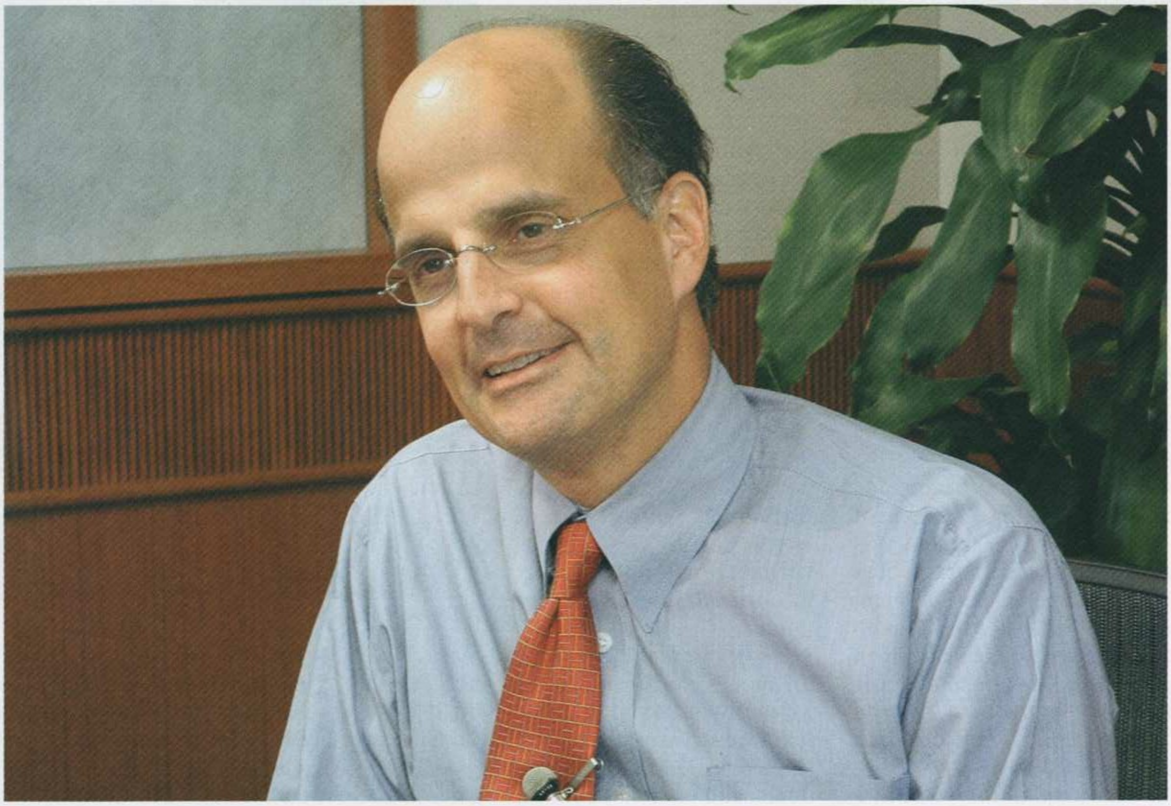
Building Partnerships with Japan

By Mark Norbom

Photo : GE Japan



Mark Norbom says that GE views Japan as a top priority in its global strategy

General Electric Co. (GE) has a long and close relationship with Japan. We sold our first electric generators in Japan in 1886. Thomas Edison used a special bamboo from the forests near Kyoto as one of the first successful filaments for his invention of the light bulb. Today GE has more than 30 operating affiliates and joint ventures in Japan, employing more than 14,000 people in areas ranging from industrial businesses such as plastics and silicones, to technology businesses such as medical equipment and aircraft engines, to financial services such as consumer financing, leasing and life insurance.

Despite 12 years of economic downturn, Japan still maintains its position as the world's second largest economy with a gross domestic product (GDP) more than three times that of China. Japan continues to have the second highest number of companies with more than $1 billion in market value, trailing only the United States. These facts alone would be enough for GE to view Japan as a top priority in its global strategy, but even more important are the strong partnerships that have helped us build our many successful business platforms in Japan – partnerships with companies like Yokogawa Electric Corp., Toshiba Corp., Hitachi, All Nippon Airways Co., Ishikawajima-Harima Heavy Industries Co., Nihon Keizai Shimbun, Fanuc and many more. Our former Chairman, Jack Welsh, often said that a handshake in Japan was worth more than a signed contract in most markets. It is the strengths of our partners, customers and employees that have built our businesses in Japan over the last 100 years that ensures we will continue building our partnership with Japan for the next 100 years.

Yet despite the attractive qualities of Japan's market, investment has been difficult with the flow of inward foreign direct investment (FDI) in Japan one of the lowest of the world's major markets. The 2002 United Nations Conference on Trade and Development (UNCTAD) World Investment Report showed that Japan attracted only 0.8%

Photo : GE Japan

GE Japan is keen on social activities: photo shows KIDS-GE International Project

of global inward FDI in 2001, compared to nearly 17% for the United States, 7% for the United Kingdom and 6% for China. Time and time again, FDI has been shown to be a fuel for economic growth. Over the past 30 years, both the United States and the United Kingdom suffered some of the same ills that plague Japan today – a hollowing out of traditional industrial strengths and decreased global competitiveness. FDI played a significant role in transforming these markets to once again be globally competitive. Foreign investors brought new products and technologies, new productivity, and a new understanding of world-class quality. The investments may have been from outside the country, but the increase in GDP, tax revenues and resulting employment stayed in the United States and the United Kingdom. These transformations did not occur without pain – transitional unemployment and bankruptcies – but these markets have rebounded to be stronger than ever and have not lost their sense of culture or history in the process.

China is another example of a country that is capturing the benefits of FDI. In China one of the biggest areas of competition is between the various provinces to attract FDI. These investors have brought with them many of the traditional competitive advantages of Japan – productivity, quality, infrastructure, technology, research and development – and they can all be done in China at a fraction of the cost. China has not lost its identity. It has gained growth and access to the global market, and is often chosen over Japan for investment.

Both South Korea and Thailand developed huge problems with non-performing loans (NPL) and overcapacity in uncompetitive industries after their bubble markets collapsed in the late 1990s. Korea Asset Management Corp., in Korea, and the Financial Restructuring Authority, in Thailand, were established to take over NPLs and get the assets behind these loans back into the market at a fair value, often to foreign investors, so they would not be an anchor to market growth; so that they would be transformed back into competitive, market-driven capacity. Today, both of these markets are back on a strong growth path.

This is not intended to imply that any of these solutions are the panacea for Japan's problems, but there is a common theme that FDI has helped drive these transformations. Prime Minister Koizumi Jun-ichiro recognizes the role that FDI can play in market revitalization and recently announced an objective to double the base of FDI in Japan. Numerous "think tank" groups have grappled with the issue of attracting FDI over the past year. While there have been variations in each group's specific findings, there are several common themes:

• Build confidence in the market by making substantial, market-based progress on the NPL issue.

• Improve corporate governance and transparency through increased independence of company Board of Directors and focus on shareholder value.

• Reduce the cost and barriers to joint venture and acquisition related ownership transfer.

• Increase labor mobility from uncompetitive or over-capacity industries to new, globally competitive sectors through pension reforms, revised labor laws and safety-net/retraining programs.

• Demonstrate clear national and local government support for foreign investment.

It is often said that foreign investment is a threat to the history and culture of Japan. At GE, we recognize that the best formula is to combine our global strengths with the strengths, history and culture of Japan. The fact is that a business in Japan will not be successful if it does not have a healthy respect and sensitivity for the traditions and culture of Japan. But at the same time, the market has changed. It is more and more an open, global market and companies need to adapt. Some companies, like Sony Corp., Toyota Motor Corp. and Canon, have transformed themselves without foreign investment. Others, like Nissan Motor Co. and Mitsubishi Motors Corp., have used foreign expertise to transform themselves. The key is to embrace the need to change, recognize that this can be done hand-in-hand with the history and culture of Japan, and that FDI can be a driving force for necessary economic transformation. JJTI

Mark Norbom has been the president and CEO of General Electric Japan, Ltd. since 2001. He joined GE in 1980. Before moving to Tokyo in 2000 as the president and CEO of GE Capital Japan, he held a variety of international management positions in Taiwan, Indonesia and Thailand.