Players

Japan's economy is dominated by large conglomerates that carry on a diverse range of activities. These organizations have ready made networks to locate and support investment opportunities; in fact, their own trading or distribution relationships often revealed investment opportunities. As a result, the trading house operations of powerful industrial players such as Mitsubishi, Mitsui and Sumitomo tended to dominate Japanese overseas investment.

In the last five years, however, Japanese small and medium-sized enterprises (SMEs) have become active in outbound investment. SMEs play a crucial role in the Japanese economy with 900,000 of them supporting and interacting with some 46,000 larger companies. By 1989, it was estimated that smaller companies employing fewer than 300 people accounted for more than 60% of Japanese overseas investment. Manufacturing accounts for 70% of the accumulated total of SME investment, but their fastest growing overseas investments are in the financial and insurance sectors.

Motives

Japan's huge trade surpluses have given its exporting companies both the means and a variety of motivations to invest in overseas markets:

- because Japan is poor in natural resources, some overseas investments are focused on securing access to raw materials;
- as a result of its own industrial restructuring, Japan is actively seeking foreign technologies or technological partnerships especially in priority areas such as biotechnology, medicines, satellites, telecommunications, computer software, and advanced industrial materials;
- there is considerable foreign unease over Japan's huge trade surpluses: FDI is a way of circumventing emerging trade barriers;
- an increasing number of Japanese firms are becoming sensitive to the desire of their foreign partners to develop their own production and value-added activities;
- Japan is experiencing a shortage of skilled labour at home and seeks to access foreign pools of labour;
- many large Japanese firms see opportunities for reducing costs by investing in plants located in low-cost countries;
- appreciation of the yen has made overseas investments seem relatively inexpensive for Japanese investors;
- an increasing number of Japanese firms are aware of the need to globalize their economic activities in order to take advantage of global procurement networks and international divisions of labour.

Despite developed international linkages, many Japanese companies have been slow to manufacture abroad. In 1988, the overseas production ratio of Japanese manufacturers was only 4.8%, compared to a U.S. ratio of 21% and a West German ratio of 17%. Overseas production is, however, expected to rise to about 8% of total manufacturing by 1995. The current boom in Japanese FDI is focused on plants that supply both local and Japanese markets.

Some Japanese companies are moving into more comprehensive agreements that transfer design and development abroad, in addition to production. The Japanese seem increasingly willing to share some of their know-how with local managers and some of their R&D with foreign partners. This will free Japanese designers back home to concentrate their efforts on more advanced technologies. Coupled to this, some Japanese companies are beginning to decentralize head office functions, internationalize their management, and increase overseas procurement of components (sometimes by offering to transfer technology).