

Irasshai! Japan Opens its Doors to Foreign Firms

By Shuji Kato

Increasing Industrial Location by Foreign Enterprises

The internationalization of the Japanese economy has brought about an increase in the number of foreign enterprises locating industrial facilities in Japan. During the five-year period from 1977 to 1981, manufacturing enterprises with 50% or more foreign capital participation established 50 plants in Japan with a total site area of 139 hectares. Together they have hired some 5,000 workers.

Foreign enterprises have further decided or tentatively decided to locate 15 more plants in Japan since the beginning of 1982.

Sites Chosen by 15 Enterprises in 1982

Nationality	Number of Enterprises
U.S.A.	11
France	1
Switzerland	1
Sweden	1
W. Germany	1
Sites	
Metropolitan Area	2
Regional Area	13
Industry	
Medical, chemical products	7
electro-machinery	8

It is difficult to learn exactly what other plans foreign enterprises are entertaining at this time, but information garnered from prefectural officials in charge of attracting industries to locate in their prefectures reveals the following breakdown of plants by industry and country:

Industry	Number of Companies
Semiconductor industry	10
Machinery	5
Chemical-pharmaceutical	6
Foodstuffs	2
Nationality	
U.S.A.	16
Europeans and others	7

Furthermore, a survey carried out in New York, Chicago, and Los Angeles in September 1982, with the cooperation of the Japan External Trade Organization (JETRO) indicated that a surprising number of U.S. manufacturing companies are considering investment in Japan:

U.S. Companies Interested in Building Plants in Japan

	Yes	Not Relevant	No
New York	20	17	27
Chicago	9	3	13
Los Angeles	10	5	12
Total	39	25	52

Given the geographical separation of the three cities in question, and the lack of overlap with companies already reported to be planning to locate industrial plants in Japan, the survey can be taken to indicate that foreign manufacturing companies—and especially U.S. firms—have quite a strong interest in locating manufacturing facilities in this country.

A similar view was presented by a report entitled "Survey on Japanese Investment by U.S. Manufacturing Industries," published by the American Chamber of Commerce in Japan in September 1979. The report pointed out that, whereas Japan ranks second after Canada as a market for U.S. exports of manufactured goods, it is only 11th in terms of direct investment of American capital. These figures indicate that U.S. direct investment in Japan has lagged seriously behind exports of American products to this country.

As one of the factors responsible for this state of affairs, the report observed that until recently Japan has been very much a closed market for direct capital investment. The Japanese government's controls over direct foreign capital investment have been an especially serious barrier, the report said. However, on December 1, 1980, the controls on foreign investment were lifted and investment of foreign capital in Japan is now in principle free. Direct foreign investment in Japan by general manufacturing industries has been literally decontrolled, and is expected to become increasingly active in the future.

Characteristics of Investment by Foreign Enterprises

Great hopes are pinned on the location of foreign industrial operations in provincial industrial parks (*kogyo danchi*) including the technopolises now being planned by the government. Characteristics of industrial location by foreign enter-



Isahaya Industrial Park in Kyushu, where Fairchild will start constructing its manufacturing plant in February 1983.



Intel Japan's design center in Tsukuba, Ibaraki prefecture

prises are discussed in greater detail below.

(1) A shift from market orientation to a management resources orientation

An increasing number of foreign capital-related enterprises have been attracted to Japan by the management resources available rather than by the market *per se*. These resources include a quality labor force, technical expertise, trained middle-level managers, smooth labor-management relations and resulting high productivity. The Texas Instruments Inc. Hiji Plant in Oita prefecture boasts far higher productivity than the company's other overseas plants. Intel, famous for its one-chip micro-computers, has followed suit with a design center in Tsukuba, Ibaraki prefecture. Fairchild has also decided to locate a semiconductor plant in the Isahaya Nucleus Industrial Park. There is a virtual boom in plant siting in Japan among American semiconductor makers.

(2) Emphasis on high technology

Conditions for plant siting in Japan are not necessarily superior to those in other Asian countries as regards prices, labor costs, and pollution legislation. Foreign capitalized enterprises that choose to locate plants in Japan therefore tend to be high-technology industries featuring unique technological skills and high profitability, as exemplified by the 15 companies mentioned above.

(3) Large employment effect and hiring of highly educated staff

The 50 companies with a foreign capital stake of 50% or more that have located plants in Japan employ on average 108 workers per plant, or nearly double the average 55 workers employed by industries in general in Japan. A survey of 43 of these companies found that 30 principally employed male workers, with six hiring chiefly university graduates. Their presence has thus proved very beneficial to provincial districts; which lack employment opportunities for workers with medium or high education backgrounds.

(4) Insufficient information and reliance on public bodies

There has been a trend toward the location of wholly-owned industrial facilities in Japan as a way of protecting industrial secrets. In many cases these plants are located in publicly-owned tracts—such as nucleus industrial parks—through the good offices of the Ministry of International Trade and Industry (MITI), the Japan Regional Development Corporation, and prefectural governments. Such industries frequently turn to public bodies for assistance in siting decisions, due to a lack of adequate information about infrastructure and other conditions in the localities considered, and because they are not confident of acceptance by specific communities.

(5) Increase in provincial location

Most of the 15 foreign companies that decided or tentatively decided in 1982 to locate plants in Japan have selected areas which are actively trying to promote industrial location, including such remote districts as Kyushu, and Tohoku (northeastern Honshu). Many of these companies are multi-nationals that already operate in diverse locations and thus have little prejudice toward locating their plants in out-of-the-way locales. For this reason, there is a good likelihood that increasing numbers of foreign companies will locate plants in provincial areas in order to secure a labor force for high-technology industries in an excellent natural environment. Provincial industrial location by foreign companies is also expected to spur Japanese enterprises to similarly locate their plants in more remote districts.

Promoting Industrial Location by Foreign Enterprises

(1) Averting economic friction & promoting regional development

The Ministry of International Trade and Industry has worked out a series of measures to facilitate and promote industrial plant location by foreign companies,

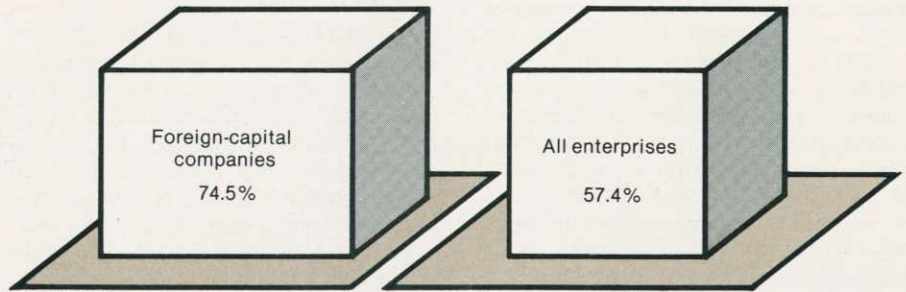


some of which are already in force. They are expected to contribute, first of all, to improving Japan's economic relations with the United States and West European countries by aiding their direct capital investment in Japan. At the same time, attracting high-technology foreign enterprises to districts favorably endowed for industrial siting is expected to encourage regional development pivoting around technology, a process central to the technopolis concept. In recent years many provincial cities in Japan have formed sister-city affiliations with cities all over the world, heightening the mood in Japan in favor of the internationalization of the provinces. However, progress in this direction may still be described as superficial. More substantive internationalization can be promoted by linking the expansion of employment through industrialization, the most important task facing many local governments in Japan today, with international investment exchange. This is also expected to bring geographical diversity to international exchanges, which so far have been centered on Tokyo and the Japanese government.

(2) Guidance for industrial siting and land arrangements

A system is now being introduced to provide foreign enterprises with comprehensive guidance in plant siting. English-language literature has been prepared on

Ratio of new location in industrial park areas to total industrial location areas



land for plant sites, labor forces, industrial water, electric power, and other items, as well as on the various types of assistance available, environmental controls, and the application procedures of national and local governments. Furthermore, the procurement of industrial land, principally in industrial parks under the control of the central or local governments, can also be arranged on request. Representatives of 10 foreign companies have visited MITI since September 1982 to seek guidance on industrial location. The ministry has recommended industrial sites for five of them.

MITI's information service was prompted last April when Novo, a Danish firm, visited the ministry through the intermediary of JETRO to consult on industrial plant location. At the time, Novo was actively seeking information on plant siting in Japan preparatory to establish a wholly-owned subsidiary for enzyme production. However, Novo had been unable to collect much information of value, while MITI for its part had practically no system in place for supplying foreign firms with the comprehensive information they needed in English.

(3) Overseas briefings

Representatives of seven prefectures on the southern island of Kyushu will hold seminars in New York, Chicago, Los Angeles, and San Jose, the center of the Silicon Valley, from April 5 to 17, 1983, to provide American firms with information on industrial location in Japan. By this it

is hoped to encourage direct capital investment, and especially plant construction, in this country. A seminar using the same material and program as the New York seminar is to be held in Tokyo in February as a rehearsal. Representatives of foreign companies and foreign journalists based in Japan will be invited.

For the seminar scheduled to be held in the Silicon Valley, Bank of America will supply a conference site and materials and host a reception, while major semiconductor makers will act as sponsors to help in a wide range of activities, including attracting participants. Japanese and foreign financial institutions, including Citibank, the Industrial Bank of Japan, Nomura Securities Co., Ltd., and leading Japanese contractors, including Shimizu Construction Co., Ltd. and Takenaka Komuten, have offered to cooperate by inviting U.S. enterprises interested in Japanese investment to participate.

(4) Publicity for regional internationalization

Descriptions of Japan and the Japanese appearing overseas have tended to have overtones of "that economic animal in Tokyo." It is necessary to improve understanding of Japan abroad by actively publicizing the country's traditional culture, living environments, and efforts for industrial transformation in areas suffering from structural recession, while also explaining the regional economies and society of Japan. There is also a need to supply a wide range of information on

Regional Development Survey Teams of Foreign Chambers of Commerce and Industry in Japan

Date	Chamber	Areas Visited
September 1981	American Chamber of Commerce in Japan	Fukushima, Miyagi, and Yamagata prefecture
February 1982	American Chamber of Commerce in Japan	Nagasaki and Saga prefectures
October 1982	American Chamber of Commerce in Japan	Akita, Aomori, and Iwate prefectures
November 1982	West German Chamber of Commerce and Industry in Japan	Nagasaki and Saga prefectures

industrial land and water, climate, and human attitudes in order to promote direct capital investment in Japan.

MITI helps groups of foreign journalists operating in Japan travel to regions requiring industrial development for news-gathering activities touching on industrial parks and other industrial bases. The ministry also seeks to publicize whole regions by providing journalists with opportunities not only to obtain information about plant siting, but also to learn about the technopolis concept and the problems of structural recession.

Foreign chambers of commerce and industry in Japan are also showing keen interest in industrial location and regional development in Japan. In particular, the American Chamber of Commerce in Japan has sent regional industrial development survey teams to four districts. These missions gave local government officials a good chance to establish contacts with foreign businessmen.

Conclusion

Out of 47 prefectures in Japan, 20 have issued pamphlets in English for promoting industrial plant location within their boundaries. Most were compiled in the past year. Early in December 1982, councils for promoting international investment exchange were established in three blocs of prefectures in the Kyushu, Tohoku, and Hokuriku areas. The councils in Tohoku and Hokuriku are expected to follow the example of Kyushu in holding overseas seminars on industrial siting and other projects.

International exchange of investment is one effective prescription for ameliorating the economic frictions which have intensified a sense of crisis in Japan's relations with the West. Direct capital investment is designed to bring about more efficient production by linking high-quality technology and management strategy with the labor and other management resources of

recipient nations. The majority of Western manufacturing enterprises in Japan are operating according to this principle, and are gaining much higher profits than Japanese manufacturers. The increased production and employment brought about by efficient direct capital investment further testifies to the fact that international investment exchange is by no means a "zero sum game." ●

Shuji Kato is an official of the Ministry of International Trade and Industry.

Kato, 29, joined MITI after graduating from the University of Tokyo in 1975 and is currently serving in the Industrial Location Division of the Industrial Location and Environmental Protection Bureau.

Big Rise in Japan Development Bank Loans to Foreign Firms

Lending to foreign firms in Japan by the Japan Development Bank, a financial institution led by the Japanese government, has been increasing at a fast pace.

The bank was established by the government in 1926 as a wholly-owned financial institution for executing national policy. It supplies long-term loans to private capital spending projects considered important from a policy point of view, including construction of facilities for alternative energies and regional development. Firms with foreign capital participation operating in Japan are eligible for loans from the bank on the same terms as Japanese companies.

The bank started lending to foreign firms in Japan (companies owned 50% or more by foreign interests) in the late 1960s. To date more than ¥100 billion has been lent to about 30 such enterprises.

The bank's increased lending to foreign firms in recent years reflects mounting foreign investment in Japan centered on high technology industries. This type of lending has risen sharply, from loans totaling ¥4.9 billion to nine companies in fiscal 1979, loans totaling ¥10.4 billion to six companies in fiscal 1980, and loans totaling ¥12.8 billion to eight companies in fiscal 1981. Lending during the first eight months of fiscal 1982 totaled ¥11 billion to five companies, including Toray Silicone (65% owned by Dow Corning), and Nikko Gould Foil (50% owned by Gould). Lending during the whole of fiscal 1982 is expected to come to ¥17 billion to 13 companies, up 20% on the

previous year.

The bank's loans are classified into many categories, including resource-energy loans, regional development loans, urban development loans, and pollution control loans. The loans so far supplied to foreign firms have mostly been for regional development, pollution control, and energy conservation, the latter coming under resource-energy loans. Foreign firms have increasingly taken advantage of the bank's regional development loans as they actively locate industrial plants in provincial areas in response to active



The Japan Development Bank in Tokyo

promotional efforts by local authorities and organizations.

A breakdown by industry of the 13 foreign firms expected to receive Japan Development Bank loans during fiscal 1982 finds four chemical manufacturers, three electrical machinery makers, three oil companies, two nonferrous metal firms, and one in the ceramic, earth and stone industrial category. By country, there are nine U.S. firms, two French, one Dutch and one Canadian firm. Capital spending projects for which the loans were earmarked included construction of a new

integrated circuit (IC) coating plant, a plant for the manufacture of copper foil for use on integrated circuits, a magnetic tape manufacturing plant, and other high technology undertakings.

Demand from foreign firms for Japan Development Bank loans is expected to continue to increase. Sixteen foreign firms, most wholly-owned by foreign interests, have made preliminary approaches to the bank. They include six IC-related companies, five pharmaceutical firms, three chemical firms, and two machinery manufacturers. U.S. companies top the list, followed by West European enterprises, including firms in West Germany, the Netherlands, the U.K. and Denmark.

In the light of these developments, the Japan Development Bank plans to introduce an "Industrial Cooperation Loan System" for helping foreign firms with 50% or more foreign capitalization make their first large-scale investment in Japan. The special lending system will complement the existing loan system.

Japan Development Bank loans not only provide foreign firms with a means of raising long-term, stable funds, but also guarantee their credit standing, thereby facilitating their requests for funds from private financial institutions in Japan.

Observed one bank official: "It is essential that we have extensive industrial cooperation with many other countries of the world. Industries in different nations should strive to deepen interchange in capital investment, technology, and know-how as well as in trade-related fields, and should complement and strengthen their mutual industrial activities. Loans from the Japan Development Bank are a useful tool for achieving these objectives."