FDI & Technology Transfer

By Noboru HATAKEYAMA

Foreign investments can be divided into three categories. They are (1) FDI accompanying factory construction, (2) FDI not accompanying factory construction and (3) foreign investments other than FDI.

Investment categorized as (3) is portfolio investment that is not intended to control the invested company. This type of investment brings about just a shift of stockholders and has nothing to do with technology transfer. Investment categorized as (2) is typically either M&A or FDI in fields other than the manufacturing sector. While M&A does not accompany technology transfer necessarily, FDI in the nonmanufacturing sector needs technology transfer as is the case with the construction of a shopping mall, for example. Even if FDI doesn't accompany technology transfer, to receive it is important, especially for developing countries. It is often said that M&A does not contribute to economic growth of developing countries because it is just a shift of management from indigenous to foreign without creating new jobs. This argument is wrong, however. There are many cases where if such M&A were not carried out, there would be a lot of layoffs at the company that M&A rescued.

The investment categorized as (1) accompanies technology transfer for sure. It is direct investment to construct a new factory on a green field. Equipment is new, workers are new and everything else is new in this case.

Especially after the Plaza Accord was ironed out, thereby making the yen value twice the level a year before, Japan's direct investments in Southeast Asia increased drastically. Those investments contributed a lot to enhancing the technological levels of countries in the region whose economic development was called the "East Asian miracle."

As a matter of fact, the government of Japan has assisted these technology transfers from Japanese companies to people in developing countries through the Association for Overseas Technical Scholarship (AOTS), a nonprofit organization. AOTS was established back in 1959 with the support of the Ministry of Economy, Trade and Industry (METI) as Japan's first private-sector technical cooperation organization. The purpose of AOTS is to transfer Japanese technologies to developing countries by training people from these countries. Training in Japan is divided mainly into two courses – technical training and management training.

The technical training course is to train developing countries' engineers hired by Japanese-affiliated companies located in developing countries. The reason why the technical training course requires trainees to be with Japanese affiliates in developing countries is just to enable trainees to get an effective way to acquire technical skills through on-the-job training at the Japanese parent companies. Under the typical technical training program, trainees are invited to Japan to learn the Japanese language and acquire knowledge about Japanese society at AOTS for a half year and in parent-company factories for another half year.

The management training course is to train executives, managers and engineers of developing countries to acquire management skills related to corporate management, workshop improvement activities and the like. It is not required for trainees to be hired by Japanese-affiliated companies located in developing countries in this course, which is different from the technical training course. Candidate trainees are recruited from applicants in developing countries. They are also invited to Japan to learn knowledge necessary as company executives and managers for two weeks.

While these two courses are conducted in Japan, there is another training course conducted by AOTS outside Japan. This one is called an overseas training course, which is group training carried out in overseas countries with instructors dispatched from Japan.

Altogether, approximately 12,000 people are trained by AOTS every year recently. On a cumulative basis, AOTS has trained as many as 300,000 participants thus far. Training costs are covered by means of ODA subsidies and funding from private-sector companies.

Thus, AOTS has played a major role in linking investment with technology transfer. AOTS is going to celebrate its 50th anniversary next year. It will continue to play a most important role in the next 50 years as well

As mentioned above, technology transfer to developing countries can be taken care of through AOTS helped by ODA. Difficult problems lie with countries "graduating" from the status of ODA recipients. For example, South Korea has graduated from such status. However, the new government of South Korea looks interested in getting technologies from Japan so that its balance of trade with the rest of the world can return to surplus. Although it is impossible for Japan to offer ODA to South Korea, the training facility of AOTS might be made use of even to South Korean trainees, assuming the availability of space in AOTS training centers and the cost of training to be paid by South Korea in principle. I hope that the Japanese government and the governments of countries that graduated from the ODA recipient status can come up with a flexible idea to enable technologies to be transferred to those "graduate" countries, including South Korea. JS

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