

California: Near West To Japan's Far East

By Mitsuo Takii

Relations between Japan and California run deep. The first Japanese to emigrate to the continental United States settled near Sacramento around 1869. Ten years earlier, a Japanese government delegation on its way to Washington D.C. to sign the Japan-U.S. Treaty of Friendship and Commerce stopped en route in San Francisco. The delegation's interpreter was a California-educated Japanese. Born Manjiro Nakahama in Tosa, now Kochi Prefecture on the island of Shikoku, he took the name John Mann after his fishing boat was shipwrecked and he was rescued by an American whaler. Taken back and educated in California, Mann earned money to return home at the height of the California gold rush in the 1850s, and later contributed mightily to Japan's opening to the West.

Nearly a century later, California would be the scene of another milestone in Japan-U.S. relations when the peace treaty ending World War II was signed at the San Francisco Opera House in 1951. Even today, California is the "foreign country" Japanese know best, and is a far closer neighbor psychologically as well as physically than the U.S. East Coast. They are truly friends across the Pacific.

Two pillars supporting the Pacific Rim

It is said that the 21st century will be the century of the Pacific. Notes California Governor George Deukmejian: "Geographically, we are a member of the Pacific Basin community, the most dynamic growth region in the world." Japan and California are the two pillars upholding this new age. Already the center of U.S. industry is shifting from the Midwest and the East Coast to the Pacific Coast and the Sun Belt, where high-tech firms are flourishing. It goes without saying that California's economic development impacts greatly on the entire Pacific region.

The economy of the state of California is growing much more rapidly than the



San Francisco, California: the State's trading biggest partner is Japan.

national average for the United States. Indeed, it seems as though California knows no recession. One reason is that the state is not burdened down by such conventional industries as automobiles, steel, and textiles, items which it instead "imports" from the East or Midwest. California can thus make more effective use of the energy and resources saved to develop technology- and knowledge-intensive industries with high growth potential, such as electronics and aerospace.

This industrial structure frees California from the threat of Japanese and Korean imports. At the same time, its exports of agricultural produce and high-technology manufactured goods have

found lucrative markets in the Asian nations lining the Pacific Rim. Between 1965 and 1976, California's foreign trade increased by 681%. In 1984, the growth rate of California's foreign trade surpassed the 18.5 percent national average at 21.0%. Since 1978, more U.S. trade goods have crossed the Pacific than the Atlantic. The share of trans-Pacific business in total U.S. trade reached 31.3% in 1984, easily outranking the 23.2 percent share of trade with Europe.

Even when exports and imports through the New York Customs District dropped 9.5% during the 1982 worldwide recession, trade passing through Los Angeles was off only 1.3%, while that

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clearing San Francisco rose 4.5% from the previous year. With the continuing economic development of the Pacific West, the so-called Far East could soon be transformed into a vibrant new "Near West."

Asia accounts for more than two-thirds of California's trade, and the state's biggest single trading partner, not surprisingly, is Japan. In 1983, a full one-third, or \$21.9 billion, of California's total trade (exports and imports combined), which amounted to some \$67.3 billion, was with Japan. California alone commands a dominant 34.7% of all U.S. trade with Japan.

But the road is not all one-way. To Japan, California, conversely, figures as a major trading partner. Of total Japanese imports, 19.5% come from the United States, of which California accounts for 5.5%. That makes it the fifth largest source of Japanese imports after the entire United States, Saudi Arabia, Indonesia, and the United Arab Emirates, the last three all oil exporters. Excluding crude oil and petroleum products, the U.S. share of Japanese imports leaps to 29.6%; California's 8.1 percent share puts it in third place after the entire United States and Australia, far ahead of No.4 Canada at 5.5%.

Japanese investment in California

After trade, the most important aspect of the Japan-California economic relationship is direct investment. Japan resumed direct investment overseas in 1951, and California has served as a key foothold ever since for the Japanese advance into the U.S. market.

This is hardly surprising. California produces some \$400 billion worth of products annually in a state only a little more than 10% larger than Japan. As an independent nation, California would rank as the world's eighth industrial power after Italy. Moreover, Californians themselves are franker and more open-minded than their colleagues in the eastern and midwestern United States. And all these factors have served to lure Japanese enterprises.

Japanese trading companies were the first into California, followed by banks and manufacturers. Today, Japan's industrial presence in California is all-pervasive. There are now some 140 companies with operations near San Francisco, and another 540 around Los Angeles in the south. There is no knowing exactly how many companies are present in California, because their activities are so diverse



Nissin Foods (U.S.A.) Co.'s noodle plant in Los Angeles; one-third of the Japanese-owned factories in the U.S. are located in California.

and they are constantly on the move. Yet there is no doubt that such businesses contribute greatly both to the state economy and the economy of the entire United States.

According to a March 1985 survey by the Japan External Trade Organization (JETRO), 115, or one-third, of the 348 Japanese-owned factories in the United States were located in California. They provided jobs for no less than 23,876 Americans, or 36.2% of the jobs at Japanese plants throughout the United States. The factories themselves ranged from the New United Motor Manufacturing Inc. auto plant run by Toyota and GM to NEC Electronics Inc.'s IC factory, Sony Manufacturing Co. of America's color television set facility, and Nissin Foods (U.S.A.) Co.'s instant noodle plant. And needless to say, the upstream and downstream activities of such enterprises, be it procurement of raw materials or sales, have had an indirect job-creating function as well for the U.S. industries concerned.

Japanese companies in California are even helping out with the Japan-U.S. trade balance. A survey by the Japan Business Association of Southern California shows that 109 California-based Japanese enterprises exported \$3,961 million, or 13.5% of California's gross exports, between April 1983 and March 1984. These enterprises further accounted for \$3,357 million, or nearly half of all of California's exports bound for Japan, which also corresponds to some 15% of total U.S. exports to its across-the-Pacific trading partner.

New symbiotic relationship

The economic ties between Japan and California are growing ever closer. "Japan," as Joel Kotkin, author of *Califor-*

nia, Inc., puts it, "may be a threat to Detroit, but it is in a symbiotic relationship with California." Nonetheless, the recent tense economic relations between Japan and the United States are beginning to affect even these close ties.

Among the problems surfacing in Japan-California relations are Sacramento's demands for Japan to import more agricultural products and the complaints recently filed against Japanese semiconductor manufacturers. California relies on Japan for half of its agricultural exports. And though it posted a \$1.8 billion trade surplus with Japan in 1984 in agriculture alone, it still wants to export more wine and fruits to this vital market. At the same time, the recession in the Silicon Valley is beginning to tell on Japan, as witness the recent submission by U.S. makers of an anti-dumping petition and a petition pursuant to Section 301 of the Trade Act of 1974, both concerning semiconductor trade.

Behind these frictions lies the state's trade deficit with Japan. Despite the surplus in agriculture, the deficit has swollen again after decreasing between 1977 and 1981. In 1984 it shot up to \$12.7 billion, the equivalent of one-third of the total U.S. trade deficit with Japan. "Foreign trade is no longer a marketing option," noted Gov. Deukmejian, alluding to this situation. "It is an economic imperative." California is now demanding that the Japanese market be opened wider to its export goods, even as Japan is calling on the state government to abolish its laws on worldwide unitary taxation.

What is important today is for Japan and California to improve conditions in their respective markets and to further stimulate two-way trade flows in a wide range of fields, from trade to direct investment. Their goal, at least, is clearly the same: the establishment of a new competitive yet cooperative relationship for the future. ●