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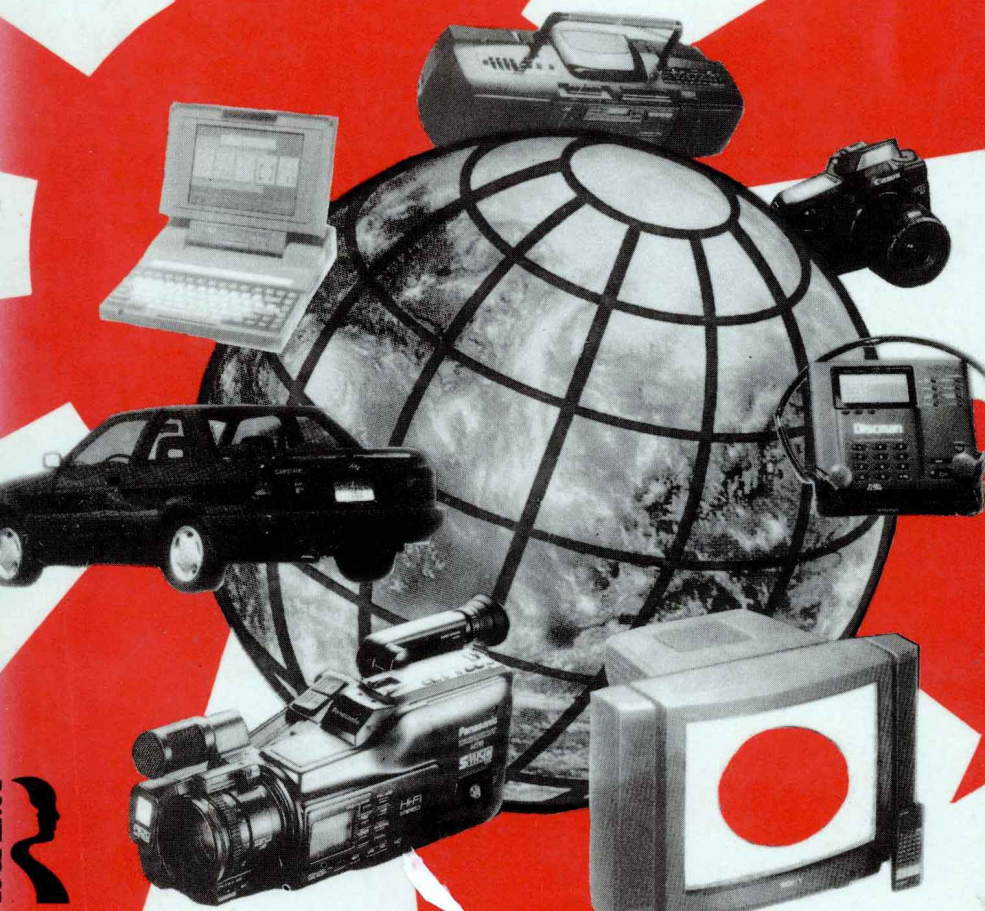
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GLOBAL ECONOMY

ISSUES AND TRENDS IN THE 1990'S

EDITED BY

JONATHAN MORRIS



Japan and the global economy

Issues and trends in the 1990s

**Edited by
Jonathan Morris**



London and New York

First published 1991

by Routledge

11 New Fetter Lane, London EC4P 4EE

Simultaneously published in the USA and Canada

by Routledge

a division of Routledge, Chapman and Hall, Inc.

29 West 35th Street, New York, NY 10001

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Typeset by J&L Composition Ltd, Filey, North Yorkshire

Printed in Great Britain by Biddles Ltd, Guildford and King's Lynn

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British Library Cataloguing in Publication Data

Japan and the global economy : issues and trends in the 1990s.

1. Japan. Foreign investment

I. Morris, Jonathan 1958-

332.6730952

ISBN 0-415-06456-2

Library of Congress Cataloging in Publication Data

Japan and the global economy: issues & trends in the 1990s/

[edited by] Jonathan Morris.

Includes bibliographical references and index.

ISBN 0-415-06456-2

1. Investments, Japanese. I. Morris, Jonathan, 1958-

II. Title: Japan and the global economy.

HG4538.J27 1991

332.6'7352—dc20

90-23870

CIP

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Acknowledgement

I wish to thank Ms Louise Jones for her preparation of the manuscript.

General note

Where the word ‘billion’ appears in the book, this refers to the US billion (a thousand millions).

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1 Globalization and global localization

Explaining trends in Japanese foreign manufacturing investment

Jonathan Morris

INTRODUCTION

Japanese foreign direct investment generally, and manufacturing investment (JMI) in particular, has displayed a strong growth trajectory in the 1970s and 1980s. As Dicken notes in Chapter 2, while there have been geographical variations in its destination, all major world regions have been the recipients of such investment. While the EC, for example, has lagged behind North America, as Morris's chapter on JMI in the EC illustrates, it has nevertheless witnessed extremely fast growth particularly in the late 1980s which, for various reasons, Morris argues will continue into the 1990s. A recent study by Julius (1990), for example, illustrates that Japan had the biggest percentage growth in outflow between 1983 and 1988. Moreover, whereas other major OECD countries were also experiencing substantial inward flows in investment between 1980 and 1988, those into Japan were extremely low.

Given the explosion of JMI in the 1970s and 1980s, the purpose of this chapter is to provide a contextual framework with which to explain this growth as a backcloth to the other contributions. The correct question perhaps would be why it has taken so long to occur, given the overseas investment activities of companies from other major OECD countries, notably the USA and the UK. Indeed, as Dicken's chapter notes, there has been a lively debate on the 'uniqueness' of Japanese manufacturing investment patterns, although Emmott (1989) has recently argued that the investment patterns of major Japanese corporations will come more and more to mirror those of their US counterparts.

The motives and rationales for JMI are returned to in a number of the contributions in this book. Morris's chapters on JMI in the EC and Canada, for example, both explore this theme, as does Steven in

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Chapter 3, Reid in Chapter 4 on JDI in the USA, and Kumar on Japanese JDI in West Germany. Broadly, they can be summarized into three main motives. First, there is the growth in costs associated with exporting from Japan. As Steven's chapter illustrates, this was largely due to the so called 'yen crisis' which developed out of the Plaza Agreement on exchange rates in 1985 and which saw the yen double in value against the US dollar within two years. As Reid's chapter indicates, 40 per cent of the cumulative Japanese investment in 1989 came in the two years following this crisis, in 1986 and 1987. Closely associated with this has been increasing wage pressures in Japan. As Steven argues in his contribution, Japan changed from a relatively low wage economy to a high wage one, although the Japanese working class received little benefit from this process (see also, Steven 1988).

The second motive has been the protectionist tendencies displayed in North America and, more particularly, in the EC. These have manifested themselves a number of ways including 'voluntary agreements' on cars, formal quotas and tariffs, and more sophisticated measures in the EC, whereby Japanese products made in Japanese plants within the EC are counted as 'Japanese made' unless certain local content levels are achieved. As Morris points out in Chapter 10, this has proved a potent force in directing JMI towards the EC, as it has in the USA, according to Reid, and Florida and Kenney.

The final, major, motive has been the need to be producing in the major markets in order to effectively sell in these markets on a large scale. Morris's surveys of Japanese manufacturing firms in Canada and the EC illustrate that this has been as important a motive for Japanese FMI as the push of the high value of the yen and the pull of protectionist measures. Moreover, this is the thrust of the argument that 'global localization' as much as 'globalization' explains and provides a framework for Japanese FMI.

'GLOBALIZATION' AND 'GLOBAL LOCALIZATION'

The argument I wish to develop here is that in the late 1980s and early 1990s the key theme of Japanese FMI will be global localization rather than globalization *per se*. Indeed, the distinction between the two terms could be seen as being one of stages. Globalization could be seen as a first stage in Japanese FMI where Japanese manufacturers set up manufacturing operations overseas in a relatively basic form, where the investments are essentially final assembly operations closely controlled by the parent in Japan, and where few components are sourced locally and little research and development is carried out.

Global localization can be seen as the next stage of the FMI process where the investments 'deepen' and Japanese manufacturers attempt to become 'insiders' in foreign markets, as US companies such as Ford, 3M, and IBM have done in Western Europe.¹ Crudely, this would include a move from assembly to full manufacture, the transfer of in-house key component production from Japan to the area of investment, and a greater use of local suppliers. It would also include transferring some of the decision making from the parent organization in Japan to local management and the transfer of R&D functions. This is a process discussed by Florida and Kenney in their chapter on Japanese automotive transplants in the US and by Morris on Japanese FMI in the EC. Two case studies are provided in the next section of this paper as exemplars of such a process. A note of caution is, however, added by Kumar's chapter on Japanese FMI in West Germany as to the extent of such a process.

The next question to be answered is why should such a process occur, that is, why are certain Japanese companies moving from the stage of globalization to global localization? In the semiconductor industry, for example, it is not immediately obvious why major Japanese corporations should be moving from assembly to full manufacturing (wafer fabrication) as NEC and Fujitsu are in Europe. In this industry the fabrication stage is now capital intensive and therefore not prone to high labour costs, and transportation costs are minimal. The answer to this question lies in the rationale for global localization, that is, that such a strategy is essentially market driven. As the last section illustrated, Japanese corporations are increasingly seeing a need to produce in the markets that they are selling in, and the only effective way to compete is by following a global localization strategy and opting for full manufacture. In this way these companies can be flexible to meet 'local' market demands without having to wait for months for orders to appear from Japan or to wait for design changes from the corporate R&D centres based in Japan.

Robins (1989) has described this as the process by which leading edge companies are restructuring themselves into 'flexible transnationals'. It also explains in part why there has been such a rush of so-called strategic alliances across a range of industries and between companies from the major trading blocs (Cooke and Wells 1990; Wells and Cooke 1990; Womak *et al.* 1990) As Robins further argues:

They must now operate in all markets simultaneously. Global corporations are increasingly involved in time based competition:

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they must shorten the innovation cycle, cut seconds from the process time in the factory, accelerate distribution and consumption.
(Robins 1989: 21)

As a consequence of this market-driven production philosophy, firms must also take on new organizational structures such as the 'flat organization' or 'polycentricism'. The case studies of Sony and Honda which follow are ample illustrations of this, and an even better case would be IBM which, consciously or unconsciously, acts as a role model for the Japanese corporations (Morris and Imrie 1991).

GLOBAL LOCALIZATION: TWO CASE STUDIES

One problem with the study of Japanese overseas investment is that it tends to treat all Japanese corporations as an amorphous mass. As Cusumano (1985) has illustrated, however, even firms in the same industrial sector – in this case Toyota and Nissan – can display very different business strategies. The two case studies described here are in some ways untypical, as they are at the leading edge of global localization among Japanese companies. Nevertheless, it is arguable that these firms display characteristics in their internationalization strategies which other Japanese corporations are starting to adopt.

Sony

Sony have been at the forefront of the globalization of the Japanese consumer electronics industry; they were the first company to start production in North America when they located a plant at San Diego in California in the early 1970s and their Bridgend plant in South Wales was the first Japanese television plant in the EC (Morris 1987; Morris and Imrie 1991).

Essentially, Sony have divided their production and market into three major supranational trading blocs – Japan and the western Pacific rim (Japan, East and South-East Asia, and Australasia), North America (including Mexico), and Western Europe. This has also been driven by Sony's export orientation. Indeed they are one of Japan's most international companies with only 34 per cent of total sales in 1988 in Japan (Wagstyl and Buchan 1989). Accordingly, production is being reorganized on an integrated scale in these blocs: (a) *Japan, East and South-East Asia, Australasia*. There has been a considerable shift of production of consumer electronic products and components from Japan to other south and east Asian countries. This

is especially true of lower value added and mature products such as consumer electronics, as opposed to the new product markets into which Sony has been diversifying such as semiconductors, computer workstations, computer disk drives and high-definition televisions. As part of this strategy, for example, in 1989 Sony announced the location of a plant in Singapore to produce tubes for colour television assembly factories in Malaysia and Thailand which will replace production from Japan.

(b) *North America.* The San Diego facility has been considerably expanded since its inception in the 1970s to produce higher volumes of its initial product, colour televisions, but also to produce a diversified product range. Computer workstations, for example, are the latest product to be added to the plant. In addition the company has set up a R&D centre at San Jose in California, to service the North American operation.

(c) *Western Europe.* Sony's extensive European-wide complex of plants is rivalled only by that of Matsushita Electric. Moreover, this is set to expand further in the 1990s. The hubs of the operation are the Bridgend plant in South Wales, the largest plant and the only one to produce colour television picture tubes, and the Stuttgart operation in West Germany where, in addition to a large plant producing colour televisions, the European CTV headquarters are located. The company now has eight Western European plants spread across the UK, France, West Germany, Spain, Italy, and Austria (see Table 1.1).

Table 1.1 Sony's European manufacturing operators

<i>Location</i>	<i>Product(s)</i>	<i>Start</i>	<i>Employees</i>
Bayonne, France	Audiocassette tape	1980	370
Dax, France	Camcorders, video cassette tape	1984	210
Colmar, France	Hi-fi, CD players, 8 mm video	1986	648
Bridgend, UK	CTV tubes	1974	1,700
Stuttgart, W. Germany	Audio, CTV, videos	1975	640
Barcelona, Spain	Audio, CTV, videos	1977	250
Anif, Austria	Compact discs	1987	248
Rovertò, Italy	Audio cassette tape	1988	150

Source: Sony Corporation.

While there is a degree of duplication between plants, production is also strongly integrated. The Bridgend plant, for example, supplies picture tubes to the West German and Spanish plants. Similarly, the Colmar plant makes components and sub-assemblies for other