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FOREIGN DIRECT INVESTMENT: JAPAN

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Abstract

This study is part of a research project on "Foreign Direct Investment" which includes Spanish, Japanese and United States experiences. Two other research papers on the subject have also been published in this series.

Note: The authors would like to thank the collaboration of the dean and faculty of the Keio Business School for introducing us to the Japanese executives interviewed.

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Introduction

A set of closely related economic features made Japan and Spain comparable when examining their foreign investment experiences. Putting aside the two countries' wide differences in geographic coverage and the financial amounts involved, the observed features of (a) world market penetration through competitive exports; (b) foreign direct investments; and (c) technology exports appear in both countries.

Spinning off from the in-depth presentation conducted by the authors of the foreign direct investment experience of Spain,[1] the research objective of this study was to derive the foreign investment experience of Japan.

The general framework used in the current research closely followed that of the Spanish study. This proved advantageous on the following grounds:

1. the importance of selected variables related to foreign direct investment found in the Spanish and Japanese cases could be compared;
2. the environmental conditions that surrounded the Japanese decisions to look abroad could be fully brought out, leaving intact the direction of inquiry pursued; and
3. the possibility of comparing the production-decision-related behaviors of Japanese, Spanish and United States companies, as well as comparing them with companies of other nationalities.

[1] T. Aquino and P. Nueno, Foreign Direct Investment: The Case of Spain, An Exploratory Research (Barcelona: Division of Research, IESE, Universidad de Navarra, 1975).

General Framework

The corporations included in the study were leading Japanese exporters within their respective industries and actively engaged in foreign investment ventures. There was, therefore, no need to settle the multi-nationality question of these companies.

The set of forces as identified by Aharoni[2] was employed to systematize the identification of the possible driving forces of investment that proved to be significant in the Japanese experience. Following the product life cycle theory[3] developed by Vernon, the suggested reasons for supporting and maintaining the presence of Japanese multinational companies abroad are in the form of hypotheses for verification through these investment cases abroad. These were:

1. markets where Japanese companies have invested were smaller (than Japan's);
2. technology was used to gain market share among large markets and control of small markets;
3. countries with favorable investment climates have facilitated and maintained the presence of Japanese companies abroad;
4. among countries where investments have been undertaken, a majority of these countries were remote;
5. products that eventually began to be manufactured abroad have had high freight costs;
6. economies of scale of plants introduced abroad were smaller than those of the same kinds in Japan; and
7. investments have gone into industries abroad earlier when the products were considered necessities within the local context.

Finally, the structure for viewing the consequences of foreign investment was meant to be the:

1. forms of ownership
2. balance of payments effects, and
3. employment effects

which were basically important for illustrating policy considerations for both the private and public sectors of countries under similar circumstances.

Method

Given the concise general framework for formulating the foreign investment experience of Japanese multinational corporations, the method consisted of:

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[2] Yair Aharoni, The Foreign Investment Decision Process (Boston: Division of Research, Harvard University Graduate School of Business Administration, 1966), p. 10.
[3] Louis T. Wel Is, Jr. (Ed.) The Product Life Cycle and International Trade, (Boston: Division of Research, Harvard University Graduate School of Business Administration, 1972).

1. sending a uniform questionnaire to each cooperating Japanese multinational corporation; and

2. conducting scheduled visits in Japan to top ranking executives for interview on a recent major investment abroad in manufacturing facilities.

Based on the general framework followed, the method applied resulted in a coverage of 13 companies in 12 countries amounting to 17 cases of foreign direct investments around the world. Table 1 presents these foreign investments through which specific products introduced abroad were manufactured or intended to be manufactured abroad.

Table 1

Foreign direct investments covered by the survey on Japanese multinational companies, 1975

Company	Host country	Year when investment made	Product introduced abroad, the manufacture of which was through foreign direct investment
F	Thailand	1964	Household detergents
F	China, Republic of	1966	Surfactants
B	Canada	1967	Bleached wood pulp
F	China, Republic of	1969	Household detergents
I	Brazil	1969	Crossbar switching equipment
F	Spain	1970	Chemical products
A	Indonesia	1970	Pharmaceutical products
C	Canada	1971	Refined mechanical pulp
L	Indonesia	1971	Pharmaceutical products
J	United States	1971	Mini bearings
J	Singapore	1971	Mini bearings
E	Belgium	1973	Synthetic resins
D	Brazil	1974	Woven, dyed and finished cotton; synthetic fibers
G	Qatar	1974	Round steel bars
M	Spain	1975	Conventional zippers
K	Germany, Federal Republic of	1975	Hi-fi and color television sets
H	United Kingdom	1975	Color television sets

Source: 1975 Survey of Japanese Multinational Companies, Division of Research, IESE.

Table 2

Combination of factors that induced relevant individuals in enterprises to focus attention on a foreign investment decision

	Classification of Forces	
Company. Country (Year)	**Initiatory**	**Auxiliary**
F. Thailand (1964)	Ranking executives wanted to improve upon a shampoo factory built earlier; outside proposal from exclusive local agent received, leading to joint venture	Creation of markets for products other than shampoo
	Desire to have sales grow in step with local market growth; to enhance company prestige	
F. China, Republic of (1966)	Ranking executives linked up with outside proposals	Creation of household and industrial applications for surfactants
	Desire to have sales grow in step with local market growth; to enhance company prestige	
B. Canada (1967)	A Japanese trading company wanting to export, favored by government. Chemical plant equipment produced by its manufacturing division approached the leading Canadian producer of wood waste in British Columbia and suggested joint venture with B in 1962	
	Having met, B started wood chip imports as Japanese government disfavored capital exports while British Columbia government stressed area development through pulp exports. Trend towards bleached sulfate process in B made setting up of new pulp mill using raid process imperative, Expensive and limited supply of local wood and imported chips secured government nod for new pulp mill in Canada	
F. China, Republic of (1969)	Interest from ranking executives linked up with outside proposals	Creation of market for household detergents
	Desire to have sales grow in step with local market growth; to enhance company prestige	
I. Brazil (1969)	After visit to Brazil, several executives felt need for communications in a large country. Proposal by a high-ranking government official to senior VP of I to break a 50-year monopoly by 2 foreign firms resulting in excessive prices and little transfer of new technology	Some market knowledge from microwave equipment exports to Brazil existed and extendable to crossbar switching equipment in state-controlled telephone systems. Later to more sophisticated electronic equipment (ISS)
	Tariffs on telephone equipment components were less than finished versions Government requirement for winning bidders to establish facilities Assurance of market share and growth Possibility of future exports to Latin American countries cheap land and labor	
F. Spain (1970)	Local company making polyurethane and some fatty amines split from French partner (due to excessively high royalty payments and absence of new technology transfer) and approached F (leading world producer of fatty amines)	Creation of a market for company's product

	Tariff at 18% ad valorem + 11% compensation duties were in effect Chance to grow with local market Opportunity to export to the EEC in the long run. Less expensive labor export incentives by Spanish government of 11% cash refund. Reputation of Catalan people as hardworking and trustworthy	
A. Indonesia (1970)	Being 6th largest pharmaceutical company in Japan, ranking executives wanted to aspired to be the leading pharmaceutical company in foreign investments. Foreign market preservation maintained through various local agents and wholesalers in the face of Indonesian government's import restrictions on pharmaceutical products; presence of Ii main foreign competitors with respective plants	Desire to sell basic chemicals made by A in Japan pursue effort to use company know-how to reach many people throughout the world
	Project submitted to government was required to include basic chemical fabrication (at least one in first 5 years). Some products sold in Indonesia enjoyed tariffs up to 80% Realization of its population size - largest in Southeast Asia and its government's health policies 50 % of raw materials of Japanese pharmaceutical industry is imported Plantation investment would assure a raw material supply source, country where Japanese products are known and accepted, country with petroleum - source of base chemicals as imports in the future Indonesian government allowed A to put "made in Japan" in its products	
C. Canada (1971)	Management realization of need to find and to process raw materials (i.e., woodchips) abroad given the growing problematic situation of Japanese pulp and paper industry in 1971	
	Canada and Russia were main sources of softwoods with Brazil, Australia and Indonesia being good for other types of woods	
L. Indonesia (1971)	Management wanted to offset impending government control of drug importation, presence of American and European owned plants for 50 years desire to grow with a small, but rapidly growing market	
J. United States (1971)	Chairman and CEO were world-minded executives, local competitions forced United States government to ban imports of mini bearings on grounds that all defense equipment should be United States-made J's exports accounted for 30% of United States market	
	1971 duties were at 12-15% levels (United States market was 2.5 times the size of Japanese market and growing fast), company that sold its manufacturing facilities to J kept sales function	
J. Singapore (1971)	Chairman and CEO were world minded executives	rapid United States market growth in computer peripheral equipment and instrumentation equipment for which use of bearings was promoted

	Duty-free United States imports of computer peripheral and instrumentation equipment emphasized advantages available in Singapore (where 50% of United Kingdom and 30% of EEC bearing imports have come from): - government offered 5 years of tax exemptions - less expensive labor	
E. Belgium (1973)	Continuous proposals by planning department manager to E's Chairman. Holding 1/3 of world (outside Japan) market, E wanted to hold as base a market it had sold to for nearly 10 years to keep its world share	
	Tariffs in Europe for non-European sources were at 16% *ad valorem* to sell to France and Germany. Assure continued quick deliveries to customers. Several substantial incentives offered by the Belgian government	
D. Brazil (1974)	Management wanted to expand and to integrate textile manufacturing at a spinning cotton plant established in 1957 All major Japanese textile firms were established in Brazil Capture slice of Brazil's large and growing market Maintain production for export: 40% of output exported, 20% to United States 20% to Europe	
	Availability of cotton low labor cost, hence low total costs abundant Japanese - Brazilian labor	
G. Qatar (1974)	Company president wanted direct contact with Arab world Large Japanese trading company (operating in SE Asia) approached G at request of Qatar government to have G establish an integrated steel plant	
	Output in excess of local market was planned as export to SE Asia by trading company. Management saw chance to learn a steel making technology untried before by G but under serious consideration by other Japanese steel manufacturers	
M. Spain (1975)	Company president had strong world-wide interest difficulty of selling in Spain from Dutch branch; greater still if from Japan presence of local manufacturers with United Kingdom and German ownership (jointly held 75% of Spanish market)	Stop and slider (due to large scale operations) would be imported from Japan, fabrics to be purchased in Spain, and zipper teeth could be purchased from either country
	Customs duties were at 40%, plus 10% of compensatory taxes. Planned to export 40 % of output to EEC (export policy non-existent among competitors) and half of the rest through exportable product such as boots. Local partner (with whom Italian partner of M was in a joint venture with to make buttons) was president of a bank	

K. Germany, Federal Republic of (1975)	For over 3 years, top executives were interested in West Germany (2nd largest European market after the United Kingdom where K had already built a new plant) as part of corporate policy of establishing a worldwide system of plants and sales outlets A German family-owned assembly of hi-fi and color TV approached K about selling part of its ownership A large American company bought a German TV manufacturer in 1974; K had its weakest position in Germany	Expected to ship components and parts from K-owned plants in Japan and in SE Asia
	Learn from German furniture design as complete color TV product and process technology advantage gives Japan the lowest manufacturing cost compared to anywhere else in the world Move closer to West German market (expected to exceed growth of United Kingdom market) previously served by a 100% K-owned holding and sales company established 10 years ago in a Swiss free-trade zone	
H. United Kingdom (1975)	Top managers of TV group looked for a British base ever since United Kingdom joined EEC. Complementing a spring 1972 agreement permitting Japanese to make and sell to EEC a limited number of under-18" color TV sets Local Japanese bank in United Kingdom suggested to trading company to set up intended plant in Cardiff to avail of regional area development incentives K was already in Wales while another Japanese company was about to enter Due to stiff competition, only in sales of TVs below 18" did Japanese oversold Europeans due to economies from large scale operations	Most components were intended to be shipped from Japan
	EEC and United Kingdom have duties at 14 % on Japanese made sets; 12%-20% on components, and 20.5% on picture tube Local market expected to be saturated earlier than the rest of the EEC learn color TV set design and taste for appearance	

Note: Initiatory forces are classified into those arising from within the organization and those exogenous to it

Source: 1975 Survey of Japanese Multinational Companies, Division of Research, IESE.

Results

The forces leading to awareness of the possibility of investing abroad were found to be:

1. Within the organization:

   (a) A strong interest by the top-ranking executive, found in two instances: (a_1) to enable the president to establish direct contact with the Arab world; and (a_2) to maintain substantial world control.

   (b) A strong interest shared by several ranking executives, found in numerous instances such as, (b_1) interest equally shared by local partners; (b_2) after visiting and sensing a particular need of a large country; (b_3) to aspire as the leading company in foreign investments in its industry; (b_4) to find and to process raw materials abroad given the increasing problems in the industry it belonged to; (b_5) to offset an impending government control of drug importation by the host country; (b_6) springing from a deep understanding of the international nature of high technology industries; (b_7) through continuous generation of proposals by the planning department manager; (b_8) to expand and achieve integrated operations; (b_9) being part of a corporate policy of establishing a worldwide system of plants and sales outlets; and (b_{10}) managers of a product line wanted to enter a large market as staging base for later entry into a still larger market with a prospectively longer period for saturation.

2. Exogenous:

   (a) Outside proposals, specifically from (a_1) a Japanese trading company pursuing export promotion; (a_2) a high ranking foreign government official interested in breaking a 50-year monopoly by two foreign companies; (a_3) a local company which broke off from a French partner due to excessively high royalty payments and absence of new technology transfer; (a_4) a large Japanese trading company operating in Southeast Asia at the request of an Arab government; (a_5) local family-owned assembly of household electronic sound equipment; and (a_6) a local Japanese bank in a large European country suggested to the trading company to avail itself of regional area development incentives in setting up facilities in that country.

   (b) Fear of losing a market, particularly (b_1) from an impending government restriction; (b_2) from an import ban successfully lobbied for by local competitors; (b_3) one held for nearly 10 years to reinforce world share; (b_4) one used as a jump-off point to two large markets such as those of Europe and the United States; (b_5) one where to continue being served from a nearby country only helped to build the competitiveness of locally installed foreign firms.

   (c) Imitation of competitors, notably (c_1) the major ones in Japan, which have all gone in and invested in the largest market country in South America; and (c_2) one Japanese company that had just entered and another about to enter a large industrial country in Europe.

(d) Strong competition from abroad, such as (d_1) in an Asian country with 11 main foreign competitors with respective plants; (d_2) in a European country with 15% of its market jointly held by two foreign competitors; (d_3) in the largest continental European country where a United States company bought a local manufacturing facility; and (d_4) in the EEC, where only in a specified product size could Japanese companies compete.

3. Auxiliary:

(a) Creation of a market for components and other products, found together with 1 (a_2), 1 (b_1), 1 (b_2), 1 (b_3), 1 (b_6), 1 (b_9) and 1 (b_{10}); with 2 (a_3); with 2 (b_1) and 2 (b_5); or, to all forms of strong competition (stated above) such as 2 (d_1), 2 (d_2), 2 (d_3) and 2 (d_4).

(b) Capitalization of know-how, clearly found together with 1 (b_3), 2 (b_1) and 2 (d_1) altogether.

4. Other reasons:

(a) In small markets, desire to grow in step with local market growth as in 1 (b_1); in growing markets, desire to hold on to a growing market share and to export to neighboring countries as in 1 (b_1) and 3 (a); and in large markets, desire to hold on to already acquired (or improve on) share.

(b) To enhance company prestige, as with 1 (b_1).

(c) Opportunity to shift to new technology, found with 2 (a_1).

(d) Tariff rates on knocked down products were less than finished versions, found with 1 (b_2) and 3 (a); 2 (a_3) and 3 (a); 1 (b_3), 2 (b_1) 2 (d_1) and 3 (a) with 3 (b); 1 (b_6) and 2 (b_2); 1 (a_2), 2 (b_5), 2 (d_2) and 3 (a); and 2 (a_6), 2 (c_2), 2 (d_4) and 3 (a).

(e) Cheap land and labor, found with 1 (b_2), 2 (a_2) and 3 (a).

(f) Government export incentives, found with 2 (a_3) and 3 (a).

(g) Reputation of the people living in an industrial region in Spain, Catalonia, of being hardworking and trustful, found with 2 (a_3) and 3 (a).

(h) Government requirement for product fabrication within the country, found with 1 (b_3), 2 (b_1), 2 (d_1) and 3 (a) with 3 (b).

(i) Eventual requirements of a population size with a government favored health policy, found with 1 (b_3), 2 (b_1), 2 (d_1) and 3 (a) with 3 (b).

(j) Consumer acceptance of products in the foreign country, including government approval, found with 1 (b_3), 2 (b_1), 2 (d_1) and 3 (a) with 3 (b).

(k) Availability of raw materials, e.g., plantation-based chemicals and petroleum found with 1 (b_3), 2 (b_1), 2 (d_1) and 3 (a) with 3 (b); softwoods found with 1 (b_4); and cotton found with 1 (b_8), 2 (c_1) and 2 (b_4).

(l) Manufacturing facility priced modestly, found with 1 (b_6) and 3 (a).

(m) Government 5-year tax exemptions, found with 1 (b_6) and 3 (a).

(n) Assure quick deliveries to customers, found with 1 (b_1) and 2 (b_3).

(o) A packaged set of incentives by the host government, found with 1 (b_1) and 2 (b_3).

(p) Opportunity to learn a new steel-making technology previously untried but already under serious consideration by other Japanese steel manufacturers, found with 1 (a_1) and 2 (a_4).

(q) Hope of easy access to local credit with a bank president as a partner; found with 1 (a_2), 2 (b_5) and 2 (d_2).

(r) Learn wooden cabinet designing, found with 1 (b_9), 2 (a_5), 2 (d_3) and 3 (a).

(s) Move closer to a very promising market, found with 1 (b_9), 2 (a_5), 2 (d_3) and 3 (a).

(t) Local market saturation expected soon, found with 1 (b_9), 2 (a_5), 2 (d_3) and 3 (a).

(u) Learn product (color TV set) design and taste for appearance found with 1 (b_9), 2 (a_5), 2 (d_3) and 3 (a).

In bringing out the driving forces of awareness through the classification just used, it must be noted that the last category served a dual purpose: to include real forces previously uncovered by Aharoni and, when analyzed deeper, to capture forces that belong to the product life cycle. As the product life cycle analysis helped in describing the features of a mature product, it was natural to expect that some of these features were mentioned as forces of awareness falling under the last category. This strengthened the importance played by the market and product-related variables related to foreign direct investment, exhibited in Table 3 and shown in detail in the **Technical Appendix.**

Table 3

Factors affecting imitation lag between Japan and some countries

		Country-related variables								Product-related variables						
		Market	Size	Level of Technology		Distance From Japan		Investment Climate		Freight Cost		Economies of Scale		Degree of Need for Product		
		Large	Small	High	Low	Far	Near	Favorable	Unfavorable	High	Low	Large	Small	Necessity	Discretionary	Luxury
F. Thailand	1964		X		X	X				X			X	X		
F. China, Republic of	1966		X		X		X			X			X	X		
B. Canada	1967		X			X		X						X		
F. China, Republic of	1969		X		X		X			X			X	X		
I. Brazil	1969		X			X		X		X			X	X		
F. Spain	1970		X		X	X		X		X			X	X		
A. Indonesia	1970		X				X	X			X		X	X	X	X
C. Canada	1971		X		X	X		X		X			X	X		
L. Indonesia	1971		X				X	X					X	X		
J. United States	1971	X		X		X		X			X		X	X		
J. Singapore	1971		X		X		X	X			X		X	X		
E. Belgium	1973		X		X	X		X		X			X	X		
D. Brazil	1974		X			X		X					X	X		
G. Qatar	1974					X		X				X		X		
M. Spain	1975		X		X	X		X			X		X	X		
K. Germany, Federal Republic of	1975	X			X	X		X		X			X	X		
H. United Kingdom	1975		X	X		X		X		X			X		X	

Source: Technical Appendix

1. Among the non-initiatory countries (non-United States and most European), market sizes smaller than Japan's but larger than the rest of the countries of the world have been recipients of Japanese investments.

   1.a. In some of these countries, production for satisfying local demand was insufficient inducement for Japanese firms not to utilize these countries as staging grounds for entering other foreign markets. The position of these countries' market sizes as smaller than Japan's but larger than the rest of the countries of the world acted as buffers to direct entry to numerously small market size countries; a buffer made possible by promising market growth and other country-related variables conducive to setting up manufacturing facilities abroad. Brazil, Qatar, Singapore and Spain were countries chosen to serve markets other than their own.

   1.b. In one instance in the United States, considered as an initiatory country with the largest market size in the world, a company invested to maintain its market share in a high-technology product and to promote its application to computer and instrumentation equipment. Entering this market, at that time, was an end in itself; a market where maintaining the company's share and where new uses for old (or new) products were to be expected and still be profitable.

   1.c. In another instance in West Germany, a company invested to concentrate on serving a market for color television with a saturation point still unforeseeable in the coming several years and to learn the peculiar need of the market by way of understanding its furniture cover design.

   1.d. Except in the case of the United Kingdom, which happened to be the largest European market for the product mentioned in 1.b., but whose total manufacturing output was less than Japan's (though considered larger by the company interviewed), the classified market sizes of the countries studied, defined as manufacturing value added, conformed with the perceived market sizes according to the companies interviewed.

   2.a. Most countries where investments were made on manufacturing facilities had low technology levels, defined as the scientific and technical manpower for research and experimental development. The technological insufficiency (relative to Japan's) existing in a majority of the countries contributed to the active presence of Japanese technicians and management to assure the serving of foreign markets.

   2.b. For Singapore and Spain, seen as belonging to 2.a., the companies interviewed considered themselves as having similar technological levels as Japan's. This is understandable with reference to the products involved: in the former, a high technology product in a country that had fostered and achieved an advanced stage of development in precision engineering; in the latter, products manufactured with foreign technologies which in a sense gave the country previous exposure to these technologies. As mentioned in 1.a., possible entry to third markets via these two countries made them play the role of buffer countries.

   2.c. For Canada, also seen to belong to 2.a., the two companies interviewed considered it as having a high technology level. From the product standpoint, the initial case was a company's initial exposure to the bleached sulfate process but whose operation was taken over earlier than expected while the latter case was a company's search for

softwoods, the processing of which into woodchips used Swedish equipment. In the pulp and paper industry, Canada's technology capacity stood substantially high.

2.d. For the rest of the countries with high levels of technology, the United States and the United Kingdom, investments were made: in the United States, to further the applications of a high technology product and, in the United Kingdom, to learn color television set design and physical appearance planning.

2.e. For West Germany, likewise belonging to 2.a., investments were made to learn furniture design for color television sets and to sell in a market expected to exceed United Kingdom's growth. In this technology, the Japanese company already had the lowest manufacturing cost achievable compared to anywhere else in the world.

3. Among the 12 recipient countries of Japanese investments, 9 countries were assessed as being far from the companies' headquarters in Japan; 3 countries were assessed as near, being in the Southeast Asian vicinity.

4. All countries had favorable investment climates using the corporate rating scale for determining a country's investment climate. Compared with the interview results, three investment cases were described as having unfavorable investment climates; nonetheless, investments were made. Indonesia appeared twice as being unfavorable due to numerous problems encountered typically related to some economically developing countries: limited industrial activity receiving government encouragement but preferably under local management; inefficient customs procedures; high cost of money; and lack of good partners. Spain, the third case, figured as having had an unfavorable investment climate due to pressures exerted on the government by locally established foreign competitors, which led to the following revisions in the project submitted to and approved by the government:

   a) reduction of zipper prices, thus improving overall price of exportable products such as boots;

   b) gearing production for export markets;

   c) establishment of plant in a government-specified development pole;

   d) increase local employment; and

   e) improvement and development of local technology.

5.a. With the reported freight cost estimates, the majority of the products had high freight costs. For the rest, two cases were in countries in the Southeast Asia vicinity; in the United States case, the product was high value and low bulk; and in the case in Spain, the product was sent in big bulks and did not require specialized storage while in transit.

5.b. 7% and up of the landed cost of a product was the boundary line for what would be perceived as a high freight cost, according to interviews made.

6.a. The economies of scale started by the Japanese companies in their manufacturing facilities abroad compared with the same type of facilities in Japan were generally small, with the exception of the case in Qatar. Plant expansions were incorporated in plants of countries conceived to serve outside markets other than the countries where these plants were found. No expansion was planned in the case in the United States

for high labor cost and low productivity index reasons. Meanwhile, that of Singapore was seriously being laid out to act as the main production facility for the Japanese group of companies involved.

6.b. The exceptional case that was Qatar had the investing company try and use a sub process scale, i.e., direct reduction with natural gas, known to be the world's largest for manufacturing round steel bars used in construction. The investing company took the opportunity of learning a new technology previously untried within steelmaking but with plans in other Japanese steelmakers.

6.c. In plant size selection, the financial variables played a halfway role in the case in Canada on the use of bleached sulphate process. Because of restrictions on the exports of capital by Japanese companies that wished to invest abroad and of difficulties encountered in raising capital in the United States – the alternative capital market then under a slight depression – the investing Japanese company settled for a plant size smaller than originally planned. The other influence carne from the limited availability of woodchips, which could only support a plant size similar to what was finally agreed upon.

6.d. With the exception of the case in the United States (where the company product line was the same in both guest and host country), all Japanese investing companies were multi-product ones. Thus, it would seem that being in the midst of numerous product manufacturing activities could have given a company a wider choice of which manufacturing activity could be extended abroad.

7. The products introduced abroad through investments in manufacturing facilities were assessed as mainly necessities, for various reasons including being a product classified under the health promotion policies of the government, a source of essential foreign exchange, a medium for regional development, a means for utilizing an abundant raw material resource, or, in one instance in the field of education, the claim that color television affects children's thinking and aids their learning process.

Table 4

Forms of entry observed in host countries

		New Establishments				Expansions				Licensing Agreements
		Whole ownership		Shared ownership		Whole ownership		Shared ownership		
		Foreign branch	Subsidiary	Majority	Minority	Foreign branch	Subsidiary	Majority	Minority	
F. Thailand	(1964)					x				(a)
F. China, Republic of	(1966)					x				(a)
B. Canada	(1967)					(b)				(c)
F. China, Republic of	{1969)					x				(a)
I. Brazil	(1969)		(d)							(e)
F. Spain	(1970)							(f)		(a)
A. Indonesia	(1970)					(h)				
C. Canada	(1971)						(1)			(i)
L. Indonesia	(1971)					(k)				(l)
J. United States	(1971)		x							(a)
J. Singapore	(1971)		x							
E. Belgium	(1971)					(m)				(n)
D. Brazil	(1974)					(a)				(g)
G. Qatar	(1974)							(p)		(q)
M. Spain	(1975)	(r)								
K. Germany, Federal Republic of	(1975)		(s)							(t)
H. United Kingdom	(1975)		x							(u)

Notes:

(a) 10 years of licensing agreement was concluded.

(b) 50.03% was shared between B and Japanese trading company; Canadian partner was a publicly. owned company.

(c) no agreements were made.

(d) expanded investment in 1973 to US$15M and retained full ownership; unsure of future arrangement when the time comes to introduce ISS, as government requires Brazilian majority in companies introducing new technologies.

(e) undecided; thinking was to give a non-exclusive license for manufacturing and sales for 10 years; government does not allow royalty (pegged at 3% of sales) repatriation for 100% foreign-owned subsidiary but instead accepts payments through (a) higher component costs or (b) allocation towards a new investments fund should Japanese government allow it.

(f) Spanish regulations do not permit majority foreign ownership; capital was established at 100m pesetas. F settled with 45%, paid in cash.

(g) company policy of not collecting royalties in joint ventures.

(h) 20% was shared with a Chinese-Indonesian previously exclusive sales agent and wholesaler before 1970. Government regulations might force a reduction of Japanese participation down to 50% or less in 10 to 15 years.

(i) started with a 50-50 arrangement; after expansion that doubled capacity, the ruling Democratic party had opposed C's ownership expansion and left C with 25%.

(j) refined mechanical pulp does not need advanced technology.

(k) 10% shared with sole local distributor.

(l) a 10-year licensing agreement was reached; royalties to be paid only if remittance allowed by Indonesian government.

(m) 10% was held by a large Japanese trading company that distributed E's products all over Europe.

(n) a 10-year licensing agreement was arranged with payments based on 5% on sales at small volume and 3% at large volume.

(o) 72% was held by D.

(p) 20% was held by G 10% by the large Japanese trading company and 70% by the Qatar government.

(q) lump sum royalty payment to United States company holding license for reduction equipment.

(r) from initial agreement of 50% by M 25% banker and 25% bank banker sold total share to bank at 10 times par value. Bank later sold acquired 50% at 8 times par value. Stiff competition was cited.

(s) expected expansion to take place soon under full ownership.

(t) undecided at the moment.

(u) technical assistance agreement for 10 years payable in % of sales was agreed upon.

Source: 1975 Survey of Japanese Multinational Companies, Division of Research, IESE.

Among the forms of entry observed in host countries, new establishments characterized Japanese investments abroad accompanied by varying licensing agreements.

In only one instance was a wholly owned foreign branch set up, in Spain, not by design but as a result of the local partner backing out and citing probable stiff competition ahead. This was the same case wherein the investing company had to undergo revisions in its project before government approval could be secured.

Five instances of wholly owned subsidiaries were reported: in the twin investments of Singapore and the United States on high technology products manufacturing; in a foreign government official's interest in breaking a 50-year monopoly of foreign companies; and in two industrial countries where no restrictions on entry of foreign investment existed.

Eight instances of majority ownership showed local partners to be either the former exclusive distributors of the products, previously imported from Japan, made by the investing company, or the Japanese trading companies operating outside Japan. These trading companies have been effective in linking the interests of Japanese manufacturers and foreign parties where, in some cases, both were previously completely unaware of what had finally transpired – the foreign direct investment. The phenomenon of Japanese trading companies seemed to have been an offshoot of aggressive marketing at an international scale, a creation of specialization of function brought to the level of nations.

In the rest of the instances, clear government policies on the extent of foreign participation decided the forms of entry adopted by Japanese companies investing in Spain and in Qatar. In the case of Canada, the provincial government of British Columbia favored equal sharing and other incentives to develop the region; much later in 1972, when the Democratic Party in the federal government took over, the exported product (whose raw material processing was previously understood as developing the region) was considered a natural resource together with woods power, etc., and was restricted to Canadian majority-owned companies.

A 10-year licensing agreement was generally agreed upon when the use of the investing company's technology was required and royalty payments allowed by the government. Exceptional cases of no payment whatsoever to the investing company occurred if the company policy in joint ventures was not allowed to collect royalty payments, if a lump sum royalty payment went to a foreign company holding the license, or if no conclusive agreement had been reached pending the full exploitation of the technology agreed upon.

Table 5

Balance of payments effects upon the guest country

		Inflows									Outflows	
		Trade (Physical)				Non-Trade (Financial)					Original Capital	Imports
		Capital goods	Raw materials/ components	Associated exports	By-product exports	Dividends	Principal	Interest	Royalties	Fees		
F. Thailand	(1964)	x	x			x					✓	
F. China, Republic of	(1966)	x	x		x	x					✓	
B. Canada	(1967)	x				x	x	x		x	✓	✓
F. China, Republic of	{1969)	x	x			x						
I. Brazil	(1969)	x	x	x		x		x	x		✓	
F. Spain	(1970)	x				x				x	✓	
A. Indonesia	(1970)		x								✓	
C. Canada	(1971)					x					✓	✓
L. Indonesia	(1971)		x			x		x	x	x	✓	
J. United States	(1971)	x							x		✓	
J. Singapore	(1971)	x	x	x					x		✓	✓
E. Belgium	(1973)	x	x	x		x		x	x	x	✓	
D. Brazil	(1974)	x		x	x	x					✓	
G. Qatar	(1974)	x				x	x	x		x	✓	✓
M. Spain	(1975)	x	x			x					✓	
K. Germany, Federal Republic of	(1975)	x	x			x			x			
H. United Kingdom	(1975)	x	x	x		x		x	x	x	✓	

Note to:	Inflows	Outflows
B. Canada (1967)	all equipment was made in Japan; fees were derived from setting up plant	40% of bleached leraft was imported by Japan
I. Brazil (1969)	associated exports such as microwave equipment royalty payments contingent upon licensing terms	parent company lent funds to I at international bending rate price of no imports by Japan no imports by Japan as price of finished product averaged 2.5 times more
F. Spain (1970)	fees derived from plant construction	
A. Indonesia (1970)	no dividends; margins were made in basic chemicals exported from Japan - export prices higher than domestic (Japan) prices	imports by Japan of raw materials from plantation expected in the future
C. Canada (1971)	bulk of equipment imported from Sweden dividends have yet to be received	25% of mechanical pulp imported by Japan

L. Indonesia (1971)	dividends expected after 5 years all chemicals carne from Japan	
J. United States (1971)	dividends were not expected due to profit tax profit remittances were charged in the form of royalties working capital was borrowed from local and United States-established Japanese banks	
J. Singapore (1971)		imports by Japan were expected
E. Belgium (1973)	small quantities of auxiliary chemicals were exported from Japan office housed 2 Japanese salesmen of E's parent company to promote other products fees were charged for construction of plant	70% of capital was lent by Export-Import. Bank of Japan at low interest
D. Brazil (1974)	machinery was exported by manufacturer with no connection with D of Japan maximum allowable dividend was 12% on investment loan for working capital were obtained locally by-product exports took the form of designs and samples	loans for capital investment were made available by the Export - Import Bank of Japan
G. Qatar (1974)	60% of equipment was made by G of Japan dividends were expected very soon principal was expected to be recouped before10 years G in Japan borrowed and lent to G in Qatar at the same interest rate raw materials were to be sourced from Brazil, Australia, Mauritania and elsewhere royalty payment (see note letter q in -table 4) fees were collected from construction of plant and management services	the Export- Import Bank of Japan provided the 70% of the share capital of G through a loan at a low interest rate sponge iron imports by Japan was expected in the future
M. Spain (1975)	the stop and slider component was to be imported from Japan dividends were expected after 5 years	
K. Germany, Federal Republic of (1975)		capital was provided by German bank expected German components to be sent to Japan in the future
H. United Kingdom (1975)	capital goods imports were to be in the form of measuring and control equipment components amounting to 57% of cost could be imported from Japan dividends of 10% profit on sales was expected after 2nd year - the major index of efficiency working capital was raised locally except in emergencies construction fees was charged	

Source: 1975 Survey of Japanese Multinational Companies, Division of Research, IESE

From the balance of payments effects upon the guest country, positively through trade and non-trade inflows and negatively through original capital and imports, being outflows, several statements were worth making.

Capital goods exports (their nature being contingent upon the types of technologies used as agreed upon between the contracting parties) took place in all of the investment cases covered. Exceptions were in cases of plantation-type activity and of equipment purchase from other industrialized countries. Investments in the United Kingdom and in W. Germany on manufacturing facilities were tentative but, gauging from the products intended to be manufactured in these countries, the technologies required were to be of Japanese origin. Raw materials and components from Japan would be used by the selected technologies, if not sourced from abroad.

Associated exports were to be expected in cases when the investing Japanese company wanted (in addition to the major forces behind investments abroad) to develop the local market for a product intended to be introduced much later, e.g., microwave equipment in Brazil to supplement the utilization of the foreign plant for other products through auxiliary chemicals in Belgium and to help push the introduction of other product lines by the same company in the United Kingdom. As for by-product exports in one out of two instances, it took the form of designs and samples to be used in the foreign manufacturing facility.

Dividends were received (or forthcoming in the case of the recently made investments) in majority of the cases except when subject to profits tax as in the United States, or to restrictions on dividends repatriation as in Indonesia. In the, latter, margins were made in basic chemicals from Japan where export prices were higher than domestic prices in Japan.

Situations for receiving interest payments occurred when no available working capital could be secured abroad, or was available at an exorbitantly high cost. There was a clear preference for borrowing from the local short- and long-term capital markets as a way of minimizing pressures on resources at the headquarters.

Royalty payments, subject to the licensing agreements concluded as discussed earlier, served as a vehicle for repatriating dividends if not at all permitted by the host country government. Fees arose mainly from management of the foreign facility, not to mention the construction services met in setting up said facility by the investing company which knew, more often than not, the land and building requirements of the technologies abroad.

As outflow items, except in the West German case where capital was provided for by a local bank, the investing companies had to export capital commensurate with the agreed foreign participation using company resources or lines of credit open to them in Japanese banks, especially the Export-Import Bank of Japan. Though appearing as outflows to Japan, imports (wherever it appeared in the study) were essential as these meant assured supplies of raw materials needed by the investing company. In this context, to assure raw material availability appeared as a strong force towards undertaking foreign direct investment in the case of Japanese companies.

Table 6

Balance of payments effects upon each host country

		Inflows		Outflows								
		Original Capital	Exports	Trade (Physical)				Non-trade (Financial)				
				Capital goods	Raw materials/ components	Associated exports	By-product exports	Dividends	Principal	Interest	Royalties	Fees
F. Thailand	(1964)	✓		x	x		x	x				
F. China, Republic of	(1966)	✓		x	x			x				
B. Canada	(1967)	✓	✓	x	x			x	x	x		x
F. China, Republic of	(1969)			x				x				
I. Brazil	(1969)	✓	✓	x	x	x		x		x	x	x
F. Spain	(1970)	✓		x	x			x				
A. Indonesia	(1970)	✓		x				x				
C. Canada	(1971)	✓										
L. Indonesia	(1971)	✓		x	x			x		x	x	x
J. United States	(1971)	✓								x		
J. Singapore	(1971)	✓	✓	x	x	x					x	
E. Belgium	(1973)	✓		x	x	x	x	x		x	x	x
D. Brazil	(1974)	✓		x		x		x				
G. Qatar	(1974)	✓	✓	x	x			x	x	x		x
M. Spain	(1975)	✓		x				x				
K. Germany, Federal Republic of	(1975)			x	x	x		x		x	x	x
H. United Kingdom	(1975)	✓		x	x			x			x	

Source: 1975 Survey of Japanese Multinational Companies, Division of Research, IESE.

From the host country viewpoint, the balance of payments effects of foreign direct investments would be the opposite to those of the guest country, while the addition of time and technology access elements multiplies the longer run results. Availability of goods and services, which were previously imported in various forms and with varying reliability, becomes certain, and foreign exchange provisions can be planned in a systematic way. Employment, the other derived effect, will be discussed later.

Foreign investing companies apportioned capital for the purpose of capital equipment purchase by the developing host countries. Though the pressure to never extend home resources abroad appeared strong, when real opportunities arose from a promising market such as Spain, foreign capital could be expected to enter without necessarily competing with the host country's pool of investment funds. In Japan, so as not to over-burden Japanese companies when raising investment funds, the Export-Import Bank of Japan always lent foreign investment capital at preferred interest rates to the investing Japanese companies. Of course, there were exceptions: long before the economic policy of the Japanese government showed reluctance to capital exports, the project in Canada was approved, but only after long talks. Exports to third markets

and to the guest country (in the cases where the search for raw materials was mentioned) provided the host country with opportunities to acquire foreign exchange. Singapore and Qatar illustrated the former possibility, and Canada the latter.

Employment in Japan has been maintained through capital equipment, raw materials and component export to countries previously served by products made in Japan. To continue exporting would have been difficult in the face of competition from industrial countries abroad. Relying on local contacts, Japanese companies have offset potential entries of competing companies. As a result, employment activities in developing new technologies have arisen, enriching Japanese experiences in new product and process development crucial in understanding and meeting the needs of foreign markets.

In terms of employment effects on the host countries, Japanese managers and technicians (and support workers depending on the nature of the manufacturing facility) were present in all cases except West Germany, where the Japanese company ended up buying a local firm and maintaining its entire workforce. However, as the intention was to set up an assembly plant later, the anticipated problem was the planned integration and reorganization of both complexes.

In countries such as Canada, where labor skills were high, only top management of the foreign facility remained in the hands of the Japanese. In the other extreme case, Qatar, the complete operation of the plant was entrusted to the investing company. Additionally, as Qatar is a tiny country, recruitment of personnel was extended to other low-wage countries with abundant labor skills. Similar to the Japanese technicians having to thoroughly know the technologies available for use in the host country, Japanese managers were likewise confronted with varying conditions of work habits and customs including employee preferences of how to run the foreign facility. This was especially the case in the United States.

Table 7

Employment effects on the guest country

		Production				Managers	Technicians	Support Workers
		Capital Goods	Raw materials/ Components	Associated Exports	By-product Exports			
F. Thailand	(1964)	x	x			——— x ———		
F. China, Republic of	(1966)	x	x		x	——— x ———		
B. Canada	(1967)	x				x		
F. China, Republic of	(1969)	x	x			——— x ———		
I. Brazil	(1969)	x	x	x		x	x	x
F. Spain	(1970)	x				x	x	
A. Indonesia	(1970)		x			x	x	
C. Canada	(1971)					——— x ———		
L. Indonesia	(1971)		x			——— x ———		
J. United States	(1971)	x				——— x ———		
J. Singapore	(1971)	x	x					
E. Belgium	(1973)		x	x		x	x	
D. Brazil	(1974)					——— x ———		
G. Qatar	(1974)					x	x	
M. Spain	(1975)	x	x			x	x	
K. Germany, Federal Republic of	(1975)	x	x					
H. United Kingdom	(1975)					x	x	

Employment effects (guest country):

B. Canada	(1967)	4 Japanese managers, namely, President, Treasurer, Asst. Treasurer and Asst. Secretary.
I. Brazil	(1969)	30 Japanese managers and supervisors, 30 technicians and 10 salesmen and administrative clerks.
A. Indonesia	(1970)	3 managers for manufacturing, 4 for administration and 2 technicians, all Japanese.
C. Canada	(1971)	initially, 13 Japanese were sent to Canada.
L. Indonesia	(1971)	5 Japanese managers and experts.
J. United States	(1971)	30 Japanese managers and technicians.
J. Singapore	(1971)	10 Japanese managers and technicians.
E. Belgium	(1973)	the president, 2 assistants, 3 salesmen, 1 accountant and 4 chemists were all Japanese.
D. Brazil	(1974)	25 Japanese managers and experts.
G. Qatar	(1974)	80 Japanese managers, technicians and foremen.
M. Spain	(1975)	3 factory managers and 2 sales managers were Japanese.
K. Germany, Federal Republic of	(1975)	bulk of components would be supplied from underutilized plants in Japan or SE Asia.
H. United Kingdom	(1975)	a team of 4 Japanese, manager, finance officer, factory supervisor and designer, run entire plant.

Source: 1975 Survey of Japanese Multinational Companies,Division of Research, IESE.

Table 8

Employment effects upon each host country

		Managers	Technicians	Support Workers	Other related information
F. Thailand	1964	x	x	x	
F. China, Republic of	1966	x	x	x	
B. Canada	1967	x	x	x	70 out of 220 pulp mill workers had to be trained; lumbermen were used to old methods while mill workers were not; Canadians exposed to modern techniques and methods of management from Japanese reacted unfavorably, resulting in Japanese holding only the top management and finance positions.
F. China, Republic of	1969	x	x	x	200 Brazilian workers employed.
I. Brazil	1969	x	x	x	200 Brazilian workers employed.
F. Spain	1970	x	x	x	80 Spanish workers employed.
A. Indonesia	1970	x	x	x	59 employees and 40 casual workers in plantation were Indonesians; local partner blamed for lack of sales aggressiveness.
C. Canada	1971	x	x	x	340 Canadians employed.
L. Indonesia	1971	x	x	x	100 Indonesians employed.
J. United States	1971	x	x	x	200 Americans employed; United States skilled operators wanted to do maintenance, set-up and tooling work by themselves, hence low productivity in a high-wage country.
J. Singapore	1971	x	x	x	specialized labor for each operation was required, giving a productivity level of 10 points less using Japanese standards as base; labor costs low.
E. Belgium	1973	x	x	x	110 Belgians employed; their average worker productivity was lower than Japanese currency exchange intricacies were unfamiliar to Japanese managers.
D. Brazil	1974	x	x	x	12,000 Brazilian workers employed.
G. Qatar	1974	y	x	Y	as responsibility for plant construction and operation was left entirely to G, labor shortage was covered up by manpower recruitment in India, Pakistan and other low-wage countries. 800 workers were required.
M. Spain	1975	x	x	x	
K. Germany, Federal Republic of	1975				
H. United Kingdom	1975	x	x	x	200 English workers were employed in the first stage of operations; United Kingdom labor behavior was different from the Japanese.

Source: 1975 Survey of Japanese Multinational Companies, Division of Research, IESE.

Conclusions

The purpose of the study was the in-depth presentation of Japan's foreign direct investment experience. Using individual cases of Japanese companies' investments in manufacturing facilities abroad, we gained a deeper understanding of the phenomenon of foreign direct investment, which would be useful for policy-making purposes for the private and public sectors of countries under similar circumstances.

The possibility of embarking on an investment in a particular type of manufacturing facility in a specific country was seen to have been conditioned by forces arising from a variety of sources. Not only initiatory and auxiliary forces were behind the Japanese investments abroad, but other forces as well were sometimes equally significant. These other forces were mainly absent from previous studies because they arose from the international order today and the position the economy of Japan has in this order. Nevertheless, the product life-cycle theory was sufficiently ample to incorporate these other forces into an analyzable form. Other forces, like availability of raw materials and the need to learn product design, were but recognition of the necessity of inputs and product differentiation between mature products, and which were taken into account by the product life-cycle analysis.

The product life-cycle analysis has proved useful in viewing the investments made by Japanese companies. Mature products were manufactured abroad in countries of smaller market sizes and lower levels of technological capacity, with good investment climates and with distances appreciably far from Japan, implying high freight costs.

Citing the Japanese investment in Qatar, the investment hinged heavily on acquisition of a direct contact with the Arab world for future exploitation and to gain confidence in and understanding of how to put new product line technologies into operation.

Japanese investors seemed disposed to majority ownership as an effective way of realizing the use of the contracted for technology. However, because the products involved appeared sufficiently well studied and fitting for the intended markets, even in instances when local management was preferred over Japanese management and similarly with ownership shares, the Japanese remained firm in their decided involvement. Exit intentions were not visibly noted.

Based on a well studied product, the effects on the balance of payments for Japan and the host countries could be reasonably positive. As the full realization of the mutual positive effects of foreign direct investment were subject to numerous unforeseen circumstances (though not necessarily to be considered as unfavorable to the risk involved), based on what has been seen in the study, instances were available showing positive realization of mutual benefits.

Similarly, employment possibilities have been found to have been created and maintained in both the guest and host countries. As long as the market continued to exist, employment was generally assured. To this, the importance of the process of country and product selection could not have been emphasized any better.

Technical Appendix

Table A

Estimation of manufacturing output, by country (Value added in million us dollars)

	(A) Year when investment was realized	(B) Gross domestic product during investment year (purchasers prices)	(C) Manufacturing share to gross domestic product (%)	(D) Manufacturing value added (B) x (C)
Europe				
Spain	1970	32,344	25	8,086
Belgium	1973	35,590 (c)	32 (b)	11,389
Spain	1975	44,780 (c)	24 (b)	10,747
Germany, Federal Republic of	1975	257,570 (c)	42 (b)	108,179
United Kingdom	1975	154,180 (c)	2 (b)	43,17
Middle East				
Qatar	1974	-	-	-
North America				
Canada	1967	61,594	22	13,551
	1971	92,91	21	19,511
United States	1971	1,045,753	25	261,438
South America				
Brazil	1969	32,169	20	6,434
	1974	43,462 (b)	20 (b)	8,692
Asia				
Thailand	1964	3,273 (a)	14	458
China, Republic of	1966	2,752	19	523
	1969	4,026	20	805
Indonesia	1970	11,786	9	1,061
	1971	13,599	9	1,224
Singapore	1971	2,26	22	497
Japan	1964	68,139 (a)	34	23,167
	1966	94,557	32	30,258
	1967	111,708	34	37,981
	1969	167,807	36	60,411
	1970	197,622	36	71,144
	1971	229,141	34	77,908
	1973	294,410 (c)	34	100,099
	1974	294,410 (c)	34	100,099
	1975	294,410 (c)	34	100,099

Note:
(a) 1963
(b) 1971
(c) 1972
(d) 1969

Source: United Nations, Yearbook of National Accounts Statistics, 1972, (New York: United Nations, 1974), and various other issues.

Table B

Scientific and technical manpower for research and experimental development for the available relevant year (number of people)

		Total stock		Number engaged in research and experimental development	
Countries	**Year investment made**	**Scientists and engineers**	**Technicians**	**Scientists and engineers**	**Technicians**
Europe				.	
Spain	1970d)	188,000	-	5,842	1,526
Belgium	1973f)	-	-	10,070	12,854
Spain	1975d)	188,000	-	5,842	1,526
Germany, Federal					
Republic of	19759)	-	-	89,362	83,107
United Kingdom	1975e)	-	-	43,588	106,426
Middle East					
Qatar	1974	-	-	-	-
North America					
Canada	1967	-	-	21,350	18,550
	1971	-	-	22,418	18,641
United States	1971	1,725,000	1,000,000	536,200	39,700
South America					
Brazil	1969	-	-	-	-
	1974	-	-	-	-
Asia					
Thailand	1964c)	25,577	-	-	-
China, Republic of	1966a)	60,550	313,590	-	-
	1969a)	60,550	313,590	-	-
Indonesia	1970	-	-	-	-
	1971	-	-	-	-
Singapore	1971	4,580	-	370	-
Japan	1964				
	1966 b)	143,901	79,675	-	-
	1967				
	1969	-	-	259,150	76,293
	1970	-	-	286,439	80,475
	1971	-	-	310,870	85,089
	1973				
	1974 h)	-	-	318,014	87,613
	1975				

Notes:
a) 1964
b) 1965
c) 1966
d) 1967
e) 1968
f) 1969
g) 1971
h) 1972

Source: UNESCO, Statistical Yearbook 1973 (The UNESCO Press, Louvain 1974); and other previous issues.

Table C

Investing companies' perception of distances of countries from Japan where investments were realized

	Year investment realized	Perception of distance	Distances from Japan by air transport (in miles from Tokyo to respective capital cities)		
			Straight	Via polar route	Via eastern hemisphere
Europe					
Spain	1970	FAR		10,454	10,860
Belgium	1973	FAR		9,631	10,660
Spain	1975	FAR		10,454	10,660
Federal Republic of Germany	1975	FAR		9,776	10,044
United Kingdom	1975	FAR		9,536	10,088
Middle East					
Qatar	1974	FAR	6,517		
North America					
Canada	1967	FAR	8,252		
	1971	FAR	8,252		
United States	1971	FAR	8,287		
South America					
Brazil	1969	FAR	13,912 a)		16,222
	1974	FAR	13,912 a)		16,222
Asia					
Thailand	1964	FAR	2,849		
China, Republic of	1966	NEAR	1,304		
	1969	NEAR	1,304		
Indonesia	1970	NEAR	4,222		
	1971	NEAR	4,222		
Singapore	1971	NEAR	4,011		

a) Via the Pacific route.

Source: 1975, Survey of Japanese Multinational Companies, Division of Research, IESE IBERIA AIRLINES.

Table D

Premium for risk: A devised corporate rating scale for determining a country's investment climate

	Item	**Range of Points**
A.	Capital repatriation allowed	0 - 12
B.	Foreign ownership allowed	0 - 12
C.	Discrimination and controls, foreign versus domestic businesses	0 - 12
D.	Currency stability	4 - 20
E.	Political stability	0 - 12
F.	Willingness to grant tariff protection	2 - 8
G.	Availability of local capital	0 - 10
H.	Annual inflation for last 5 years	2 - 14
	Total	0 - 100

Table D3

Canada (1967)

A.	No restrictions on capital repatriation.	12
B.	75% of equity was the maximum allowable foreign participation.	8
C.	No discrimination between foreign and domestic businesses.	12
D.	1.08 Canadian dollars per US dollar; trade conversion factor was at the same exchange rate.	20
E.	The Queen of England was the Head of State and was represented at Ottawa by a Governor General. Parliament consisted of the Queen, the Senate and the House of Commons. Executive power rested on the Cabinet selected by the Prime Minister - chosen from the political party commanding a majority in the House of Commons, whose members were elected by universal suffrage. The British North America Act of 1867 was in force.	12
F.	Specific economic activities were pinpointed by the local government.	6
G.	9 commercial banks, 4 savings banks with federal charters, 17 trust and loan organizations and 5 stock exchanges were in operation.	10
H.	1.95 annually for the last 5 years.	12
	Total	92

Table D5

Brazil (1969)

A.	Restrictions on capital and income repatriation existed, particularly for fully owned subsidiaries. Royalty payments could be paid out through (a) higher component cost or (b) building up an account in Brazil for new investments, subject to guest country's government approval.	4
B.	100% foreign ownership was al lowed except under conditions mentioned in C.	8
C.	Government requirement was for majority ownership to be Brazilian in manufacturing activities involving new technology. Government approval of preferred investment projects could be had within a short period.	6
D.	2.7 new cruzeiros per US dollar; selling rate was 4.350 while the trade conversion factor was 4.025.	8
E.	The constitution, promulgated in 1967, went into effect on March 15. Executive power was exercised by the President, chosen by an electoral college from the National Congress and delegates indicated by the State Legislative Assemblies for a term of 4 years, and by the Ministers of State, chosen by the President.	8
F.	Tariff duty on components was substantially less than tariff duty on finished products.	6
G.	5 development banks, numerous commercial banks, 8 foreign banks, stock exchanges in Rio Janeiro and Sao Paulo and commodity exchanges at Porto Alegre, Vitoria, Recife and Santos.	10
H.	26.66% annually for the last 5 years.	4
	Total	54

Table D6

Spain (1970)

A.	The dividend rate permitted was 5%.	4
B.	Less than 50%. Foreign ownership was allowed.	4
C.	Incentives for foreign investments were generally available.	12
D.	69.72 pesetas per US dollar; the trade conversion factor was at the same rate.	20
E.	The Law of Succession drawn up in 1947 and amended in 1966 defined Spain as a Monarchy and Francisco Franco would be succeeded by a king. Legislation was initiated by the Council of Ministers and the Head of State had power of veto.	12
F.	Tariff duty of 18% ad valorem on the product under study was in, effect.	8
G.	16 development banks, numerous commercial banks and 3 stock exchanges were in operation.	10
H.	1.89% annually for the last 5 years.	12
	Total	82

Table D7

Indonesia (1970)

A.	Capital repatriation was allowed.	12
B.	Though majority foreign ownership was allowed, the evolving economic policies left the risk of nationalization present.	8
C.	Selling of products was confined to nationals of Indonesia leaving some areas, for instance manufacturing, open to foreign business.	6
D.	The following exchange rates in rupiahs per US dollar were in effect: major export rate - 340 major and other import rate - 378 trade conversion factor - 361	14
E.	Constitution of 1945 as re-enacted by Presidential decree in July 1959 was in force. Executive power rested with the President (also the Prime Minister and leader of the Cabinet), elected for a term of 5 years and renewable.	8
F.	Tariff protection existed for essential products, such as pharmaceuticals.	4
G.	5 state banks, 9 national private banks, 11 foreign banks and one stock exchange founded in 1952. Interest rate on commercial loans reported to be 32%.	6
H.	78.34% annually for the last 5 years.	2
	Total	60

Table D8

Canada (1971)

A.	Dividends, interest and royalties from Canadian sources received by a resident of Japan but not attributable to profits of a Canadian permanent establishment were subject to Canadian withholding tax.	6
B.	Foreign owned manufacturing plants have been set up as limited liability companies with corporate existence apart from that of their parent companies. However, when profitable operations were not to be expected for some years, tax considerations favored initial operation as a branch of the parent.	8
C.	Only in 1975 did the provisions of the Foreign Investment Review Act - an advanced screening procedure which applies to proposed foreign participation of any significant size in a "takeover" of an existing Canadian business or the establishment of a new business in Canada, take effect.	12
D.	1.00 Canadian dollars per US dollar; the trade conversion factor was 1.01. Canada imposed no restrictions on movements of foreign exchange into and out of the country.	20
E.	The Queen of England was the Head of State and was represented at Ottawa by a Governor General. Parliament consisted of the Queen, the Senate and the House of Commons. Executive power rested on the Cabinet selected by the Prime Minister - chosen from the political party commanding a majority in the House of Commons, whose members were elected by universal suffrage. The British North America Act of 1867 was in force.	12
F.	In addition to the 3 levels of tariffs which were: the British preferential tariff; the Most Favored Nation or GATT rates; and the General Tariff, a number of items (for which a lower rate of duty is authorized) existed if the goods were of a class or kind not made in Canada.	4
G.	9 commercial banks, 3 savings banks with federal charters, 13 trust and loan organizations and 6 stock exchanges were in operation.	10
H.	2.37% annually for the last 5 years.	10
	Total	82

Table D9

Indonesia (1971)

A.	No capital repatriation was allowed.	6
B.	Government wanted majority ownership to be Indonesian.	8
C.	Manufacturing activities were encouraged by the government for foreign business to go into.	6
D.	The following exchange rates in rupiahs per US dollar were in effect: major export rate - 374 major and other import rate - 415 trade conversion factor - 390	14
E.	Constitution of 1945 as re-enacted by Presidential decree in July 1959 was in force. Executive power rested with the President (also the Prime Minister and leader of the Cabinet), elected for a term of 5 years and renewable.	8
F.	Tariff protection existed for essential products, such as pharmaceuticals.	4
G.	5 State banks, 9 national private banks, 11 foreign banks and one stock exchange founded in 1952.	6
H.	37.04% annually for the last 5 years.	2
	Total	54

Table D10

United States (1971)

A.	No restrictions on the remittance of profits, dividends and interest which accrued on foreign investments nor on the repatriation of foreign capital existed.	12
B.	No legal provisions were in force requiring the participation of domestic capital, by fixed percentages or otherwise, in foreign companies engaged in business in the United States.	12
C.	The basic general policy of the United States was to admit and treat foreign capital on a basis of equality with domestic capital.	12
D.	United States dollars were freely convertible in the market for any currencies and no preferential rates were applicable to funds derived from certain fields of activity.	20
E.	Constitution of 1789 was in force. The President was the head of the Executive branch and was elected to a 4 year term (renewable for another term) by a college of representatives elected directly from each state.	12
F.	In 1971, tariff duty for the category under which the product under study fell within was 12-15%.	6
G.	At least one commercial bank in each state; 20 stock exchanges.	10
H.	3.16% annually for the last 5 years.	10
	Total	94

Table D11

Singapore (1971)

A.	Approval of the Exchange Control Commission had to be obtained before invested capital could be repatriated or profits remitted abroad.	8
B.	Foreign companies would establish a subsidiary or open a branch office after registration with the Registrar of Companies. Where a subsidiary was to be established, a private company usually was suitable, but this must limit its members to fifty and restrict the right to transfer its shares. Private limited companies were also prohibited from offering their shares or debentures to the public and from accepting public moneys on deposit. No Minimum share capital was prescribed for either public or private companies.	12
C.	Presence of foreign companies was encouraged.	12
D.	2.90 Singaporean dollars per US dollar; 3.06 was the trade conversion factor.	18
E.	Constitution of 1955 was in force. Executive power rested in the Cabinet presided over by the Prime Minister.	8
F.	In attracting foreign investment, authorities were prepared to consider offering investment incentives. Recent trend was towards investments in technological projects or in export-oriented ones. Inducements applied to new and existing enterprises and include a 5 year tax holiday for new “pioneer” industries producing goods not available locally or whose supply was inadequate or which were primarily destined to be sold abroad. Tariff protection may be offered to locally manufactured goods.	6
G.	7 major commercial banks, 23 foreign banks, one development bank and one stock exchange were in operation.	8
H.	0.83 annually for the last 5 years.	14
	Total	86

Table D12

Belgium (1973)

A.	No special foreign investment law to limit remittances was in effect.	12
B.	No limit on the amount of equity a foreigner may own in a Belgian company.	12
C.	A welcoming attitude prevailed, particularly toward investments that created jobs.	12
D.	41.18 Belgian franks per US dollar; 38.98 was the trade conversion factor.	18
E.	The re-written Constitution of 1971 was in force. The King was the Head of State and executive power rested upon a Cabinet which was responsible to the Chamber of Representatives.	12
F.	Degree of protection depended on agreements related to tariff policy of EEC countries.	4
G.	24 major commercial banks, 3 development banks and one stock exchange were in operation.	8
H.	19.30% annually for the last 5 years.	4
	Total	82

Table D13

Brazil (1974)

A.	No quantitative restrictions existed on the return of capital and income by foreign firms registered with the Central Bank of Brazil.	12
B.	All firms, regardless of extent of foreign participation, authorized to undertake activities in the country were considered Brazilian by nature.	12
C.	Restrictions and controls on foreigners.	6
D.	6.43 cruzeiros per US dollar.	18
E.	The Constitution, promulgated in 1967, went into effect on March 15. Executive power was exercised by the President, chosen by an electoral college from the National Congress and delegates indicated by the State Legislative Assemblies for a term of 4 years, and by the Ministers of State, chosen by the President.	12
F.	Strong protection existed for firms established in Brazil - as competing imports were prohibitive. Established Japanese electronic firm was not subject to import duty.	6
G.	Numerous development and investment banks, 8 foreign banks, 2 stock exchanges and 3 commodity exchanges.	6
H.	21.19% annually for the last 5 years.	4
	Total	76

Table D14

Qatar (1974)

A.	Repatriation of capital was allowed in preferred economic activities.	12
B.	Minority ownership was allowed.	6
C.	Due to the limited population size of the nation, its indigenous entrepreneurial class to manage its entire economic needs would have to be more than complemented by foreign business.	6
D.	In May 1973, Qatar issued its own currency, the Qatar riyal (QR), with the same parity and exchange value as the old currency, the Qatar/Dubai riyal. 3.947 riyals per US dollar.	20
E.	The Provisional Constitution of July 1970 was in force. Executive power resided in the Cabinet which also appointed 3 members of the Consultative Assembly, the remaining members being elected.	8
F.	No duties existed for any product; however, could be laid down whenever deemed necessary.	8
G.	9 banks were in operation, national as well as international.	8
H.	--	-
	Total	68

Table D15

Spain (1975)

A.	No limits on capital or profits, except for temporary restrictions on dividends were imposed.	8
B.	Foreign participations of up to 50% in a Spanish company were almost automatically approved. Majority ownership requires Cabinet approval, which was automatic in new companies with no local competition.	8
C.	Decrees 3021, 3022, 3023 (October 31, 1974) tightened rules on disclosure of foreign capital investment but liberalized rules on majority ownership in companies without local competition.	12
D.	From November 1967 to August 1971, the central exchange rate was 70 pesetas per US dollar; between December 1971 and February 1973, the rate was 64.47 pesetas per US dollar.	18
E.	The Law of Succession drawn up in 1947 and amended in 1966 defined Spain as a monarchy and specified that Francisco Franco would be succeeded by a King. Legislation was initiated by the Council of Ministers and the Head of State had power of veto.	12
F.	Customs duty on product under study was in the range of 40%.	4
G.	16 development banks, commercial banks in 14 major economic centers, and stock exchanges in Madrid, Bilbao and Barcelona.	8
H.	10.70% annually in the last 5 years.	6
	Total	76

Table D16

Germany, Federal Republic of (1975)

A.	No special foreign investment law existed to specify limits of capital and income remittances.	12
B.	No limits to extent of foreign equity were in existence.	12
C.	No currency and administrative controls were in force.	12
D.	2.645 Deutsche Marks per US dollar; from March 1961 to October 1969, the rate was 4.00; between October 1969 and May 1971, the rate was 3.66; and from December 1971 to February 1973, it was 3.22.	20
E.	The Basic Law of 1949, intended as a provisional constitution, was in force. The Chancellor, elected by an absolute majority of the Bundestag (the legislative organ elected to serve for 4 years by universal suffrage) headed the Federal Government.	12
F.	Degree of protection depended on agreements related to tariff policy of EEC countries.	4
G.	Numerous commercial and principal private banks, 8 stock exchanges, in Frankfurt-am-Main, Berlin, Bremen, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart.	10
H.	6.63 annually for the last 5 years.	10
	Total	92

Table D17

United Kingdom (1975)

A.	Approval by the Bank of England was required for each transfer but was usually granted automatically.	12
B.	Foreign acquisitions of more than 10% of a company's stock must have had prior Bank of England approval. The Government (under Monopolies and Mergers Act or through the Exchange controller) could block undesired non-resident takeover lids.	12
C.	Officially neutral. In practice, foreign investment that created jobs was welcomed despite union polemics against multinational corporations.	12
D.	From November 1967 to August 1971, the exchange rate was 1 pound per US$2.40; between December 1971 and the floating of the pound in June 1972 the official parity was 1 pound per US$2.61.	20
E.	A constitutional monarchy with no written constitution was in existence. The Executive power was vested in the Cabinet headed by the Prime Minister who was democratically elected and then appointed by the Sovereign.	12
F.	EEC duties on television sets were at 14%, and on components 12 to 20%.	6
G.	Present were incorporated banks, merchant bankers and financial institutions, incorporated international consortium banks, savings banks, discount houses and credit institutions plus 3 stock exchanges.	10
H.	12.30% annually for the last 5 years.	6
	Total	90

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Table E

Investing companies' estimation of transport cost of introduced product from Japan

	Product introduced abroad	Estimated cost of transport (as a percentage of landed cost of product)	Remarks
F. Thailand	(1964) Household detergents	High	
F. China, Republic of	(1966) Surfactants	High	
B. Canada	(1967) Bleached kraft pulp	—	
F. China, Republic of	(1969) Household detergents	High	
I. Brazil	(1969) Crossbar switching equipment	High	current costs estimated around 7% of landed cost
F. Spain	(1970) Fatty amines and derivatives	High	estimated anywhere between 15 to 20%
A. Indonesia	(1970) Pharmaceutical products	Low	
C. Canada	(1971) Refined mechanical pulp	High	about US$ 60/ton of pulp
L. Indonesia	(1971) Pharmaceutical products	—	
J. United States	(1971) Mini bearings	Low	only 2% of landed cost
J. Singapore	(1973) Mini bearings	Low	
E. Belgium	(1973) Synthetic resins	High	runs to roughly 15% of landed cost
D. Brazil	(1974) Woven, dyed and finished		
G. Qatar	(1974) Round steel bars	—	good loading and unloading facilities at cheap cost
M. Spain	(1975) Conventional zippers	Low	shipments from Japan sent in big bulks estimated at 5% plus 2% for clerical work in loading and unloading
K. Germany, Federal Republic of	(1975) Hi-fi and color television sets	High	
H. United Kingdom	(1975) Color television sets	High	4% to ocean freight for 18 inch set plus handling charges in Japan and Europe

Source: 1975, Survey of Japanese Multinational Companies, Division of Research, IESE.

Table F

Investing companies' estimation of economies of scale involved

	Kind of manufacturing activity and size of plant as found:		Remarks
	In Japan	In host country	
F. Thailand (1964)	manufacturing of household and industrial chemicals for domestic and international market -	manufacturing of household detergents at small production scales 220 employees	
F. China, Republic of (1966)	manufacturing of household and industrial chemicals for domestic and international market -	manufacturing of surfactants at a small production scale 50 employees	
B. Canada (1967)	manufacture and conversion of pulp, paper and paper products; of plastics, non-wovens, building and packaging materials, machines and machinery equipment; industrial chemicals, and medical and non-medical products	integrated pulp manufacture using bleached sulphate process plant size started with 350 tons/day due to constraints in: - wood chips available in area was 700 tons/day(insufficient for a 650 tons/day plant) - Japanese capital exports were restricted; United States economy was slightly depressed so raising capital proved difficult	can be expanded in the future to reach 800 tons/day
F. China, Republic of (1969)	manufacturing of household and industrial chemicals for domestic and international market	manufacturing of household detergents at small production scales 230 employees	
1. Brazil (1969)	manufacture of communication and electronic systems and equipment (total domestic sales of US$725M; total export sales of US$175M)	assembly of knocked-down crossbar switching (CBS) equipment	nearing acceptable scale in 1974 which can run between US$60-70M
	CBS plant in Japan is 10 times CBS plant in Brazil		
F. Spain (1970)	manufacturing of household and industrial chemicals for domestic and international market	manufacture of surfactants and its derivatives at small production scales fitting for next 5 years of local market 80 employees	
A. Indonesia (1970)	manufacture of ethical drugs, cosmetics and toiletries, veterinary products, pet drugs and dietetic foods, and, fine chemicals and soil nutrients -	manufacturing and raw material plantation for pharmaceutical products scale of activities low	
C. Canada (1971)	manufacture and conversion of pulp, paper and paper products; chemical products; and machines	manufacture of refined mechanical pulp 300 tons/day (small compared to similar plant in Japan)	started with 150 tons/day and doubled 3 years after

L. Indonesia (1971)	manufacture of pharmaceutical products; food products; chemical products; agricultural chemicals and animal health products	manufacture of pharmaceutical products with small plant size sales of 150M rupiah	
J. United States (1971)	manufacture of miniature ball bearings and spherical and rod end bearings 1000 employees	manufacture of miniature ball bearings and spherical and rod end bearings using small plant 200 employees	no expansion plans
J. Singapore (1971)	manufacture of miniature ball bearings and spherical and rod end bearings 1000 employees	manufacture of miniature ball bearings; plant smaller than that in Japan 280 persons	expected to become main production facility of the J group of companies
E. Belgium (1973)	manufacture of synthetic resins; plastic products, synthetic fiber and chemicals; oil and fat products; fermentation products; and electric wire and cable 2500 tons/month (includes other resins produced in same plant)	manufacture of synthetic resins 1500 tons/month	expansion plans entertained; product mix to be varied accordingly
D. Brazil (1974)	manufacture of textiles; cosmetics; foodstuffs; pharmaceuticals; and, housing (pre-fabrication materials, etc.) and environment (pollution prevention devices) products	spinning, weaving, and, making-up and finishing into the final woven cotton cloth; synthetic versions as well spinning: 100,000 spindles weaving: 250 looms (automatic) finishing: 1.5M meters/day	weaving to be expanded to 600 looms
G. Qatar (1974)	manufacture of industrial products arranged according to four management divisions: (a) iron and steel; (b) machinery; (c) welding electrode; and (d) aluminum and copper.	integrated processes of: (a) direct reduction with natural gas (b) electric furnace stage (c) continuous casting and (d) rolling mill for making round steel bars used in construction (a) considered world's largest (c) and (d) viewed as small initial planned capacity was 200,000 tons/year	planned expansion up to 400,000 tons/year
M. Spain (1975)	manufacturing of: 1) metal and plastic zippers 2) aluminum products: sashes, spandrels and fittings 3) rolled copper and aluminum products 4) cotton pm and narrow tapes 5) precision machinery and dies 8 main plants with average plant area of 452,000 sq.m.	manufacturing of conventional zippers 33,000 sq.m. (land) 8,000 sq.m. (buildings) (small, even compared to other European branches)	

K. Germany, Federal Republic of (1975)	manufacturing of TV sets; tape recorders and radios; audio equipment; and, video tape recorders	intended plant size considered mall l	
H. United Kingdom (1975)	manufacturing of consumer electronic equipment and components; borne appliances; communication, measuring and special equipment; industrial equipment; batteries; lighting equipment, tubes and semiconductors. 2 plants with combined capacity of 1.7 million sets/year	assembly of color television sets 30,000 sets/year; after 2-3 years, planned plant capacity of 60,000 sets/year could be achieved.	in the future; components manufacturing

Source: 1975, Survey of Japanese Multinational Companies, Division of Research, IESE Annual Reports of Respective Companies.

Table G

Investing companies' estimation of the degree of product need (on behalf of host country)

	Product Introduced abroad	Degree of product need	Basis/Remarks
F. Thailand	(1964). Household detergents	Necessity	-
F. China, Republic of	(1966) Surfactants	Necessity	-
B. Canada	(1967) Bleached kraft pulp	Necessity	British Columbia government stressed area development through pulp experts
F. China, Republic of	(1969) Household detergents	Necessity	-
I. Brazil	(1969) Crossbar switching equipment	Necessity	-
F. Spain	(1970) Fatty amines and derivatives	Necessity	
A. Indonesia	(1970) Pharmaceutical products	Necessity, Discretionary and Luxury	encouraged by government health policies to be readily available to the public
C. Canada	(1971) Refined mechanical pulp	Necessity	Canadian government interested in investments leading to more finished products
L. Indonesia	(1971) Pharmaceutical products	Necessity	encouraged by government health policies to be readily available to the public
J. United States	(1971) Mini bearings	Necessity	-
J. Singapore	(1973) Mini bearing	Necessity	-
E. Belgium	(1973) Synthetic resins	Necessity	required for blown bottle making
D. Brazil	(1974) Woven, dyed and finished cotton; synthetic cotton	Necessity	-
G. Qatar	(1974) Round steel bars	Necessity	government was interested in developing industries using natural gas
M. Spain	(1975) Conventional zippers	Necessity	-
K. Germany, Federal Republic of	(1975) Hi-fi and color television sets	Necessity	company regarded color TV as a necessity in fields like education; it is clamed that color affects children's thinking and psychology and accelerates learning process
H. United Kingdom	(1975) Color television sets	Discretionary	a consumer durable in a developed economy.

Source: 1975, Survey of Japanese Multinational Companies, Division of Research, IESE.