

Europe Welcomes Japanese Corporations

By Chikao Tsukuda

An investment environment survey mission organized by the Japanese government visited France for about two weeks in May and June this year to assess the political, social and economic environment for Japanese direct investment in that country. The group, headed by Tomoo Miyazaki, vice president of the Bank of Tokyo, had about 30 members drawn from manufacturing concerns, trading companies, banks and industry associations. They received a warm welcome.

The mission visited Brittany, Alsace, Lorraine, Nord Pas de Calais, Alpe Maritime, Aquitaine and Normandy. Wherever they went, political, government and business representatives expressed their hope that Japanese corporations would set up production ventures in their areas. The mission was told that efforts were being made to improve the investment environment for Japanese manufacturers. In Paris, the group met cabinet ministers and ministry officials, who all said they were looking forward to stepped-up investment from Japan.

Shift in European attitudes

It is true that European attitudes toward Japanese investment have changed markedly for the better in recent years. This is particularly true in France, where until recently the general attitude, in both government and private industry, was cautious or skeptical, if not openly hostile.

Other European countries such as the Netherlands, Belgium and Ireland began to actively encourage investment by Japanese companies in the 1960s and early 1970s. In more recent years, major European countries like Britain have also welcomed Japanese investment. British Prime Minister Margaret Thatcher even appealed to Japanese enterprises to increase their presence in Britain during her state visit to Japan in September 1982. Shortly afterward, the social-



Konica Business Machines International GmbH.



NEC Semiconductors UK



Nissan Motor Manufacturing (UK)



Canon Giessen GmbH (West Germany)

The investment environment in Europe has improved remarkably for Japanese corporations.

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ist French government of President François Mitterrand approved of Japanese manufacturing investment, although still with some lingering reluctance. The approval was not unconditional, but it was clear that France had taken a more forward-looking attitude toward the entry of Japanese enterprises.

The shift in European attitudes was prompted by the realization that Japanese corporations could make a positive contribution to regional economic, industrial and technological revitalization. There can be little doubt this attitudinal change is a major factor behind the growth in recent years of Japanese direct investment in Europe.

According to statistics compiled by the Ministry of International Trade and Industry (MITI), the number of direct investment projects in the 12 member states of the European Community jumped from 16 in the 1960s to 82 in the 1970s. The number continued to rise in the 1980s, reaching 120 (including planned projects) by the end of 1985. There were only three projects each in Britain and France in the 1960s. In the 1970s the number increased to 14 in Britain and six in France. In the first half of the 1980s, the number of projects in France increased sharply to 30, and those in Britain to 28 (Table 1).

Globalization benefits Japanese corporations

Although the marked rise in Japan's direct investment clearly reflects growing European acceptance, it is not the only reason. Another, and perhaps more important, reason for the growth of Japanese investment is to be found on the Japanese side.

That, put simply, is the globalization of Japanese corporations. A large number of enterprises, particularly those engaged in activities involving a high degree of technology input, face severe competition at home and abroad. These companies not only can globalize their operations, they must globalize if they are to best the competition and achieve further growth.

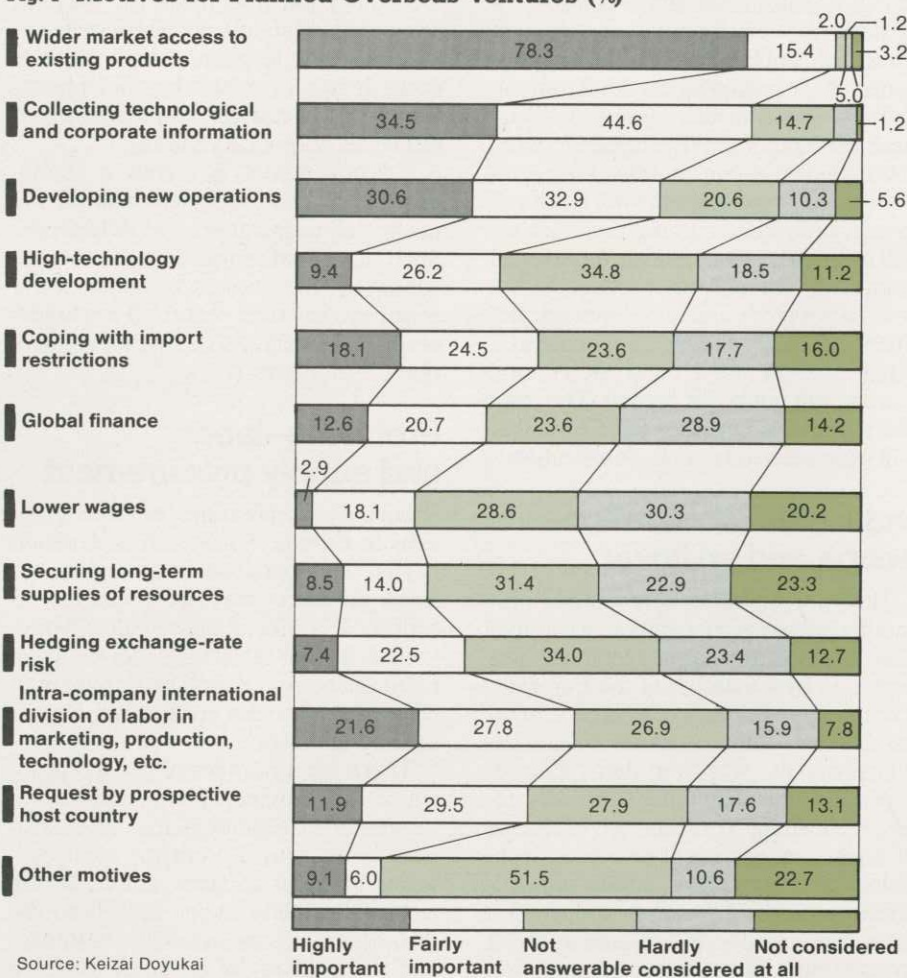
In this context, a recent survey by the Japan Committee for Economic Development (Keizai Doyukai) proved illuminating. According to survey results reported in the committee's 1985 white paper on Japanese corporations, titled *Progress in Corporate Globalization*, more than two-thirds of the companies who responded to the questionnaire—451 out of 591—had some form of operations abroad. About half of the respondents—

Table 1 Japanese Manufacturers in EC by Decade

	Number of cases	Percent of EC total	Period when operations began					
			1960s		1970s		1980s	
			Number of cases	Percent of EC total	Number of cases	Percent of EC total	Number of cases	Percent of EC total
Britain	45	20.6	3	18.8	14	17.1	28	23.3
France	39	17.9	3	18.8	6	7.3	30	25.0
West Germany	38	17.4	2	12.5	18	22.0	18	15.0
Italy	14	6.4	2	12.5	5	6.1	7	5.8
Netherlands	17	7.8	1	6.3	7	8.5	9	7.5
Belgium	15	6.9	1	6.3	9	11.0	5	4.2
Luxembourg	1	0.5	0	—	0	—	1	0.8
Denmark	1	0.5	0	—	0	—	1	0.8
Greece	4	1.8	1	6.3	2	2.4	1	0.8
Ireland	11	5.0	0	—	5	6.1	6	5.0
Spain	24	11.0	1	6.3	12	14.6	11	9.2
Portugal	9	4.1	2	12.5	4	4.9	3	2.5
EC Total	218	100.0	16	100.0	82	100.0	120	100.0

Note: Including plans underway
Source: MITI

Fig. 1 Motives for Planned Overseas Ventures (%)



289—had plans to set up overseas operations. Companies with neither overseas operations nor plans to establish them numbered only 119, a bare one-fifth of the total. Fifty-four percent of the responding companies were actively searching for overseas investment opportunities, against only 14% who were reluctant to expand abroad.

Another salient feature was the growing number of corporations motivated to invest abroad because of the need to globalize their operations. Specific motives for globalization cited by survey respondents included "development of new operations," "high-technology development," "intra-company international division of labor" and "coping with import restrictions." In the case of large corporations, "global finance" and "hedging exchange-rate risk" are also important motivators (Fig. 1).

Still another interesting finding of the survey was that Japanese corporations are promoting technological development on a global basis. In addition to traditional cross-licensing, they are now using joint technological development with overseas enterprises, commissioned research by universities and other research organizations, the establishment of R&D subsidiaries and research institutes, hiring of local researchers and joint ventures for technological development.

These survey results suggest that Japanese corporations will continue to work toward globalization, and that their presence in the world economy will reach still greater proportions. In the process, they will come to rely increasingly on external resources, not only in production but also in research and development and finance. This is already happening at a rapid pace in the United States, and Europe will not be far behind. The yen's sharp appreciation since last September will only accelerate such globalization.

Industrial cooperation—scope and spillover

How are Japanese corporations promoting industrial cooperation in Europe? The term "industrial cooperation" was first used by a member of the European Community Commission as a euphemism for voluntary export restraints which the EC was then demanding of Japan. But the term today has a very different meaning. It means the exchange of capital, management resources, technology and know-how among industrialized nations. Industrial cooperation takes various forms, including direct investment, joint ventures, joint re-

search and development, technology transfer agreements and cooperation in third countries.

It is nothing new, of course, for manufacturing companies to conduct international activities outside of merchandise trade. What is new is the magnitude and scope of such activities. Moreover, there is a growing belief that such activities create various benefits in national and international markets. This is perhaps the single most important facet of such international exchanges.

Active exchanges in capital, technology and services contribute to economic and trade expansion in the countries concerned, and have beneficial spillover effects on third countries. Increasing numbers of projects require international cooperation in pooling funds, sharing risks and using or developing technology. And transnational cooperation in industry and technology helps promote economic interdependence among nations and stabilize and strengthen international relations, economically and politically.

Thus "industrial cooperation" means a wide range of corporate activities conducted between or among different countries to promote exchanges in investment, technology and other fields. But the term "cooperation" should not be construed to have altruistic or philanthropic implications. It is neither altruism nor philanthropy but calculated self-interest which motivates corporate ventures.

If "cooperation" is merely a euphemism to cover up such hard realities, the quality of cooperation will deteriorate. Such superficial cooperation cannot contribute to the success of collaborative ventures. Any such venture, if it is to succeed, must start with a mutual recognition of self-interest.

Problems—labor and supply procurement

Japanese corporations still face problems in Europe. Since each corporation has its own experiences in the region, and since problems vary from country to country, it is difficult to generalize. Nonetheless, it is fair to say that labor-management relations and local procurement of parts and materials are the two biggest stumbling blocks.

There are a number of general problems in labor-management relations and personnel management that give Japanese firms trouble, from the confrontational behavior of labor unions to the lack of flexibility in job classifications, the absence of a cooperative atmosphere and the difficulty of hiring or retaining

high-quality labor. However, surveys and the findings of the Investment Environment Survey Mission suggest that the problems have, in general, not been as difficult as had been feared beforehand. Many Japanese corporations are making steady progress in their efforts to transplant their corporate cultures or, alternatively, to adapt them to the local environment.

Nonetheless, local procurement of parts and materials does pose difficult problems in the assembly industry, and especially for automakers and manufacturers of electrical machinery and electronic products. Japanese enterprises are striving to raise the local content of their products, but it is no easy task to build up a local network of reliable suppliers who can meet exacting delivery and quality requirements. This is a task that takes time to accomplish and it is essential that manufacturers and local suppliers make sustained efforts to improve communications and facilitate technology transfer. Local organizations such as chambers of commerce and regional development agencies can also play a useful role in identifying parts and materials suppliers potentially able to meet the needs of assembly makers. In fact, such organizations are already serving as intermediaries between Japanese corporations and local suppliers in a number of cases.

Mutual effort needed

Japanese corporations will continue their efforts toward globalization in the years ahead. And that means they will increase their presence in Europe as well as in other regions. Yet at the same time that globalization increases their visibility, diversifies their operations and deepens their contacts abroad, it also increases the possibility of friction and conflict.

It is essential to deal with such a situation rationally. Japanese corporations should make greater efforts to adapt themselves to the local environment. They should improve their ability to communicate effectively not only with managers and employees of local companies, but also with people in local communities, the mass media, academia, government and political circles. Such communication needs to be promoted at every possible level. For their part, Europeans should avoid short-sighted and negative responses to the growing Japanese presence. Such a reaction would destroy the possibilities for the kind of dynamic cooperation—cooperation in the real sense of the word—that is most beneficial to both Europe and Japan. ●