Suitors Pay Court to Corporate Japan

By Chihata Kimura

The number of American state governors visiting Japan is increasing year by year. In 1987 it reached a record 28, or more than half the governors of America's 50 states.

The purpose of these many visits differs from state to state, ranging from opening representative offices in Tokyo to holding state produce fairs and participating in economic seminars. Each visiting governor's schedule is packed with official functions−courtesy calls, press conferences and receptions. Yet they also all include a hidden agenda which is not officially disclosed to the public. Most of these unannounced activities are calls on Japanese manufacturers, *sogo shosha* (trading companies) and banks.

Needless to say, the purpose of such calls is to persuade Japanese corporations to relocate their production plants to the governor's state and to market products native to that state in Japan. If a Japanese manufacturer already has a plant there, the governor visits the head office to sound out the possibility of expanding it. In visits to *sogo shosha* and department stores, the governors urge them to expand sales channels and establish purchasing offices in their states.

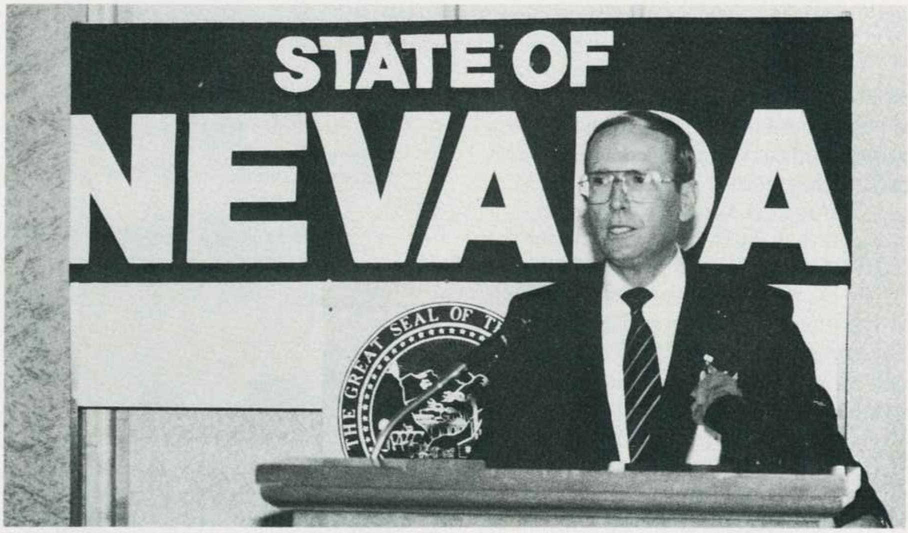
Any visit to a Japanese corporation aimed at persuading it to set up shop in a given state is a "top secret" for both sides concerned. Japanese companies always keep their overseas relocation plans to themselves, but the governors are no less secretive. Should a rival state get wind of negotiations under way with a Japanese company, it could jump in with more attractive terms of its own.

High-powered lobbying

How does this high-powered lobbying look from the inside? Nevada Governor Richard H. Bryan and South Carolina Governor Carroll A. Campbell, who visited Japan last fall, permitted me and a photographer to accompany them on their rounds in Japan, dogging their footsteps not only at official functions but also private meetings. Nonetheless, even they drew the line at letting us go with them to Japanese corporations with which negotiations were under way on relocating production to their respective states; they even refused to reveal how many corporations they were visiting during their stay.

Bryan dined out on his first night in Japan at a *yakitori* bar in Tokyo's plush Roppongi district. *Yakitori* is skewered chicken dipped in soy sauce and broiled over a charcoal fire. Sipping whiskey with me and the photographer, Bryan explained that going to a *yakitori* bar was a useful part of his tour. "Getting to know the daily life of ordinary people helps me to successfully conduct negotiations to attract Japanese companies to my state," said Bryan, still refusing to say with whom these negotiations were taking place. Campbell winked when he told us South Carolina had been "approached by two or three Japanese firms as regards possible relocation of their plants to our state," adding, "I can't reveal their names." A letter Campbell sent the state's Tokyo office after his return to the U.S. referred to "a wonderful job" having been done. But what that wonderful job was remained a secret.

U.S. regional and state representatives are keen to attract investment by Japanese companies, despite criticism of Japanese trade practices by the federal government.



Richard H. Bryan, governor of Nevada, which opened a state office in Japan for the first time last year.

There is a big gap between the news of "Japan bashing" coming out of Washington and the red carpet treatment accorded Japanese corporations by state governments. Many Japanese have trouble with this contradiction, but ranking state government officials inevitably reply that the positions of state governments and the federal government are different. "The federal government is responsible for restoring the trade balance with Japan," explained one official. The role of state governments was to vitalize regional economies and secure jobs for local residents. Despite the federal government's Japan bashing, Japan was the partner from which state governments could get the most, officials said.

States rush in

American states use their offices in Tokyo and Osaka as antennae for gathering information on Japanese companies. Alaska was the first to come to Tokyo, opening an office in the Japanese capital as early as 1965. As of the end of last year, a total of 34 states and the Commonwealth of Puerto Rico (a U.S. external territory) had offices in Japan, seven opening their doors in 1987 alone. California, which is the American state hosting the largest number of Japanese plants, reopened an office it closed 20 years ago, while Florida, Wisconsin, North Dakota, Nevada, Colorado and New Jersey all established offices for the first time.

The rush, says Makoto Kuroda, vice minister for international affairs of the Ministry of International Trade and Industry, "is because state governments have quickly sensed that the recent appreciation of the yen and worsening trade friction are stimulating Japanese manufacturers to relocate their production overseas." Hiroshi Kitamura, deputy foreign minister, reminisces that when he was consul general in San Francisco, he repeatedly advised the governor of California to maintain "an embassy of California" in Japan, but that the reaction he got was lukewarm. "California used to be confident that it was in an advantageous position to attract Japanese corporations," he says of the reopening of the state's Tokyo office. "But they probably began to feel insecure when other states started to vigorously court Japanese firms."

New state offices pose a threat to those states which are already established in Japan. Eight years ago, all state representatives then in Japan got together to organize the American State Offices Association (ASOA), which holds a monthly working lunch at the U.S. Embassy in Tokyo to exchange information. Sometimes they invite in a guest lecturer to address the session, and a congenial atmosphere prevails. Yet even while engaging in casual conversation, the representatives are trying to pry information from their colleagues. Mitsugu Yamashita, representative for South Carolina and the first Japanese national to serve as president of ASOA, which he did for 18 months up to the end of last year, describes this regular luncheon as a "place for friendly competition".

The sharp appreciation of the yen since the second half of 1986 and soaring office rents in Tokyo have dealt state offices a double blow. One state government planning to open an office in Tokyo prepared a start-up budget at the then current conversion rate of ¥250 to the dollar. By the time the office actually opened last year, however, the dollar's value had dropped to ¥150. The state had to abandon its original plan to occupy space in a new building and seek out older offices. Another state is splitting the operating costs for its office with an American consulting firm, while others have commissioned the Japanese branches of American corporations to undertake liaison work on their behalf.

The reason why American states still open offices in Japan despite these difficulties is that it is worth the hardships to maintain a presence in Japan, says Shoichi Akazawa, president of the Japan External Trade Organization (JETRO), a semigovernmental organization which promotes trade between Japan and other countries. According to Akazawa, the state of Kentucky succeeded in persuading 29 Japanese corporations, including Toyota Motor Corp., to set up production in Kentucky within four years of opening its office in Japan in 1983. The state of Colorado, which opened its office in Japan last October, succeeded in persuading three Japanese companies to locate production plants in Colorado within one month.

Europe's enthusiasm

The United States is not the only country courting Japanese enterprises. Japanese companies are receiving wooers from Asian and European countries as well. European countries are at a disadvantage because their cost of labor is not as low as that of Asian NICs and they lack the big foreign exchange advantage now enjoyed by the U.S. But these weaknesses have only made European countries more impatient and fearful that they will fall far behind the U.S. in luring Japanese corporations to their shores. The EC's Japan representative, Andries van Agt, says Europeans are also under the impression that Japan has eyes only for the United States.

The EC is by no means less enthusiastic than the U.S. in its approach to Japan. The embassies of the 12 EC countries are fully as vigorous as American state governments in their activities, sponsoring investment seminars and arranging visits to their countries by Japanese corporate survey teams. Many regional European bodies, as well as trade and commerce organizations, have their own offices in Japan. Van Agt, who puts the number of such operations at 25–35, himself came to Japan many times to invite Japanese firms to his region when he became a regional governor after serving as prime minister of the Netherlands.

The EC Commission itself is promoting long-range strategies to bring Japanese firms to Europe and expand EC exports to Japan. One is the EC Executive Training Program, inaugurated in 1979. Another is the Industrial Cooperation Center, established in Tokyo jointly by the EC and Japanese interests. The former program sends young businesspeople to Japan to study the language and culture for one year, followed by a six-month internship with a Japanese corporation to learn actual business practices. The Industrial Cooperation Center program, meanwhile, invites top managers to Japan to study ways of conducting business in Japan and observe actual market conditions.

Canada, Australia and Asian countries are also opening offices in Tokyo separate from their embassies. These offices usually deal exclusively with problems concerning investment and trade. Their purpose is to promote contacts with Japanese firms and the country's mass media in order to collect economic information and step up business negotiations. Clearly Japanese companies are in demand throughout the world.

These efforts apparently are paying off. The number of Japanese firms going overseas in response to invitations from abroad is increasing at an accelerating rate. According to Finance Ministry statistics, actual Japanese direct overseas investment in April–October 1987 totaled \$18.2 billion, an increase of 61% over the same period a year before. JETRO estimates the number of Japanese manufacturers now operating plants in the U.S. at 640, with a local work force of 160,000. The EC's van Agt estimates there are 230 Japanese plants in the EC, with a total of 75,000 employees.

The NEC plant in Portland, Oregon. An attraction of the city was that local workers tend to stay in a job for a long time.

Welcomed by locals

The Japanese corporations that have taken the plunge have generally been welcomed by local communities, and are doing well. According to a JETRO survey, 90% of Japanese plants in the U.S. increased their sales in 1986, while 45% of them expanded production and hired more employees.

To cope with the yen's appreciation, these firms are stepping up the local procurement of parts they used to import from Japan. Many have even started exporting products they manufacture in the U.S. overseas, sometimes back to Japan. Mitsubishi Electric Corp, for instance, imports television telephone sets produced at one of its American plants.

The common concern of Japanese plant managers overseas is how to manufacture products equal in quality to those made in Japan. This is why many Japanese firms attach such importance to the local job turnover rate when selecting sites abroad. It would be a serious loss to send locally hired workers to Japan for training, only to see them quit as soon as they return and find work with other firms. According to the managers of the NEC and Fujitsu plants in Portland, Oregon in the United States, a primary reason for choosing the city was that workers there tend to stay with one company for a long time. They noted that there is virtually no difference in quality between products manufactured at their plants and those produced back in Japan.

In order to maintain the high quality which is the No. 1 sales point of products "Made in Japan," all Japanese firms going overseas have adopted such Japanese-style quality control systems as the "zero defects" method (ZD). But ranking alongside this concern over quality is the need to localize operations as quickly as possible in order to cope with the strong yen. The trend today is to promote locally hired workers to higher positions, procure more locally manufactured parts and respect local labor practices. Although basic policy is still usually decided by the head office in Japan, Japanese plants overseas are seeking ultimately to entrust local staff as much as possible with everything from personnel hiring to organizing work procedures and selecting welfare facilities. In this way they can give full play to ideas unique to America, Europe, or wherever their plants might be.

Japanese corporations, and especially manufacturing companies, still have relatively little experience abroad. Differences in lifestyles, social customs and manners often cause unexpected problems. But Japanese companies have now reached the point of no return in their advance toward internationalization and globalization. Like it or not, they have no choice about answering the "love calls" they receive from overseas.

Chihata Kimura is a staff editor of the weekly magazine Weeks published by the Japan Broadcasting Publishing Co.