THE DYNAMICS OF OVERSEAS BUSINESS ACTIVITIES BY MULTINATIONAL COMPANIES FROM JAPAN

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ABSTRACT: *At the beginning of the 21st century, the new economic order settled at international level is based on the intensification of the activities of multinational companies (MNC) on global markets. Japan – the third world economy in 2010 – registers outstanding economic results due to its strong connection to the current of the globalization of international affairs. The issue of understanding the key role of Japanese MNCs in international business received a great deal of attention in recent years. We found that Japanese firms expanded their overseas production from 3.1% in 1986 to 16.3% in 2005 and 17% in 2009. Although MNCs are a minority in terms of the number of firms, they nevertheless dominate the Japanese trade. In recent years, Japanese firms have become more active in developing overseas activities by establishing local subsidiaries and acquiring local companies. Therefore, cross-border Mergers & Acquisitions (M&A) appeared to be a very useful tool through which Japanese MNCs expanded their tentacles worldwide.*

Despite the devastating effects of the great East Japan Earthquake, statistical data released by UNCTAD show that Japan will again be, on the long run, a leading investor for outward FDI. Therefore, Japanese MNCs will continue to play a key role within international business environment.

KEY WORDS: *multinational companies; foreign direct investments (FDI); oversea operation or oversea production; cross-border mergers and acquisitions (M&A); the great East Japan Earthquake.*

JEL CLASSIFICATION: *F23.*

1. INTRODUCTION

At the beginning of the 21st century, the new economic order settled at international level is based on the intensification of the activities of multinational companies (MNC) on global markets. Emerged as true nuclei of formation and variation of capital flows, vectors of the cross-border capital movements, with a huge

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economic force that rivals that of nation states, these types of entities dominate today's global business world, being capable of imposing their own values in the social and economic environments in which they operate.

Today, it is unanimously recognized, in business mediums from all over the world as well as in research publications from the literature, the fact that MNCs have experienced spectacular development over the last decades, as they went from a few hundred entities in 1970 to no more than 82,000 in 2010, having 810,000 subsidiaries abroad and 68,000,000 employees. Multinational corporate entities carrying out activities around the world have generated in 2010 an added value of about $ 16 trillion, accounting with more than a quarter to the creation of the gross domestic product (GDP). The foreign subsidiaries of these "giants" have gained more than one-tenth of the GDP and 1/3 of the world exports (UNCTAD, *World Investment Report – Global Investment Trends*, 2011).

2. THE DYNAMICS OF OVERSEAS BUSINESS ACTIVITIES IN JAPAN

Globalization - the international system which replaced the old system of international relations during the Cold War – based on the tendency of integration, on the high level of interconnection between markets, nation states and on economic entities, underlies two essential pillars: international organizations and multinational companies.

Japan – the third world economy in 2010 – registers outstanding economic results due to its strong connection to the current of the globalization of international affairs. The position occupied by Japanese MNCs within the top *The Global 2000. The World's Leading Companies*, conducted by the prestigious business magazine *Fortune*, for 2010, argues in favor of this ranking. Furthermore, 2 of the top 10 largest global corporations in the world come from Japan, according to top *Fortune. The Global 500*. It refers to Toyota Motor (5th in the world) operating on the international market of automobiles since 1957 and Japan Post Holdings (6th place), a group founded in 2007 on the economic structure of the old Japanese postal services, carrying out mostly domestic activities. About 14% and 71 companies out of a total of 500 companies listed by *Fortune* come from Japan (table 1).

Among specialists, there is increasing recognition that understanding the determinants of economic globalization requires looking first at foreign direct investment (FDI) by MNCs. Foreign Direct Investment is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (*direct investor*) in an enterprise (*direct investment enterprise*) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence (not necessarily control) on the management of the company (OECD, *FDI in figures*, 2011). Therefore, FDI is the key tool by which MNCs bridge cross-border economic activities which often proved to be highly efficient.

During the late 1980s and 1990s, Japanese firms' have expanded their overseas production activities abroad through the augmentation of outward FDI. 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. In fiscal year 2009, the number of Japanese companies engaged in overseas operations exceeded 18,000 (figure 1) and statistics show that the majority of the recently established overseas affiliates are located in East Asia region, especially in China (Hijzen, et al., 2007).

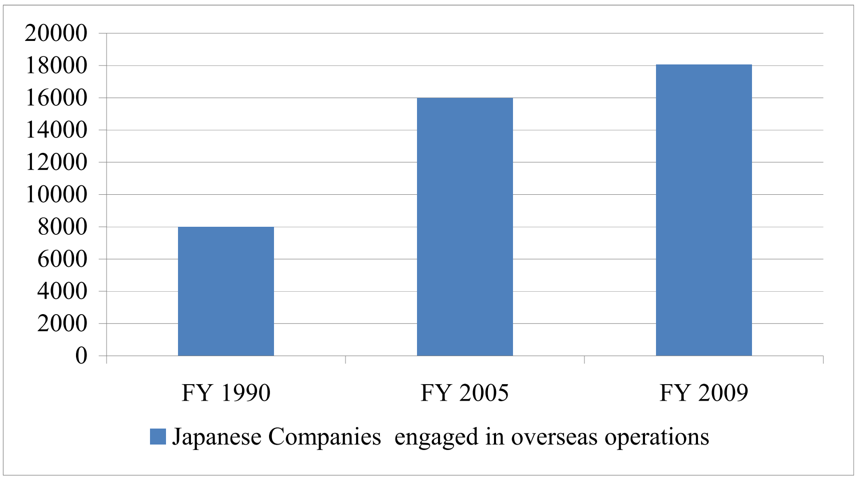
Table 1. The position of Japanese companies in Top 500 – World Largest Corporations

Country rank	Company	Global 500 rank	City	Employees	Revenues ($ millions)
1	Toyota Motor	5	Tokyo	320,590	204,106
2	Japan Post Holding	6	Tokyo	229,134	202,196
3	Nippon Telegraph & Telephone	31	Tokyo	195,000	109,656
4	Hitachi	47	Tokyo	359,764	96,593
5	Honda Motor	51	Tokyo	176,815	92,400
6	Nissan Motor	61	Yokohama	169,298	80,963
7	Panasonic	65	Osaka	384,586	79,893
8	Sony	69	Tokyo	167,900	77,696
9	Nippon Life Insurance	75	Osaka	70,086	72,051
10	Toshiba	89	Tokyo	204,000	68,731
11	Dai-ichi Life Insurance	119	Tpkyo	60,061	57,018
12	Seven & I Holdings	124	Tokyo	52,814	54,701
13	Mitsubishi UBJ Financial Group	126	Tokyo	84,266	54,285
14	AEON	127	Chiba	76,520	54,092
15	Tokyo Electric Power	128	Tokyo	52,452	54,026
16	JX Holdings	136	Tokyo	13,855	51,405
17	Fujitsu	138	Tokyo	172,438	50,399
18	Mitsubishi	146	Tokyo	58,583	48,913
19	Meiji Yasuda Life Insurance	158	Tokyo	40,388	45,262
20	Mitsui	164	Tokyo	41,454	44,120
…	…	…..	…	…	…
70	Shimitzu	497	Tokyo	12,001	17,117
71	Dai Nippon Printing	500	Tokyo	39,643	17,053

Source: World Leading Companies in the World, Fortune, Global 2000

Furthermore, several studies in the specialized literature focus on issues that Japanese firms have to deal with in recent years, against the consequences of globalization: the long-standing problems of a maturing domestic market, the increasingly smaller number of firms dominating global markets and low profitability by restructuring their business, aggressively developing overseas markets and expanding their domestic market share in step with domestic industry consolidation

(Yoshikawa, 2009). As an attempt to overcome these obstacles and to achieve success on global markets, Japanese firms have become more active in developing overseas activities by establishing local subsidiaries and acquiring local companies. Therefore, cross-border Mergers & Acquisitions (M&A) appeared to be a very useful tool through Japanese MNCs expanded their tentacles worldwide.



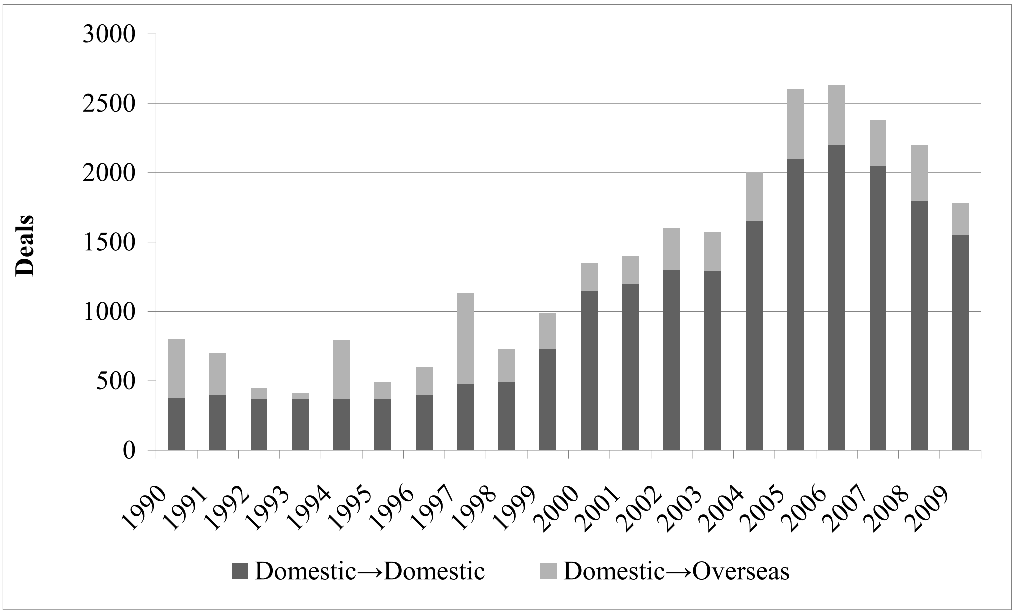
Source: Ministry of Economy, Trade and Industry - White Paper on International Economy and Trade – Summary, 2011

Figure 1. Number of Japanese Companies engaged in Overseas Operations

Cross-border M&A is defined as a merger, acquisition, or equity investment where the parent companies of the two sides involved are based in different countries. As figure 2 shows, acquisitions made by Japanese companies regardless their operation scope - domestic or foreign – raised by a factor of 2.2X over a ten-year period, from a level of 987 deals in 1999 to 2,201 deals in 2008, despite a moderate slump since 2007 (Yoshikawa, 2009).

In addition, mergers between Japanese firms are approached from the same point of view as cross-border M&A, because they aim to strengthen their overseas regional brands and also to achieve growth business. Therefore, cross-border M&A and deals between domestic companies have contributed to a Japanese noticeable overseas presence on international business arena and we estimate that mergers and acquisitions will have a great influence on whether Japanese firms succeed in expanding overseas in the future (Yoshikawa, 2009).

The issue of understanding the key role of Japanese MNCs in international trade received a great deal of attention in recent years. Thus, Kozo Kiyota and Shujiro Urata (2007) stated that multinational firms are a minority in terms of the number of firms, but they nevertheless rule the Japanese trade. In their paper "*The Role of Multinational Firms in International Trade: The Case of Japan*" (2007), the above mentioned authors analyzed firm – level datasets for Japanese firms between 1994 and 2000. For instance, in 2000, only 12.4 percent of Japanese firms were MNCs, but they accounted for 93.6 and 81.2 percent of Japanese exports and imports, respectively. It was found that over time, multinational firms emerged from among exporters and importers. In other words, firms should not make the decision of either exporting or engaging in FDI, contrary to the findings of other studies well-known in Japan (Melitz, 2003; Helpman, Melitz & Yeaple, 2004). Rather, the large exporters on the global markets must make a decision on whether or not to undertake FDI (Kiyota & Urata, 2007).



Source: Nomura Institute of Markets Research

Figure 2. Number of deals involving Japanese firms

A special mention has to be made regarding the globalization phenomenon and MNCs activities abroad. Thereby, more often Japanese manufacturers relocate their production from areas in Japan to low-wage countries, especially those form East Asian region, such as China, Malaysia, Thailand and Singapore. These developments caused an ample increase in the volume of imports of manufacturing goods, which led to some concerns expressed by many Japanese policymakers over the so – called “hollowing-out effect”. This locution designates the closing down of productive Japanese plants, followed by their relocation elsewhere on the Globe. This fear is also supported by the media which describe foreign multinationals as outward FDI disseminators that cause the moving of domestic production activities from Japan to another country. Hence, job losses and productivity mitigation can occur in Japan, following the contraction of home activities and the consequential decreasing of plant-level scale effect (Barba Navareti & Venables, 2004).

This issue was approached by Tomohiko Inui, Richard Kneller, Toshiyuki Matsuura and Danny McGowan in their paper “*Globalization, Productivity and Plant*

Exit – Evidence from Japan" (2009). Their empirical research bears witness to the fact that, on real markets, there is no such thing like the "hollowing-out effect". The findings confirmed that plants which are large, capital intensive and productive relative to the industry are, on average, less likely to exit the market. On the other hand, the plants that were shut down achieved below average productivity and the exit component contributes a very small fraction to productivity growth. In other words, the authors stated that plant exit phenomenon has not been the reason for Japan's poor ratio of productivity growth.

3. POST – EARTHQUAKE TRENDS REGARDING FDI AND MNCs FROM JAPAN

The most devastating seism ever recorded in Japan, with a 9.0 magnitude, hit the coast of Miyagi prefecture in the Tohoku (Northeast) district, on March 11, 2011. A deadly tsunami followed, affecting an extensive region on the coast of the Tohoku and the northern Kanto territories. The 3/11 massive earthquake was at the bottom of more than 15,000 human lives lost and almost 5,000 people remain missing, in addition to severe damage to physical infrastructure (Fujita, M. & Nubuaki, H., 2011). This overwhelming cataclysm, accompanied by the nuclear accident from Fukushima plant, had a tremendous and instantaneous effect upon the evolution of Japan's economy.

Myagi rural areas and its neighboring regions incorporate several industrial and manufacturing facilities with lots of chemical and petrochemical plants and electronic equipment and components factories (e.g. Renasas Electronics, which controls a 30 per cent share of the global market for microcontrollers). Before the seism occurrence, the Tohoku region represented only 8% of Japan's GDP and just 1.0% of total exports in 2008; nevertheless the impact of the catastrophe was unpredictably immense. National GDP in the second quarter of 2011 plunged by 2.1% as compared to the same period in the previous year, while industrial production and exports slumped even more sharply, by 7.0% and 8.0%, respectively (Fujita, M. & Nubuaki, 2011).

The earthquake itself and the subsequent interruption of power supplies resulted in a severe disruption of supply-chain flows, not only within Japan, but worldwide. Despite the severity of the losses, by June 2011, most of the supply chains had been restored: for instance, production at Toyota got back to its pre-earthquake level (UNCTAD, *World Investment Report*, 2011). In fact, in order to picture the state of recovery endeavors as close to reality as we can, the situation presented in table 2 is extremely relevant with regard to the speed at which Japanese MNCs revive activities after the earthquake.

While Japanese MNCs have shown remarkable resilience, the major economic difficulties faced by Japanese manufacturers following the earthquake, urged them to reconsider their procurement strategies. In a recent survey of Japanese firms by METI (Japan Ministry of Economy, Trade and Industry, August 2011), 97% of the manufacturers answered that they have already started procurement from alternative suppliers.

In comparison with the April survey, the ratio of the companies that answered they were without any alternative supplier for procurement decreased from 12% to 0% in the materials business and from 48% to 18% in the processing business. Many respondents use alternative suppliers in Chugoku, Kinki and other districts in West Japan. The survey substantiated that ***about two-thirds of the companies intended to maintain or increase their level of total investment in the aftermath of this natural disaster*** (*Results of an Emergency Survey on the Actual Status of Industries after the Great East Japan Earthquake (2)*, METI, 2011).

Table 2. Damage from the great East Japan Earthquake and Recovery

Company	Situation after the earthquake	Status of recovery
Nissan Motor Co., Ltd.	■ Nissan Iwaki Factory in which more than 370,000 Nissan and Infiniti engines are produced annually was badly damaged. Windows on the plant's roof, ducts and pipes fell down and it was unsafe to go back inside; ■ For Nissan, more than 50 dealerships and part suppliers were damaged, and production across Japan shut down completely.	At Iwaki Factory, it had been planned to resume full production in early June 2011, but it resumed on May 17, two weeks ahead of schedule.
Shin-Etsu Chemical Co, Ltd.	■ The Shin-Etsu Group has approximately 30% of the global share of silicon wafers; ■ The main silicon wafer plant, the Shirakawa Plant, suffered from 1,000 gal shock of the earthquake, and its cleanrooms and some equipment were damaged.	On April 20, 2011, partial operations were restarted. On July 1, the Shirakawa Plant's production capacity recovered to pre-earthquake levels.
Renesas Electronics Corporation	■ Naka factory produces 20 percent of Renesas's microcontrollers and Systemon-a-chip solutions; ■ There was partial damage to the ceiling, walls, electric wiring and some equipment.	The supply capacity of Naka factory returned to pre-earthquake levels at the end of September 2011, one month before the schedule.
Sumitomo Metal Industries, Ltd.	■ Damage to Kashima steelworks was confirmed mainly at the port facilities and upstream manufacturing facilities; ■ There was also damage within the steelworks, such as damage to the coke gas holders and the auxiliary facilities of the blast furnace.	Kashima steelworks was restored at high speed and it took only four days from the earthquake before its first shipment. On April 30, it resumed normal operation.
Mitsubishi Chemical Corporation	■ Production of ethylene in Kashima plants accounts for 10% of that in Japan; ■ Since infrastructure around the plant area including the berths and roads were also damaged, delivery and shipment of cargo became impossible; ■ The ethylene plants were stopped after	Kashima plants had been rapidly restored including infrastructure. The Kashima No 2 plant was restarted on May 20, 2011. Kashima No 1 plant was restarted on June 30.

	the earthquake.	
Toyota Motor Corporation	■ Some factories suffered damage; ■ Damage to parts suppliers caused trouble in the global production network; ■ Toyota expected that production at normal level would be recovered later in the year 2011.	Production was approximately 70% of the normal level in June 2011, on a global basis. Now, production in Japan has basically returned to pre-earthquake levels.
Hitachi Automotive Systems	■ Sawa works (Auto-parts manufacturing factories) were damaged due to the earthquake; ■ The company has approximately 60 % of global share of air-flow sensors.	Operation of Sawa works restarted on April 4, 2011. Now, production capacity has recovered to pre-earthquake levels.
Hitachi Vehicle Energy	The main factory in Hitachinaka - city which produces Lithium-ion batteries for vehicles suffered damage.	Since March 28, 2011, production of Lithium-ion batteries has resumed and shipment overseas restarted.
Hitachi Ltd.	Damage to buildings and facilities was confirmed at Hitachi's main production bases in Ibaraki Prefecture, including cracks in walls, fallen ceilings, roofs and walls.	Production partially resumed at the end of May 2011. Operation with full capacity resumed in mid-April 2011.
IHI Corporation	The facility of Soma Aero-EngineWorks (Items produced: parts for aero engines, gas turbines and space development equipment) was shut down.	On March 29, partial operation at buildings where the effects were minor was restarted. Full operation was resumed mid-May 2011.

Source: Government of Japan, Economic Impact of the Great East Japan Earthquake and Current Status of Recovery, August, 2011

4. CONCLUSION

The rise of MNCs in the world economy represents one of the most distinguishing characteristics of globalization phenomenon. As multinationals play an increasingly important role within international business environment, understanding the triggers and the nature of oversea production has become an issue of great interest. Thus, especially in Japan but also in European countries, there is a substantial body of empirical work analyzing the internationalization of Japanese companies and the tools they use in order to achieve tremendous performances on the global markets.

The awesome research work conducted by Japanese specialists and practitioners, together with statistical datasets released by Japanese Ministry of Economy, Trade and Industry have led to the conclusion that the general impact of the natural disaster on outward FDI from Japan is likely to be limited, especially against the backdrop of outward FDI through M&A by Japanese firms. Looking to the future, there is a general recognition among specialists that over the long run, Japan will become again a leading investor for outward FDI and MNCs expansion.

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