6/ Conclusion

Japanese direct investment (JDI) has been warmly welcomed—indeed, actively courted—by U.S. decision-making elites and by many representatives of organized labor. Yet it poses serious problems for the domestic economy as well as for the nation's workers. Although Japanese-owned firms in the U.S. often adopt policies and practices similar to their domestically owned counterparts, the fact that corporate decision-making is ultimately made across the Pacific, and profits repatriated there, raises troubling questions about the long-term prospect of increased U.S. dependency on JDI or on foreign investment more generally. In the short term, too, it appears that the hopes that many Americans have placed in JDI are ill-founded. Its job creation effects are minimal or nonexistent, and the expectation that Japanese-owned firms might help modernize the U.S.'s industrial relations system has not been fulfilled either. Instead of rescuing the U.S. economy, JDI may be contributing to its continuing decline.

Unlike the high-profile Japanese auto industry "transplants," most Japanese-owned factories are branch plants of their parent firms in Japan, and perform relatively simple assembly operations using conventional "American" managerial methods. The primary impetus for establishing such plants in the U.S. is to ensure access to the nation's vast internal market and to circumvent any future

protectionist restrictions on trade. This export-substitution motive for JDI is reinforced by the emergence of the U.S. in the 1980s as a relatively low-cost site for manufacturing operations. In California, Japanese-owned firms employ low-wage immigrant labor, much as they might in the world's developing nations. Given the recent devaluation of the dollar, other costs (land, raw materials, machinery, etc.) are also modest relative to Japan. Thus foreign capital and immigrant labor combine to produce goods "made in the USA" in California's Japanese factories. The only native-born presence in most of these plants is the white-collar middle management and clerical staff.

Japanese-owned firms make decisions about where to locate their factories along much the same lines as domestically owned firms do. California's cheap and abundant labor supply, and the weakness of unionism in the southern part of the state, is a major attraction for both types of firms. Proximity to Mexico and the option of coordinating production with *maquiladora* plants south of the border is another advantage of a California location. Of course, California is by no means representative of the U.S. as a whole in respect to the high proportion of immigrants in its labor force. In some industries, proximity to suppliers and other factors play a role in plant location decisions, as in the case of the auto transplants and suppliers concentrated in the Midwest and upper South. But California continues to attract a disproportionate share of JDI and is now a major peripheral production zone for Japanese firms. In contrast to the prevailing image of "Japanese" production methods and human resource management, most of the firms I studied have chosen to adopt conventional "American" management methods. They have made little or no effort to use just-in-time inventory systems or the other techniques that have made Japanese firms the envy of manufacturers worldwide. The extent to which these plants have organized their workers into quality circles or flexible teams, moreover, is comparable not to their parent firms in Japan nor to the auto transplants in this country, but instead to nonunion U.S. manufacturers. And their determination to avoid unionization also rivals that of their most avid domestically owned counterparts.

The success of the auto transplant demonstrates the viability of the "Japanese" management model in factories with an American workforce, and in some cases even a unionized American workforce. Further, the demonstrated viability of the "Japanese" management model in Mexico (most notably, in a U.S.-owned auto assembly plant), suggests that this model could be successfully used in Southern California plants with an immigrant workforce, whose skill and education levels are comparable or superior to those of workers in Mexico. Thus the reliance of Japanese-owned firms in Southern California on traditional American methods is clearly a matter of choice, not necessity. In the Japanese-owned U.S. branch plants performing relatively simple operations, however, firms may be reluctant to incur the high training costs associated with the Japanese management model.

That Japanese firms rely on the conventional wisdom of American management that U.S. unions are both harmful and avoidable suggests that the problem is not simply the behavior of Japanese firms but also that of the domestic companies after which they model their U.S. branch plants. Yet there is a clear alternative. Japanese firms could choose to ignore the advice of American management consultants and instead (as they have done in the auto transplants) invest more in training, human resource development, and other managerial practices that generate high productivity and quality. They could also be induced to respect the traditions of American unions, rather than adopting the hostile, anti-union posture that has been institutionalized in many U.S.-owned firms.[1] Public policy to encourage this alternative course of action, perhaps as a condition of permitting new and continuing JDI, is probably the only way to ensure its adoption. If Japanese direct investors are permitted instead to continue on their present course, the result will be a continuing deterioration in the competitiveness of the U.S. economy and in the living standards of its people.

NOTE

1. Unions could even be consulted by potential investors at an early stage, prior to establishing operations. For discussion, see Industrial Union Department, AFL-CIO and Japan Federation of Employers' Associations (Nikkeiren), *Cooperation is Better: Case Studies on Labor-Management Relations in Japanese Affiliated Companies in the United States* (Tokyo: Nikkeiren, 1991), especially part III.

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