

Progress in Industrial Cooperation

By Nobuo Kimura

Direct investment in overseas businesses by Japanese enterprises has served to promote industrial cooperation, particularly with the United States and European countries. These investments have made a major contribution to the development of local communities, creating new jobs and encouraging regional development and technology transfers. Such activities by Japanese enterprises will grow in importance in the years ahead.

Japan's direct investments in overseas businesses during fiscal 1984 (ending March 31, 1985) totaled \$10,155 million, according to investment reports filed with the Japanese Ministry of Finance. It was the highest figure yet, up \$2,000 million from the previous year.

Of the total, 33% was invested in the U.S., 23% in Latin America, 19% in Europe, and 16% in Asia. Investments in such nonmanufacturing industries as finance, transportation, and commerce totaled \$7,429 million, a nearly 40 percent increase from the previous year. Investments in the manufacturing sector totaled \$2,505 million, maintaining the high level of investment seen over the past several years.

Since the start of the 1980s, Japanese direct investment in manufacturing in the U.S. and Europe has expanded markedly.

New manufacturing jobs for 80,000 Americans

According to a survey by the five U.S. offices of the semiofficial Japanese trade promotion agency JETRO (Japan External Trade Organization), there were some 440 manufacturing plants owned partly or wholly by Japanese enterprises in the United States as of March 1985. These plants, found in 40 of the 50 U.S. states, employed an estimated 80,000 people. They were concentrated in California, Georgia, Illinois, Texas, and Pennsylvania.

The survey also found a marked in-



NEC America Inc. plant in California, one of the some 440 Japanese-owned manufacturing plants in the U.S.

crease in Japanese investments in high technology in recent years. Amid keen competition in technological development, Japanese enterprises have set the standard for production technology in computers, communications equipment, industrial robots, and optical fiber.

For instance, NEC Corp. and Hitachi have built plants in California and Texas, respectively, that integrate production of very large-scale integrated circuits (VLSIs). Fujitsu has constructed a high-grade magnetic disk drive plant in Oregon.

Three Japanese companies have even established joint research institutes designed to utilize America's high-quality research environment in high-tech fields. Kyocera Corp.'s research laboratory is in the state of Washington, and Kobe Steel chose North Carolina, and Nippondenso Co. Michigan for developing new technology and new industrial materials.

Japanese automakers and auto parts manufacturers have also been racing to build plants in the United States. Honda Motor Co. has finished its second U.S. car plant in Ohio. NUMMI, a joint venture between General Motors and

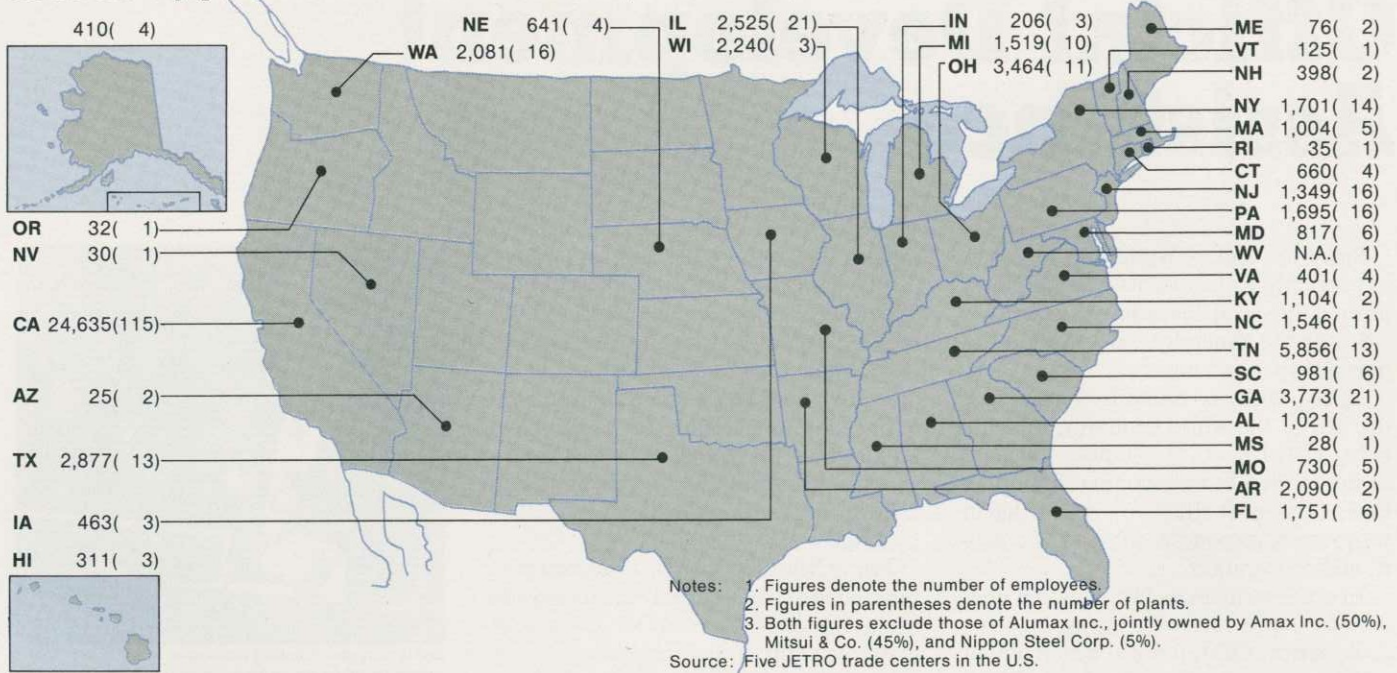
Toyota Motor Corp., has started producing 200,000 small cars a year, and Nissan Motor Co. is now manufacturing cars at its small truck factory in Tennessee. Three Japanese auto parts manufacturers have also begun U.S. production: Nippondenso in California, Kanto Seiki Co. in Tennessee, and Musashi Seimitsu Industry Co. in Michigan.

In the basic materials field, Kawasaki Steel Corp. has acquired Kaiser Steel, while Nisshin Steel Co. has invested in Wheeling Pittsburgh Steel, and Nippon Kokan K.K. in National Steel Corp.

Japanese-affiliated plants are scattered throughout the U.S., and their numbers are increasing year by year. Japanese enterprises have made no small contribution to the development of various American states and local communities through job creation, import substitution, export expansion, the transfer of production and management technology, and the promotion of the regional economy.

Japanese enterprises have also worked to "Americanize" their facilities by educating and training American workers and appointing Americans to executive posts. The local content ratio at the

Locations of Japanese-Owned Plants in the U.S. (as of March 1985)



majority of Japanese-affiliated U.S. plants now exceeds 50%.

Revitalizing European industry

There were 189 Japanese-affiliated manufacturing plants in Europe at the end of 1984, of which 34 were in West Germany, 32 in Britain, 30 in France and 22 in Spain. In recent years, the number of plants built in key EC member countries has increased appreciably.

By industry, the electric and electronic machinery industry led the pack with 52 plants producing color television sets, video cassette recorders, and integrated circuits. Next came chemicals, with 24 plants producing adhesives, printing ink, and other products, followed by general machinery with 17 plants turning out bearings, pumps, and machine tools. The fourth main group was transportation machinery, with 13 plants producing cars, trucks, and motorcycles.

Ricoh Co., for instance, has built an office automation equipment plant, Nissan Motor Co. a car plant, Shin-Etsu Semiconductor a silicon wafer plant, and Yamazaki Mazak Corp. an NC (numerically controlled) machine tool plant, all in Britain.

Japanese-affiliated plants in France include Toray Industries' carbon fiber plant, and factories for Stanley Electric's liquid crystal instruments, Daiwa Seiko's fishing equipment, and Trio-Kenwood Corp.'s tuners.

In West Germany, Matsushita Electric Industrial Co. is operating an electronic

components plant, Fujisawa Pharmaceutical Co. a medicine plant, and Graphtec Corp. a precision instrument plant.

The paid-up capital of Japanese foreign subsidiaries and joint ventures averages between \$1 million and \$5 million, with a work force of 50 to 300. Approximately half are wholly owned subsidiaries, and the remainder joint ventures.

Economic growth rates remain relatively low in European countries, and the EC member countries alone have a jobless population totaling 12 million. These countries are keenly interested in having Japanese businesses build manufacturing plants, in the hope that these facilities will help revitalize EC industries and create new jobs.

In Britain, the government has made extra efforts to foster a favorable environment for Japanese investment and encourage industrial cooperation between the two countries. In West Germany, local governments have aggressively courted Japanese enterprises. The Lüneburg municipal government, for instance, has prepared an industrial park exclusively for Japanese businesses.

Japanese-affiliated manufacturing plants in Europe today employ about 40,000 workers. This figure is far from large. Yet these enterprises have contributed to the revitalization of European industry through the transfer of production technology, quality control and management know-how, and related managerial technology. In France in particular, the relatively high export ratio of Japanese-affiliated enterprises has won high acclaim. In Britain, Japanese com-

panies have been asked to reveal their "secrets" of business management, including how to improve communication between labor and management.

Successful results achieved amid trade frictions

Amid intensifying trade frictions with the U.S. and European countries, the efforts of Japanese enterprises to promote industrial cooperation through direct investments are steadily bearing fruit.

The rise of protectionist forces threatens to contract world trade and bring on a worldwide recession. By contrast, industrial cooperation in the form of direct investment, technological exchange, and cooperation in third countries can be instrumental in developing and revitalizing the global economy. The effects of industrial cooperation reach farther and deeper than those of merchandise trade.

Whereas the mere transfer of technology rapidly loses its effectiveness as the technology itself becomes obsolete, technology transfer coupled with capital investment means ceaseless improvements and the continuous introduction of new technology to ensure the economic health of the enterprise and fulfill managerial responsibility.

Moreover, production activity based on direct investment brings with it the transfer of culture and stepped-up personnel exchanges. Direct investment today is playing a major role in promoting mutual exchange between Japan and the U.S. and European countries. ●