# Japan and World Citizenship

*By Robert J. Ballon*

In a world still in shock over Japan's rapidly expanding trade, the country's overseas investment in the 1980s brought havoc, compounded by its becoming a major creditor country and a major player on world financial markets. Apparently the borderless world, dreamt by some, where people, goods and information move freely, will somehow have to accommodate "bordered" cultural, social, and economic idiosyncrasies. And Japan will provide its own. Consider the MITI report of 1994: Japan is an odd player in the World Investment Games—FDI outward stands at over $250 billion, and inward at $15 billion; on a per capita basis, $2,000 outward and $126 inward (Figure 1). No doubt, foreign presence in Japan is not about to match Japanese presence abroad, notwithstanding a major and growing contribution to Official Development Assistance (ODA).

## Foreign presence in Japan

Characteristically, the massive impact on Japan of Chinese civilization some thousand and more years ago, and of Western civilization some hundred years ago, took place without a major transfer of population or resources. Today, contrary to the experience of other developed countries with a substantial proportion of immigrants, in a population of 125 million, non-Japanese residing in Japan count 1.3 million, including 700,000 Koreans, 200,000 Chinese and 150,000 Brazilians (excluding the two or three hundred thousand recent illegal immigrants). For an industrial country, this unusual situation reflects the marginal position, with notable exceptions, of foreign business in Japan.

Prior to World War II, inward foreign investment was important in terms of transfer of technology and know-how, though minuscule in volume (less than $100 million, at the rate of two yen to the dollar). It originated largely in the United States for which it amounted to less than one percent of total direct investment overseas. Much of it was in the form of joint partnerships with Japan's *zaibatsu*.

The actual number of "foreign" firms currently operating in Japan is not known, but two official surveys give some indication:

(1)The Ministry of International Trade and Industry (MITI) conducts a yearly mail survey of "foreign" companies. Its 27th survey (March 1993) covering enterprises with 50% or more foreign equity, called on close to 2,800 enterprises, of which 1,486 (53.7%) responded. They employed 192,000 people and accounted for 1.1% (¥16 billion) of total sales.

(2)The Ministry of Labor (MOL), in turn, conducts a periodic mail survey. Its fifth survey was conducted in August 1991, and mailed to about 2,000 establishments; it obtained 873 (46.1%) valid answers. It covered not only corporations with at least 50% foreign capital but also branches or agencies of foreign corporations. Their employees added up to 150,000.

It must be stated, however, that as a rule, foreign affiliates' profitability in Japan has been and is better than the domestic average. In fiscal 1992, the ordinary profit rate as percentage of net sales was 1.8 for all private firms, but 3.0 for the foreign affiliates among them. Usually, the economic reasons given for the low level of FDI are the relatively late capital liberalization and high costs. But foreign investors on the spot know too well that a major drawback is the widespread reluctance of the Japanese themselves, young and mature, to seek employment in a "foreign" firm, notwithstanding easier working conditions, a situation slightly alleviated recently by some influx of female university graduates.

## Japanese presence abroad

It is symptomatic that, as a result of prewar and postwar emigration, Japanese emigrants and their descendants, almost all in North and Latin America, add up to at most two million. There was the experience of the Japanese colonial empire: at the end of the Pacific War (1945), 6.5 million soldiers and settlers were repatriated, almost one-tenth of the population at the time. Currently, there are about 700,000 Japanese "residents abroad." More obvious are Japanese travelers abroad: 2.5 million in 1975, five million in 1985 and 12 million in 1993.

Recently, the international community took a dim view (bitterly resented here) of the belated Japanese contribution of $32 billion to the Gulf War. It started an ambiguous development—Japanese participation in United Nations peace keeping operations. There is now much talk about granting Japan a permanent seat on the U.N. Security Council. Ironically, though the UN is well known among the Japanese public, out of its professional work force of over 4,000 in 1990 fewer than 150 were Japanese nationals; they were not kept out, they simply did not apply for the jobs. At the World Bank, where the largest contribution of new capital comes from Japan, fewer than 100 Japanese nationals, out of a work force of 6,000, are active. In all international organizations, Japan's contribution in human resources averages less than two percent.

Nonetheless, presence abroad is powerfully expressed by economic activities. The worldwide networks created by Japanese general trading firms and their third-country trade attracted much attention when, as in pre-World War II and until the late 1970s, they dominated Japan's trade and investment and were instrumental in organizing access to the natural resources sorely missing at home. Export success was the most significant indicator of Japan's international competitiveness. Japan's share of world exports today is close to ten percent, and of imports almost seven percent, though its dependence on foreign trade is much less than is commonly observed in the European Union countries.

A major shift took place in the 1980s, especially after the sharp yen appreciation of 1985; trade was increasingly complemented by investment. At the beginning of the decade, compared to the United States, Japan's total FDI was one-tenth; at the end of the decade, it stood at 40%. In the span of one or two decades, Japan's share of outstanding world FDI now reaches fifteen percent, similar to the United Kingdom, where it started many generations ago in the context of the British Empire.

Initially, Japanese overseas investment resulted from a "push" outward, due to intense rivalry in the home market; competition in Europe and the United States was a mere extension of the oligopolistic rivalry in the home market. But soon "pull" was added as Japanese multinationals felt their survival threatened by the steady appreciation of the yen and local-content requirements. Their first reaction was defensive: to transfer overseas ownership-specific advantages, so far cultivated domestically. As it did not take long for these advantages to be emulated by competitors, Japanese multinationals switched to the offensive, as seen in the outright acquisition of major companies abroad (not necessarily in a wise way).

In the current Japanese economic system, FDI is a critical factor in industrial restructuring. It serves "both as a transfer mechanism through which Japan's comparatively disadvantaged industrial activities are passed on to other countries, and as a supportive system for moving up to higher value-added sectors" (Ozawa 1991).

Though referring to the aviation industry, the following findings by a group of American experts who visited Japan in 1993, would apply to industry in general.

1. Leadership in global competition will increasingly go to the firms emphasizing high-quality, low-cost manufacturing. This is precisely the area that the Japanese have made their top priority [...].

2. Japan aircraft R&D and defense production system actively foster an integrated and flexible dual-use technology and manufacturing base [...].

3. Japan uses international partnerships strategically to foster technology acquisition. Japan's policy and business environment allows industry to gain maximum leverage from international alliances, resulting in a gradual upgrading of independent technological capabilities and a diffusion of these skills throughout the manufacturing network of primes [prime contractors] and suppliers (National Research Council 1994)."

For the Japanese multinational corporation itself, wherever located, overseas investments are but units of a progressively better organized global structure; resources and performance are made functions of the resources and performance of the network, expectedly incorporating some (but not all) vital features of the Japanese economic system. In other words, the successful traders of yesteryear are today's effective investors. Japanese overseas operations acquire an increasingly sharper edge as they enter ever deeper into the local fabric of host economies. Generally speaking, of the total Japanese foreign direct investment, one-third is in manufacturing and two-thirds in non-manufacturing (10% in wholesale and retail, 15% in finance, insurance and real estate, and 20% in services). What Japanese investors are pursuing is double-edged: globalization by presence in Western countries and their spheres of influence, and regionalization by presence in Asian markets. Whatever interpretation Western observers give to Asian feelings towards Japan, "Japan's historic move to a leading position as a industrial power has made possible the development of East Asia, and that is still the single most important factor in East Asian development, while East Asia in turn is now supplying Japan with new and important support for Japan's continued industrial growth. These patterns of investment, trade, and mutually reinforcing growth are clearly not zero-sum games, and there are no moves in East Asia toward protectionism or closing borders to foreign investment. A winning game for all is now being played in East Asia" (Abegglen 1994).

## Foreign Aid

In the first half of this century, militaristic propaganda borrowed "Manifest Destiny" from the West and advocated (soon to fail) a "Co-prosperity Sphere" for East Asia, whose military aspect is today, surprisingly (conveniently, say surviving victims) overlooked by the postwar generation of Japanese. However, in 1954, Japan provided its first foreign aid: $50,000 to the Colombo Plan. By the 1980s, it had become the world's largest provider of foreign aid. Out of Japan's total economic cooperation—$20 billion in 1990—half was for Official Development Assistance (ODA), or one-fifth of world ODA.

Such aid is usually justified by Japan's need to demonstrate good standing in the community of nations. It is explicitly used for securing access to the natural resources Japan must procure overseas for its own survival. Much international criticism is directed at the fact that it does so while favoring Japanese firms and neglecting loftier purposes such as global stability and humanitarian aid; the scarce presence of Japanese NGOs in need circumstances is deplored. With regard to humanitarian aid, the Japanese easily quote the proverb: "Don't give a fish to the hungry man; teach him to fish."

Japanese aid emphasis is shifting steadily to bilateral loans directed at infrastructure projects required, it is said, to attract foreign investment. This approach is equally criticized for being mercantilist. The fact remains that the sudden enormous size of aid funds was far ahead of the time needed to elaborate on appropriate principles and to personnel about their use. JJTI

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