 46.

⁴⁹ Ibid., p.30.

⁵⁰ Ibid., p.38.

⁵¹ Ibid., p.57.

⁵² Kodansha International, op.cit p.123.

⁵³ Japan Institute of International Affairs,op.cit pp. 22,23.

⁵⁴ Altman R., Bhagwati J., “Forcing Japan to be Free”. Foreign Affairs vol.73 Nb.3 May/June 1994. p.3.

⁵⁵ Neff Robert, “Facing Reality In Japan Trade”, Business Week, 10 October 1994, p.18.

⁵⁶ Harbrecht D., Magnusson P., “Maybe Six Can Wrestle Japan to the Trade Mat”, Business Week, 18 July 1994, p.16.

CHAPTER VII

CONCLUSION

Japanese direct investment in the United States (JDIUS) continues to grow at a phenomenal rate. Japan's share of total foreign direct investment in the U.S. (FDIUS) is also increasing since it has the highest average rate of growth. Japan's investment has, on average, higher rates of return and reinvestment ratios than other investor countries. However, in terms of magnitude, it is still only a third of the United Kingdom's total and less than half that of the Netherlands.

The wholesale trade industry continues to receive the bulk of JDIUS, with manufacturing and banking being the other main host industries. Japan's income from its banking investments is conspicuously profitable, more than trice the average for all investor countries.

New plant constructions is the main mode for Japanese manufacturing investments and is twice as popular as acquisitions, while California is the favored location, attracting more than a quarter of all Japanese plants in the United States. A general profile of a typical Japanese manufacturing plant would be one that was majority-owned with production facilities at a single site. It employs less than 50 persons and had sales of less than \$50 million.

However, it is not the typical manufacturing plant but, the growing number of major Japanese acquisitions and larger Japanese-based U.S. corporations that have attracted media attention and fueled much of the

debate on Japanese investments. The debate centers on the controversy over the merits of allowing foreign firms to invest in the United States. Opponents fear a loss of control by the United States over its economic assets and economic direction or both, while the proponents are convinced that the foreign investments benefit the local economy and represent no real threat.

Although this controversy may never be resolved to either party's satisfaction, the fact does remain that foreign capital finances a significant portion of the gargantuan U.S. national debt and is creating jobs in many depressed U.S. industries.

Future U.S. policy on foreign investment should be designed to allow Americans to fully derive all the benefits that such investment provides, while concurrently alleviating the fears of those who envision the foreign control of America. More effective monitoring of all foreign investment activity in the United States and the securing of accurate and precise data should go a long way in providing conclusive answers to the effects of such investment and help dissipate some of the myths surrounding foreign direct investment in the United States.

On the other hand, Japan has to proceed intelligently as it continues to increase its stake in the U.S. economy. Pursuing policies of mutual benefit to both countries, as well as adopting a flexible attitude to overcome cultural differences in management styles and labor relations, will deflect the growing resentment over the success enjoyed by Japanese participation in U.S. industries and allow Japan to reap the benefits of expanded international production.

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