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JAPAN'S FOREIGN DIRECT INVESTMENT

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ABSTRACT

After the Second World War, Japan's foreign direct investment (FDI) has expanded through a number of stages. FDI began in the early 1950s, but was conducted only on a small scale until the beginning of the 1970s, when large surpluses in the balance of payments on current account, the shift to floating exchange rates, and an easing of direct investment regulations led to a rapid increase in FDI. This period can be said to be practically the beginning of Japan's FDI. Until the 1970s, a large part of Japan's FDI was in the mining sector for resource development, in the commercial sector for export marketing and in the labor intensive manufacturing sector, and was mainly directed towards developing countries. With the 1980s came deregulations of the financial sector as well as heightening of import barriers by major developed countries in North America and Western Europe, and this has led to an unprecedented increase in Japan's FDI in the finance and manufacturing sectors of these countries.

The latter half of the 1980s was another period of a sharp increase in Japan's FDI resulting from the large appreciation of the yen, and Japan has emerged as one of the top investor countries of the World. Japan's FDI in North America, Western Europe and Asian countries has increased sharply in all sectors except those related to natural resources, but the increase has been most conspicuous in the non-manufacturing sectors such as finance, insurance, real estate and marine transport, and the share of the manufacturing sector has declined. Among the distinctive features of Japan's FDI when compared to other major investor countries, the relatively low share of the manufacturing industry in FDI stands out, while shares of the finance, insurance, real estate, and transport sectors have been high. In this period, not only large corporations, but also small- and medium-sized firms have been actively participating in Japan's FDI especially in the Asian Region. Except for certain measures to promote FDI related to resource

development, government policies have neither restrained nor promoted FDI directly, but have instead aimed at creating a generally favorable business environment in which FDI could be conducted.

The high and rapidly rising level of Japan's FDI in recent years stands out when compared to those of other major developed countries. Still, because Japan's FDI has been going on only for a period of about twenty years, the scale of production of the Japanese subsidiaries located in host countries is generally still small; most of them sell their products in the domestic markets of the respective host countries, and have not reached the stage where they export large amounts of products to surrounding countries and other countries of the world including Japan. Most of these subsidiaries are not yet bringing substantial profits to their parent corporations. Some of the companies which started FDI in Asian countries in the early years, however, are now beginning to operate profitably on a global scale. It is expected that if the Japanese owned subsidiaries, especially those in developed countries, continue to develop at more or less the same pace as in the past twenty years, they will be run more and more as part of global strategies of their parent, and the latter will developed into full-fledged multinational corporations.

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1. Introduction

Japanese enterprises' foreign direct investment (FDI) entered a new era in the latter half of the 1980s. According to Ministry of Finance statistics, Japan's FDI had been rapidly increasing since 1985, with total FDI flow in 1988 amounting to 47 billion dollars, compared with an average of just 8.6 billion dollars during the period from 1980-85 (See Table 1). According to the United States Department of Commerce statistics, the position of direct investments in the United States owned by Japanese enterprises by the end of 1985 was 19.3 billion dollars, but had grown to 53.4 billion dollars by the end of 1988. Then Japan was second only to U.K., which owned 101.9 billion dollars.[1]

The history of Japan's FDI has been rather brief. Before the Second World War, Japan's FDI in countries outside of the areas Japan had colonized was insignificant. After the War, until the 1970s Japan's FDI was only slowly increasing. The rapid increase in Japan's FDI in the relatively short period since 1980 is one of the remarkable recent developments in the world economy which deserves to be examined.

2. A Brief Historical Review

The usual definition of FDI includes purchasing an existing enterprise or productive facilities, establishing and managing new ones, and participating in the management of an enterprise, all in a foreign country. It thus differs from portfolio investment in which earning a return on an investment without being involved in the management is the investor's objective. It is not easy, however, to distinguish between direct and portfolio investments, that is, which investments are made with the intention of controlling or participating in the management of an enterprise and which are not. For this reason, very often any investment in a foreign corporation in which the fixed ratio, say 10%, or more of a corporations stock is acquired, is classified as direct investment. The Japanese government statistics generally follow this criterion of classification.

There are two major sources of statistics of Japan's annual FDI flows: "Statistics of Approval/Notification of Overseas Direct Investments" published by the Ministry of Finance, and the direct investment part of the balance of payment statistics published by the Bank of Japan. On the other hand, statistics on business activities conducted by Japanese subsidiaries in foreign countries are available in the "Survey of Trends in Japanese Enterprises' Overseas Business Activities" published by the Ministry of International Trade and Industry. In any country when FDI statistics are compared with trade statistics, the former appear much poorer both quantitatively and qualitatively. Although there are various complications, United States' FDI statistics seems the best, with Japan's ranking second. For other countries, information on FDI seems less complete. Although there are many problems and difficulties with the available statistics on Japan's FDI, we have decided to proceed with information available from the existing statistics. [2]

After WWII Japan's FDI was begun in the beginning of the

1950s, but in the 1950's and 1960s its annual amount was very small --- around 200 or 300 million dollars in the 1960's ---, and the areas and types of industries invested in were limited. Regional break-down of FDI in the 1960s was approximately as follows: North America, 25%; Asia, 20%: Europe, 20%; Near and Middle East, 8%; and Other Areas, 25%. When these figures were compared with those of other major developed countries, Japan's high percentage of investment in developing countries stands out. Classified by industry, the mining (30%) and the manufacturing (25%) had the largest shares (See Tables 1 and 2).

A large part of Japan's FDI until the 1970's were connected with resource development, especially in the Asian region: oil in North Sumatra, iron ore in Malaysia, the Philippines and India, and copper ore in the Philippines, in the first half of the 1960s; and natural gas in Brunei, oil in Indonesia, and copper ore in Malaysia, in the latter half of the 1960s and first half of the 1970s. During this period, it was thought that in order to maintain the high level of growth of the Japanese economy it was necessary to secure the stable supply sources of resource imports. Hence the Japanese government offered assistance to resource- related FDI. Investments in this area were made in the form of loans, and repayment of these loans were made by the delivery of products over the long-run.

With the beginning of the 1970s the amount of Japan's FDI exceeded 2 billion dollars for the first time, causing 1972 to be called, "the gan-nen (the very first year) of direct investment". A large part of Japan's FDI was made in Asia in the 1970s. As was the case before, developing countries accounted for more than half of Japan's total FDI flows. Classified by industry, there was a shift away from resource development to the manufacturing and commerce sectors, with the manufacturing industry accounting one-third of the total FDI, surpassing the mining industry. Increases in FDI in the textile and electric machine industries in Asian countries stood out.

A large and rapid increase in FDI in 1972, "the gan-nen" of direct investment, was thought to be the result of the following factors. First Japan's balance of payments on current account turned into a large surplus, leading not only to the easing of the Japanese government regulations on outward FDI, but also policy to promote it. During the period from 1969 to 1972, restrictions on outward FDI were eased in four steps while the Japan Export-Import Bank lowered interest rates on foreign investment funds. Also, in order to lower the risks of FDI, the tax provisions for the "overseas investment loss reserves" were revised.

The second factor was the rapid increase in the domestic wage rates and the decrease in the initial cost of direct investment. In the beginning years of the 1970s, the wage rate in Japan was increasing by over 15% per year on the average. Moreover, the old IMF system collapsed in 1971, which and led to a sharp appreciation of the yen vis-a-vis the U.S. dollar as well as most Asian currencies which were more or less tied to the U.S. dollar. This caused a large increase in Japan's wage rate relative to the wage rates in Japan's neighbor countries. Many Japanese enterprises in labor intensive industries such as the textile and electric machine industries established production facilities in NIES and ASEAN countries. Also the large appreciation of the yen reduced substantially the initial cost of FDI for Japanese enterprises.

During the period after the first oil crisis and until 1980, however, the amount of Japan's FDI outflows stagnated, remaining at an annual level of 3 to 4 billion dollars. The wage rates in NIES and ASEAN countries were rapidly rising, and after the first oil crisis the Japanese economy as well as most economies throughout the world were experiencing a prolonged recession. Moreover, there was an aggravation of anti-Japanese feelings as a result of a sharp increase in Japan's FDI, in some of the host countries.[3]

3. Recent developments

(1) Industrial and regional composition

Entering the 1980s, the level of annual outward FDI flows again rose rapidly from 4.7 billion dollars in 1980, to 8.9 billion in 1981, and the increase has continued.

Compared to past periods, Japan's FDI in the second half of the 1980s has expanded to a much larger scale, with the substance of this FDI also going through a major change. The amount of Japan's annual direct investment outflows which was about 8.6 billion dollars a year on the average during the first half of the 1980s, rose rapidly to 22.3 billion in 1986, and was over 60 billion dollars in 1989. Thus the total FDI during the four year period from 1986-89 exceeded the total amount from all previous years combined, and Japan has emerged as the most active direct investor country in the world economy.

During this period, large changes occurred in the regional and industrial composition of Japan's FDI. Regionally, about one half of the total investment went to Northern America, while Western Europe's share also grew, and these two already well industrialized regions together made up two-thirds of Japan's FDI outflows. This is in contrast to earlier years when a majority of Japan's FDI went to developing countries. Classified by industry, the share of the finance and insurance grew rapidly to 30% with real estate rising to 18%, and the overall share of the tertiary industries exceeded 70%, replacing the resource-related sectors before 1970, and manufacturing in the 1970s and the first half of the 1980s, as the leading sector in which FDI is directed.

In 1988, Japan's outward FDI flows amounted to 1.2% of GNP. This level is lower than that of U.K. (3.7%), but exceeded the U.S. level (0.4%) and West Germany's (0.8%).

(2) Background of the Rapid Rise in FDI

i) the yen appreciation

From the fall of 1985 to 1988, the exchange rate of the yen against the dollar rose by about 90%, and an effective real exchange rate of the yen by about 50%. This extensive and quick strengthening of the yen brought about a sharp, widespread decline in the cost of production in host countries relative to the cost in Japan (including the initial cost of investment). Thus the strong yen is very important factor behind the sharp increase in direct investment. The yen appreciation reduced the initial cost of investment in the U.S. in terms of the yen was reduced nearly by half, and similarly the cost of investment in East and Southeast Asian countries whose currencies are by and large linked to the U.S. dollar. During the same period the yen rose by nearly 30% vis-a-vis the British pound and by 10% vis-a-vis the German mark. The prices of factors of production, such as wages, salaries and land prices, in Japan increased sharply, relatively to those in other countries. Especially in the labor-intensive manufacturing industry, many Japanese enterprises tried to establish production bases outside Japan.

ii) trade barriers

From the mid-1970s, in many countries in North America and Western Europe trade barriers against Japanese exports such as import restrictions, introduction of an anti-dumping duties, and requests of voluntary export restraints were newly established, raised or expected to be introduced. In order to get around existing or expected trade barriers, Japanese enterprises established production plants in North America and Western Europe, as well as in Asian NIES and Southeast Asian countries, the exports from which are not subject to trade barriers aimed at Japanese exports. For example, production of color televisions, VTRs, passenger cars, machine tools, and copying machines by Japanese enterprises in the United States and Western Europe was obviously promoted by the trade barriers raised by the host countries.

Another important factor for Japanese enterprises' FDI in Western Europe is the plan for the further integration of the EC in 1992. While the EC 1992 is expected to revitalize the European economy, it may well give rise to a trade diversion effect for those outside the region. Thus Japanese enterprises are actively investing in the area or planning to do so.

iii) direct investment in the finance and insurance sectors

With financial deregulations in major developed countries and the extensive relaxation of Japan's foreign exchange controls in December 1980, a remarkable rise in direct investment in the finance and insurance industry sectors was seen in the first half of the 1980s. The upsurge of FDI in this sector continued in the latter half of the 1980's.

Along with the expansion of Japanese subsidiaries in the manufacturing, commercial and other sectors in developed countries, the need for these enterprises to raise and manage funds and utilize financial services increased. Also along with the easing of regulations, there were increasing opportunities for Japanese financial corporations and their subsidiaries in the major financial centers of the world areas to undertake international financial business of providing loans to third countries including developing countries, or even more into local retail banking in the host countries. Many Japanese finance and non-finance enterprises established financial subsidiaries in countries like Cayman and the Bahamas. There were also cases of mergers and acquisitions (M & A) of existing financial enterprises. Included in the motives of this type of direct investment is the management know-hows to be obtained through such investments in the finance, securities, and insurance sectors of the U.S. and Western Europe.

iv) direct investment in the real estate industry[4]

Distinguishing between direct and indirect investment is not an easy matter as already mentioned, it is particularly so in the case of investments in the real estate industry. It appears that a large part of the rapidly increasing Japan's direct investments in the real estate industries of foreign countries in the latter half of the 1980s was more of a type to obtain returns (rents and capital gains) on capital invested, similarly to indirect investment, rather than to earn profits by an attempt to controlling or participating in the management of enterprises in foreign countries. The rapid rise in FDI in the real estate industry in the latter half of the 1980s is related to the sharp increase in land prices within Japan, especially in Tokyo and other big cities and resort areas throughout Japan during the period from 1986 to 1988. This reduced the rate of returns on real estate in Japan on the one hand, and enabled Japanese real estate companies and institutional investors to borrow a large amount of funds by offering as a security the land they own, on the other. Furthermore, these Japanese enterprises began to expect a similar rise in land prices in large cities (New York, Los Angeles, London, etc.) and resort areas (Hawaii, Australia, etc.) abroad in the near future. Japanese real estate enterprises and institutional investors invested heavily in these areas with funds raised within as well as outside Japan.

v) improved managerial ability of Japanese enterprises

In addition to the factors pointed out in i) - iv), one of the factors in the background of the rapid increase in Japan's FDI in the 1980's is a general rise in Japanese enterprises' managerial and technological ability. While the rapid rise of Japan's FDI is a result of many external factors, if Japanese enterprises had not accumulated the necessary managerial ability to operate in foreign countries, they would not have been able to conduct direct investment. Accumulation of such managerial and technological ability must have been essential for Japanese enterprises especially those in the manufacturing industries to invest in North America and Western Europe.

(3)Policies Related to Direct Investment

In Japan today, there are few government policies that aim directly at promoting or restraining outward FDI, although a few general policies have been used to provide favorable environment in which FDI could be conducted. Even before the revision of the exchange laws in December 1980, Japanese enterprises in manufacturing, commerce, and service sectors were generally free to undertake outward FDI, and after the revision, those in the finance and insurance sector became free also.

However, a few policies implemented in order to promote the FDI, which were begun in the 1960s and the early 1970s (the low-interest loans provided by the Japan Export-Import Bank and others to support oil- and resource-related projects, special tax provisions for FDI in developing countries and FDI by small- and medium-sized enterprises) have been partly continued through to today. But obviously these policies have little to do with the recent rapid increase of Japan's FDI in North America and Western Europe.

From the standpoint of regional economic development, however, local and central governments in North America and Western Europe took initiatives to invite the investments into less developed regions within their countries by Japanese corporations which were supposed to be superior in production technologies and management.

4. Some Distinctive Features of Japan's FDI

(1) Composition as Classified by Industry

One of the distinctive features of Japan's FDI compared to that of other developed countries is the relatively low share of investments in the manufacturing industry. Japan's FDI in recent years in the manufacturing industry has been under 30% of the total, whereas more than one-third of the total FDI is in the manufacturing industry in the case of U.S. and U.K., and one-half of the total in the case of the Netherland. Earlier investments for resource development and export marketing were dominant in Japan's FDI, and recently, the finance, insurance and real estate sectors are conspicuous in Japan's FDI.

Another feature of Japan's FDI is fairly large investments in the shipping industry. For the reason of the flag-of-convenience, Japanese enterprises have established subsidiaries in Panama, Liberia and Hongkong. Of the total amount of Japan's FDI through 1988, as the country of destination Panama ranked the second next only to the United States.

(2)Participation by small- and medium-sized enterprises

A large number of small- and medium-sized enterprises[5] participate in Japan's FDI. Of the 8567 cases of the acquisition of stocks of foreign corporations by Japanese enterprises between 1980-87, 3507 cases were by small- and medium-sized enterprises, meaning that small- and medium-sized enterprises participated in 40% of Japan's FDI, in terms of the number of cases. This ratio is even higher after 1986 (See table 4). Small- and medium-sized enterprises were particularly active in FDI in the manufacturing industry toward Asian countries.

While in other major industrialized countries, a large part of FDI is conducted by large corporations, this is not the case in Japan. A distinctive feature of the Japanese economy in general is the important roles carried out by small- and medium-sized enterprises in economic activities such as production, employment, and export, and FDI is no exception.

(3) Characteristics of Overseas Subsidiaries

Forms of Investment A large part of Japanese enterprises' FDI has been done by establishing new enterprises. According to the 1987 "Basic Survey of Foreign Enterprise Activities" conducted by MITI, the number of cases where direct investment involved establishment of new enterprises towards the manufacturing industry and the commerce industry made up 80% of the total. Mergers and acquisitions (M & A) account for only 15.4% in the manufacturing industry and 9.1% in commerce. In North America and Western Europe, Japanese investors usually establish 100% owned subsidiaries, while in Asian countries because of government requirement of local equity there are many cases of joint ventures.

Since around 1988, there was a surge of M & A in the U.S. and U.K., and a growing number of Japanese enterprises has been participating in M & A activities.

Size of Overseas Production As of March 1989, value of local production of overseas subsidiaries of Japanese manufacturing corporations amounted to 4.9% of the total sales in Japan. This ratio is projected to go up to 5.8% by the end of March 1990.

These ratios are much lower than the comparable figures for U.S. (18-20%) or West Germany (17-19% overall, 10-14% outside EC). For Japanese manufacturing enterprises which have overseas subsidiaries engaged in local production, the ratio is higher: 12.7% for all manufacturing 19.9%, for electric machines, 13.8% for transport machines, and 14.6% for textiles.[6] Usually it takes much time for an overseas subsidiary to expand its scale of production. Japanese enterprises in the manufacturing industry are generally in the early stages of their overseas operation, and only a part of their overseas subsidiaries are engaged in local production as distinguished from marketing and simple assembling.

Yet in the latter half of the 1980s, the production activities of Japanese manufacturing, enterprises in host countries reached a considerable scale, and was continuing to grew fairly rapidly. In 1989 it was 130 billion U.S. dollars, about a quarter of the corresponding U.S. figure of 520 billion in 1987.[7]

Direct Impact on Trade A survey of the local content ratio (one minus the ratio of the value of imports of materials, parts and assemblies to the total value of factory shipments by overseas subsidiaries) from a sample of 754 Japanese subsidiaries in the manufacturing industry (general machines, electric machines, transport machines and precision machines), indicates that about a half of them had a local content ratio higher than 60%, and about a quarter of them higher than 80%, but about 30% of them had a local content ratio of below 40%.[8] Since 1988 EC enforced a regulation that manufactured gods in EC are not considered as coming from within EC, unless they have a local content ratio higher than a certain specified level. In U.S. too there is pressure in Congress, the government and industries that the local content ratio of goods produced by foreign owned subsidiaries should be raised. Under such pressure, many Japanese enterprises have been trying to raise their local content ratios.

The destination of sales of manufactured goods produced by overseas subsidiaries of Japanese manufacturing enterprises has been different depending on the host country. Subsidiaries in U.S. sell more than 90% of what they produce within U.S., and those in Europe about 70% within the respective host countries, whereas those in Asia the ratio is under 60%, with the rest being exported Japan or third countries.[9]

Rate of returns Generally, Japanese overseas subsidiaries have rather low profit rates (after tax operating profit rate on sales) and many are incurring losses. This is in contrast to U.S. subsidiaries abroad which generally have high profit rates, and are an important source of profits for their parent companies. Japanese overseas subsidiaries have not yet become an important source of profits for their parents (See Table 5).

The main reason for the low rate of profits of Japanese foreign subsidiaries would be the fact that they have only recently begun FDI and have not yet fully expanded their operation. In a survey done by MITI, one can see a tendency where the profit rate of an overseas subsidiary goes up as the length of the time that has passed since it was established.[10] The fact that the relationship between parent and subsidiaries profit rates differs between the United States and Japan is perhaps due to the difference in the stage of FDI and the management attitude between the two countries. As Japanese enterprises have begun FDI only recently, the scale of operation abroad is still relatively small, and the subsidiaries are not expected to repatriate high profits to the parent companies. They are still trying to develop the market and expand the scale of operation. Japanese overseas subsidiaries' repatriate only a small part of profits, with three-fourths of the total profits being reinvested in the host country (See Table 6). On the other hand, for example, U.S. subsidiaries in Japan repatriate over 60% of their profits.[11]

<u>Towards a Multinational Enterprise</u> There is yet no Japanese enterprise to be called truly "multinational" such as BASF, Exxon, GE, Hoechist, GM, IBM, or IT&T, Shell, Yunileber, in that they are engaged in production, marketing, export, research and development in many countries of the world. Recently Japanese companies like Honda, Sony, Matsushita, and

Nissan have been developing to become what can be called multinational enterprises, but even the activities of their overseas subsidiaries are still centered around production and marketing within each host country, and their export is mainly to neighboring countries.

5. "Friction" with Japanese Investment

In countries where Japan's FDI has risen rapidly Japanese enterprises' presence often stands out, and there has been rise of criticisms of and complaints against Japanese investment among the people of the host countries. This is the situation called "investment friction" in Japan.

In the beginning of the 1970s, there was a rapid increase in Japanese investment in countries of Southeast Asia, which brought some criticism of Japanese enterprises' activities from the people of these countries, especially Thailand and Indonesia. This friction subsided in a few years, however, and even with the recent rise in Japan's FDI in these countries there has been no conspicuous "investment friction" in Asian countries.

Instead, recently "investment friction" has been taking place in U.S. and Western Europe. Of the recent rapid increase in Japan's FDI in these countries, not all was for the establishment of new factories or new enterprises (what is called "green field" investment), but some were M & A investments. Some of M & A investments by Japanese enterprises involving well known enterprises or famous pieces of real estate such as Columbia Pictures or Rockefeller Center have produced strong adverse public opinion.

This sort of "investment friction" seems to be caused not by economic reasons, but by psychological resistance to foreigners buying pieces of property or enterprises which symbolize the culture or economic prosperity of the country, or resistance to the rapidly increasing presence of Japanese enterprises.

[Notes]

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1) See U.S. Department of Commerce, "Foreign Direct investment in the United States: Detail for Position and Balance of Payments Flows, 1988", Survey of Current Business (August 1989).

2) The various problems related to the definition and statistics of direct investment are not dealt with in this paper. With respect to these, see Kojima, Kiyoshi, Japan's Foreign Direct Investment (in Japanese), (Tokyo: Bunshindo, 1985), pp. 6-14; Komiya, Ryutaro, The Contemporary Japanese Economy (in Japanese), (Tokyo: the University of Tokyo Press, 1988), pp. 221-295; Wakasugi, Ryuhei, International Trade, Foreign Direct Investment, and Japanese Industrial Organization (in Japanese) (Tokyo: Toyo-Keizai Shimposha, 1989), pp. 119-127.

3) For the history of Japan's FDI, see among others, Hamada, Koichi, "Japanese Investment Abroad", in Direct Foreign Investment in Asia and the Pacific, ed. Drysdale, Peter, (Canberra: Australian National University Press, 1972); Kojima, Kiyoshi, Foreign Direct Investment (in Japanese) (Tokyo: Daiyamondo-sha, 1979); Kojima, Kiyoshi, Japan's

Foreign Direct Investment, (see above); Sekiguchi, Sueo, New Developments in Foreign Investment (in Japanese) (Tokyo: Nihon Keizai Shinbun-sha, 1979); Sekiguchi, Sueo and Mitsuji Matsuba, Japan's Direct Investment (in Japanese) (Tokyo: Nihon Keizai Shinbun-sha, 1974); Komiya, Ryutaro, The Contemporary Japanese Economy, (see above); Wakasugi, Ryuhei, International Trade, Foreign Direct Investment, and Japanese Industrial Organization, (see above).

4) As a result of the revision of the foreign exchange control laws in 1980, real estate acquisition was excluded from FDI. Hence the Ministry of Finance statistics do not include the amount of real estate acquired by residents in Japan (individuals and corporations) after 1980. Nor the statistics of FDI include the amount of real estate Japanese overseas subsidiaries have purchased with funds raised in the host countries or elsewhere outside of Japan. The amount of real estate purchased by Japanese enterprises and their overseas subsidiaries therefore far exceeds the amount of FDI in the real estate industry, which represents the amount of funds transferred from the parent in Japan to their overseas subsidiaries engaged in real estate business.

5) Small-and medium-sized enterprises are defined as follows: in the manufacturing industry enterprises which have less than 300 employees, or those having a paid-in

capital of under 100 million yen; in the wholesale sector those having less than 100 employees, or a capital of under 30 million yen; in the retail and service sectors those having less than 50 employees, or a capital of under 10 million yen.

6) See MITI, 19th Survey of Trends in Japanese Enterprises' Overseas Business Activities (in Japanese) (Tokyo: Ministry of Finance Printing Bureau, 1990). The value of production by overseas subsidiaries is converted to the yen value with the exchange rate prevailing at the time of the survey.

7) The value of the sales of overseas subsidiaries of U.S. enterprises is taken from U.S. Department of Commerce, Survey of Current Business.

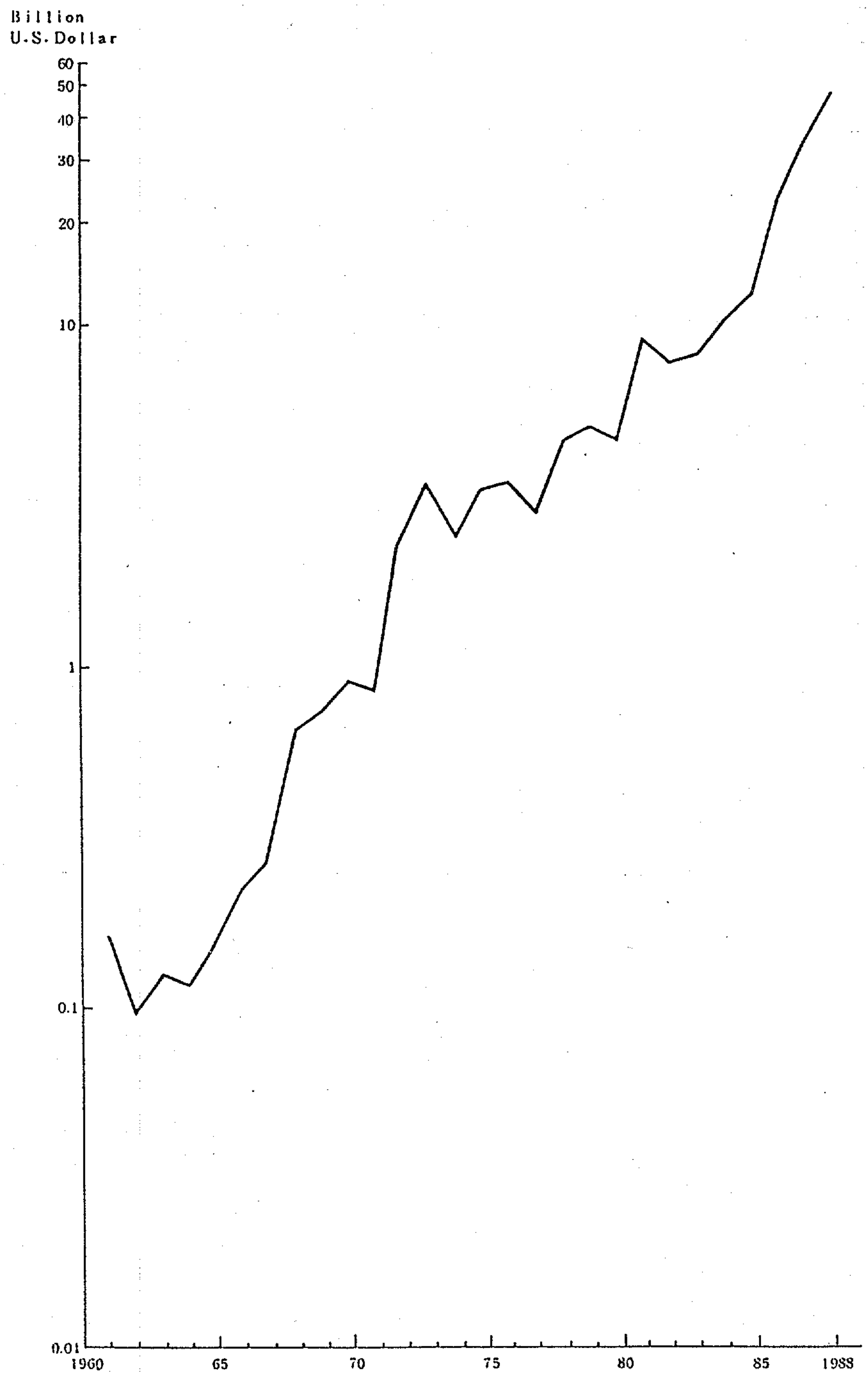
8) See MITI, 19th Survey etc. (see above).

9) Ibid.

10) Ibid.

11) See MITI, 23rd Survey of the Trends of Foreign Owned Enterprises in Japan (in Japanese) (Tokyo: Ministry of Finance Printing Bureau, 1990).

Figure 1. Japan's Foreign Direct Investment : 1960 - 1988



Source : Ministry of Finance, <u>Statistics of Approvals/Notifications of Overseas Direct Investment</u>, each year.

Table 1. Japan's Foreign Direct Investment by Region : 1951-1988

(Unit : %)

	North America	(U.S.)	Asia	(Asian NIES)	(ASEAN)	Europe	Middle East	Oceania	Other Areas
1951-60	31.1	(30.7)	17.3	(4.6)	(9.2)	1.1	19.8	0.7	30.0
1961-70	25.0	(18.6)	21.3	(5.0)	(13.1)	19.3	8.4	7.6	17.4
1971-75	24.3	(22.0)	28.1	(10.2)	(17.6)	15.2	5.2	5.3	21.9
1976-80	28.6	(26.6)	27.3	(10.2)	(16.8)	9.5	6.2	7.8	20.6
1981-85	36.4	(34.8)	20.4	(8.7)	(10.8)	13.9	1.5	3.6	24.2
(1951-85)	32.2	(30.2)	23.3	(9.1)	(13.4)	13.2	3.6	5.1	22.7
1986-88	46.9	(45.3)	12.4	(7.2)	(3.5)	18.7	0.4	4.9	16.7

Source : Same as Figure 1.

Table 2. Japan's Foreign Direct Investment by Industry : 1951-1988

(Unit : %)

Sector[1)]	Manufacturing	Agriculture, Forestry and Fishery	Mining	Commerce	Finance and Insurance	Transport	Real Estate	Others
1951-60	44.9	2.5	30.4	11.3	3.9	0	0	7.1
1961-70	24.7	2.7	31.8	10.7	9.4	0	0	20.9
1971-75	33.3	2.0	25.1	14.8	8.0	0	0.1	16.7
1976-80	36.7	2.7	15.4	15.6	5.5	0	1.7	22.4
1981-85	25.1	0.7	9.9	15.4	17.9	12.5	5.4	13.1
(1951-85)	29.2	1.5	14.5	15.2	13.0	7.1	3.5	16.2
1986-88	24.8	0.5	2.1	7.1	30.2	6.3	17.6	11.4

1) Classification is according to the area of business in the host countries.

Source : Same as Figure 1.

Table 3. The Share of Small- and Medium-Size Firms in Japan's Foreign Direct Investment : 1976-1987

	1976 - 80	1981 - 85	1986 - 87
Total number of cases[1)]	4379	4232	3545
Of which : cases where small- and mediam-size firms participated in.	1661	1519	1662
(%)	37.9	35.9	46.9
The share of manufacturing industries in all cases where small- and medium-sized firms participated in. (%)	30.3	35.2	45.0
The share of Asian Countries in overseas investments of small- and medium-sized firms into manufacturing industries. (%)	65.7	53.9	69.8

1) The number of cases of new acquisition of foreign companies' stocks and bonds.

Source : Agency for Small- and Medium-Size Firms, White Papers on Small- and Medium Firms, various years.

Table 4. The rate of Profits on Sales[1] of Japanese- and U.S.-Owned Overseas Subsidiaries.

	Average for 1983 - 1988
Japanese-owned overseas subsidiaries	0.4
Average for all Japanese corporations	0.9
U.S.-owned overseas subsidiaries	5.0
Average for all U.S. corporations	2.7

1) Profits after tax divided by sales.

Source : For Japan, MITI, 19th Survey of Trends in Japanese Enterprises' Overseas Business Activities (in Japanese), Ministry of Finance Printing Bureau, 1990.

For U.S., Department of Commerce, Survey of Current Business, various years

Table 5. A Comparison of the Proportion of After-Tax Profits Paid out as Dividends [1)]
between Foreign-Owned Corporations and All Japanese Corporations (Unit : %)

	Average for 1985 - 1988
Foreign-Owned Corporations in Manufacturing	67.1
All Japanese Corporations in Manufacturing	29.9

1) Dividends divided by profits after tax.

Source : MITI, 23rd Survey of the Trends of Foreign Owned Enterprises in Japan (in Japanese), Ministry of Finance Printing Bureau, 1990.