

JAPANESE OVERSEAS INVESTMENT IN RECENT YEARS AND CORPORATE RESPONSES TO THE SINGLE EC MARKET*

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Abstract

Faced with sharp yen appreciation, harsh trade friction and ridden the crest of the globalisation of the Japanese economy and business, Japanese foreign direct investment was extremely active in the second half of the 1980s. Nevertheless, it has been slowing down in the early 1990s. This paper clarifies the characteristic trends in Japanese overseas investment in recent years. On 1 January 1993, the single EC market came into effect. Its strategic implication consisted in strengthening the competitiveness of European companies and driving a wedge into the economic dominance of the U.S. and Japan. Japanese firms also faced with the compelling problem of responding to the EC market integration. A greater part of the paper is devoted to Japanese corporate responses to the single EC market. The detailed analysis is based upon the surveys conducted by three institutions. In conclusion, the paper emphasizes that the real pan-europeanisation of Japanese firms lies in maintaining and improving the quality of life of Europeans through localisation of production, management and R&D in Europe.

I. *Introduction*

With the rapid homogenisation of the world economy, we have been growing more and more interested in the internationalisation or globalisation of the national economy and business. Japanese overseas investment impresses us as having ridden the crest of the internationalisation or globalisation of the Japanese economy and Japanese business. In this paper 'internationalisation' is defined as the outflow and inflow of business resources crossing national borders. 'Globalisation' refers to the optimal allocation of business resources through a worldwide network. In connection with these words, 'localisation' implies running a business deeply-rooted in the host country.

Up to this time, changes in Japanese overseas investment fall roughly into four phases. We may consider them under the following headings:

Phase 1: Investment for developing natural resources in the 1960s

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Japanese firms invested actively in developing natural resources such as petroleum, copper, iron and steel ore, natural gas in Southeast Asian countries in order to secure supplies for Japan.

Phase 2: Investment for production in developing Asian countries and for marketing in developed Western countries in the 1970s

With the rapid rise in domestic wages, Japanese firms in labour-intensive industries, i.e., textile, electric machinery sectors invested funds in establishing their production bases in Asian countries where labour costs were cheaper. On the other hand, as exports of products started in earnest, Japanese firms began to build their marketing bases so as to construct marketing networks in European and American countries.

Phase 3: Investment for production in European and American countries in the first half of the 1980s

Since the second half of the 1970s, Europe and the U.S. often undertook measures to restrict Japan's trade with their respective countries. In order to cope with such measures, Japanese firms began to shift their production bases from Japan to Europe and the U.S.

Phase 4: Acceleration of investment for production in European and American countries, and Asian countries after the second half of the 1980s

Faced with a dramatically appreciating yen and harsh trade friction since late 1985, Japanese firms could not earn profits through exports, and were uncompetitive in terms of prices of the exported products as well. They proceeded to shift production from Japan to Europe and the U.S. to avoid losses due to fluctuations in the exchange rate. At the same time, they proceeded actively with advances into Asian countries in the hunt for cheaper physical and human resources and for cost reductions.

Simultaneously with these trends, subcontractors and suppliers accelerated their entry into overseas countries as well.

On the other hand, financial institutions in Japan increased their overseas investments to cope with the international liberalisation of finance and the global management strategies of Japanese firms.

Concurrently with the yen-based prosperity in Japan which began in November 1986, the time for the inauguration of the single market in the EC was approaching. In Europe, as is well known, a historical experiment is currently under way which is aimed toward the realisation of greater European unity and ultimately to the creation of a new Europe. This is not the first time, however, that the subject of European unity has aroused significant interest. The first opportunity for unity came in the 1920s when Europeans who had been at the centre and in control of world politics and economics up to that time, became aware that they were in danger of losing their position. One of the responses to this substantial, external threat was a plan which called for the integration of European nations into one enormous market and a consequent increase in productivity. This conception later became the basis for a series of integration policies which were set to begin with the integration of the EC market in 1992.

The EC market integration had as its strategic intention the establishment of a single or common market within the region, to strengthen the competitiveness of European companies and to drive a wedge into the economic dominance of the U.S. and Japan. With

the integration of the EC market near at hand, large European companies have been quick to restructure businesses and to reorganise such industries so as to be more than a match for U.S. and Japanese firms, e.g., aerospace, munitions, communications equipment, heavy electrical equipment and automobiles, etc.

Japanese firms which have been proceeding with internationalisation as one phase of their restructuring activities, and have been aiming to advance into the European market following their entry into the U.S. market, have also been faced with the compelling problem of responding to the impending EC market integration. In this paper the author would like to discuss Japanese overseas investment in recent years and corporate responses to the single EC market.

II. *Japanese Overseas Investment in Recent Years*

The rapid growth of world foreign direct investment (FDI) outflow was notable in the 1980s among major developed countries. Above all, the growth of Japanese FDI was dramatic in the second half of the 1980s.

Briefly reviewing Japanese FDI performance over the 1980s, a critical development was the December 1980 amendment of the Foreign Exchange Control Law shifting FDI from an approval-based system to a notification-based one. Within one year of the change, Japanese FDI jumped from an annual average of \$4 billion for the FY1978–FY1980 period to \$8.9 billion in FY1981. Investment dropped off somewhat in FY1982 as a result of the global economic slowdown, but re-established firm growth in FY1983, going on to reach \$12.2 billion in FY1985. Overseas investment became even more active with the sharp yen appreciation in the wake of the Plaza Accord of September 1985. FDI rose to \$22.3 billion in FY1986, then continued vigorous growth to reach \$33.4 billion in FY1987 and \$47.0 billion in FY1988. In FY1989, the relative foreign exchange stability of the previous year reversed and the yen weakened, but this did not noticeably influence investment as notifications reached their highest level in history at \$67.5 billion (see Figure 1).

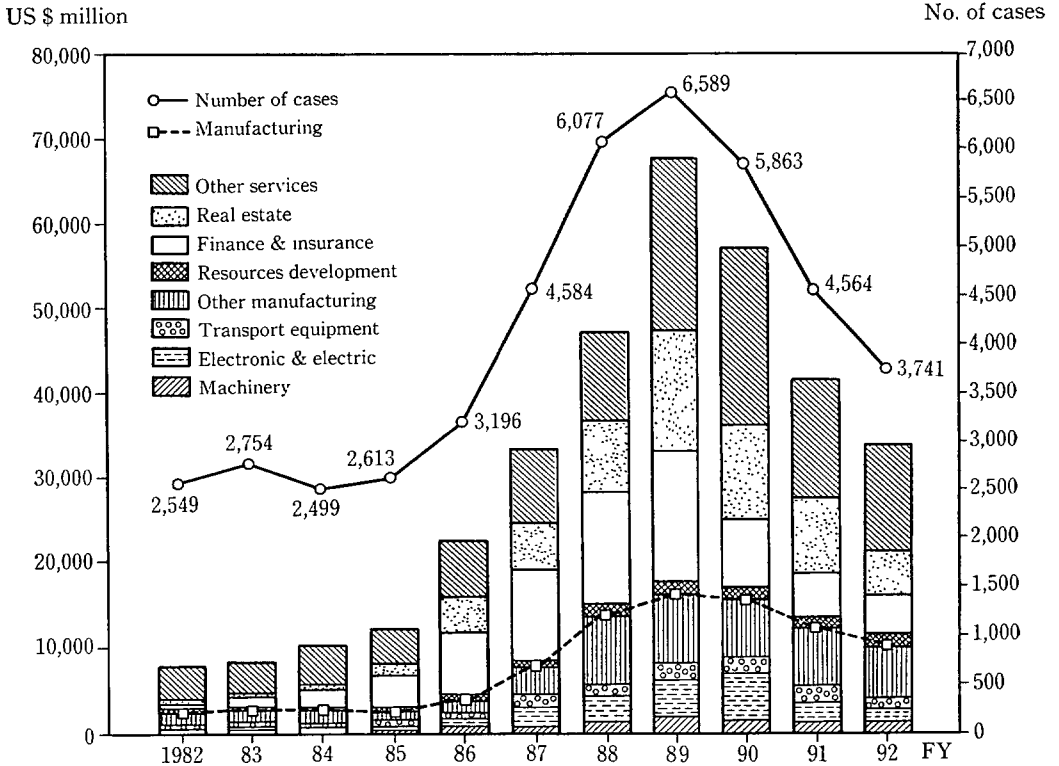
Japanese FDI in the latter half of the 1980s was characterised by two features.

- a) Rapid increase of Japanese FDI to North America and Europe: Japanese FDI to these developed countries grew rapidly to alleviate trade friction with these host countries, to avoid disadvantages caused by the appreciation of the yen after the Plaza Accord and to respond quickly to changeable and sophisticated demands of the markets in these countries.
- b) Increase of Japanese FDI to Asia, especially Asian NIEs and ASEAN countries: Japanese FDI to these Asian countries increased as companies sought production and export bases to avoid the disadvantage of the appreciated yen and to take advantage of the more open FDI policies of Asian countries.

However, in FY1990, Japanese FDI declined to \$56.9 billion for the first time in eight years and continued to decline for FY1991 and FY1992. We can point out four main reasons for this as follows:

- a) After the completion of large-scale investment projects for developed countries Japanese investment projects have become smaller.

FIGURE 1. TRENDS IN JAPANESE OVERSEAS INVESTMENT BY INDUSTRY



Source: Ministry of Finance.

- b) The stagnant economic situations of major industrial countries have made market prospects gloomy.
- c) Faced with the aftereffect of the collapse of Japan's bubble economy, the performances of many parent companies remain poor.
- d) Many Japanese past FDI projects in North America and Western Europe were not profitable. Therefore, many parent firms are cautious regarding investment in developed countries.

As mentioned above, in the early 1990s the total Japanese FDI outflow dropped sharply. Especially, the importance of Japanese FDI to developed countries decreased slightly because of the recently stagnant economies of developed countries and disappointing profit and sales performances in developed countries, etc. On the other hand, Japanese FDI has succeeded more prominently in Asian countries than in developed countries. Given the relatively good performance of past FDI in Asia, the advantage of competitive production cost and growing local demand, Japanese firms are now more positive about investment in Asian countries (see Table 1).

TABLE 1. TRENDS IN JAPANESE OVERSEAS INVESTMENT BY REGION & YEAR

Region	FY	(US \$ million, %)							1951-92 Total
		1986	1987	1988	1989	1990	1991	1992	
World Total		22,320 (100.0)	33,364 (100.0)	47,022 (100.0)	67,540 (100.0)	56,911 (100.0)	41,584 (100.0)	34,138 (100.0)	386,530 (100.0)
Asia		2,327 (10.4)	4,868 (14.6)	5,569 (11.8)	8,238 (12.2)	7,054 (12.0)	5,936 (14.3)	6,425 (18.8)	59,880 (15.5)
Near & Middle East		44 (0.2)	63 (0.2)	259 (0.6)	66 (0.1)	27 (0.0)	90 (0.2)	709 (2.1)	4,231 (1.1)
Europe		3,469 (15.5)	6,576 (19.7)	9,117 (19.4)	14,808 (21.9)	14,294 (25.1)	9,371 (22.5)	7,061 (20.7)	75,697 (19.6)
North America		10,441 (46.8)	15,357 (46.0)	22,328 (47.5)	33,902 (50.2)	27,192 (48.0)	18,823 (45.3)	14,572 (42.7)	169,580 (43.9)
Latin America		4,737 (21.2)	4,816 (14.4)	6,428 (13.7)	5,238 (7.8)	3,628 (6.4)	3,337 (8.0)	2,726 (8.0)	45,547 (12.0)
Africa		309 (1.4)	273 (0.8)	653 (1.4)	671 (1.0)	551 (1.0)	748 (1.8)	238 (0.7)	6,813 (1.8)
Oceania		992 (4.4)	1,413 (4.2)	2,668 (5.7)	4,618 (6.8)	4,166 (7.3)	3,278 (7.9)	2,406 (7.0)	23,782 (6.2)

Source: See Figure 1.

III. Japanese Corporate Responses to the Single EC Market

On 1 January 1993, a single EC market with no internal frontiers formally came into effect. The EC is now moving to implement the Maastricht Treaty which provides for political union among the Twelve countries, on the one hand, and the creation of an economic and monetary union with a single currency, on the other. Let us examine how Japanese firms responded to the single EC market. The analysis is based upon the following three surveys:

A. Toyo Keizai Inc. Survey

The Toyo Keizai survey was an investigation of trends in Japanese overseas firms around the globe, with more than 10% of their shares being held by Japanese firms or overseas affiliates of Japanese firms. According to the results of this survey, the aggregate total of firms abroad reached 14,211 as of October 1992, when the survey was conducted. A breakdown by region reveals that 87.7% of the total was concentrated in three major regions—5,482 (38.6%) in Asia, 3,890 (27.4%) in North America and 3,087 (21.7%) in Europe (see Table 2-1).

A comparison of the figures for 1986 through 1990 with the figures for 1981 through 1985 shows that Asia recorded an increase of 2,241 firms (3.1 times); North America, 1,917 (2.9 times); and Europe, 1,383 firms (3.1 times) (see Table 2-1).

Let us turn our attention to the EC. A chronological breakdown of Japanese corporate entry into the EC reveals that Japanese affiliates established in the EC countries accounted for 89.5% of the Europe total, and that this tendency has been particularly strong

TABLE 2-1. TRENDS IN JAPANESE OVERSEAS INVESTMENT BY REGION & YEAR

Region	Year	(Cases, %)						
		Total	Before 1980	1981 ~85	1986 ~90	1991	1992	Unconfirmed
World Total		14,211 (100.0)	4,192 (100.0)	2,041 (100.0)	6,088 (100.0)	1,072 (100.0)	581 (100.0)	237
Asia		5,482 (38.6)	1,722 (41.1)	714 (35.0)	2,241 (36.8)	426 (39.7)	298 (51.3)	81
Near & Middle East		80 (0.6)	36 (0.9)	22 (1.1)	13 (0.2)	2 (0.2)	3 (0.5)	4
Europe		3,087 (21.7)	708 (16.9)	477 (23.4)	1,383 (22.7)	325 (30.3)	144 (24.8)	50
North America		3,890 (27.4)	963 (23.0)	613 (30.0)	1,917 (31.5)	234 (21.8)	89 (15.3)	74
Latin America		858 (6.0)	464 (11.1)	96 (4.7)	220 (3.6)	31 (2.8)	30 (5.2)	17
Africa		142 (1.0)	64 (1.5)	18 (0.9)	47 (0.8)	7 (0.7)	1 (0.2)	5
Oceania		672 (4.7)	235 (5.6)	101 (5.0)	267 (4.4)	47 (4.4)	16 (2.8)	6

Source: Toyo Keizai Inc.: Japanese Overseas Investment by Firm 1993 (in Japanese), Tokyo, 1993.

since 1986. Japanese advances into the EC countries have been concentrated in the U.K., Germany, the Netherlands and France, with these four countries accounting for 78.6% of the EC total. In addition to these four countries, Japanese firms have also been making significant inroads into Belgium, Italy and Spain (see Tables 2-2).

Secondly, the number of Japanese affiliates established in the EC, broken down by industry and country reveals that three industries—commerce, manufacturing and financing/banking industries—accounted for 74.8% of the total. Affiliates in the commerce industry were mainly involved in the wholesaling of electric machinery, general machinery, precision machinery and chemical products, etc. In the manufacturing industry, firms involved in the manufacture of electric machinery, general machinery and chemical products accounted for 55.2% of the manufacturing total. Japanese affiliates in the commerce and manufacturing industries were concentrated in Germany, the U.K. and France, while firms in the financing/banking industry were chiefly found in the U.K. and the Netherlands; Japanese affiliated firms in the securities/investment industry were concentrated in the U.K. and Luxembourg and those in the services industry in the U.K. (see Table 3-2).

A closer analysis of desired location for Japanese affiliates in the manufacturing industry reveals that foodstuffs manufacturers showed a preference for France, textiles manufacturers for Italy and France, chemical products manufacturers for Germany, the U.K. and the Netherlands, petroleum/coal manufacturers for the U.K., general machinery, electric machinery and precision machinery manufacturers for Germany and the U.K., transport equipment manufacturers for Spain and automobiles/parts manufacturers for the U.K. and Spain (see Table 3-2).

Thirdly, when questioned about their investment objectives, Japanese affiliates responded that their primary goals were "securing the local market", "royalties and gathering information" and "building an international production and distribution network" (see Table

TABLE 2-2. TRENDS IN JAPANESE INVESTMENT IN EC & EFTA BY YEAR

		(Cases, %)						
Country	Year	Total	Before 1980	1981 ~85	1986 ~90	1991	1991	Unconfirmed
EC Total		2,763 (100.0)	635 (100.0)	416 (100.0)	1,266 (100.0)	277 (100.0)	125 (100.0)	44
Denmark		27 (1.0)	7 (1.1)	4 (1.0)	14 (1.1)	0 (0.0)	1 (0.8)	1
U.K.		871 (31.5)	151 (23.8)	139 (33.4)	441 (34.8)	79 (28.5)	44 (35.2)	17
Ireland		35 (1.3)	7 (1.1)	3 (0.7)	20 (1.6)	2 (0.7)	2 (1.6)	1
Netherlands		370 (13.4)	66 (10.4)	48 (11.5)	193 (15.2)	38 (13.7)	20 (16.0)	5
Belgium		147 (5.3)	60 (9.5)	22 (5.3)	42 (3.3)	14 (5.1)	7 (5.6)	2
Luxembourg		55 (2.0)	12 (1.9)	16 (3.9)	23 (1.8)	2 (0.7)	2 (1.6)	0
France		333 (12.1)	71 (11.2)	47 (11.3)	161 (12.7)	33 (11.9)	16 (12.8)	5
Germany		598 (21.6)	189 (29.8)	101 (24.3)	210 (16.6)	73 (26.4)	20 (16.0)	5
Portuga'		26 (0.9)	5 (0.8)	3 (0.7)	14 (1.1)	2 (0.7)	1 (0.8)	1
Spain		128 (4.6)	26 (4.1)	13 (3.1)	65 (5.1)	16 (5.8)	6 (4.8)	2
Italy		164 (5.9)	36 (5.7)	17 (4.1)	82 (6.5)	18 (6.5)	6 (4.8)	5
Greece		9 (0.3)	5 (0.8)	3 (0.7)	1 (0.1)	0 (0.0)	0 (0.0)	0
EFTA Total		228 (100.0)	70 (100.0)	59 (100.0)	77 (100.0)	14 (100.0)	4 (100.0)	4
Iceland		2 (0.9)	0 (0.0)	1 (1.7)	1 (1.3)	0 (0.0)	0 (0.0)	0
Norway		19 (8.3)	6 (8.6)	4 (6.8)	7 (9.1)	1 (7.1)	0 (0.0)	1
Sweden		44 (19.3)	12 (17.1)	10 (17.0)	18 (23.4)	2 (14.3)	2 (50.0)	0
Finland		15 (6.6)	5 (7.1)	1 (1.7)	6 (7.8)	1 (7.1)	1 (25.0)	1
Switzerland		107 (46.9)	38 (54.3)	38 (55.9)	29 (37.7)	6 (42.9)	0 (0.0)	1
Austria		41 (18.0)	9 (12.9)	10 (17.0)	16 (20.8)	4 (28.6)	1 (25.0)	1

Source: See Table 2-1.

4). Classifying various investment objectives including these main motives, we see that Japanese affiliates were generally aiming at 'globalisation' and/or 'advantage of local production'.

TABLE 3-1. JAPANESE OVERSEAS INVESTMENT BY INDUSTRY & REGION

(Cases, As of Oct., 1992)

Industry	Region							
	World Total	Asia	Near & Middle East	Europe	North America	Latin America	Africa	Oceania
All industries	14,211	5,482	80	3,087	3,890	858	142	672
Agriculture, forestry, fishery	130	46		9	21	27	2	25
Mining	121	24	3	7	41	5	2	39
Construction	504	288	15	49	88	30	5	29
Manufacturing industries	5,159	2,842	22	622	1,234	300	34	105
Foodstuffs	324	157		21	109	17	1	19
Textiles	351	236		38	32	29	7	9
Lumber & furniture	81	40		5	21	7		8
Paper & pulp	52	19		3	22	4		4
Publishing & printing	51	29		5	14	1		2
Chemical products	657	392	5	75	153	24	2	6
Petroleum, coal	155	76	1	23	43	7		5
Rubber, leather	108	62		12	29	2		3
Ceramics, stone	141	91		16	26	4		4
Iron & steel	142	65	4	4	48	12	7	2
Nonferrous metals	186	117		9	42	12	1	5
Metal products	231	162		16	43	8		2
General machinery	483	226	1	89	132	30		5
Electric machinery	1,116	639	4	163	222	73	6	9
Transport equipment	127	68	2	11	25	13	6	2
Automobiles & parts	497	234	1	51	170	26	2	13
Precision machinery	182	92		36	46	7		1
Others	275	137	4	45	57	24	2	6
Commerce	4,323	1,214	26	1,371	1,255	205	12	240
Wholesaling	3,976	1,085	26	1,291	1,155	196	12	211
Retailing	217	90		59	50	4		14
Restaurants	130	39		21	50	5		15
Financing & banking	963	284	4	332	217	86	8	32
Securities & investment	492	89	4	196	141	40		22
Real estate	403	82		60	180	15		66
Transportation	670	222	2	121	140	89	70	26
Services	997	328	4	186	370	35	4	70
Stockholding & others	449	63		134	203	26	5	18

Source: See Table 2-1.

B. Export-Import Bank of Japan Survey

The Export-Import Bank survey on Japanese foreign direct investment (FDI) has been conducted every year since 1989. The survey targets Japanese firms in the manufacturing industry with three or more foreign-registered affiliates. For example, in the 1990 survey questionnaires were sent to 506 firms and responses were received from 277 firms for a response ratio of 54.7%. In the 1991 survey 551 firms were asked to respond and responses

TABLE 3-2. JAPANESE INVESTMENT IN EC & EFTA BY INDUSTRY & COUNTRY

(Cases, As of Oct., 1992)

Industry	Country																			
	EC Total	Denmark	U.K.	Ireland	Netherlands	Belgium	Luxembourg	France	Germany	Portugal	Spain	Italy	Greece	EFTA Total	Norway	Sweden	Switzerland	Finland	Austria	Iceland
All industries	2,763	27	871	35	370	147	55	333	598	26	128	164	9	228	19	44	107	15	41	2
Agriculture, forestry, fishery	7		5						1		1			0						
Mining	4	4												3	3					
Construction	44	15	1	5	2			3	10	2	5	1		2				1	1	
Manufacturing industries	574	3	180	18	39	34	4	89	105	9	45	46	2	28	1	6	5	5	9	2
Foodstuffs	16		3		2	1		9	1					0						
Textiles	37		10	2				8	1	2	1	13		1					1	
Lumber & furniture	1								1					1		1				
Paper & pulp	2								2					1				1		
Publishing & printing	0		3						2					0						
Chemical products	75	11	2	11	7	1	9	16	1	7	4	1	3				2		1	
Petroleum, coal	20	11	1	2	2		1	2	1					2		1	1			
Rubber, leather	9		3		1	1		1	2			1	3					1	1	1
Ceramics, stone	14		1	1	2	4		1	2	1	1	1	1	1					1	
Iron & Steel	4		1		1	1					1			0						
Nonferrous metals	9		3	2			1	2	1					0						
Metal products	14		3					4	1		5	1		2					1	1
General machinery	86	24	1	7	3		12	22	7	10			2	2		2				
Electric machinery	161	2	60	7	6	10	2	25	35		9	5	2	1					1	
Transport equipment	10		1					2		1	5	1		0						
Automobiles & parts	47	24	1	2	3		3	2	2	7	3		1	1						
Precision machinery	31		9		2	1		6	11				2	4		1	1	1	1	
Others	38	1	13	1	3	1		6	4	1	2	5	1	5				1	2	2
Commerce	1,201	21	276	6	112	75	2	163	370	13	57	100	6	129	14	37	42	9	27	
Wholesaling	1,129	19	257	6	105	74	2	145	355	13	53	95	5	124	14	37	38	9	26	
Retailing	53	2	14		5			14	11		3	3	1	4			3		1	
Restaurants	19		5		2	1		4	4		1	2		1			1			
Financing & banking	291		113	6	104	15	15	3	28		1	6		35			35			
Securities & investment	181		115		10	2	31	12	3		4	4		14			14			
Real estate	56		24	1	7	1		13	5	1	3	1		2			1		1	
Transportation	112	1	32	1	29	5		11	28	1	3	1		5	1	1	2		1	
Services	164	1	61	2	22	10		24	32		8	3	1	7			5		2	
Stockholding & others	129	1	46		42	3	3	14	17		1	2		3			3			

Source: See Table 2-1.

were obtained from 298 firms for a response ratio of 54.1%. In the latest 1992 survey questionnaires were sent to 614 firms and responses were obtained from 314 firms for a response ratio of 51.1%. According to the results of these surveys, respondent firms had respective overseas affiliates of 4,594, 4,617 and 5,269, of which 2,128, 2,005 and 2,333 were their respective production bases. Just for reference, the largest number of production bases in the 1992 survey, 583, were located in the U.S., followed by ASEAN with 555, the NIEs with 490 and the EC with 335.

Firstly, a breakdown of the contents of Japanese FDI by region reveals that in all regions

TABLE 4. JAPANESE OVERSEAS INVESTMENT OBJECTIVES BY INDUSTRY

(Cases, %, As of Oct., 1992)

Objective	Industry	All industries	Agriculture, construction & others	Manufacturing	Commerce	Financing, services & others
Total		17,393 (100.0)	1,007 (100.0)	7,816 (100.0)	5,310 (100.0)	3,260 (100.0)
A. Globalisation		8,327 (47.9)	381 (37.8)	3,230 (41.3)	2,545 (47.9)	2,171 (66.6)
1. Royalties & gathering information		2,627	188	498	1,102	839
2. Building an international production & distribution network		2,455	57	1,527	664	207
3. Exports to a third country		700	18	374	267	41
4. R&D of goods & so on		599	44	162	145	248
5. Reimports to Japan		583	31	391	135	26
6. Raising funds & avoiding risk of fluctuating exchange rates		505	10	31	46	418
7. Finding a new business		347	19	60	80	188
8. Following an expansion of the associated firm		296	8	164	33	91
9. Strengthening a unifying function of a regional headquarters		215	6	23	73	113
B. Advantage of local production		8,775 (50.5)	605 (60.1)	4,372 (55.9)	2,713 (51.1)	1,085 (33.3)
1. Securing the local market		5,950	341	2,278	2,479	852
2. Securing & using the manpower		1,383	82	1,127	84	90
3. Good treatment by the local government		823	54	635	37	97
4. Securing & using resources & materials		619	128	332	113	46
C. Trade friction		291 (1.7)	21 (2.1)	214 (2.7)	52 (1.0)	4 (0.1)
1. Easing trade conflict		291	21	214	52	4

Footnote: Plural answers allowed.

Source: See Table 2-1.

“establishment and expansion of production bases” formed the core of FDI; however, characteristics differ from region to region. In the NIEs and North America, emphasis has been placed on increasing production by expanding existing facilities, indicating that one cycle of investment has been completed in these areas. In contrast to these regions, in ASEAN and the EC, Japanese firms were rather late in building a strategic investment network. Because of this “expansion of production bases” could not occupy the largest share of investment until 1991. “Establishment and expansion of marketing bases” has occupied a large share of investment in the NIEs and EC. In the NIEs, this pattern reflected efforts to secure or expand market share in growing domestic markets, whereas in the EC the pattern stemmed from efforts by Japanese firms to increase sales strength in response to heightened competition with European and American companies in advance of the EC market integration. Among other investments, investment in R&D was active in the EC and North America, and that in parts procurement was also active in the NIEs and ASEAN (see Table 5).

TABLE 5. CONTENT OF JAPANESE OVERSEAS INVESTMENT BY REGION

Content of investment	Region	%											
		NIEs			ASEAN			North America			EC		
		1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
A. Establishment of production bases		21.8	13.4	10.1	57.9	31.4	26.0	30.7	22.8	16.0	44.5	28.3	18.4
B. Expansion of production bases		52.7	55.7	48.1	48.3	68.6	67.3	53.4	47.8	51.0	30.3	35.0	44.3
C. Establishment of marketing bases		12.7	12.4	11.4	14.0	7.4	12.5	10.2	5.9	9.0	28.6	20.0	19.3
D. Expansion of marketing bases		23.6	21.7	20.3	12.3	12.4	14.4	19.3	25.0	23.0	21.0	25.0	25.0
E. Establishment & expansion of R&D bases		1.8	5.2	3.8	0.9	0.0	2.9	15.9	11.8	12.0	12.6	12.5	9.1
F. Establishment & expansion of financial bases		0.0	3.1	2.5	0.9	0.8	0.0	4.6	2.9	1.0	5.0	5.0	2.3
G. Establishment & expansion of regional headquarters		12.7	11.3	7.6	1.8	3.3	2.9	14.8	6.6	4.0	14.3	10.8	6.8
H. Establishment & expansion of parts procurement bases		0.0	8.3	8.9	2.6	4.1	6.7	1.1	2.9	3.0	3.4	2.5	3.4
I. Establishment & expansion of engineering bases		0.0	7.2	1.3	1.8	3.3	2.9	4.6	3.7	1.0	2.5	5.0	3.4
J. Others		0.0	2.1	1.3	1.8	1.7	0.0	2.3	4.4	6.0	1.7	1.7	2.3

Footnote: Plural answers allowed.

Source: Export-Import Bank of Japan: "Reports on FY 1990, 1991 & 1992 Japanese Overseas Investment Survey (in Japanese)", Kaigai Toshi Kenkyusho Ho, March 1991, January 1992 & January 1993.

Secondly, a look at the motivations for Japanese FDI by region reveals that "preservation and/or expansion of market share in the host country" has been given as the foremost motive for Japanese FDI in all regions, followed by "development of a new market". Regional differences emerge in examining other motivations. In the NIEs and ASEAN, "exports to a third country" and "reimports to Japan" have been important. Especially in ASEAN, compared with the NIEs, "taking advantage of low cost labour", "diversification of production facilities overseas", "exports to a third country", "reimports to Japan", "supplying parts to an assembly manufacturer" and "response to the domestic labour shortage in Japan" became more important, implying that Japanese firms continue to regard ASEAN as a production base for the world market. On the other hand, in the EC and North America, "countermeasures against trade friction" and "development of products adapted to the local market" have remained important factors. However, it is notable that the importance of the former has gradually declined in the EC from 20.8% in the 1990 survey to 12.5% in the 1992 survey, while it has heightened in importance in North America from 8.8% to 15.0%. In the EC, investments as measures against trade issues declined after the passage of one goal of the 1992 integration, in the light of the delay in the economic recovery and, to some extent, the delay in the integration process (see Table 6).

Now, the author would like to refer to two interesting findings in the 1991 and 1992 surveys. Target firms were asked to make a self-evaluation (five-grade rating) of the results of their FDI by region. In Figure 2, the self-evaluation on profitability (A) is measured in the upward direction of the vertical axis and localisation (C) is measured in the downward direction of the same axis. Annual gross sales (B) is measured in the right-hand direction of the horizontal axis and the total evaluation of general performance (D) is measured in the left-hand direction of the same axis. All evaluations were ranked from one to five,

TABLE 6. MOTIVATION FOR JAPANESE OVERSEAS INVESTMENT BY REGION

Motivation	Region	(%)											
		NIEs			ASEAN			North America			EC		
		1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
A. Preservation &/or expansion of market share in the host country		54.5	53.6	39.2	39.1	45.5	43.3	52.8	52.2	50.0	55.8	46.7	50.0
B. Development of a new market		18.2	12.4	15.2	19.1	11.6	14.4	22.5	22.8	17.0	31.7	24.2	26.1
C. Response to voluntary export restraints, dumping tariffs & other trade regulations by the host country		0.0	1.0	0.0	0.9	2.5	2.9	20.2	8.8	15.0	20.8	16.7	12.5
D. Taking advantage of low cost labour		10.9	6.2	2.5	37.4	26.5	26.0	1.1	0.0	2.0	0.0	0.8	2.3
E. Securing stable supply of raw materials & natural resources		5.5	9.3	6.3	6.1	11.6	8.7	2.2	1.5	5.0	0.8	1.7	1.1
F. Requests from the host country		0.0	4.1	0.0	0.9	4.1	4.8	1.1	1.5	1.0	1.7	0.0	0.0
G. Taking advantage of favourable tax treatment & other preferences in the host country		5.5	2.1	0.0	7.0	6.6	3.8	1.1	0.7	2.0	2.5	3.3	2.3
H. Taking advantage of benefits available in tax havens		0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.8	0.0	0.0
I. Avoiding foreign exchange risk		3.6	1.0	1.3	2.6	0.8	3.9	2.2	0.7	1.0	1.7	2.5	3.4
J. Promotion of specialisation within the firm		10.9	11.3	12.7	9.6	11.6	15.4	10.1	9.6	8.0	11.7	8.3	10.2
K. Diversification of production facilities overseas		18.2	16.5	8.9	31.3	22.3	17.3	24.7	16.9	11.0	22.5	15.0	9.1
L. Optimisation of global financing		1.8	3.1	1.3	0.9	0.8	0.0	4.5	2.9	0.0	2.5	5.0	1.1
M. Utilising skills of talented foreign researchers		0.0	2.1	1.3	0.0	0.8	0.0	2.2	7.4	2.0	3.3	5.8	1.1
N. Development of products adapted to the local market		3.6	2.1	1.3	2.6	3.3	1.9	18.0	9.6	8.0	15.0	14.2	12.5
O. Obtaining business information		0.0	3.1	0.0	0.0	1.7	0.0	2.2	2.2	0.0	4.2	2.5	0.0
P. Obtaining know-how from the joint venture partner or the firm we have taken over or obtained shares in		0.0	2.1	1.3	0.0	0.0	0.0	3.4	3.7	5.0	1.7	2.5	1.1
Q. Shifting existing overseas investment bases		1.8	1.0	1.3	2.6	1.7	1.0	0.0	1.5	1.0	2.5	1.7	2.3
R. Reimports to Japan		16.4	9.3	5.1	17.4	8.3	9.6	5.6	2.2	4.0	0.8	0.8	1.1
S. Exports to a third country		5.5	10.3	6.3	13.0	15.7	11.5	0.0	2.2	0.0	3.3	1.7	1.1
T. Supplying parts to an assembly manufacturer		7.3	2.1	0.0	4.3	5.8	7.7	9.0	5.2	4.0	5.8	5.0	5.7
U. Response to the domestic labour shortage in Japan		1.8	3.1	2.5	4.3	3.3	5.8	0.0	0.0	1.0	0.0	0.0	1.1
V. Others		3.6	2.1	1.3	1.7	1.7	0.0	2.2	5.2	4.0	2.5	0.8	1.1

Footnote: Plural answers allowed.

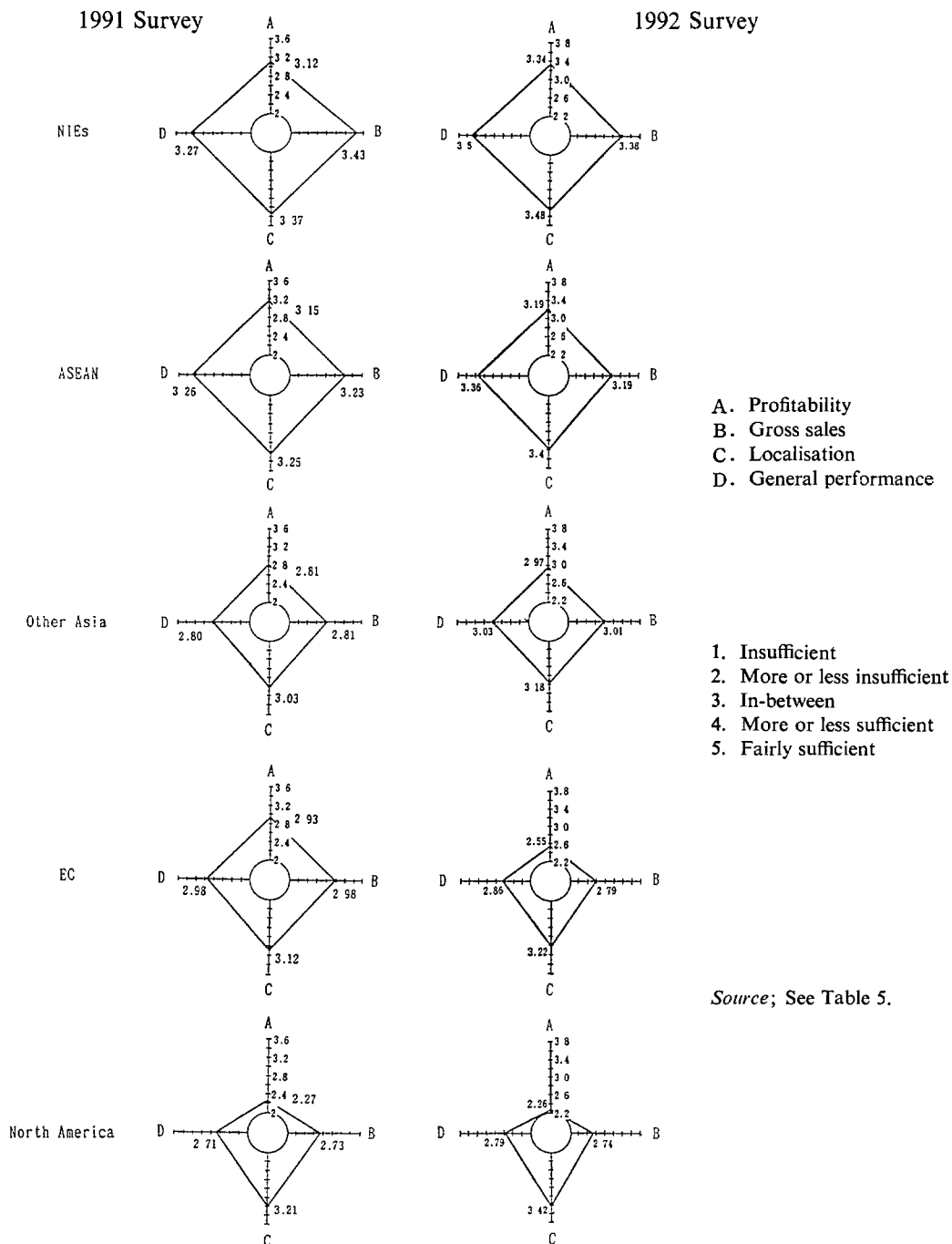
Source: See Table 5.

where one means "insufficient", five means "fairly sufficient" and three means "in-between".

As shown in Figure 2, both results of the surveys indicate that investments in Asian NIEs and ASEAN were generally evaluated higher than those in the EC and North America.

A comparison of the self-evaluation of investment performance by region shows that self-evaluation on the EC deteriorated more in 1992 than in 1991. Furthermore, unsatis-

FIGURE 2. INVESTMENT PERFORMANCE BY REGION AS EVALUATED BY JAPANESE PARENT FIRMS



factory self-evaluation on the EC and North America was prominent in their low scores for profitability, annual gross sales and total evaluation. It should be noted that Japanese FDI to Asian countries has been stimulated by purely economic motivations, such as effective and low-cost production, as well as recently expanding local consumption markets, while Japanese FDI to developed countries has been strongly influenced by long-term strategy to avoid or ease trade friction with major developed host countries.

Let us mention a second interesting finding in the 1991 and 1992 surveys. Target firms were asked about the most important purchaser or market for existing production bases by region. The results of the surveys show that the local market was the most important across all regions, including even ASEAN and Asian NIEs which are sometimes regarded as export bases for third countries. This finding is compatible with the most popular motivation, namely, "preservation and/or expansion of market share in the host country" (see Table 7).

Generally speaking, Japanese firms invested in North America and the EC in order to maintain the local market by responding to, and smoothly serving, the changeable, diversified and sophisticated demands of developed countries. On the contrary, in Asia Japanese firms formed production networks to serve North American, Japanese and European markets as well as local markets, using the advantage of effective and relatively low-cost suppliers in Asian countries.

Finally, concerning the most important purchaser or market for future production bases by region, the results of the surveys also indicate that the local market will be the most important across all regions. We may say that there will be no difference in this respect between existing production bases and future ones (see Table 8).

TABLE 7. THE MOST IMPORTANT PURCHASER OF EXISTING PRODUCTION BASES BY REGION

1. 1991 survey: All industry (%)									
**	*	NIEs	ASEAN	Other Asia	Japan	North America	EC	Latin America	Total
NIEs		73.3	5.7	1.0	8.3	10.0	1.7	—	300
ASEAN		9.9	61.8	0.6	14.9	8.1	4.7	—	322
Other Asia		10.0	2.0	58.0	22.0	6.0	2.0	—	50
North America		3.6	0.0	0.0	4.1	92.1	0.3	—	365
EC		2.2	0.0	0.0	0.0	2.2	94.8	—	232
Latin America		—	—	—	—	—	—	—	—

2. 1992 survey: All industry (%)									
**	*	NIEs	ASEAN	Other Asia	Japan	North America	EC	Latin America	Total
NIEs		72.9	3.6	0.3	14.7	6.6	1.9	0.0	361
ASEAN		7.4	63.6	1.0	15.5	10.4	2.0	0.0	361
Other Asia		3.1	0.0	57.3	35.4	4.2	0.0	0.0	96
North America		0.6	1.1	0.4	3.6	93.8	0.2	0.2	466
EC		0.4	0.0	0.4	1.9	2.6	94.8	0.0	267
Latin America		0.0	0.8	0.0	9.2	12.3	4.6	73.1	130

* Purchaser ** Location of production subsidiaries

Source: See Table 5.

TABLE 8. THE MOST IMPORTANT PURCHASER OF FUTURE PRODUCTION BASES BY REGION

1. 1991 survey: All industry

(%)

**	*	NIEs	ASEAN	Other Asia	Japan	North America	EC	Latin America	Total
NIEs		58.3	27.8	0.0	2.8	5.6	5.6	—	36
ASEAN		6.2	61.7	1.2	22.2	7.4	1.2	—	81
Other Asia		0.0	3.7	66.7	18.5	7.4	3.7	—	27
North America		0.0	1.9	0.0	5.6	92.6	0.0	—	54
EC		0.0	0.0	0.0	3.6	3.6	92.7	—	55
Latin America		—	—	—	—	—	—	—	—

2. 1992 survey: All industry

(%)

**	*	NIEs	ASEAN	Other Asia	Japan	North America	EC	Latin America	Total
NIEs		62.0	5.0	4.0	22.0	2.0	5.0	0.0	100
ASEAN		5.6	56.3	0.7	23.6	11.0	2.8	0.0	144
Other Asia		6.1	4.9	53.7	29.3	6.1	0.0	0.0	82
North America		0.7	0.0	0.7	4.7	92.6	1.4	0.0	148
EC		0.0	1.0	0.0	0.0	5.0	94.1	0.0	101
Latin America		0.0	0.0	0.0	4.9	9.8	7.3	78.0	41

* Purchaser ** Location of production subsidiaries

Source: See Table 5.

C. Japan External Trade Organisation Survey

The JETRO survey of European operations of Japanese firms in the manufacturing sector has taken place every year since 1983. The current 9th survey was conducted from September 1992 through to January 1993. The survey was aimed at 713 European manufacturing affiliates of Japanese firms, with a 10% or greater interest being held by Japanese firms, in 18 EC/EFTA countries excluding Liechtenstein. The responses were obtained from 433 affiliates for a response rate of 60.7%.

According to the results of this survey, there were 713 Japanese affiliates in EC/EFTA countries as of January 1993. Of this total, 671, or 94.1%, were located in the EC while 42 were located in the EFTA. A breakdown by country reveals that the greatest number, 198, were in the U.K., followed by 121 in France, 107 in Germany and 63 in Spain (see Table 9).

Let us focus again on conditions in the EC. The total number of Japanese affiliates in the EC broken down by industry and country reveals that 63.8% of the total number of firms in the manufacturing sector were involved in the following four areas: the manufacture of electronic and electric machinery and related parts; chemical products; general machinery; and transport equipment and related parts. The manufacture of foodstuffs was concentrated in France, chemical products in the U.K., France, the Netherlands, Germany and Spain, metal products in the U.K., general machinery in Germany, the U.K. and France, electronic and electric machinery and related parts in the U.K., Germany and France, transport equipment and related parts in the U.K. and Spain, and precision machinery in Germany and the U.K. (see Table 9).

TABLE 9. JAPANESE INVESTMENT IN EC & EFTA BY INDUSTRY & COUNTRY

(Firms, As of Jan., 1993)

Industry	Country														EFTA Total	Norway	Sweden	Switzerland	Finland	Austria	Iceland
	EC Total	Denmark	U.K.	Ireland	Netherlands	Belgium	Luxembourg	France	Germany	Portugal	Spain	Italy	Greece								
Total	671	3	198	30	46	39	3	121	107	13	63	45	3	42	1	9	9	5	17	1	
Foodstuffs	32		3		3	2		20	3		1			0							
Textiles	13		4	2				2		2	1	2		1					1		
Clothing & textile products	16		3					3	1		1	8		0							
Furniture & furnishings	8		1	1	1			3	1		1			1		1					
Paper & pulp	3								1	1	1			2					2		
Chemical products	112	1	31	1	13	11	1	20	12	2	12	7	1	7		2	3		2		
Pharmaceuticals	17				3	1	2	2	4		4	1		0							
Rubber products	13		2	1	1	1		4	2		1	1		1					1		
Ceramics, stone	19		2	2	1	5		3	3		2	1		0							
Iron & steel	5				1	1			1		1		1	0							
Nonferrous metals	14		6	2				3	1	1		1		0							
Metal products	32		11	2	2			3	6		6	2		5					4	1	
General machinery	67	1	15	2	6	2		11	19		4	7		6		2	2		2		
Electronic & electric machinery	110		41	4	2	7	1	22	19		8	6		2		1			1		
Electronic parts	72		24	9	5	2		9	18		4	1		0							
Transport equipment	19		5		1	1		2		2	53			1	1						
Transport equipment parts	48		21		2	2		6	3	3	8	3		4		2	1		1		
Precision machinery	30		9	1	3	1	1	4	10		1			5		1	2	1	1		
Others	41	1	20		4	2		4	3	2	2	2	1	7				1	1	5	

Source: Japan External Trade Organisation: The 9th Survey of European Operations of Japanese Firms in the Manufacturing Sector (in Japanese), Tokyo, 1993.

Secondly, a look at the motives behind Japanese entry into the EC reveals a wide spectrum of objectives, the primary ones being: "One phase of globalisation strategies", "Responding to consumer needs", "Transition from export to local production so as to prepare for enlargement of demand", "Enjoying the economic expansion resulting from the internal EC market" and "Apprehension of protectionism following the establishment of the internal EC market". These survey results show that Japanese affiliates have taken aggressive business approaches toward the revitalisation of the single EC market (see Table 10).

Thirdly, the reasons for establishing a base in the EC countries were dominated by: "Good geographic conditions for distribution", "Existence of a viable infrastructure", "Ability to hire English speaking managers", "Active invitation by investment attracting organisations and so on", "Favourable tax measures, subsidies and so on", "Quality of local workers when compared with other nations" and "Large scale of the domestic market". Specifically, the reasons for choosing the U.K. were: "Existence of a viable infrastructure", "Good geographic conditions for distribution", "Ability to hire English speaking managers", "Active invitation by investment attracting organisations and so on" and "Favourable tax measures, subsidies and so on"; for Germany they were: "Existence of a viable infrastructure", "Large scale of the domestic market" and "Good geographic conditions for distribution"; for the Netherlands they were: "Good geographic conditions for dis-

TABLE 10. MOTIVES FOR JAPANESE INVESTMENT IN EC & EFTA BY YEAR

Motive	(Firms, %)		
	1990. 1	1991. 1	1992. 1
Total	755 (100.0)	1,014 (100.0)	1,097 (100.0)
A. Globalisation	346 (45.8)	436 (43.0)	268 (24.4)
1. One phase of globalisation strategies	178	235	—
2. Avoiding risk of fluctuating exchange rates	27	31	26
3. Responding to consumer needs	88	94	141
4. Following the parent company's entry into Europe	12	18	38
5. Supplying materials & parts to Japanese affiliated manufacturers in Europe	41	58	63
B. Advantage of local production	245 (32.5)	375 (37.0)	499 (45.5)
1. Securing inexpensive raw materials	7	10	13
2. Reducing production costs	29	27	34
3. Favourable investment measures, including tax measures, etc.	41	42	55
4. Developing designs in Europe	12	18	25
5. Transition from export to local production so as to prepare for enlargement of demand	91	128	170
6. Enjoying the economic expansion resulting from the internal EC market	39	75	120
7. Conducting R&D in Europe	26	40	41
8. Aiming at expansion of European market resulting from the realisation of EEA & the liberalisation of East European market	—	35	41
C. Trade friction	136 (18.0)	165 (16.3)	251 (22.9)
1. Avoiding import volume restrictions against Japan	43	53	60
2. Avoiding anti-dumping regulations	30	32	40
3. Avoiding anti-dumping regulations applied to parts & components	18	20	21
4. Apprehension of protectionism following the establishment of the internal EC market	45	60	130
D. Others	28 (3.7)	38 (3.7)	79 (7.2)

Footnote: Plural answers allowed.

Source: Japan External Trade Organisation: The 6th–8th Surveys of European Operations of Japanese Firms in the Manufacturing Sector (in Japanese), Tokyo, 1990–1992.

tribution” and “Ability to hire English speaking managers”; for France the primary reasons were: “Large scale of the domestic market”, “Good geographic conditions for distribution” and “Active invitation of investment attracting organisations and so on”; and for Portugal the primary reason was: “Low labour costs” (see Table 11).

Fourthly, the influence that the completion of the single EC market will undoubtedly have on Japanese affiliates was anticipated as follows; for instance, in the present survey the effect of “customs formalities will be simplified” was mentioned by 224 firms (51.4%) of 436 replies; “There will be changes in the patterns of physical distribution in Europe” by 180 firms (41.3%) and “Competition with European and American companies on the European market will intensify” by 158 firms (36.2%). The three effects showing the highest percentages were invariable in the last three surveys, though the “simplified customs clearance procedures” rose from the second rank in the previous survey up to the top of

TABLE 11. REASONS FOR ESTABLISHING A BASE IN EC & EFTA BY COUNTRY

(Firms, As of Jan., 1992)

Reason	Country																				
	EC Total	Denmark	U.K.	Ireland	Netherlands	Belgium	Luxembourg	France	Germany	Portugal	Spain	Italy	Greece	EFTA Total	Norway]	Sweden	Switzerland	Finland	Austria	Iceland	
A. Existence of a viable infrastructure	127	2	50	1	15	10	12	28	7	2	6	1	1	4							
B. Large scale of the domestic market	90	23	1				19	29	9	8	2							2			
C. Good geographic conditions for distribution	209	1	37	3	19	10	19	19	1	7	2	1	2							2	
D. Existence of allied industries, such as parts industries	45	19	2	1			2	8	1	8	4										
E. Ability to hire English speaking managers	110	1	59	13	16	9	1	6	1	2	1	1	3		1			1	1		
F. Presence of numerous Japanese affiliated manufacturers in the current operation area	39	25	2				1	5	6												
G. Quality of local workers when compared with other nations	96	1	34	7	9	10	6	16	1	10	2		6		2					3	1
H. Low labour costs	55	36	2				3	6	4	4											
I. Existence of a pro-Japanese atmosphere	65	1	26	10	4	3	3	7	2	9			2							2	
J. Few problems with children's education	19	5	3	2			5	2	1	1	1									1	
K. Active invitation by investment attracting organisations & so on	109	46	10	10	6		17	13	2	4	1	5								5	
L. Favourable tax measures, subsidies & so on	103	34	13	13	10		9	14	3	3	3	1	3				1			2	
M. Ease with which raw materials can be obtained	31	8	4	2			6	4	1	3	3	2		1						1	
N. Raising funds with ease	4	2	1					1													
O. Others	116	26	1	7	6		29	20	1	17	8	1	8	1	2	2	2	1	2		

Footnote: Plural answers allowed.

Source: See Table 10.

the present survey. The "changing distribution patterns of goods" moved its position also, rising from third place up to second place in this survey. The reason "greater competition with the U.S. and European companies" also changed position from first place down to third. These changes in ranking appear to reflect the fact that the "simplified customs clearance procedures" and other foreseeable benefits were actually realised at the time when the EC was close to completing the single market (see Table 12).

Fifthly, a look at specific measures of Japanese affiliates to cope with the single EC market reveals that they have been pursuing localisation policies of production through "Increasing production shares in Europe by reinforcing productive capacity and setting up production bases in some parts of the region where advancement has yet to be made" and "Bringing up local parts suppliers and requesting Japanese parts manufacturers to advance into Europe in an attempt to increase local content of parts and components". Together with this, they have been proceeding with localisation policies of management through "Forging ahead with efforts to make Europeanised corporations by increasing the number of locally recruited people and making a contribution to the local communities",

TABLE 12. INFLUENCES OF THE COMPLETION OF THE SINGLE EC MARKET
ON JAPANESE AFFILIATES

Influence	(Firms)		
	1991. 1	1992. 1	1993. 1
A. Competition with European and American companies on the European market will intensify	98	198	158
B. Competition with Japanese companies will intensify	87	122	89
C. Japanese companies might be shut out from the European market	20	21	—
D. Unification of tax system will remove benefits from tax incentives	15	30	37
E. Unified certification system (CE mark) will be introduced	34	74	80
F. There will be changes in the patterns of physical distribution in Europe	139	178	180
G. Administrative procedures will be simplified	49	125	91
H. Trade barriers will be removed	42	75	80
I. There will be a fair chance to newly enter the public procurement market and participate in public works	2	9	—
J. Customs formalities will be simplified	125	189	224
K. Unification of safety, health and environmental standards will make intra-distribution easier	94	117	135
L. Others	14	12	19

Footnote: Plural answers allowed.

Source: Japan External Trade Organisation: The 7th-9th Surveys of European Operations of Japanese Firms in the Manufacturing Sector (in Japanese), Tokyo, 1991-1993.

“Considering close cooperation with European firms in the fields of production and sales, effective use of their knowhow, and when circumstances so require, mergers and acquisitions of European companies”, “Improving a network of representatives resident in Europe both qualitatively and quantitatively through training of competent personnel” and “Establishing a general headquarters in Europe”. Similarly, they have been proceeding with localisation policies of research and development through “Establishing design centres and R&D facilities in Europe” for design and product development that is suited to local needs. Taken together, the survey results show that localisation in a whole range of production, management, and research and development formed the basis for Japanese manufacturers’ approaches toward the single EC market. Through this spectrum of activities Japanese affiliates have been attempting to make themselves Europeanised (see Table 13).

Lastly, the following responses were obtained for the question; “what strategies are you, European manufacturing affiliates of Japanese firms, planning to develop after 1992?” The strategy of “integrating and abandoning European distribution bases” accounted for 33.2% (91) of 274 respondents. This was followed by others, such as; “establishing a general controlling facility and company in Europe” 25.9% (71), “establishing R&D bases in Europe” 23.7% (65) and “integrating production bases by product line” 21.2% (58) (see Table 14).

IV. Conclusion

As we have seen, Japanese foreign direct investment has risen at a remarkable pace since the mid-1980s. Nevertheless, it has been slowing down considerably in the early 1990s. The details can be summarised as follows:

TABLE 13. SPECIFIC MEASURES TO COPE WITH THE SINGLE EC MARKET

Measure	(Firms)		
	1990. 1	1991. 1	1992. 1
A. Establishing a general headquarters in Europe	99	138	—
B. Establishing design centers and R&D facilities in Europe	78	117	88
C. Forging ahead with efforts to make Europeanised corporations by increasing the number of locally recruited people and making a contribution to the local communities	128	163	163
D. Increasing production shares in Europe by reinforcing productive capacity and setting up production bases in some parts of the region where advancement has yet to be made	68	96	77
E. Bringing up local parts suppliers and requesting Japanese parts manufacturers to advance into Europe in an attempt to increase local content of parts and components	31	32	69
F. Considering close cooperation with European firms in the fields of production and sales, effective use of their knowhow, and when circumstances so require, mergers and acquisitions (M&A) of European companies	42	46	75
G. Improving a network of representatives resident in Europe both qualitatively and quantitatively through training of competent personnel	63	74	90
H. Reassessing the effectiveness of present production bases and considering transferring these bases to other countries where conditions are more favourable in terms of labour cost and tax incentives	9	6	10
I. Considering manufacture of products that would comply with the unified certification system (CE mark)	16	16	52
J. Others	15	19	25

Footnote: Plural answers allowed.

Source: See Table 10.

TABLE 14. BUSINESS STRATEGIES AFTER 1992

Strategy	(Firms)
	1993. 1
A. Establishing a general controlling facility & company in Europe	71
B. Integrating & abandoning European production bases	31
C. Integrating production bases by product line	58
D. Integrating & abandoning European distribution bases	91
E. Establishing R&D bases in Europe	65
F. Others	45

Footnote: Plural answers allowed.

Source: See Table 9.

a) Japanese FDI to the U.S. and European countries in the second half of the 1980s grew rapidly to ease trade friction with these countries, to avoid the disadvantage of the appreciated yen and to respond quickly to changeable and sophisticated demands of the local markets. In the early 1990s, however, the importance of Japanese FDI to these countries diminished slightly because of recently stagnated economies in these host countries and disappointing profit and sales performance in these advanced countries.

b) On the other hand, Japanese FDI to Asian countries in the latter half of the 1980s increased as firms sought production and export bases to avoid the disadvantage of

the appreciated yen and to enjoy the advantages provided by the newly established, more open FDI policies of these countries. In the early 1990s as well, Japanese FDI to these developing countries is still more active and popular owing to the relatively good performance of past FDI in Asia, the advantage of competitive production cost and growing local demand.

Next, faced with the compelling problem of responding to the impending EC market integration, many Japanese firms have been driven to advance into the EC. The results of the surveys conducted by three institutions can be summed up as follows:

- a) There was a broad range of motivations for establishing operations in the EC, with the primary ones being: "Preservation and/or expansion of market share in the host country", "Building an international production and distribution network", "Transition from export to local production" and "Development of products adapted to the local market".
- b) Broken down by country, the greatest number of Japanese firms have entered the U.K., Germany and France. A breakdown by industry reveals that the leaders were electrical machinery, general machinery and chemical products manufacturers, and that they were concentrated in the U.K. and Germany.
- c) The reasons for establishing a base in the EC countries were dominated by: "Good geographic conditions for distribution", "Existence of a viable infrastructure", "Ability to hire English speaking managers" and "Comparative quality of local workers when compared with other nations", etc.
- d) A look at specific measures of Japanese firms to cope with the single EC market reveals that localisation of the entire range of production, management, and research and development formed the basis for their approach to the single EC market. Through this spectrum of activities Japanese firms have been attempting to make themselves Europeanised.

The author would like to conclude by discussing some of his own opinions based upon the summaries given above.

Assuming that after 1992 it will become more difficult to initiate plans for exports to Europe and further advance into the EC region, Japanese firms have actively tried to establish and expand such bases as production, marketing, R&D, financing and general management within the EC prior to the EC market integration.

A wide variety of demands have been made from the EC side with respect to the measures being taken by Japanese firms. Ardent appeals have been made to Japan to 1. ease trade regulations and eliminate trade barriers; 2. open up the Japanese market; 3. stop destructive export drives in the world market and 4. stop viewing Europe solely as a potential market.

The European Community is anxious for the entry into the EC region of Japanese firms capable of contributing to the prosperity of the European market. Contributions to the local region through the creation of jobs, technology transfer, and profit reinvestment are becoming essential conditions for firms planning to enter, or which have entered the EC. This will be possible only when Japanese firms make the transformation from a business pattern of concentration upon a single market or product to one of international

cooperation. Here, indeed, lies the path for future coexistence between European and Japanese firms.

The author would like to close this paper by saying that in regard to the entry of Japanese firms into foreign markets, to become an insider, or to localise has been loudly advocated. The author further believes that the real pan-europeanisation of Japanese firms—this is a true problem for Japanese firms—lies in maintaining and improving the quality of life of Europeans through localisation of production, management, and research and development in Europe.

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