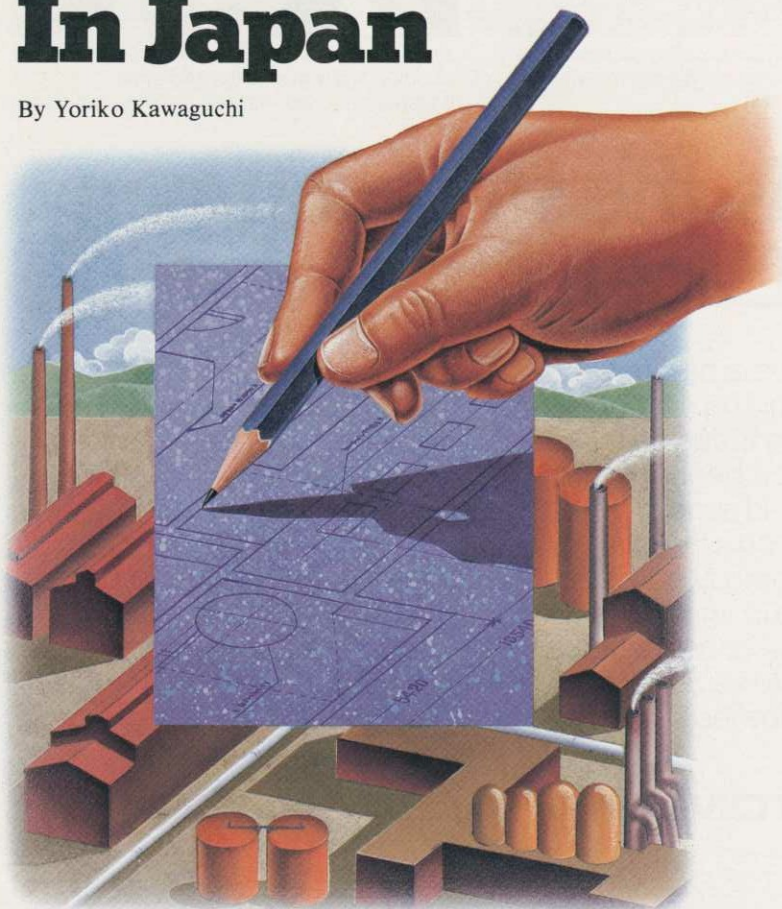


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Fast-growing Field: Direct Foreign Investment In Japan

By Yoriko Kawaguchi



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The situation and outlook

Direct investment in Japan by foreign investors is, in principle, free. Foreign investors wishing to invest in Japan need simply notify the Bank of Japan in advance.

Under this open system, direct foreign investment in this country has been increasing year by year. In fiscal 1983, direct foreign investment on the basis of prior notification reached all-time highs in both number (2,363 cases) and value (\$813 million) (Fig. 1).

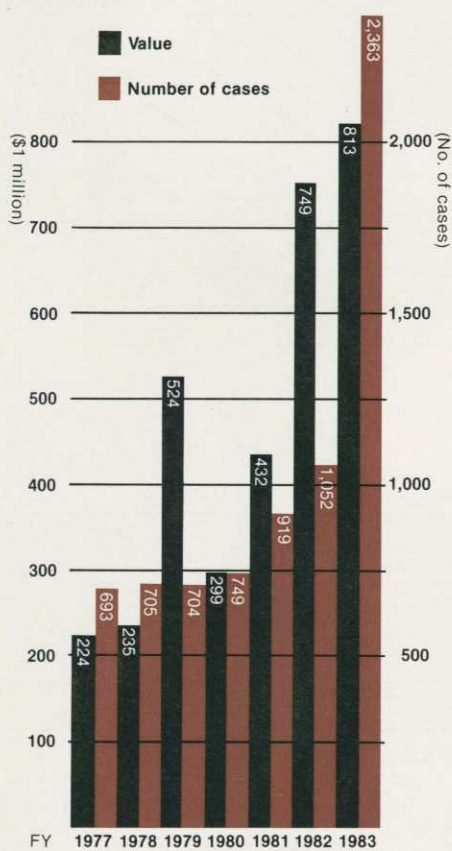
Who is investing, and how

By industry, investment in manufacturing accounted for 77% of the total value on a prior notification basis at the end of fiscal 1981, the most recent year for which figures are available, far outdistancing the 13% in commerce and trade and the 4% in the service industry (Fig. 2). In the manufacturing sector, the largest proportion of investment was in the chemical, machinery and petroleum industries. By number of cases, investment in commerce and trade accounted for 36.9% of the total, almost equal to manufacturing's 42.4%. Thus, though the manufacturing industry takes a disproportionate share in value terms, because the amount per investment is huge, the figures show that commercial and trading businesses are investing just as vigorously as their manufacturing counterparts.

By country, the United States accounted for 52% of aggregate direct foreign investment in Japan in fiscal 1981, followed by Switzerland, West Germany and Britain (Fig. 3).

Mammoth multinational corporations are investing in Japan. As of the end of fiscal 1981, 121, or 60%, of *Fortune*

Fig. 1 Direct Foreign Investment Trends in Japan



Source: The Bank of Japan

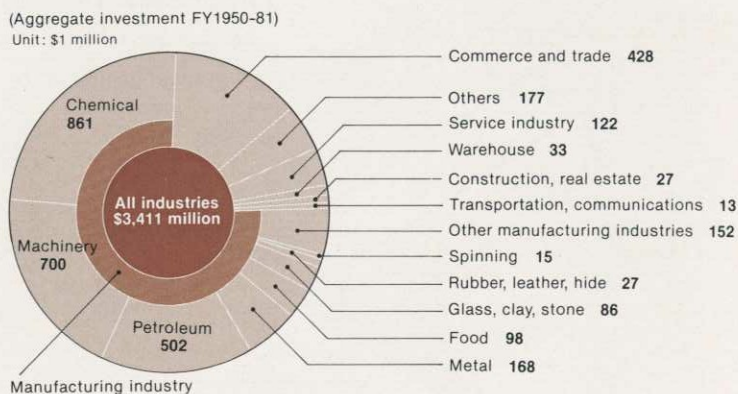
magazine's top 200 American corporations in mining and manufacturing sales had advanced into Japan. Of *Fortune's* top 100 non-American mining and manufacturing corporations, 28 were active in the Japanese market. Since the world's top 100 also included 17 Japanese enterprises, the 28 represent 33.7% of the remaining 83 companies. In all, 149 (52.7%) of the world's top 283 enterprises had advanced into Japan by the end of fiscal 1981.

All of America's top nine pharmaceutical companies and top four precision instrument manufacturers have invested

in Japan. So have 14 of the top 16 U.S. machinery makers and 17 of the top 21 chemical firms. Among non-American enterprises, the highest rate of advance into Japan was in the chemical industry—eight of the top 10.

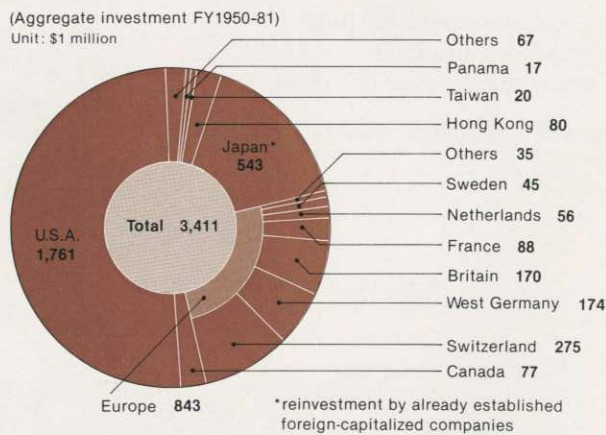
Broken down by equity ratio, 38.4% of foreign-capitalized companies in Japan were wholly-owned by foreign capital in fiscal 1980, with the percentage rising annually. Some 13.9% of the companies had foreign capital ratios over 50% ranging up to 99%, while 28.0% had a foreign capital ratio of exactly 50%, and 19.7% less than 50% (Fig. 4).

Fig. 2 Direct Foreign Investment in Japan by Industry (authorization and notification basis)



Source: The Bank of Japan

Fig. 3 Direct Foreign Investment in Japan by Country (authorization and notification basis)



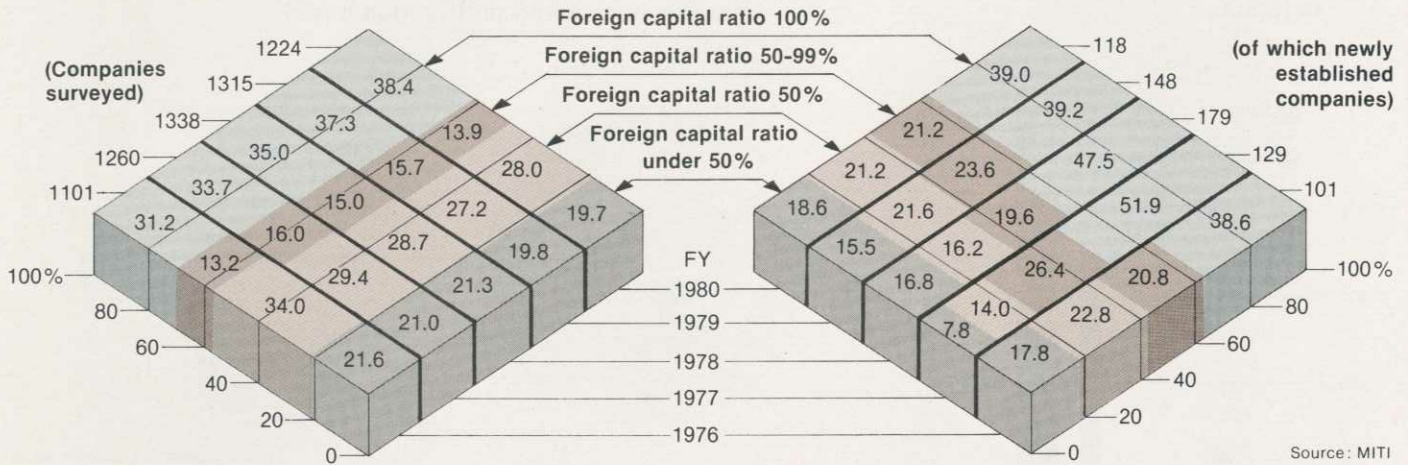
Source: The Bank of Japan

Broken down by size, companies capitalized at more than ¥100 million (\$417,000) accounted for 36.4% of the total. However, of the foreign companies which entered Japan in fiscal 1980, 92.4% were capitalized at less than ¥100 million (Fig. 5).

Foreign companies' earnings

A Ministry of International Trade and Industry (MITI) survey of the earnings of foreign-capitalized enterprises in Japan in fiscal 1980 unearthed some interesting facts. It found that aggregate sales of companies with 25% or more foreign

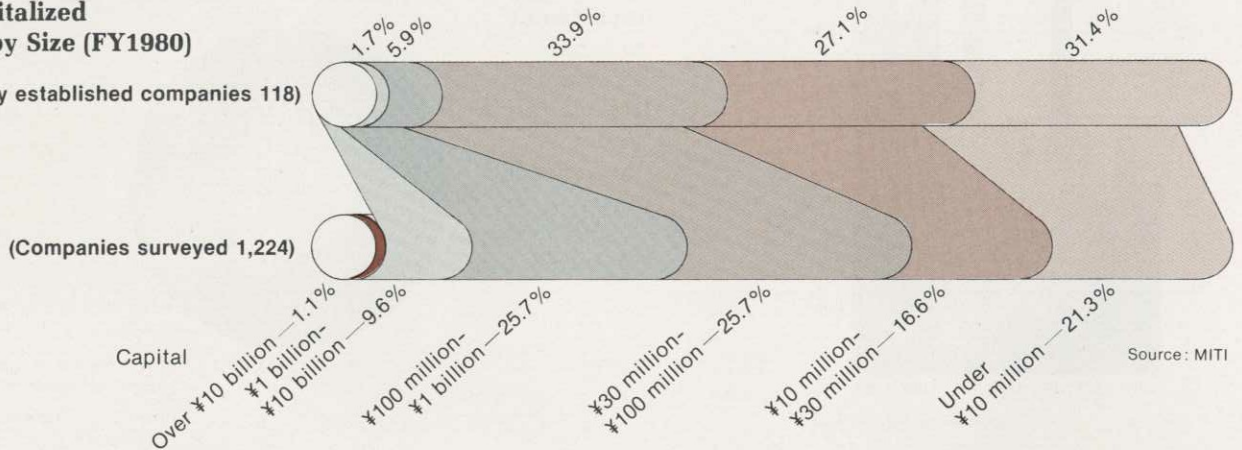
Fig. 4 Equity Ratio of Foreign Capital



Source: MITI

Fig. 5 Component Ratio of Foreign-Capitalized Companies by Size (FY1980)

(of which newly established companies 118)



Source: MITI

capital (1,224 respondents) totaled approximately ¥18 trillion (\$75 billion). The sales of these enterprises more than doubled from fiscal 1975 to fiscal 1980, exceeding the sales growth of incorporated Japanese businesses during the same five years (Fig. 6). Moreover, the ratio of current profit to sales was much higher for foreign enterprises than for incorporated Japanese businesses (Fig. 7).

Foreign companies' share of total sales in Japan in fiscal 1980 was 2.2%, but in the manufacturing industry it was as high as 4.7%. This 4.7% share is not far short of the 7% share which foreign companies

(ratio of foreign capital exceeding 10%) have in the American manufacturing industry. In some Japanese industries the foreign-capitalized firms' market share is much higher, reaching 38.1% in the petroleum industry, 10.8% in the rubber industry and 7.1% in the chemical industry (Fig. 8). The Table on page 16 further indicates the high shares that some foreign companies enjoy in their respective fields.

Future prospects

Clearly, foreign companies have a good business record in Japan. This is partly attributable to the unique characteristics

of the Japanese market, including its immense purchasing power, the availability of abundant high quality labor, harmonious industrial relations, easy access to the growing markets of China and Southeast Asia, high technology capabilities, and political stability. But no less is their performance the result of their own untiring efforts.

Foreign companies must surmount many problems to succeed in the Japanese market. They face the exacting demands of consumers and users, tough competition, and social customs and culture different from their own. However, the Japa-

Fig. 6 Sales Growth

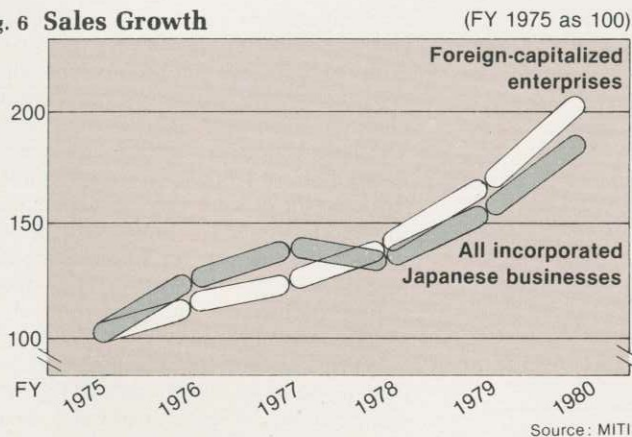


Fig. 7 Ratio of Current Profit to Sales

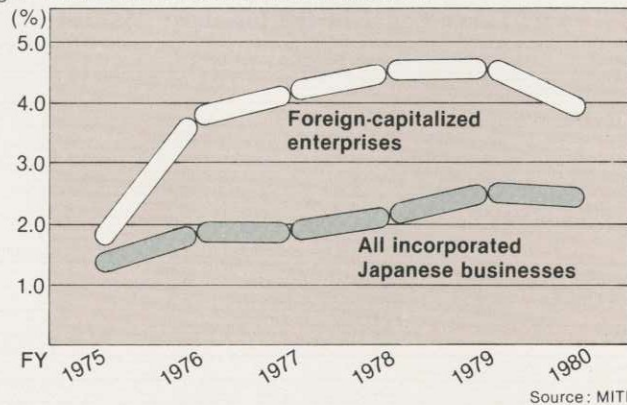
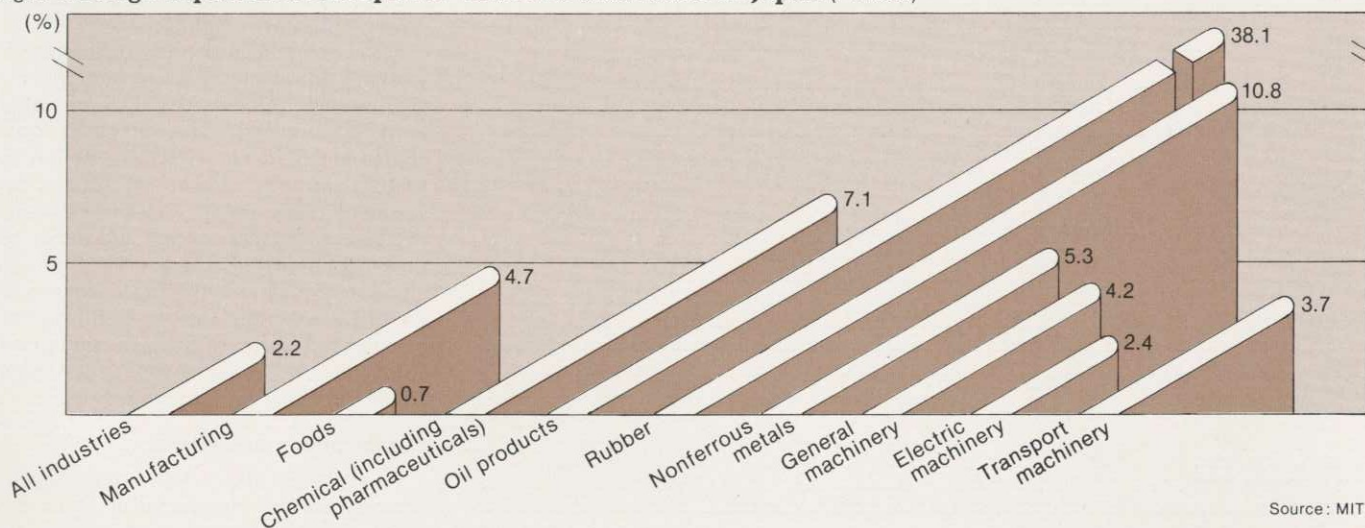


Fig. 8 Foreign-capitalized Enterprises' Share of Total Sales in Japan (FY1980)



nese market is so attractive it is worth the effort to overcome these hardships. The many foreign companies that have successfully made this effort and established their position in Japan are eloquent proof of this.

The Japanese market has plenty of room for further cultivation by foreign companies, and direct foreign investment is expected to increase. Local governments have recently become enthusiastic about inviting in foreign firms, while the central government incorporated new measures to promote investment exchange in its external economic package an-

nounced last April. Prime Minister Yasuhiro Nakasone has declared that Japan welcomes foreign investment. The climate is right for growth.

Promoting direct foreign investment

Office for the Promotion of Foreign Investment in Japan

In May 1982, Prime Minister Zenko Suzuki publicly declared that his government welcomed foreign investment. Two years later, in April 1984, the government

adopted an external economic package containing numerous measures to promote investment exchange.

In line with this policy, the Office for the Promotion of Foreign Investment in Japan was established within MITI to provide information to potential foreign investors.

Besides providing pertinent information, the office also offers guidance and consultation, and introduces prospective foreign investors to relevant Japanese agencies.

The office widely disseminates information relating to the investment environ-

Table Products of Foreign Enterprises in Japan with Large Share of the Japanese Market

(as of April 1982)

Product	Foreign Enterprise (Nationality)	Share
(Beverage/Foods)		
Carbonated drinks	Coca-Cola Co. (U.S.)	60%
Instant coffee	Nestle Alimentana S.A. (Switzerland)	63%
	General Foods Corp. (U.S.)	17%
Cube and powdered soup	CPC International, Inc. (U.S.; Brand name, Knorr)	84%
Breakfast cereals	Kellogg Co. (U.S.)	34%
Food catering	McDonald's Corp. (U.S.)	No. 2 in food catering industry
	Heublein, Inc. (U.S.; Brand name, Kentucky Fried Chicken)	No. 8 in food catering industry
(Paper/Processed products)		
Tissue paper	Kimberly-Clark Corp. (U.S.)	20%
	Scott Paper Co. (U.S.)	16%
Paper cups	American Can Co. (U.S.)	15%
(Chemicals)		
Silicone resin	Dow Corning Co. (U.S.)	20%
Fluoresin Teflon	Du Pont (E.I.) de Nemours & Co. (U.S.)	30%
Foamed plastic products	BASF (West Germany)	30%
Household detergents	Proctor & Gamble Co. (U.S.)	15%
Bandages	Johnson & Johnson (U.S.)	31%
Wax (floor, car)	S.C. Johnson & Son (U.S.)	30% (floor) 20% (car)
Deodorants	American Drug Co. (U.S.)	59%
(Machinery/Equipment)		
Bulldozers	Caterpillar Tractor Co. (U.S.)	43%
Shovel tractors	Caterpillar Tractor Co. (U.S.)	43%
Computers (large & ultra-large machines costing more than ¥500 million)	IBM (U.S.)	On installation basis, 40% (of which 20% imported)
	Sperry Rand Corp. (U.S.; Brand name, Univac)	On installation basis, 12% (of which 80% imported)
Photocopiers	Xerox Corp. (U.S.)	20%
Cash registers	NCR (U.S.)	10%
Fluorescent lamps	Philips (Netherlands)	31%
	GTE International (U.S.)	11%
(Others)		
Golf balls	Dunlop (Britain)	55%
Phonograph records	Polydor International (West Germany)	16%
	CBS (U.S.)	14%
	EMI (Britain)	13%
Slim-stemmed wine glasses	Owens-Illinois, Inc. (U.S.)	60%
Sealed containers	Rexall Drug & Chemical Co. (U.S.; Brand name, Tupperware)	30%

Source: MITI

ment in Japan, for example lending slides and English-language videotapes explaining the investment climate, and distributing handbooks on the prescribed procedures for investing in this country.

In coordination with this office, the Office of the Trade Ombudsman (OTO) has also begun to accept complaints from foreign investors regarding Japan's investment procedures.

Investment promotion measures

In order to financially support the business activities of foreign enterprises in Japan, the Japan Development Bank in

fiscal 1984 instituted a loan system for promoting foreign investment in Japan. This option is available to wholly-owned foreign firms or companies with 50% or more foreign capital.

As a further incentive, central and local governments give foreign capitalized companies preferential tax treatment in making plant and equipment investment, in accordance with regional development laws. For instance, foreign-capitalized companies located in regions where certain laws are applicable are exempt from the local Enterprise Tax, the Prefectural Fixed Assets Tax and the Real Property

Acquisition Tax. They are also given special depreciation privileges on newly acquired buildings and equipment when constructing new plants or expanding old ones above a certain value in these areas. The laws concerned are the Law on the Promotion of Industry in Agricultural Regions, the Act for the Development of the Special Areas for Industrial Consolidation, and the Law for Accelerating Regional Development Based on High-Technology Industrial Complexes (known as the Technopolis Law).

When searching for industrial sites, foreign investors can even use MITI's new computerized reference service, which provides information on land prices, availability of industrial water and electric power, and other conditions.

Local governments, too, are vigorously working to attract foreign enterprises. (See articles pp. 19-22.) The principal local governments have prepared brochures and slide shows which explain in English the local climate for foreign investment. They are also sending missions overseas to attract foreign industries to their community. Local governments are also considering possible improvements to the local environment to facilitate the business activities of foreign-capitalized companies and to ensure foreign staffers a comfortable life in outlying regions.

Future policy measures

As explained above, policy measures to promote foreign investment in Japan are being steadily implemented under the leadership of the Office for the Promotion of Foreign Investment in Japan. Exchange of investment contributes not only to closer and more diverse economic relations between the investor country and the host country but also greatly aids the revitalization of the world economy. In view of the significant role Japan has to play in international economic society, it is essential that the office take the lead in accurately identifying foreign enterprises' needs, facilitating the business and daily activities of these companies and their staffers, and vigorously conducting comprehensive public relations activities. ●