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Direct investment in Japan by other countries revitalizes the economy in a variety of ways, begetting new technologies and business expertise, bringing in new products and services, and creating job opportunities. The level of foreign direct investment (FDI) in Japan, however, remains very low in comparison with that of Western nations. How, then, can Japan increase the inflow of FDI? Prime Minister Junichiro Koizumi met in his official residence with two foreign business leaders active in Japan to discuss his policy to double FDI in Japan.

Participants:

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Striving to Double FDI in Five Years

Shimada: Mr. Prime Minister, in your policy speech delivered on January 31 of last year, you made the bold pronouncement that your administration would strive to double foreign direct investment in Japan within five years. The strong determination you showed by setting a specific numerical target made a strong impression on people both in Japan and overseas. In response, many individuals have energetically worked together to boost FDI in Japan, and it appears that these efforts have helped to quicken the pace of investment by other countries. For today's talk, I would like for us to expand on this subject, which befits the start of the new year. Let's begin with you, Mr. Prime Minister. Please tell us about the background of your decision to double FDI in Japan, and about how that effort is unfolding.

Koizumi: From the beginning, people in Japan have exhibited too strong but conflicting sentiments regarding the outside world. On the one hand, they have shown an intense fondness for things from other countries. On the other hand, they have also taken a somewhat xenophobic attitude of caution toward outsiders. Both this receptivity and cautiousness have always existed side by side in some form or another. During the isolationist Edo period (1600-1867), some Japanese felt a strong attraction toward foreign countries. When the Meiji era was ushered in by the collapse of the Edo Shogunate, that attraction immediately developed into a keen appetite for foreign goods. But even today, the sense of wariness can still be found, as some people become apprehensive when all sorts of foreign companies enter the Japanese market.

However, in today's age of global interaction, this apprehension toward investment by foreign businesses needs to be transformed into an attitude of openness. Closing Japan's market to the outside would only cause it to shrivel up. The good things native to Japan need to be carefully preserved, but at the same time the good things of other countries should be absorbed. As reflected by the expression *wakon-yosai* (Japanese spirit and Western learning), the good things of other countries are constantly assimilated into Japan, and this in turn becomes an opportunity to show the world what's good about Japan. Young Japanese today unabashedly and flexibly take in foreign goods, and Japanese products are praised and admired around the world.

Nevertheless, FDI in Japan is still at a level less than one tenth to one twentieth of FDI in the industrialized nations of Europe and North America. Greater openness to market involvement by foreign firms will greatly stimulate Japan's economy, and thereby revitalize it as well. We are also striving to double the number of foreign tourists to Japan by 2010. This increase will unquestionably have a positive effect on the economy. It is with this perception that I boldly announced these doubling targets in my policy speech, and we are now laying the groundwork for achieving them. My core philosophy is that by shifting the public's attitude toward FDI from wariness to receptiveness, we can generate benefits for both Japan and the foreign companies operating here. Chanel and GE are in fact enjoying such benefits, I believe.

Shifting from “foreign” to “ordinary”

Shimada: As both the President of Chanel (Tokyo) and the Chairman of the European Business Community in Japan, an association of European companies that operate in Japan, Mr. Collasse helps to liaise the flow of investment between Europe and Japan. Mr. Collasse, what are your thoughts?

Collasse: I was really struck by an expression that Prime Minister Koizumi used just now, namely, the word *hakurai* (from foreign countries). We at Chanel, too, enjoyed a phase of fondness for foreign products in our business 30 years ago. Back then, the attitude that Japanese consumers held regarding imported goods was “the more expensive it is, the better it must be.” For our part, we used the same image to present our products to the public. However, as the Prime Minister mentioned, our products no longer have the aura of being something exotic. Consumers here choose to buy a product on the basis of its quality, and in this respect the market has become very profound in our eyes. Thirty years later, it is because of this market sophistication that we are now building our head office in the center of Ginza (an upscale district of Tokyo) at an outlay of 24 billion yen, and are currently pursuing direct investment in Omotesando, Ginza, and other areas.

It is significant that we have come to a period in which the Japanese perception of Chanel has transformed from a provider of exotic imports to just another foreign-capitalized firm, that is, an ordinary part of the economy. I think it was perfect timing for Prime Minister Koizumi to have announced his intention to double FDI in Japan at such a time as this.

Koizumi: When I was a boy, the Chanel brand meant an exquisiteness that was beyond most people’s reach. Back then, Chanel dealt mainly in goods for women, such as handbags or perfume. Now, however, Chanel sells all sorts of items, doesn’t it?

Collasse: That’s correct.

Koizumi: Those products have enhanced our lives and communities. As Mr. Collasse said, a bigger price tag no longer means that something is better. Japanese are now more discriminating. Something is good not because it’s expensive, but because it’s just plain good. Moreover, Chanel’s activities in Japan have prompted many other companies in the same line to enter the Japanese market, and this is stimulating the economy.

Collasse: Public opinion is extremely important in the drive to make foreign investment an even more ordinary part of the economy. I hope that your administration will vigorously enlighten the public on how FDI in Japan generates positive effects for society. I think the government should also turn its attention to the investors, namely, Europe, the United States, and other countries, and try to correct their misperception that Japan is a lost market or its economy is hopeless. The seminars and other activities that JETRO sponsors throughout Europe, North America, and elsewhere are very important. I also think that the truth about Japan needs to be communicated more proactively to the media overseas.

In addition, the European Business Community I chair publishes an annual white paper, and our report for 2003 focused on the question of what structural reforms have a positive impact on FDI in Japan. We will commit our fullest efforts to promoting FDI in Japan.

America’s erstwhile fear of foreign investment

Shimada: Mr. Norbom became President of General Electric Japan in 2000, and is an influential member of the Expert Committee, the working group of the Japan Investment Council that is chaired by Prime Minister Koizumi. Last year, Mr. Norbom also became Co-chairman?? of the Second US-Japan Private Sector/Government Commission.

Norbom: Thank you very much for the introduction. Mr. Prime Minister, first, I’d like to say thank you for inviting me here to listen to my views and give some of the perspective of General Electric.

GE have been doing business in Japan for more than 100 years, starting with Thomas Edison, and today we have more than 11,000 employees in Japan in a variety of different businesses and we are very, very happy with all of our investments and our businesses in Japan.

So I think I can speak on behalf of not only GE, but other foreign companies who have spent a long time in Japan developing their businesses, that Japan is a wonderful place to invest and it has many great qualities. You just have to get here and put the work in, but it’s a great place to invest.

Since our meeting here last year, eleven months ago, I’ve seen great progress and the efforts of your administration to push the issue of increasing foreign direct investment. We’ve had, as was mentioned, Invest Japan Forum, the Japan Investment Council, which, as Professor Shimada mentioned, I had the honor of participating in. In addition to the efforts by our European colleagues, the American Chamber of Commerce has also recently completed a study on the issue as well. So it’s gotten very much attention and it was set off by your announcement, your intention to double the FDI investment in Japan.

And I'm also seeing very visible progress on the regulatory and bureaucratic side, with the efforts of JETRO and METI and others in the administration, so I applaud those efforts.

But, as you mentioned, the amount of foreign direct investment in Japan still is at a very low level. It's about 1.5 percent of GDP, the investment base approximately. And so, even if it's doubled, it gets to 3 percent. And this compares to a global average of about 22 percent. So it's still far below the global average. So I think 3 percent will be a great start, but I think we can do even more.

And I have specific recommendations, but maybe we can get to those later. I think the most important aspect that has to be addressed, which you mentioned as well, is the attitude towards foreign investment. It was a barrier in the United States during the 1980s, when there were many foreign investors, many of them Japanese, buying assets in the United States. So it really is a natural reaction.

I think in the United States the attitude towards foreign investment has become much more accepting over time, as they have seen that the benefits of the foreign direct investment stay in the country. Even though it may be foreign investors, the tax revenues, the GDP growth, the employment, the technology and management skills that foreign investors and foreign companies can bring stay in the country. So, just as they stayed in the United States, they will stay in Japan and they can help. I really do believe they can help the revitalization of the economy and they can help the globalization of the economy, so that Japan can start being the choice for investors rather than China.

So, well, I still feel deregulation, privatization, the financial reforms need to be continued so that Japan is viewed as an open, dynamic, hospitable place to invest. The biggest issue, in my mind, is to continue the message that foreign investment is a good thing for Japan and can help Japan grow. So I think that's the biggest issue and perhaps the most difficult to address.

Making Japan's market more attractive to foreign investors

Shimada: That's hitting the nail on the head. Under Prime Minister Koizumi's leadership, we have been pursuing the implementation of 74 measures -- as part of the "Program for the Promotion of Foreign Direct Investment into Japan" -- for improving the environment for outside investment in Japan. For example, in the six months following the start of the program, we improved the business environment by changing the legal framework to make it easier for cross-border M&A to occur. We also set up information outlets (Invest Japan Office) at JETRO and ministries so that services related to administrative procedures can be comprehensively provided to users in one place. We have designed them to be able to respond to inquiries within about three days. In addition, we have made it possible for international students to extend their visas by six months so that they can look for employment after graduation. Moreover, the establishment of Special Zones for Structural Reform all around the country has made it possible to implement all sorts of ideas for promoting FDI in Japan.

Koizumi: Just as Mr. Norbom said, I think the public has gradually become more aware of how foreign investment revitalizes the economy. When people started expressing concern that the increasing inflow of cheap products from China threatened to hollow out Japan's industry, I responded that China was not a threat, and that this inflow represented an economic opportunity for Japan. Of course, the stunning growth of China's economy drives the heavy flow of low-priced Chinese goods into Japan, but at the same time China's growth expands the possibilities for Japanese exportation to China. Right now, China follows the United States as Japan's second-biggest trading partner. The growth of our neighbor means that we grow, too.

GE is a global enterprise that possesses a diverse set of technologies in electrical power, medical equipment, and other areas. Its company here employs many Japanese. It has firm roots in not only Japan, but also China. China has its own good qualities, and Japan offers good things not found in China. I think that this is how Japan is perceived in GE's global strategy. In order to have foreign companies invest in Japan, we must make Japan an attractive market. In doing so, I believe we can energize the Japanese economy. If this effort spreads to regions outside Tokyo, I think there will be demand will increase. Japan needs to welcome foreign investment, not fear it.

There's no way around Japan's market

Shimada: Prime Minister Koizumi mentioned global strategy just now. Mr. Norbom, what's your view of global strategy?

Norbom: I'll try to keep it brief, but I'd like to talk about how we see Japan versus China.

We see China in our strategy as a place for lower-cost manufacturing, the place to source things, and some day, as a large market. We see Japan, first, as a huge market; it has four times the GDP of China. So it's a much larger market, but even on the manufacturing side, Japan still has the advantage with goods that have very high technology content. One, the technology is very advanced, but, two, certain products have less labor content, and if it has less labor content, then Japan is very competitive for those types of products.

In terms of developing new technologies and having leadership in those areas, our technology people have looked at Japan and we have found Japanese government programs that over the next five years are targeting to spend 30 trillion yen on developing new technology. So we see a huge commitment toward making innovation and technology part of Japan's future and Japan's competitive edge.

A third area where we've seen benefits in Japan is in the area of leadership. There are still lessons, in terms of productivity and quality and innovation, that we, as U.S. companies, can learn from Japan. And then the infrastructure that's here: transportation, communications, the safety factor, which is becoming more and more important as having a safe place to do business, are very, very important.

Collasse: When it comes down to it, both China and Japan are important markets. Recently, I traveled to three European countries with Professor Shimada to participate in some major seminars. When I was appointed Chairman of the European Business Community in Japan, I didn't see myself as responsible for zealously selling Japan to potential investors. However, when a journalist at the Brussels seminar said that the age of Japan had ended and that everyone should start investing in China instead, I responded that there's no way that an international firm could try to make it without investing in Japan's market. In Europe, for example, no one even thinks of discontinuing investment in Germany to invest in Poland only. It may be necessary to invest in Poland, but Germany's a big market, so there's no getting out of there. The same thing can be said about Japan. There's something I've noticed in this process, and that's that foreign companies and brands that have been successful in Japan can make a persuasive argument to other firms overseas regarding investment in Japan. It's natural that Japanese would advertise why foreign businesses should invest in Japan, but it's also critical that the foreign companies that have been successful here help spread the word. A couple of books written by Nissan's President Carlos Ghosn have been selling fast in Europe, and I think this is another very effective way to enhance foreign companies' perception of Japan.

Japan's Potential, as Seen in Sushi

Koizumi: There are some Japanese things that we once thought that only Japanese would accept, but are now sold around the world. The most familiar example is sushi. Twenty or thirty years ago, most Japanese thought that Westerners would never eat something raw like sushi. However, ever since revolving sushi bars became popular, sushi has become a Japanese word understood throughout the world. Cars are another example. Even now, many Japanese see Mercedes and other German cars as the world's best cars. However, when a German automobile association recently conducted a survey that asked drivers which country's cars they thought were the best, the top seven cars named were Japanese brands. Many Japanese were surprised by this result.

The things made in Japan that are good are held in high esteem by the world, so Japan should calmly accept the good things of other countries as being good things. Even French cuisine has recently picked up good ideas from Japanese cooking, and conversely Japanese culinary artists are adopting good French techniques. So, international sharing is rapidly taking place in the everyday area of food.

Norbom: Last, but not least, the food. I agree, sushi is good, but I would also add sake; it's made a large impact on the global scene through the growth of this business.

Koizumi: Japanese steak is also prized outside Japan, isn't it?

Norbom: Yeah, very good. Kobe beef.

Collasse: Mr. Prime Minister, you just mentioned that sushi is a Japanese word understood by the world, but I'd like to note that just recently a Japanese chef by the name of Hiramatsu opened a French restaurant in Paris and people have been thronging to it.

Japanese Consumers Help Make Companies Stronger

Collasse: As we see it, the Japanese are the world's most sophisticated consumers.

Koizumi: In other words, they're picky.

Collasse: Very picky. For example, no matter how confident we are that we have the world's best product, once we bring it to Japan, the consumers here show us where it's flawed. And what's important is that we can respond by further refining that product.

Japan has the world's second-largest market, and there's no way to get by without it. Moreover, China and other Asian countries tend to watch what we do in Japan and decide how to deal with us based on what they see. Consequently, in many cases, the depth and breadth of our activity in Japan is a criterion that other Asian countries use to judge our brands and companies.

Looking at our efforts in innovation, we established our own R&D unit in Japan, since this country unquestionably has the most advanced technology in cosmetics. We made this investment because we concluded that we needed to develop products for not only Japan but also the global market. As for our construction of a head office here, some questioned our spending 24 billion yen on this investment, saying that we would be better off investing five billion in China instead. Ultimately, we discovered that we couldn't get by without Japan, and thus decided to invest in both countries.

Shimada: Thank you. I think the common thread in the opinions shared by both of you is that Japan is a very important market that cannot be overlooked, and that it is also an essential production base, including in terms of R&D. I believe that you are of the opinion that China's market may be growing larger and larger, but the Japanese market nevertheless remains as important as ever, and, in some cases, it is becoming more important than China. However, many people in other countries often do not recognize the merits and importance of Japan. Thus, under the prime minister's leadership, we would like to convey Japan's worth to the world even more. We believe that a greater effect could be achieved if people like yourselves spoke about what Japan has to offer. Mr. Prime Minister, what do you think?

Koizumi: Japanese love to shop, so they're very picky when it comes to goods, technology, and dining. In that sense, I think it takes a great deal of effort for a foreign company to operate successfully in Japan. This fussiness is also seen in technology and production. The demand for perfection here applies to even the smallest flaw. However, that's why cars and all sorts of other products made in Japan are highly regarded throughout the world.

Norbom: You know, I think you make a very good point that just as Japanese customers are very demanding, Japanese companies are very good at meeting those demands. And so we still have a lot to learn from Japan. I think that we can be better by having Japanese companies as partners. We can still learn a lot. There are many things that you can sell in terms of the advantage of being in Japan. And I think you can help foreign companies be more competitive as well.

Collasse: We employ many Japanese and sometimes assign to fill us in about our weaknesses, and they hem to our head office in France. We have them help us strive to beat our competition.

Shimada: I think that Prime Minister Koizumi's very candid identification of issues today helped us to have a truly profound discussion. I thank all of you for taking the time out of your busy schedules to come here together today.

Koizumi: I hope that both of you will continue to greatly energize Japan's market.

Collasse: I'll do my best.

Norbom: Yes. Very good.

(This discussion took place on December 22, 2003)

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