2/ Economic Globalization and Export Substitution Industry: The Growth of Japanese Direct Investment in the U.S.

The U.S. became a strong magnet for foreign direct investment (FDI), and Japanese direct investment (JDI) in particular, in the 1970s and 1980s. This signaled the culmination of a series of major changes in the status of the U.S. in the post-World War II international political economy. While in the immediate aftermath of the war the U.S. had enjoyed unchallenged world hegemony, in later years the recovery of the war-ravaged economies of Western Europe and Japan generated increased global competition. Simultaneously, challenges to U.S. domination came from the Third World, symbolized above all by the defeat of the U.S. in Vietnam and the oil crises of the 1970s. As the global influence of the U.S. waned, its domestic industries were transformed by the worldwide drift toward economic internationalization. With the emergence of cheaper communication and transportation, together with new production technologies, manufacturing firms increasingly organized their operations on a world scale, generating new industrialization in underdeveloped nations as capital migrated away from older industrial centers.

As these developments began to take shape in the 1970s, a number of commentators argued that economic globalization would enhance the power of transnational corporations, posing serious problems for the domestic political economy of the U.S. For example, Richard J. Barnet and Ronald E. Müller warned in

1974 of the impending "LatinAmericanization of the United States." As industrial production—much of it controlled by U.S.-based multinationals—moved to the Third World, they noted, the U.S. was increasingly faced with the classical dilemma of underdeveloped nations: it was becoming more and more dependent on exports of primary products to maintain its balance of payments while increasingly importing manufactured goods. Barnet and Müller also pointed to the growing polarization of income distribution and the expanding political power of corporations in the U.S. as symptoms of "LatinAmericanization." In an especially prescient chapter, they suggested that the accelerating international mobility of capital was undermining the power of organized labor in the U.S., creating a new imperative for transnational forms of unionism.[1]

Barnet and Müller were primarily concerned with the growing power of U.S.-based multinationals and their increased investments abroad, rather than with investment inside the U.S. by multinationals based elsewhere. However, foreign investment in the U.S. also grew rapidly in the 1970s. It attracted little attention inside the country at that time, but commentators across the Atlantic took note of it as they analyzed the impact of increased international capital mobility on the advanced industrialized countries of Western Europe. While they focused primarily on the export of capital by European transnationals to the newly industrialized countries of the Third World, by the late 1970s a group of West German analysts was able to show that the U.S. was also emerging as an attractive site for direct investment by European firms. In their book *The New International Division of Labour*, which analyzed the causes and consequences of the new capital hypermobility, Folker Fröbel and his colleagues identified the reasons for the U.S.'s enhanced appeal to European investors. North America offered various advantages they lacked at home, including:

> skilled and often non-trade union organised workers, good sites for export-oriented production, indirect and direct government investment assistance, "political stability," and, in addition, the great importance of the U.S. domestic market. . . . U.S. companies have on average relocated their production to quite a considerable extent . . . to the new sites abroad. This has led to the creation of chronically high open and hidden unemployment and stagnating or falling real

incomes for workers. The USA has therefore become a favourable location for technologically advanced production for West European countries. . . . Alongside changes in the value of the dollar, lower social benefits and more hours worked per worker per year also play their part. The pace of work is somewhat higher and working hours per year longer (fewer holidays and days off), and it is easier to dismiss workers. The existence of different degrees of union organisation is also influential in the choice of site. The low level of union organisation is offered as an incentive to foreign companies.[2]

Of course, European direct investment in the U.S. was not a new phenomenon in the 1970s. It had grown rapidly in the pre-World War I years and again during the 1920s. Interrupted by the crises of the 1930s and 1940s, the upward trend resumed in the 1950s.[3] But after World War II, from which the U.S. emerged as the world's largest exporter of capital (replacing Britain), for nearly four decades U.S. direct investment in Europe exceeded European direct investment in the U.S. As Table 1 shows, the gap narrowed in the late 1970s, and by 1983 the roles were reversed: European direct investment in the U.S. was larger than U.S. direct investment in Europe. Five years earlier, the U.S. had replaced Canada as the world's largest recipient of FDI.[4] "The tables have turned on foreign investment in America," the London *Economist* noted in 1988. "For decades it was American firms that bought foreign rivals and set up factories around the world. Now it is the foreigners writing the cheques."[5] The bulk of FDI in the U.S. still originates in Europe, but in the 1980s Japan emerged as an increasingly important source.

The Growth and Composition of JDI in the U.S.

In the 1970s, the volume of JDI in the U.S. was still relatively small, totaling only $600 million in 1975 (compared to $18.6 billion from Europe that year). However, by 1981 JDI had multiplied more than twelvefold, to $7.7 billion; that was also the first year in which JDI in the U.S. exceeded U.S. direct investment in Japan. Over the years that followed, JDI continued to expand rapidly. While the magnitude of the increase is difficult to measure precisely because of the dramatic weakening of the dollar in relation to the yen during this same period, by any standard JDI

Table 1

Cumulative Direct Investment to and from the U.S., 1950-90
(in billions of dollars)

YEAR	U.S. DIRECT INVESTMENT ABROAD				FOREIGN DIRECT INVESTMENT IN U.S.			
	Total	Europe	Japan	Other	Total	Europe	Japan	Other
1990	421.5	204.2	21.0	196.3	403.7	256.5	83.5	63.7
1989	370.0	175.2	18.5	176.3	373.8	243.0	67.3	63.5
1988	335.9	157.0	18.0	160.9	314.8	208.9	51.1	54.8
1987	314.3	150.4	15.7	148.2	263.4	181.0	34.4	48.0
1986	259.8	120.7	11.5	127.6	220.4	144.2	26.8	49.4
1985	230.3	105.2	9.2	115.9	184.6	121.4	19.3	43.9
1984	211.5	91.6	7.9	112.0	164.6	108.2	16.0	40.4
1983	207.2	92.2	7.7	107.3	137.1	92.9	11.3	32.9
1982	221.5	99.5	6.9	115.1	124.7	83.2	9.7	31.8
1981	228.3	101.6	6.8	119.9	108.7	72.4	7.7	28.6
1980	215.4	96.3	6.2	112.9	83.0	54.7	4.7	23.6
1979	186.8	82.6	6.2	98.0	54.5	37.4	3.5	13.6
1978	162.7	70.6	5.4	86.7	42.5	29.2	2.7	10.6
1977	146.0	62.5	4.6	78.9	34.6	23.8	1.8	9.0
1976	136.4	55.1	3.8	77.5	30.8	20.2	1.2	9.4
1975	124.0	49.3	3.3	71.4	27.7	18.6	0.6	8.5
1970	75.5	25.2	1.5	48.8	13.3	9.6	0.2	3.5
1966	51.8	16.4	0.7	34.7	9.1	6.3	0.1	2.7
1950	11.8	1.7	0.02	10.1	3.4	2.2	*	1.2

*Included in Other.

Sources: U.S. Dept. of Commerce, *Survey of Current Business*, various issues; U.S. Dept. of Commerce, *Statistical Abstract of the U.S.*, various years; U.S. Dept. of Commerce, International Trade Administration, *International Direct Investment: Global Trends and the U.S. Role* (1988), pp. 100, 115.

soared during the 1980s. By 1990 it stood at $83.5 billion, according to U.S. Department of Commerce figures. That was almost four times the level of U.S. direct investment in Japan and nearly one-third the total level of direct investment in the U.S. from all the nations of Western Europe combined (compared to less than one-tenth the European total as recently as 1980). By 1990, as Table 2 shows, among individual countries with direct investments in the U.S., Japan ranked second (to the U.K.), while only nine years before it had ranked seventh. If recent trends continue, Japan will soon be in first place.

JDI is present in many different sectors of the U.S. economy, from manufacturing, real estate, and banking, to wholesale and retail trade. Throughout the 1980s, manufacturing accounted for about 20 percent of the total, growing as rapidly as JDI in general. Over 9 percent of all FDI in U.S. manufacturing originated in Japan in 1990, compared to 5 percent as recently as 1987.[6]

The U.S. has long been the location of choice for Japanese direct investors, accounting for over a fifth of all JDI worldwide by 1975, according to Japanese government data.[7] As Table 3 shows, the U.S. share has increased steadily ever since, even as JDI worldwide has skyrocketed. World JDI grew over 850 percent between 1980 and 1990, while JDI in the U.S. grew nearly 1500 percent in the same ten-year period. The U.S. share of worldwide JDI expanded from 24 percent of world JDI in 1980 to 42 percent in 1990. The rise was even sharper in manufacturing: the North American proportion of worldwide manufacturing JDI grew from 19 percent in 1980 to 49 percent in 1990.[8] By 1990, Japan had invested $40.3 billion in North American manufacturing, more than twice the level of manufacturing JDI in all of Asia ($18.7 billion, excluding Japan itself) and over three times the level in Europe ($12.5 billion).[9]

As JDI in North American manufacturing grew, it underwent a radical change in composition. At the beginning of the 1970s, the vast bulk (78 percent) of manufacturing JDI in North America involved the wood products industry (lumber and pulp). As Table 4 shows, however, a decade later JDI in North American manufacturing had become much more diversified, with wood products accounting for only 13 percent of the total and electrical products in the lead with 24 percent. By 1990, after a dramatic twentyfold increase in JDI in North American manufacturing since 1979, the

Table 2

Foreign Direct Investment Position in the U.S., 1980 and 1990, for Largest Ten Investing Countries

Country	1980			1990		
	Millions of US $	as % of total	1980 rank	Millions of US $	as % of total	1990 rank
United Kingdom	$14,105	17%	2	$108,055	27%	1
Japan	4,723	6	7	83,498	21	2
Netherlands	19,140	23	1	64,333	16	3
(West) Germany[a]	7,596	9	4	27,770	7	4
Canada	12,162	15	3	27,733	7	5
France	3,731	4	8	19,550	5	6
Switzerland	5,070	6	6	17,512	4	7
Dutch Antilles	6,651	8	5	11,150	3	8
Sweden	1,670	2	10	5,450	1	9
Belgium	1,815[b]	2	9	4,230	1	10
All Countries	83,046[c]	100%[c]		403,735[c]	100%[c]	

[a]For 1980, West Germany only; for 1990, reunified Germany.

[b]Includes Luxembourg.

[c]Totals do not add to 100 percent because not all countries are shown.

Sources: U.S. Dept. of Commerce, *Survey of Current Business*, June 1991, p. 32; U.S. Dept. of Commerce, International Trade Administration, *International Direct Investment: Global Trends and the U.S. Role* (1988), p. 116.

Table 3

Japanese Direct Investment in the U.S. and Worldwide, Cumulative Totals for 1975-90, Selected Years (in $ US million)

Years (Cumulative Totals)	JDI in the U.S.	JDI Worldwide	JDIUS as % of Total JDI	Manufacturing JDI in North America[a]	Manufacturing JDI Worldwide	Mfg. JDI in N. America as % of all Mfg JDI[a]
FY 1951-1975	3,418	15,943	21.5%	814	5,037	16.1%
FY 1951-1979	7,394	31,804	23.2%	2,030	10,867	18.7%
FY 1951-1980	8,878	36,497	24.3%	2,428	12,573	19.3%
FY 1951-1981	11,207	45,403	24.7%	3,408	14,853	22.9%
FY 1951-1982	13,970	53,131	26.3%	4,250	16,952	25.1%
FY 1951-1983	16,535	61,276	27.0%	5,241	19,542	26.8%
FY 1951-1984	19,894	71,431	27.9%	6,483	22,048	29.4%
FY 1951-1985	25,290	83,649	30.2%	7,707	24,400	31.6%
FY 1951-1986	35,455	105,970	33.5%	9,906	28,206	35.1%
FY 1951-1987	50,159	139,334	36.0%	14,753	36,038	40.9%
FY 1951-1988	71,860	186,356	38.6%	23,944	49,843	48.0%
FY 1951-1989	104,400	253,896	41.1%	33,529	66,127	50.7%
FY 1951-1990	130,529	310,808	42.0%	40,322	81,613	49.4%

[a]Data in right half of table include U.S. and Canada.

Sources: All years in left half of table and data for FY 1951-79 through FY 1951-82 and FY 1951-90 in right half of table are from Japan Ministry of Finance, Institute of Fiscal and Monetary Policy, *Monthly Finance Review*, various issues. This publication does not include a breakdown by region and economic sector for the period before FY 1979 or for the years FY 1983-87. FY 1987 data are from Hiroki Sakamoto, "Japan's Outward and Inward FDI," *The Centre on Transnational Corporations Reporter* (United Nations, New York), no. 27 (Spring 1989), p. 65. Data for other years are derived from Tsūshō Sangyōshō Sangyō Seisakukyoku Kokusai Kigyō-ka (MITI), *Waga Kuni Kigyō no kaigai jigyō katsudō*, v. 16 (Tokyo: Keibun Shuppan, 1988), pp. 132-135.

Table 4

Composition of Japanese Direct Investment in North American Manufacturing, FY 1951-69, FY 1951-79, and FY 1951-90 (Cumulative totals, in $US million)

Period	FY 1951-69		FY 1951-79		FY 1951-90	
Industry	Amount	Percent[a]	Amount	Percent[a]	Amount	Percent[a]
Foodstuffs	$1.8	1%	$180	9%	$1,831	5%
Textiles	3.0	2	167	8	759	2
Lumber & pulp	125.3	78	269	13	2,061	5
Chemicals	9.9	6	230	11	4,824	12
Metals	0.9	1	323	16	4,183	10
Machinery	2.7	2	189	9	3,973	10
Electrical equipment	0.3	--	495	24	11,099	28
Transportation equipment	15.0	9	71	4	5,030	12
Other	1.3	1	105	5	6,563	16
Total	$160.2	100%	$2,030	100%	$40,322	100%

[a]Totals may not add to 100 percent due to rounding.

Sources: FY 1951-69: Charles Sebestyen, *The Outward Urge: Japanese Investment World-Wide* (London: The Economist Intelligence Unit Ltd., 1972), p. 20; FY 1951-79 and FY 1951-90: Japan Ministry of Finance, Institute of Fiscal and Monetary Policy, *Monthly Finance Review*, August 1980, p. 18, and June 1991, p. 22.

transportation equipment industry was in second place, but electrical products retained their strong lead.

Explaining the Growth of JDI

What explains the spectacular rise in the export of capital to the U.S. from Japan in the 1980s? The success of export-oriented industrialization in Japan in the 1960s and 1970s generated enormous amounts of capital, which made extensive direct investment abroad possible. As the largest single market for Japanese products, the U.S. became an especially attractive site for JDI. The growing trade frictions between the U.S. and Japan played a critical role here, for JDI served as a preemptive strike against protectionism. When the U.S. attempted to alleviate its trade deficit by manipulating the value of the dollar in the mid-1980s, the result was a dramatic cheapening of production costs and of U.S. assets generally for foreign investors, further accelerating the growth of JDI. In addition, labor conditions in the U.S. made it attractive to foreign investors. By the late 1980s, wages were only slightly higher than in Japan, unionization rates were low by any standard, and labor appeared generally more tractable than in other nations with developed economies.

Trade Friction and the Fear of Protectionism. The initial growth of JDI took place in the context of the broader internationalization of production. New production technologies and cheaper transportation and communication accelerated the flow of capital across national borders in the 1970s and 1980s. Indeed, at the same time that foreign capital was penetrating the U.S. at an unprecedented rate, domestic capital was leaving the country in search of new markets and lower production costs. In this period, capital flows into the U.S. accelerated rapidly, coming not only from Japan but also from Europe and even from the newly industrializing countries of the Third World.[10] (See Table 1.) Japan's export-led growth in the 1960s and 1970s had established vast demand inside the U.S. for Japanese consumer goods, especially automobiles and electronics, so that JDI in the U.S. grew especially rapidly.

Nations with large internal markets have always been attractive sites for FDI, especially in the manufacturing sector. For this reason FDI tends to be disproportionately concentrated in advanced or developed nations, even though its effects in the Third World often receive more attention. The U.S., with the

world's largest domestic market, proved to be a natural magnet for the Japanese capital that accumulated so rapidly in the 1970s and 1980s. The longstanding prestige of the U.S. as a market for Japanese goods, dating back to the American victory over Japan in the second World War and the U.S.'s unquestioned economic supremacy in the immediate postwar period, reinforced the attractiveness of the U.S. In the 1960s, when Japanese exports to the U.S. began their rapid growth, the mark of success and prestige for a Japanese firm was to be able to sell its products to consumers in the U.S. on a large scale. By the 1970s and 1980s, when Japanese investors were expanding their holdings around the world, the U.S. quickly emerged as the most prestigious site for JDI. Since by then Japanese manufactured goods were already being sold in vast quantities in the U.S. market, the new investment involved relatively low risks.

As the U.S.-Japan trade deficit widened in the 1970s and 1980s, the specter of protectionism posed an increasingly serious problem for which JDI quickly emerged as an acceptable solution. Much of the new JDI, especially in manufacturing, was essentially export substitution, whereby Japanese firms transferred production to the U.S. of goods that were formerly made in Japan and exported to the U.S. In contrast to the import substitution industry that developed in the Third World in earlier decades, here it was the investing country rather than the host that took the initiative in making the switch from exports to direct investment. JDI was designed on the Japanese side as a means of undercutting potential protectionism; unlike import restraints, it was not explicitly demanded by the U.S. Nevertheless, the shift from trade to JDI garnered widespread political support in the U.S. Although there was ongoing American concern about the trade deficit, and continuing pressure to restrict imports, there was no significant opposition to the growth of JDI; on the contrary, it was widely embraced as a welcome solution to the nation's trade problems.

The Devaluation of the Dollar. In the 1980s, which opened with the most severe recession since the Great Depression and which then brought unprecedented trade and budget deficits, more and more Americans began to realize that the U.S. faced serious problems in relation to the international economy. In the middle of the decade, the Reagan administration turned to a strategy of manipulating currency values to attack the trade deficit, hoping that by depressing the value of the U.S. dollar on world markets it would make imports more expensive and exports cheaper. In

the mid-1980s, therefore, the U.S. government deliberately devaluated the dollar, halving its value in relation to the yen and reducing it against most other major currencies as well in a few short years, as Table 5 shows. While it did help boost U.S. exports to some degree, as a strategy to resolve the import problem, the devaluation was a dismal failure. The dollar had already declined in value in relation to the Japanese yen and the German mark during the 1970s, yet the U.S.'s historical trade surplus had been replaced by a trade deficit in that very decade. By the time the government devaluated the dollar in the mid-1980s, many popular imported products—such as videocassette recorders and other consumer electronics—were not even manufactured in the U.S. and thus continued to be imported regardless of price. Besides, many firms exporting to the U.S. (especially the Japanese) adjusted their prices downward to help compensate for the decline in the dollar's value, successfully retaining their U.S. markets. Thus imports continued to increase despite the devaluation.

In addition, the devaluation of the dollar had another crucial (though almost surely unintended) effect on the economic position of the U.S. The cost of direct investment in the U.S. was literally cut in half for the Japanese (and Germans) between 1984 and 1987, accelerating the existing trend toward growth of JDI and inward investment more generally. Foreign investors moved in rapidly in the late 1980s, acquiring existing firms, purchasing real estate, and setting up entirely new operations—all at bargain prices. The Japanese increased their holdings especially rapidly, spurred by the fear of protectionism as well as the reduced costs of doing business in North America. Indeed, as the *New York Times* put it in a recent front-page story, "the United States, long derided as an industrial has-been, has become one of the world's low-cost manufacturers."[11]

Labor Costs and Labor Climate. Labor and compensation costs—that is, wages and benefits—in the U.S., although still high by world standards, rose less rapidly than did those in many other developed countries in the 1970s and 1980s. As a result, while in the 1960s U.S. workers were better compensated than those in virtually all other nations, by 1988, workers in West Germany, Belgium, the Netherlands, and all of Scandinavia had higher compensation rates than those in the U.S.[12] Even in those developed countries where compensation levels remain lower than in the U.S., they have generally increased faster than in the U.S.

Table 5

Exchange Rates, 1965-90, Selected Years
Mid-point (Average of Buying and Selling Rates) at Year-end

Year	Yen per U.S. Dollar	Pounds per U.S. Dollar	D-Marks per U.S. Dollar
1965	¥ 361	£ .36	4.01 DM
1970	358	.42	3.65
1975	305	.49	2.62
1980	203	.42	1.96
1981	220	.52	2.26
1982	235	.62	2.38
1983	232	.69	2.72
1984	251	.87	3.15
1985	201	.69	2.46
1986	159	.68	1.94
1987	124	.53	1.58
1988	126	.55	1.78
1989	143	.62	1.70
1990	134	.52	1.49

Sources: United Nations, *Statistical Yearbook*, and United Nations, *Monthly Bulletin of Statistics*, various issues.

over the last 20 years, as Table 6 shows. The most extreme change in the America's relative position was with Japan, whose 1980 compensation levels were only 57 percent of the U.S. level, but had climbed to 95 percent of the U.S. level by 1988. Of course, this partly reflects the dramatic currency shifts of the 1970s and 1980s, but the virtual disappearance of the wage gap in dollar terms was nonetheless a major spur to Japanese investment.

U.S. labor costs remain far higher than in the newly industrializing countries, but compensation costs have been rising relatively rapidly in many such countries in recent years. In addition, average hourly compensation costs conceal a wide range of variation in pay rates. U.S. labor costs in some localities and for some population groups are far lower than average. Saskia Sassen goes so far as to argue that "Technical, economic and political constraints along with . . . *the availability of a low-wage immigrant work force* make certain regions of the U.S. internationally competitive and thus part of the global marketplace of production sites."[13] California is among the regions where immigrant labor is abundant, and most Japanese-owned factories in the state rely heavily on immigrant labor, as we shall see. Sassen probably exaggerates the role of labor cost factors in attracting recent foreign investment to the U.S. (while underestimating the importance of the vast U.S. internal market and the desire of Japan in particular to preempt protectionism). Commentator Toshio Shishido seems closer to the mark in pointing out that "Investments by Japanese enterprises in America have been 'survival operations,' not major profit centers," and that "the main motive for overseas expansion has been the desire to avoid import restrictions."[14] But the fact that labor costs in the U.S. have declined (especially relative to Japan itself), in tandem with the broader erosion of the position of the U.S. and its currency in the global economy, certainly reinforces the broader trend toward increased foreign investment in the U.S.

In any case, labor costs are not the only consideration. Foreign firms find other aspects of the U.S. labor climate appealing as well. As the manager of a French-owned firm noted, "What the French investor loses in wage costs, he makes up in lower fringe costs and in greater managerial flexibility, including the freedom to fire workers when he wishes."[15] Still other attractive features of the labor situation in the U.S. are suggested by Table 6. Hours worked per year are much more extensive than in most of Western

Table 6

Wages, Hours, Unemployment, Work Stoppages, and Unionization Levels, Selected Countries, 1960-88

	Year	USA	Japan	France	FRG	UK	Italy	Sweden	Canada
Hourly compensation costs for production workers in manufacturing (in U.S. $)[a]	1960	$2.66	$0.26	$0.82	$0.85	$0.84	$0.63	$1.20	$2.13
	1970	4.18	.99	1.72	2.33	1.49	1.76	2.93	3.46
	1980	9.84	5.61	8.94	12.33	7.43	8.00	12.51	8.37
	1988	13.90	13.14	12.99	18.07	10.56	12.87	16.85	13.58
Hours worked per worker per year in manufacturing	1960	1940	2509	1957	2079	2127	2046	1970	1881[b]
	1970	1913	2269	1872	1889	1997	1905	1744	1918
	1980	1885	2158	1713	1701	1838	1742	1508	1852
	1989	1956	2159	1610	1603	1851	1858	1487	1895
Civilian unemployment rate (percent)	1960	5.5%	1.7%	1.5%	1.1%	2.2%	3.7%	1.7%	6.5%
	1970	4.9	1.2	2.5	0.5	3.1	3.2	1.5	5.7
	1980	7.1	2.0	6.4	2.9	7.0	4.4	2.0	7.5
	1988	5.5	2.5	10.5	7.1	8.3	7.9	1.6	7.8
Union membership as a percentage of all non-farm wage and salary workers	1960	32%	34%	24%	39%	45%	55-60%	68%	31
	1970	31	35	22	37	51	50-55	79	32
	1980	25	31	28	42	57	43	90	36
	1987	17	28	10-19[c]	43[d]	50[d]	38[e]	96[e]	36
Days lost to work stoppages per 1000 nonfarm employees	1960	248	216	89	2	138	127	6	156
	1970	759	120	113	4	499	1,554	48	951
	1980	235	25	96	6	529	1,002	1173	945
	1988	43	4	70	1[f]	169	174	201[f]	313

[a] Includes pay for time worked; for vacations, holidays and leave; bonuses and special payments; and pay in kind, before payroll deductions. Also includes employer expenditures for legally required insurance programs and contractual and private benefit plans. For some countries, adjusted for payroll taxes and other factors that are regarded as labor costs.

[b] 1961 figure (1960 not available)

[c] 1988 estimate (1987 not available)

[d] 1986 figures (1987 not available)

[e] 1985 figure (1987 not available)

[f] 1987 figures (1988 not available)

Sources: Hourly Compensation for 1980, 1988; Unemployment, and Work Stoppages: U.S. Department of Labor, Bureau of Labor Statistics, *Handbook of Labor Statistics*, Bulletin 2340 (August 1989), pp. 554, 572, 581; Hourly Compensation for 1960, 1970: U.S. Department of Labor, Bureau of Labor Statistics, *Handbook of Labor Statistics*, Bulletin 2271 (June 1985), p. 437; Hours worked for all countries, and unionization except as noted below: Unpublished data from the U.S. Department of Labor, Bureau of Labor Statistics, Office of Productivity and Technology, Division of Foreign Labor Statistics; other unionization data from: *Economist*, June 23, 1990, p. 62 (for France 1988 estimate); and for Italy in 1980 and 1985, computed from Guido Romagnoli, "Sindacalizzazione e rappresentanza," in *Le relazioni sindacali in Italia: rapporto 1981*, eds. Guido Baglioni, Ettore Santi and Corrado Squarzon (1982), p. 177; and Guido Romagnoli, "Sindacalizzazione e rappresentanza," in *Le relazioni sindacali in Italia: rapporto 1985/86*, eds. Guido Baglioni, Rinaldo Milani, and Ettore Santi (1987), p. 181.

Europe (where vacations and other leaves are customarily far longer), and are exceeded only in Japan itself.[16] While unemployment is low in the U.S. compared to Western Europe, the official figures shown in Table 6 do not include "discouraged workers"; even excluding them, unemployment in the U.S. is twice the Japanese level. The available supply of labor for manufacturing industry is further amplified by surging immigration combined with the decline of domestic manufacturing.

Another major attraction of the U.S., from the viewpoint of foreign investors, is the low, and rapidly declining, rate of union membership. For many decades, the U.S. had lower union density than most other developed nations, but in the 1970s and 1980s its already low unionization rate declined dramatically, both in absolute terms and relative to the worldwide deunionization of the 1980s. The aggregate figures shown in Table 6 conceal an even steeper decline in private sector unionization, which had fallen to 12 percent (for nonfarm wage and salary workers) by 1990. In manufacturing, the rate remains higher than for U.S. workers generally, with 21 percent unionized in 1990, but this is still a low figure by international standards.[17] The U.S. also compares favorably—from an investor's perspective—to many other countries in regard to time lost to work stoppages: of the countries shown in Table 6, only West Germany and Japan lost fewer hours per worker.

To sum up, there are several reasons for the U.S.'s recent emergence as a key site for Japanese export substitution industry. First and foremost is the vast North American internal market and the desire of Japanese firms to preempt potential protectionism. The declining value of the dollar in relation to the yen further enhanced the appeal of the U.S. to Japanese investors. Finally, the relative decline in labor costs and other characteristics of the labor climate—indeed the very factors Fröbel et al. pointed out in the extract quoted earlier—also helped stimulate the rapid growth of JDI in the past decade.

The Open Door: Public Attitudes and State Policy on JDI

Because of the enormous economic strength of the U.S. in past years, the possibility that direct investment could pose a threat to the economic integrity or national security of the U.S. simply did not occur to most of its policymakers until quite recently. Even the recognition that the U.S. had declined

economically relative to other nations came belatedly. Clyde Prestowitz, Jr., a leading trade negotiator for the U.S. during the Reagan administration, recalls that when he began his assignment in 1981, the Japanese were well aware of the relative decline of the U.S. economy, but "what was clear in Tokyo was less so in Washington. The first task was to convince anyone there might be a problem."[18] The arrogance of U.S. elites, rooted in decades of past hegemony, made the nation unusually vulnerable in the face of rapidly changing economic circumstances.

Among the wider population, however, awareness of the deterioration of the international economic position of the U.S. and of the growth of JDI has been growing rapidly. An August 1989 *Business Week* poll found that 64 percent of the adults surveyed believe that the U.S. economy will be "dominated by foreign companies" by the end of the century.[19] In a survey conducted earlier that year by the *Washington Post*, 54 percent of those interviewed named Japan as "the strongest economic power in the world today," while only 29 percent named the U.S.[20] Similarly, when asked by the *Wall Street Journal* in early 1990 whether Japan, the U.S., or Germany had the strongest overall economy, 69 percent of the American voters polled chose Japan, 17 percent the U.S., and 9 percent Germany. (In contrast, 50 percent of Japanese respondents chose the U.S., 43 percent Japan, and 2 percent Germany.)[21]

These polls also expose the growing public concern about the recent growth of foreign investment in the U.S. and about JDI in particular. Among the American voters polled by the *Wall Street Journal* in 1990, 69 percent felt that Japan invests "too much" in the U.S.[22] Similarly, a *New York Times* poll conducted the same year found widespread public hostility toward JDI: 64 percent of respondents said that Japanese investment is "a threat to American economic independence." Significantly, however, only 50 percent felt this way about investment from the Middle East, and only 37 percent about European investment.[23] The polls themselves offer no clue as to whether the particularly negative quality of attitudes toward JDI is due to racism, or, alternatively, simply reflects the more extensive media coverage of Japanese investment relative to that from other areas of the world.

A more detailed set of public opinion data on JDI was collected in a 1988 poll of California, Michigan and Tennessee (all states with substantial amounts of JDI) sponsored by the Japan Society. Three groups were surveyed: the general public,

"community leaders" (mostly from business, government, the media and academia), and employees of Japanese-owned firms.[24] Table 7 summarizes some of the findings, revealing considerable public ambivalence toward JDI. More than half (60 percent) of the respondents in the public sample who expressed an opinion saw JDI as "good for the American economy"; yet almost three-quarters (72 percent) of those with an opinion saw it as causing "the U.S. to lose its economic independence." Despite such apparently contradictory sentiments, like the other polls cited, this one suggests that by the late 1980s there was substantial public discomfort with the growth of JDI. This poll is also of interest for the systematic differences it found among the three groups surveyed. The employees of Japanese-owned firms were the least critical of JDI, perhaps because it is tied so directly to their personal economic interests. The community leaders were also much more favorably disposed toward JDI than the general public, especially on the question of whether it should be restricted in the future.

Other survey data confirm the impression this poll suggests, namely that elites view foreign investment more positively than the general public does. A Gallup poll conducted for Times Mirror in January-February 1989 found that while 70 percent of the general public sampled felt that foreign ownership of companies in the U.S. was "a bad thing," only 26 percent of the "opinion leaders" surveyed in the same poll had this view.[25] An extensive study of elite and mass opinion conducted by Smick-Medley International drew similar conclusions. Forty-five percent of the "mass" sample said they thought foreign investment in American manufacturing companies was "bad," but only 5 percent of the elite sample agreed. This same study found that 78 percent of the mass sample favored legal limitations on foreign investment and 40 percent favored a complete ban on further foreign investment. In contrast, only 13 percent of the elite sample were favorably disposed toward the general idea of limiting foreign investment, and only 1 percent supported a complete ban.[26] Similarly, a 1987 survey of corporate chief executive officers conducted by Yankelovich, Clancy, and Shulman, found that only 15 percent of those polled thought that Congress should limit foreign investment in American companies.[27]

U.S. government policy toward foreign investment within the nation's borders reflects the views of elites rather than those of the wider population. The popular discomfort with FDI has yet to

Table 7

Public Opinion on Japanese Direct Investment in California, Michigan, and Tennessee, Selected Results, 1988

	Public	Leaders	Employees
• "Japanese direct investment causes the U.S. to lose its economic independence."			
Agree	45.0%	39.9%	26.6%
Disagree	29.4	38.2	51.9
• "The U.S. should make it more difficult for the Japanese to make direct investments in this country in the future."			
Agree	35.8%	26.9%	19.7%
Disagree	31.7	49.1	55.7
• "Japanese direct investment should be slowed down."			
Agree	41.6%	33.7%	20.9%
Disagree	20.6	31.3	36.7
• "Japanese direct investment is good for the American economy."			
Agree	44.1%	53.6%	68.4%
Disagree	17.1	16.4	4.4

Note: Totals do not add to 100 percent because respondents who were neutral or had no opinion on the statements are not shown.

Source: Duane Kujawa and Daniel Bob, *American Public Opinion on Japanese Direct Investment* (New York: The Japan Society, July 1988), pp. 15, 21, 34.

have any visible impact on public policy. Far from restricting new investment from abroad, federal, state and local governments alike have done everything they can to encourage its growth. "The United States welcomes foreign direct investment that flows according to market forces," Ronald Reagan explained in 1983. "We believe that there are only winners, no losers."[28] At the national level, the openness of the U.S. to direct foreign investment (from whatever source) stands in stark contrast to the policies of other developed nations. Many Western European countries, as well as Canada and Australia, have formal mechanisms for screening foreign investment proposals. Ironically, Japan's investment approval process is among the strictest.[29] "The social and industrial structure of Japan have made it an extremely difficult market to penetrate," Clyde Prestowitz points out. "The United States does not view industry as a matter of national security as Japan does."[30]

Complementing the open-door attitude of the federal government is the active promotion of FDI by state and local officials, who fiercely compete to attract it. Most offer tax breaks and other incentives to firms that locate new plants in their territory, although the influence of such incentives on site selection is questionable at best. The assumption behind the incentive policies is that FDI will help revive lagging state and local economies. However, as Norman Glickman and Douglas Woodward argue in their exhaustive study of the economic development impact of FDI, the net job creation effects are modest or nonexistent. Much FDI involves acquiring existing firms, creating no new jobs at all. In the case of new start-ups, all too often "public incentives are used to attract foreign firms that then beat out existing local firms."[31]

Until recently, few voices were raised in opposition to FDI or in favor of regulating it in any way. U.S. business elites have been conspicuously silent on the question, perhaps because in the very period in which FDI in the U.S. increased so spectacularly, American firms were busily restructuring their own operations on a global basis. In the early 1980s, however, some business spokespersons indicated that they welcomed increased FDI, suggesting that it would put U.S. companies and their foreign competitors on a "level playing field." For example, auto industry analyst Maryann Keller points out that most General Motors executives had a sanguine view of the Japanese transplants a decade ago, when Honda announced plans for the first Japanese auto assembly plant on U.S. territory. A GM executive recalled:

> I suggested that the people in the [GM] World Wide Product Planning Group should be looking at the impending invasion, because if Honda is coming, then others are going to come. The response I met with was, "Oh, don't worry about those little yellow Japs. They will never make a go of it in the United States. They are going to have to contend with high costs and they are going to have to contend with the UAW, and it's simply not going to work."[32]

Like their counterparts in the government, business elites failed to grasp the full meaning of the challenge of FDI until it had firmly established itself on U.S. soil. Organized labor had a more complex relationship to FDI.

Organized Labor's Views on FDI

In the days when U.S. economic hegemony was unchallenged, both the U.S. government and business supported "free trade" policies, confident that U.S. industry would prevail both in export markets and at home. As international competition intensified, however, domestic support for protectionist measures began to grow. Organized labor, while supportive of free trade in the 1950s and 1960s, later emerged as the vanguard of the protectionist movement, supporting a variety of measures to insulate domestic industry from foreign competition by restricting imports of manufactured goods to the U.S.[33] For labor, the main goal of such measures is to preserve jobs for their members inside the U.S. In addition, protectionism can help prevent wages and labor standards from being dragged down to the lowest common denominator in the context of economic globalization.

Concern about the quantity and quality of jobs available to workers in the U.S. has also shaped organized labor's stance toward international investment flows. In general, unions have been highly critical of outward investment by U.S.-based multinationals, since such investment usually leads to job losses at home. On the other hand, U.S. unions generally welcome inward investment, since it helps redress the nation's trade imbalance and preserves or even creates jobs in the U.S. Thus organized labor is typically less concerned about the nationality of a firm's owners than about their commitment to operating in the U.S. The dominant view was expressed by President William H. Bywater of the International Union of Electronic, Electrical,

Salaried and Machine and Furniture Workers (IUE) in his recent Congressional testimony regarding government-sponsored research on high-definition television:

> American workers and their unions would prefer that foreign-owned firms with a commitment to creating American jobs be allowed to participate in these government programs, rather than American-owned firms without such a commitment. Many so-called 'U.S. firms' have already moved much of their production and jobs to their Mexican maquiladoras or elsewhere in the Third World where their workers are paid slave wages or lower."[34]

The automobile industry, where JDI has had a particularly extensive impact, offers an interesting example of the evolution of union attitudes toward international investment flows beyond this basic starting point. Back in the mid-1970s, when car imports were first beginning to seriously erode the domestic automakers' market share, the United Auto Workers' union (UAW) actively urged the Japanese to build auto assembly plants in the U.S. The hope was to maximize the number of auto industry jobs in this country, jobs that the UAW assumed—wrongly, as it turned out—would be held exclusively by its members.[35] With the rapid expansion of Japanese-owned auto manufacturing in the U.S. during the 1980s, however, the union began to lose its former enthusiasm for JDI. Because of the greater efficiency of Japanese-owned auto assembly plants and because they import more parts and components than U.S. automakers do, the union claims that JDI has actually resulted in a net loss of jobs in the domestic auto industry.[36] The UAW therefore has pressed for "domestic content" legislation requiring that both the Japanese-owned and the domestic auto firms increase the proportion of U.S.-made components in their automobiles.[37] And against the background of the failure of its recent efforts to unionize the Japanese-owned auto "transplants" in Ohio and Tennessee, the UAW has come full circle, explicitly criticizing the very JDI it had actively promoted in the 1970s as "an unprecedented assault on our nation's industrial core," and calling for government intervention to protect the domestic industry.[38]

The apparent anti-unionism of many foreign-owned firms operating in the U.S. has emerged as a central concern not only for the UAW but for organized labor more generally. Thus at its

1988 convention, the Industrial Union Department (IUD) of the AFL-CIO passed a resolution on "The Role of Foreign Investments in U.S. Economic and Political Life" which endorsed FDI as economically beneficial to U.S. workers, but at the same time pointed to the dangers it poses for the labor movement:

> The inflow of foreign investment dollars can supplement domestic investment and create U.S. productive capacity to replace imports and utilize new technology. Increased employment at good wages can result.
>
> But the foreigners may be getting more from their investments in the U.S. than is wise for us to give. . . .The first concern of workers about foreign-owned companies is that they can undermine American social standards—particularly by fighting workers' efforts to organize a union. . . .
>
> American citizens have a right to demand that foreign companies not undermine American social and workplace standards, whether environmental standards, equal opportunity, or consumer protection. American workers in particular have a right to demand that foreign-owned companies meet the highest—not the lowest—standards of corporate behavior in respecting workers' rights.[39]

Both the IUD and the AFL-CIO as a whole have pressed for legislation requiring greater disclosure and monitoring of foreign investment holdings in the U.S., although they have not endorsed outright restrictions on such inward flows.[40] As a IUD discussion paper explains, disclosure requirements can be very important in the context of union organizing efforts.

> There have been some foreign-owned corporations which have followed the worst practices of the most anti-union and anti-social domestic companies. . . . If these were domestic corporations, workers and their unions could take whatever steps were possible within the law to win collective bargaining and improve their conditions. In the case of foreign-owned corporations, however, some of these steps are difficult if not impossible. In many cases, basic policy decisions are made in the home country, and trying to influence U.S. based management can be futile. Also, foreign-owned companies are not required to provide the same extent of information as domestic companies . . . and as a result strategic planning is made more difficult. . . . It is important to have sufficient information and the proper contacts so that management cannot avoid responsibility and accountability.[41]

In short, organized labor seems prepared to accept increased FDI provided that disclosure requirements are increased and the

firms involved respect existing U.S. labor laws. The general public is far more concerned than most unions appear to be about the overall economic effects of FDI; labor's concern focuses instead—as one might expect—on the impact of FDI on the quantity and quality of jobs for the nation's workers. Yet the fact that the UAW, which represents workers in the unionized industry most affected by JDI (autos), has changed from an advocate to a critic of the phenomenon, suggests that as FDI continues to grow, organized labor may have second thoughts about its implications for workers, for unions, and for the nation's economy.

NOTES

1. Richard J. Barnet and Ronald E. Müller, *Global Reach: The Power of the Multinational Corporations* (New York: Simon and Schuster, 1974), especially Chapters 9 and 11.

2. Folker Fröbel, Jürgen Heinrichs and Otto Kreye, *The New International Division of Labour: Structural Unemployment in Industrialised Countries and Industrialisation in Developing Countries* (Cambridge: Cambridge University Press, 1980, translated by Pete Burgess from the 1977 German edition), pp. 251-252.

3. Norman J. Glickman and Douglas P. Woodward, *The New Competitors: How Foreign Investors Are Changing The U.S. Economy* (New York: Basic Books, 1989), pp. 27-30.

4. U.S. Department of Commerce, International Trade Administration, *International Direct Investment: Global Trends and the U.S. Role* (Washington, D.C.: U.S. Government Printing Office, 1988), p. 37.

5. "Love and Hate in America," *Economist*, vol. 306 (March 19, 1988), p. 74.

6. Computed from data in U.S. Department of Commerce, *Survey of Current Business*, vol. 71, no. 8 (August 1991), pp. 51-54.

7. These data differ in some respects from those published by the U.S. Department of Commerce that are the basis of the previous discussion, because of different reporting requirements and data collection methods. The Japanese data are based on investment levels notified to and approved by the government (which are often higher than actual JDI), and they do not include disinvestment or reinvested earnings. Both countries count investments of more than 10 percent equity as FDI. See Masataka Fujita, "FDI Between Japan and the United States," *The Centre on Transnational Corporations Reporter* (United Nations), no. 29 (Spring 1990), p. 32. The U.S. data offer more detail about the composition of JDI inside the U.S.; however only the Japanese data allow a comparison of patterns of JDI in the U.S. with JDI elsewhere in the world. The Japanese data cited in this paragraph and in Table 3 are all cumulative figures from Fiscal Year (FY) 1951 to the FY cited. Each FY runs from April 1 to March 31; for example FY 1988 is from April 1, 1988 to March 31, 1989.

8. This includes the U.S. and Canada; data are not published at this level of detail for the U.S. separately. However, for all years the vast bulk of JDI in North America was in the U.S.

9. Institute of Fiscal and Monetary Policy, Ministry of Finance (Japan), *Monthly Finance Review*, no. 216 (June 1991), p. 22.

10. On economic globalization generally see Barnet and Müller, *Global Reach*; Fröbel et al., *New International Division of Labor*. On the export of capital from the U.S. see Barry Bluestone and Bennett Harrison,

The De-industrialization of America. On the growth of foreign investment inside the U.S., see Glickman and Woodward, *New Competitors*.

11. Sylvia Nasar, "Boom in Manufactured Exports Provides Hope for U.S. Economy," *New York Times*, April 21, 1991, p. 1.

12. U.S. Department of Labor, Bureau of Labor Statistics, *Handbook of Labor Statistics*, Bulletin 2340 (August 1989), p. 572.

13. Saskia Sassen, *The Mobility of Labor and Capital: A Study in International Investment and Labor Flow* (New York: Cambridge University Press, 1988), p. 171. Emphasis added.

14. Toshio Shishido, "Capital Transfers from Japan to the United States: A Means of Avoiding Trade Friction," in Ryuzo Sato and Julianne Nelson, eds., *Beyond Trade Friction: Japan-U.S. Economic Relations* (New York: Cambridge University Press, 1989), p. 168.

15. Quoted in Glickman and Woodward, *New Competitors*, pp. 107-108. On international differences in the degree of permanence in the attachment of workers to their jobs, see Joyanna Moy and Constance Sorrentino, "Unemployment, Labor Force Trends, and Layoff Practices in 10 Countries," *Monthly Labor Review*, vol. 104, no. 12 (December 1981), pp. 3-13.

16. See Robert K. Landers, "America's Vacation Gap," *Editorial Research Reports*, vol. 1, no. 23 (June 17, 1988), pp. 314-322.

17. The 1990 figure is from *Employment and Earnings*, vol. 38, no. 1 (January 1991), p. 229. For discussion of recent trends in unionization, see Richard B. Freeman, "Contraction and Expansion: The Divergence of Private Sector and Public Sector Unionism in the United States," *Journal of Economic Perspectives*, vol. 2, no. 2 (Spring 1988), pp. 63-88.

18. Clyde V. Prestowitz, Jr., *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books, 1988), p. 15.

19. The question reads: "Now, within our own economy here at home, in the next 10 years do you think the economy will be dominated by U.S. companies or be dominated by foreign companies?" The poll was conducted in August 1989 and was published in the Sept. 25, 1989 issue of *Business Week*, p. 175.

20. "Americans Rate Japan No. 1 Economic Power," *Washington Post*, Feb. 21, 1989, p. A19.

21. "Strained Alliance: U.S., Japan Struggle to Redefine Relations As Resentment Grows," *Wall Street Journal*, June 13, 1990, pp. A1, A8.

22. Ibid.

23. "Americans Voice Worry on Japan; Tokyo Softens," *New York Times*, July 10, 1990, p. A7 (national edition).

24. Duane Kujawa and Daniel Bob, *American Public Opinion on Japanese Direct Investment* (New York: The Japan Society, July 1988). The public sample (n=1200) was designed to provide a cross-section of the adult population of each state. The leadership sample (n=416) included representatives of the business community (about one-third), government, the media and academia, with a sprinkling of representatives from other groups (organized labor, religious groups, nonprofit organizations). The sample of employees (n=158) included blue- and white-collar workers from 11 firms.

25. Cited in *Foreign Direct Investment: Effects on the United States*, report by the Subcommittee on Economic Stabilization, Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, 101st Congress, 1st Session (July 1989), p. 174.

26. Cited in *Foreign Direct Investment: Effects on the U.S.*, p. 179 (Table 8), p. 191 (Table 24), p. 197 (Table 33).

27. Cited in *Foreign Direct Investment: Effects on the U.S.*, p. 190.

28. "Statement on International Investment Policy," Sept. 9, 1983, in *Public Papers of the Presidents of the United States, Ronald Reagan, 1983*, Book 2 (Washington, D.C.: U.S. Government Printing Office, 1985), pp. 1243-1244.

29. Glickman and Woodward, *New Competitors*, p. 262. See also Martin and Susan Tolchin, *Buying Into America: How Foreign Money Is Changing the Face of Our Nation* (New York: Times Books, 1988), especially Chapter 16.

30. Prestowitz, Trading Places, p. 13.

31. See Glickman and Woodward, *New Competitors*, especially Chapter 8. The quote is from p. 245.

32. Maryann Keller, *Rude Awakening: The Rise, Fall, and Struggle for Recovery of General Motors* (New York: William Morrow and Co., Inc., 1989), p. 23. At this time, a General Motors spokesperson was quoted as saying simply that "G.M. welcomes the Honda announcement." See "Honda to Assemble Cars at New Plant Planned for Ohio," *New York Times*, Jan. 12, 1980, p. 1. In a more recent article, *Wall Street Journal* automotive reporter noted, "Just a few years ago, Big Three executives and UAW leaders alike were clamoring for the Japanese to build more plants in the U.S., so all the companies would compete on a 'level playing field'." See "UAW and Big Three Face Mutual Mistrust As Auto Talks Heat Up," *Wall Street Journal*, Aug. 19, 1990, p. 1.

33. See Peter Donohue, "A Comparative Study of Union Officials' Views on International Trade Policy," *Proceedings of the 37th Annual Meeting of the Industrial Relations Research Association, Dallas 1984* (Madison, Wisconsin: IRRA, 1985), pp. 218-221.

34. Printed in *What Is a U.S. Company?* Hearing before the Subcommittee on Science, Research, and Technology and the Subcommittee on International Scientific Cooperation of the Committee on Science, Space and Technology, U.S. House of Representatives, 101st Congress, 1st Session, Nov. 1, 1989, p. 79.