ANALYSIS OF FOREIGN DIRECT INVESTMENTS ENGAGED BY JAPANESE MULTINATIONAL COMPANIES

CODRUȚA DURA, OANA DOBRE-BARON *

ABSTRACT: *In recent years, the most visible feature of globalization was the new trend of the capital flow which moves from the stage of internalization to the stage of trans-nationalization. The decisive factor that led to this development was the trans-nationalization of production/distribution networks by multinational companies (MNCs). MNCs, which are also frequently referred to as transnational corporations (TNCs), are conglomerate organizations which carry out multiple and diverse economic activities and they consists of a parent company and a large number of subsidiaries operating in various countries of the world.*

Japan has been worthy of note on the international business scene not only by the high competitiveness of its companies on the global markets, but especially through the trans-nationalization of the activities of these enterprises, a process which has resulted in the implementation, via Foreign Direct Investments (FDI) of Japanese production units abroad, with significant positive impact both on the global economy and on the domestic economy.

A great number of empirical studies since the mid-1990s, using firm-level data, have shown that multinational companies (MNCs) dominate today the Japanese business environment. The paper puts together the findings of some interesting working papers published by Japanese researchers in recent years, trying to provide a scientific answer to the following question: "In what way do FDI undertaken by MNCs influence the level of performances achieved by Japanese companies at home?" The conclusion is that FDI and the activity carried out by Japanese MNCs abroad have indubitable positive effects on both countries and firms involved - such as raises in production, employment and productivity at firms' level or increases in competition intensity among firms, improvements in real wage and welfare at macroeconomic level.

KEY WORDS: *multinational companies (MNCs); foreign direct investments (FDI); inward and outward direct investments; multinational production or oversea production; exports; productivity.*

JEL CLASSIFICATION: *F21; F23*

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1. INTRODUCTION

Outstanding economic performances achieved by Japan in the postwar period drew the attention of specialists on the characteristics of the management practiced in this country, but also in other countries of the Pacific Ocean Area which undergo a remarkable economic growth. Although Japan is currently considered to be the symbol of high economic efficiency, the 'locomotive' of the Asian economic system, the expansion of young economies of South Korea, Taiwan, Singapore, Hong Kong is far from passing unnoticed. The four 'dragons' are joined by another group of countries which meet the conditions of a spectacular economic growth: Malaysia, Thailand, China, Vietnam and the Philippines, even though the heterogeneity of national-cultural characteristics of these countries is very well-known.

The investigation of “the miracle of the Japanese economy” is oriented on the growth factors that have turned Japan from the ashes of the last war into the dominant economic power in the world. Of all the countries on the planet, Japan was the most close to annihilation, being the only nation that has ever suffered a nuclear attack. However, the success of the country is not due to circumstances, but especially to the strategies offered in response to these circumstances, strategies that are based on deeply rooted values and practices. If 50 years ago Japan was a country in ruins, and its economy represented 2% of the world economy, with a production inferior to that of Italy in l980, nowadays Japan turns out 10% of the world production and it suprass countries such as Germany or the United Kingdom.

Statistics published in late 2010 show that Japan is the third largest economic power in the world (after the United States and China), even if it holds only 0.3% of the land area of the Globe and 3% of the world population. Japan's gross domestic product was, in the year 2010, over 5000 billion dollars, growing about 4% as compared to 2009. Between 1970 and 2010, the value added generated in the economy raised by over 27 times if we take into account the evolution of current prices, and by 180% if we consider the rhythm of growth of the GDP in constant prices at the level of 2005. Moreover, the gross domestic product per capita has increased each year, by 21 times between 1970 and 2010 (from $ 2,000 to $ 42,000).

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2. MULTINATIONAL COMPANIES FROM JAPAN

The new economic order which is set at international level is based on the intensification of the activities of multinational companies on global markets.

Multinational corporations (MNCs), also frequently referred to as transnational corporations (TNCs), designate conglomerate organizations which carry out multiple and diverse economic activities and they consists of a parent company and a large number of subsidiaries operating in various countries of the world (Dura, 2007).

Statistical data released by UNCTAD is testimony to the crucial role multinational companies play in the world economy nowadays: in the early 1990s there were 37.000 multinational companies in the world that controlled about 170,000 foreign subsidiaries; the most recent figures show that today there are no more than 82,000 global corporations with 810.000 subsidiaries abroad which include 68 million employees (it represents twice the workforce employed in a country the size of Germany) (UNCTAD, 2009; UNCTAD, 2011). Among the top 100 economic powers of the world, almost 50 are no longer national economies, but MNCs. The top 100 multinational companies hold about 1/6 of the economic activity of the world, and the first 500 run over 2/3 of the world trade. (Săvoiu, et al., 2010).

The emergence of Japanese MNCs in the world economy scene cannot be precisely dated; however, statistics and recent economic developments lead to the conclusion that nowadays they are an unquestionable presence with an important role in the context of globalization of business processes.

Japan has become a global colossus in the **sector of automobile manufacturing**. Japanese cars are renowned for reliability, high quality of components, low purchasing price and low consumption of fuel. The most well-known MNCs who manufacture automobiles or who offer automotive parts and servicing are Toyota, Honda, Nissan, Mazda, Suzuki, Denso, Bridgestone and Aisin Seiki. The most significant Japanese carmaker is Toyota Motor Company. According to the top *Fortune. Global 500*, conducted by the prestigious business magazine *Fortune*, for 2010, Toyota Motor Company, holds the 5th place in top biggest corporations of the world, with 320,590 employees and revenues of $ millions 204,106 (eHow Money, 2011).

Japan is an impressive global player in the field of **consumer electronics.** The leading Japanese MNCs from this sector are Panasonic, Sony, Toshiba, Hitachi, Sanyo, Matsushita, Sharp, Mitsubishi and Sumitomo. Japan has also proven an immense capacity for innovation **in the field of computing and associated technologies**. Companies such as Canon, Sony, NEC, Ricoh and Fujitsu are leading brands throughout the world and make the Fortune 500 list of leading multinationals (eHow Money, 2011).

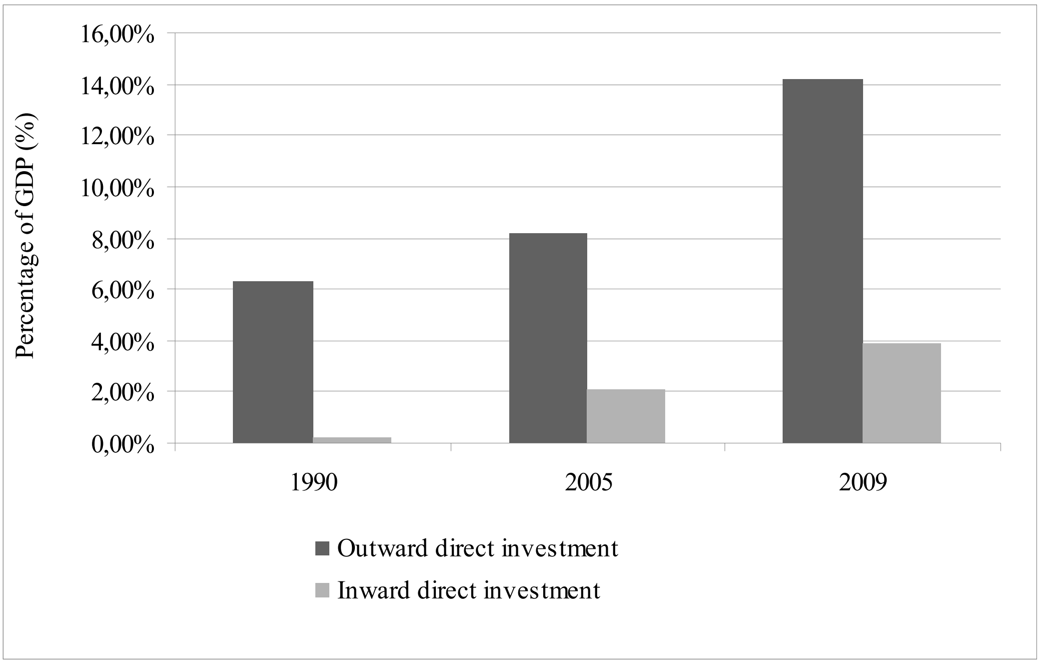
Following the demolition caused by World War Two, Japan underwent a large-scale reconstruction period during which many Japanese **engineering and construction** firms got international fame. The lack of natural resources in Japan and a relatively limited domestic market has determined Japanese companies in this field to enhance innovations and to expand worldwide. Takenaka, Shimizu, Kajima, Obeyashi, Komatsu, Taisei, Nippon Steel and Kobe Steel are among the leading Japanese MNCs in this area, which managed to implement succesfully their internationalization strategies (eHow Money, 2011).

As we have seen, Japanese MNCs emerged in the early 20th century, in particular in the manufacturing field; subsequently they expanded their "tentacles" in almost all spheres of contemporary economy - trade, services, the finance and banking sector, agriculture etc.

3. FOREIGN DIRECT INVESTMENTS BY JAPANESE MNCs

In recent years, emerging economies, including East European countries, are growing at a very fast pace, and Japanese MNCs seek for new markets among them. Between 2001 and 2008, the growing rate of foreign direct investments (FDI) exceeded the export growth. This evolution was in line with sales by Japanese foreign subsidiaries which substantially overtook the volume of Japanese exports. These trends are obvious among competitive sectors, such as electronics and transportation, and among less competitive sectors, such as clothing, food and agriculture (Koji, 2011).

In detail, an analysis of macroeconomic indicators of Japan in recent years shows a tendency to reduce exports, which is compensated by the preference of MNCs over the development of overseas activities by engaging in outward FDI. We can take notice of the transition from export to investments by analyzing figures 1 and 2.

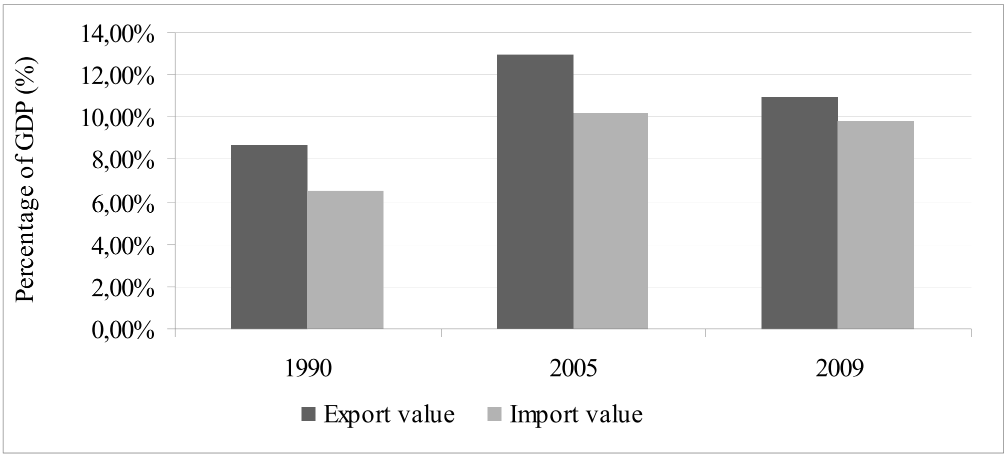


Source: Ministry of Economy, Trade and Industry - White Paper on International Economy and Trade - Summary, 2011

Figure 1. Changes in inward/outward direct investment

When comparing 1990 and 2009, inward/outward direct investment and imports/exports have expanded as a percentage of GDP, indicating that the Japanese economy has reinforced its connections with overseas economies both in terms of investment and trade (Ministry of Economy, Trade and Industry, 2011d).

According to the "*White Paper of International Economy and Trade*" by Ministry of Economy, Trade and Industry (METI), Japanese firms expanded their overseas production ratio (on the basis of all domestic companies in the manufacturing industry) from 3.1% in 1986 to 16.3% in 2005 and 17% in 2009.



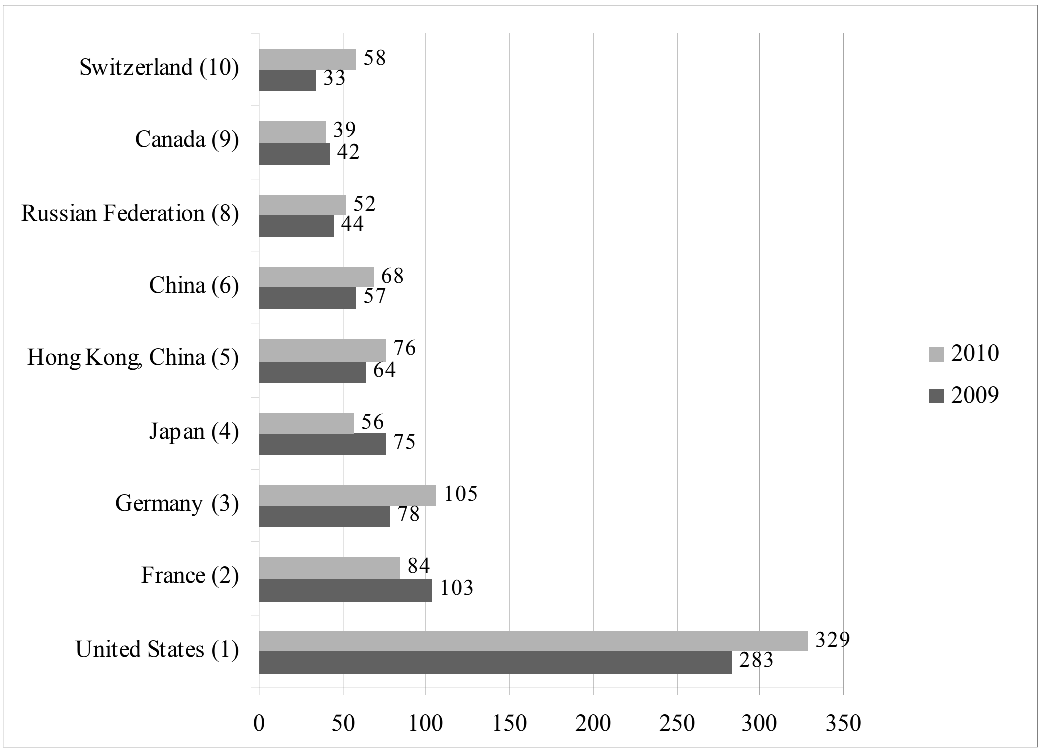
(Source: Ministry of Economy, Trade and Industry - White Paper on International Economy and Trade - Summary, 2011

Figure 2. Changes in imports/exports

Japan's transition from a simple exporter of products to direct investor in the economies of other countries was due to the appreciation of yuen (which reduced the efficiency of exports and the acquisition of foreign assets became more attractive) and to the increase of wages of Japanese employees which led to reorientation of Japanese investors to countries with low-wage labour force (particularly ASEAN). High dependence on raw materials have prompted some analysts to draw the attention on the danger of de-locating investment, which would have transformed Japan into a very vulnerable country, together with the transfer of value added abroad. However, the restrictions of supplies and the pressures which acted towards increasing production costs made Japanese companies expand operations abroad.

Forecasts on the future development of MNCs in Japan are, of course, closely related to the trends presented at global and regional levels in terms of foreign direct investment flows. In 2010, Japan ranks 4th worldwide among the first 10 States generating FDI outflows, with a volume of investments, going down from \$ 75 billions billions in 2009 to \$ 56 billions in 2010 - figure 3.

Japanese MNCs have been increasing their foreign acquisitions, taking advantage of the price cuts of target firms caused by the global crisis and the economic slowdown. Between 2008 and 2009, the Japanese corporate sector was still in a relatively stable and robust position in terms of cash and a healthy debt-to-equity ratio. The value of cross-border M&As by Japanese companies in 2008 reached the record value of \$54 billion. These large cross-border investments have brought Japan into the group of countries with the largest outflows of FDI. Despite the devastating earthquake which caused a negative economic growth ratio in 2011, many Japanese MNCs achieve profits and even in the aftermath of the cataclysm, they continue to invest abroad very large amounts of money (UNCTAD, 2009).



Source: UNCTAD, World Investment Report, 2010

Figure 3. Global FDI outflows, Top 10 Economies, 2009 and 2010 (Billions of Dollars)

An interesting avenue of research supplied by many recent articles from the specialized literature addresses the issue of FDI growing trend and its significant impact upon domestic performances achieved by Japanese firms. Given the substantial body of empirical work analyzing this subject, the next paragraph will take a closer look at the effects brought about by the strategy of Japanese MNCs' expansion overseas.

4. THE EFFECTS OF MULTINATIONAL PRODUCTION ON DOMESTIC PERFORMANCE

The issue of investigating the casual effects of multinational production abroad in the home country has received a great deal of concern in the literature on international business, but so far it has received limited attention in the context of multinationals (Hijzen, et al., 2007). However, the empirical studies on international trade, carried out at the firm level, have substantiated that firms undertaking FDI or engaging in exports are generally larger and more productive than firms aiming to serve only the domestic market (Bernard, et al., 2003; Bernard, et al., 2007; Tomiura, 2007; Eaton, et al., 2008: Matsuura, et al., 2008; Inui, 2009; Koji, 2011 among many others). These results have confirmed the theoretical predictions based on heterogenous-firm trade models, especially those of Melitz (2003) and Helpman, Melitz and Yeaple (2004) according to which only productive companies can penetrate foreign markets, because this type of companies can bear high costs associated with export and FDI.

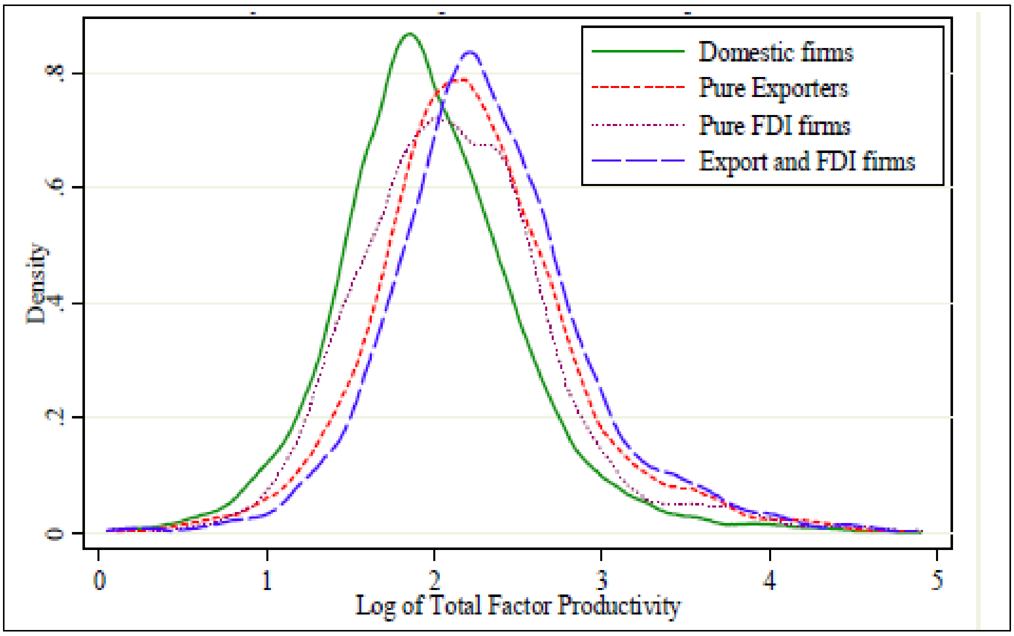
Empirical studies conducted in Japan regarding the impact of productivity upon the internalization of companies, led to the delimitation of four different categories of Japanese companies in relation to the distribution of the logarithm of total factor productivity (TFP): those serving only the domestic market (”domestic firms”), those engaging in exports, but not in FDI (”pure exporters”), those undertaking FDI but not exports (”pure FDI firms”), and those engaging in both (”export and FDI firms”).

On average, firms that serve only the domestic market are less productive than exporters and FDI firms (see figure 4), but it has been demonstrated that the distribution of the four categories of firms ovelaps which each other to a great extent (Todo, 2009). In other words, there is a series of highly productive Japanese companies which doesn’t operate on foreign markets, but, at the same time there are unproductive companies which are engaged in exports and FDI abroad.

Similar conclusions have resulted after studies undertaken by Bernard, Eaton and Kortum, (2003), Mayer and Ottaviano respectively, regarding domestic firms and multinationals from USA and Belgium. According to Todo Yasuyuki, this evidence suggests that productivity plays a statistically significant but quantitatively limited role in determining firm’s internationalization (Todo, 2009).

In the paper “*Quantitative Evaluation of Determinants of Export and FDI: Firm - level evidence from Japan*”, the above mentioned author identifies a series of other factors which, besides productivity have a decisive impact upon the decision of conducting FDI or exports: the size of the firm, the information spillovers from experienced neighboring firms in the same industry, the status of the firm on internalization in the previous year and unobserved firm characteristics. According to Todo, from quantitative point of view, the relevant determinants of export and FDI decision are the last two factors mentioned above. The paper also puts forward the conclusion that entry costs to foreign markets play a decisive role in export and FDI decision and that those costs substantially vary in size across firms (Todo, 2009).

If studies carried out by researchers from Japan and not only, showed that productivity is one of the factors that make a company become a multinational corporation by undertaking FDI or by carrying out intense export activities on foreign markets, we can ask the question, as a matter of course, if the mutual relationship between the multinational production and productivity can be demonstrated. Therefore, the impact of FDI and multinational production upon national economies have received great concerns from of Japanese specialists (Hijzen, et al., 2007; Matsuura, et al., 2008; Inui, 2009).



Source: Wakasugi, R.; Sato, H.; Matsuura, T.,; Tanaka, A.; Todo, Y.; Nishikoda, S., Ito, B., 2008, The Internationalization of Japanese Firms: New Findings Based on Firm - Level Data, RIETI Discussion Paper Series 08-E-036

Figure 4. Productivity distribution of Japanese FDI firms and exporters (TFP), 2005

Although there are no conclusive results showing that exports and foreign direct investment increase productivity, each of these studies were completed with the conclusion that overall oversea operation has a significant impact on productivity increasing trend of domestic companies. Thus, Matsuura, Motohashi and Hayakawa have analyzed the effects of FDI undertaken by the Japanese electric machine industry on the domestic productivity of the large companies which made those investments (Matsuura, et al., 2008). Being extremely interesting, the research undertaken by the three authors was based on the distinction which must be made between horizontal FDI and vertical FDI. According to the authors, HFDI represents the strategy that relocates the business activities form home country to the country of target market, in order to avoid trade barriers, such as transportation costs. On the other hand, VFDI designates the strategy that moves the industrial facilities to overseas in order to follow up competitive advantages such as low price production factors in the host country. The study was based on data released by the Japanese Ministry of Economy, Trade and Industry and by the Japanese Government and the authors have reached the conclusion that HFDI do not have significant influences on productivity of domestic companies, but VFDI had a significant positive effect on domestic productivity level, as well as on its growth rate.

In their paper "*The Effects of Multinational Production on Domestic Performance: Evidence from Japanese Firms*", Alexandre Hijzen, Tomohiko Inui and Yasuyuki Todo examines the causal effect of becoming multinational on home performance for a large panel of Japanese firms between 1995 and 2002. The authors employed matching techniques in combination with a difference-in-difference estimator in order to measure the causal effect of establishing a foreign affiliate on productivity, output and employment. The data employed within the paper were drawn from *The Basic Survey of Business Structure and Activities*, conducted by Ministry of Economy, Trade and Industry. It was found that Japanese outward FDI tends to reinforce the economic activities of Japanese MNCs at home in terms of both output and employment. However, authors cannot prove a significant impact on productivity, but they neither observe any negative effects as some specialists were concerned, due to the so-called ”hollowing out” effect associated with the surge in outward FDI. This phenomenon designates the closing down of productive Japanese plants, followed by their relocation elsewhere on the Globe. On the basis of their research work, Hijzen, Inui and Todo stated that, on real markets, there was no such thing as the “hollowing out” effect, at least for the Japanese case.

Most studies from the field of international businees conducted in Japan in the last twenty years have demonstrated, based on high-reliability and very rich firm-level datasets that are collected by the Japanese Ministry of Economy, Trade and Industry, and also on scientific mathematical and econometric models, that multinational production and the efficiency of domestic activities are strongly related, while the expansion of MNCs is, beyond the fears of some specialists, an advantageous phenomenon for the Japanese economy.

5. CONCLUSION

The study of FDI and MNCs from globalization viewpoint is both challenging and fascinating. As we have already seen, a great number of empirical studies using firm-level data, brought about a substantial progress in the Japanese specialized literature in the past couple of decades, leading towards the development of a new trade theory. This new approach invests MNCs with great interests, as they are envisioned as vectors of outward FDI and accelerators of economic developments at the global level. According to the literature review presented within the paper, the most productive firms undertake FDI, the less productive firms engage in exports, while least productive firms serve only the domestic market. Acknowledging the fact that FDI have indubitable positive effects on both countries and firms involved - such as raises in production, employment and productivity at firms’ level or increases in competition intensity among firms, improvements in real wage and welfare at macroeconomic level - it becomes clear that Japanese policymakers should improve opportunities for FDI.

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