

Trends in Japanese Foreign Direct Investment to the Year 2000

A recent paper from the Canadian Embassy in Tokyo, based largely on a 1993 EXIM Bank survey of 338 Japanese firms and extensive research and interviews, notes that the rapid decline in annual Japanese foreign direct investment (JFDI) since 1989 is slowing and may be in the process of picking up again. Japan's overseas investment has developed late compared with other developed countries. For example, Japan's ratio of exports to FDI was only 10.3% in 1992 compared with 25% for the United States. The main features of the paper and its predictions are as follows:

- Japanese corporations are preparing themselves for a new investment cycle driven by the yen's appreciation.
- Small and medium-sized Japanese businesses, however, are experiencing difficulties in gathering sufficient human and financial capital to launch their operations abroad. As in the past, the burden of JFDI will be carried out by larger corporations, many of which already have significant exposure in North America.
- The most important objective underpinning growing JFDI in Asia and North America will be the preservation or expansion of local market shares in the wake of a recovery in the global economy.
- Economic development will alter the return on investment in Asia. Therefore, JFDI in Asia will increasingly be motivated by factors other than labour costs. Japanese corporations in North America will need to intensify capital infusions to meet the demands of a sophisticated and competitive market.
- North America will distinctively emerge as a high technology pole of strategic importance for Japanese investors. As Japanese corporations increasingly embrace the practice of fully-integrated production abroad, North American advantages will be clear. New investors will seek to insert R&D components in their production lines.
- Specific incentives or disincentives presented by NAFTA should not be overstated. Local content rules appear to be less of a concern than are taxes on foreign-owned corporations and other local conditions.
- A key challenge for Canada will be to demonstrate its advantage over the U.S. as a location for JFDI. Decisive factors considered by Japanese investors will be access to technology, improved productivity levels, exchange rates, taxation regimes and labour climate.

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