NOTE

1. Japan Economic Institute, *Japan's Expanding U.S. Manufacturing Presence, 1987 Update,* Washington, D.C., December 1988.

1/ Introduction

> One of my American friends recently said to me, "Akio, I bought an American TV rather than a Japanese TV because we have a terrible trade deficit. I found out later that the American set was made in Taiwan, and the Sony set that I decided I wouldn't buy was made in the United States."
>
> — Akio Morita, chief executive of Sony[1]

Social circles being what they are, Mr. Morita's friend was probably not a trade unionist. Nonetheless, this anecdote captures the dilemma that the globalization of production presents for the U.S. labor movement in the last years of the twentieth century. Traditionally a strong supporter of protectionist trade policies and of "buying American," organized labor has an ambiguous stance toward many recent international economic developments, and in particular toward the growth of direct foreign investment inside the U.S.* Unionists who are opposed to imports might well boy-

*Direct investment and indirect (or portfolio) investment are the two basic types of foreign investment. Indirect investment involves foreign ownership of bank accounts, securities, or bonds of firms or governments. In contrast, direct investment involves foreign ownership of a controlling cott Sony (or RCA) television sets produced abroad, but what if the Sony product is "Made in the U.S.A." by American workers? While frequently expressing concern about the export of jobs by American multinational corporations through the transfer of production operations to other countries, U.S. unions have been much more reticent about the rapidly growing presence of foreign capital inside this country. The tacit assumption seems to be that direct foreign investment in the U.S. has potentially positive effects. It can help to reduce the trade deficit, insofar as it involves production inside the U.S. of goods that would otherwise be imported; and it can help to offset the negative employment effect of direct investment abroad by U.S. firms, creating or preserving jobs in the domestic economy that otherwise might not exist.

American labor's contradictory outlook toward international capital mobility—opposing outward but welcoming inward investment—reflects the fact that, in an age when capital is increasingly organized on a transnational basis, labor itself remains fundamentally national in orientation. At the same time, the legacy of U.S. economic domination of the world economy in the recent past makes it difficult for many Americans (whether or not they have links to organized labor) to contemplate the possibility that the growth of foreign investment inside this country might signal national economic vulnerability—a common concern among citizens of other nations whose domestic economies depend extensively on foreign capital. Indeed, not only the labor movement but also policymakers at all levels of government have welcomed the influx of investment from abroad with open arms. Far from exhibiting wariness, states and localities routinely compete to attract such investment, offering generous tax breaks and other incentives to the firms involved. Even some domestically owned firms have expressed a preference for direct investment in the U.S. over imports, since their foreign competitors producing within this country share a "level playing field" with similar production costs and similar workforces.

Direct foreign investment in the U.S. economy has a long history, but its importance has grown dramatically in recent years,

interest in a domestically based firm (which can come about through acquisition of a controlling interest in an existing firm, or creation of a new firm), or in a parcel of real estate.

rising 1458 percent between 1975 and 1990, when it exceeded $400 billion. In the same period, U.S. direct investment abroad, which totaled $421 billion in 1990, rose only 339 percent.[2] In the 1980s, Japanese direct investment (JDI) in the U.S. increased particularly rapidly. (The even greater volume of Japanese portfolio investment, which is not examined in detail here, also skyrocketed in this period.[3]) In 1990, the last year for which data are available, Japan's cumulative U.S. direct investment holdings of $83.5 billion were second only to those of the United Kingdom ($108.0 billion).[4] And measured by the sales of their U.S. affiliates, the Japanese are already ahead of all other nations with direct investments in the U.S.[5]

JDI assumes several distinct forms. Japanese investors have accumulated extensive holdings in U.S. real estate in recent years, especially prestige commercial properties in major cities. In addition, Japanese investors have acquired controlling interests in many existing U.S. firms (including such giants as entertainment conglomerate MCA, CBS Records, and Firestone Tire and Rubber) that were previously owned by domestic capital.** Finally, many Japanese firms have set up sales, service, and manufacturing operations inside the U.S. as part of an "export substitution strategy"[6] stimulated by shifts in the dollar-yen exchange rate and by the political repercussions of the trade imbalance between the U.S. and Japan.

The growth of JDI, like the broader internationalization of the economy of which it is a part, poses new problems for the labor movement. So far, however, these problems have attracted relatively little attention. Perhaps one reason for this is that, despite the widespread expectation that JDI would generate job growth, the number of U.S. residents who are directly employed by Japanese-owned companies remains surprisingly small—just over 500,000 people in 1989, the most recent year for which data are available. Firms based in the United Kingdom and in Canada both employ more people in this country than do firms based in Japan. But jobs in foreign-owned firms from *all* countries account

**The U.S. government data (cited in the preceding paragraph and later in this study) include as part of JDI any U.S. business enterprise in which a Japanese person or firm, or the Japanese government, holds a 10 percent interest or greater. In most cases, however, the interest held is much larger than 10 percent.

for only 4.8 percent of all U.S. employment, and 8.9 percent of employment in manufacturing. Still, Japanese-based firms' employment is growing twice as rapidly as employment in foreign-based companies generally, and as JDI continues to grow, it is likely to become a more significant part of the U.S. labor market.[7]

This study explores the dynamics of JDI and its implications for the labor movement, focusing on Japanese-owned factories in California. As the leading U.S. magnet for Japanese investment, with its large markets and proximity to the Pacific, California provides a magnified view of the larger phenomenon of JDI. Almost half of all Japanese-affiliated firms in the U.S. have property, plant, or equipment in the state, and nearly 60 percent have employees there. Japan is California's largest foreign employer, with 102,600 workers in the state in 1989, or 20 percent of all U.S. jobs in Japanese-owned firms.[8] JDI in manufacturing is heavily concentrated in California also: By the end of 1989, of 1343 Japanese-owned manufacturing plants in the U.S., 18 percent (245) were in the state.[9]

California also has a significant union presence among its working population. It ranks second among the 50 states in absolute numbers of union members, and among the top 15 in percentage of workers unionized.[10] Paralleling the national trend, the state's union density has fallen over time, but it remains close to the national average: 19 percent of California's nonagricultural workforce and 22 percent of its manufacturing workers were unionized as of 1987, compared to 17 and 23 percent, respectively, in the U.S. as a whole.[11] With this union presence, as well as the nation's highest levels of JDI, California offers rich material for analysis of the relation of organized labor to JDI.

Most Japanese-owned manufacturing plants in California, as in the nation generally, currently operate without unions. Moreover, as we shall see, most of them are deeply committed to remaining "union free," like many of their U.S.-owned counterparts. Currently, among the 65 Japanese-owned manufacturing facilities in the state with more than 100 employees, only five are unionized. Three of these are metal products plants, now co-owned by Japanese and American firms, that were unionized long before the Japanese entered the picture. In these three plants, the change in ownership left the labor relations system intact—unlike some other cases which were transformed from union to nonunion operations after being acquired by Japanese firms.

The fourth unionized Japanese-owned manufacturing firm in the state is a joint venture with a unionized American company—the New United Motor Manufacturing Inc. (NUMMI) automobile plant in Fremont, California, jointly owned by Toyota and GM—where union recognition was negotiated in advance as an element of the international partnership.[12] Union organizing has been attempted at many other Japanese-owned plants, but management has vigorously resisted such efforts, and in most instances this resistance has been effective. There is only one Japanese-owned plant in California, which I call Suntech, where a unionizing effort succeeded despite management opposition. Significantly, the Suntech union drive occurred in 1980, just before the air controllers' strike that is widely viewed as a turning point in the fortunes of the U.S. labor movement, and before the recent acceleration of growth in JDI.

One explanation for the low level of unionization in Japanese-owned U.S. factories is simply that the growth of JDI has occurred during a period of extensive private sector de-unionization in this country. Indeed, regardless of the nationality of their ownership, in recent years many businesses have successfully avoided unionization in their newly established facilities, even when their older plants are union operations.[13] Unions are presently losing rather than gaining members in the private sector, and most union elections in recent years have led to management victories.[14] In opposing new unionization efforts, Japanese-owned firms may simply be conforming to the typical behavior pattern of their American-owned counterparts, even if the fact of foreign ownership adds a potentially explosive dimension to the situation. Indeed, both European and Japanese multinationals that accept unionism in their home countries often resist it strenuously in their U.S. plants. "It's like Dr. Jekyll and Mr. Hyde," Joe Uehlein of the AFL-CIO's Industrial Union Department recently commented. "So many of these companies have a frontier mentality when they come to America."[15]

Another possible obstacle to union organization in Japanese-owned firms could be their use of "Japanese" management practices, such as teamwork, quality circles, flexible job classification systems, and so on. These practices are also an issue in workplaces where unions already have a presence, insofar as they are linked, as some analysts have suggested, to managerial efforts to avoid, weaken or even undermine unionism.[16] But while the diffusion of these new management practices presents a challenge to the labor movement, whose traditional strategies and tactics were developed in response to a fundamentally different managerial approach, it is far from clear how distinctively Japanese the new practices really are. On the one hand, many of them have been widely imitated by U.S.-owned firms in recent years. On the other hand, as we shall see, many Japanese-owned firms in the U.S. (especially outside of the automobile industry) do not rely on such practices, instead using more traditionally "American" modes of management. The absence of unionism in such plants obviously cannot be explained by reference to "Japanese" management methods.

Although the number of unionized Japanese-owned plants remains small, in California the proportion of manufacturing workers who are unionized is actually slightly higher among those employed by Japanese-owned plants (27 percent) than in the state as a whole (22 percent).[17] This is because two of the five unionized plants are unusually large units—NUMMI employs 2700 workers and one of the acquired metals plants has 1400. While most of the other plants have chosen to avoid unionism, it seems that Japanese firms operating in the U.S. are highly adaptable when it comes to labor relations. They have a choice in regard to other management practices as well. A few high-profile operations—most notably in the automobile industry—have deliberately imported human resource practices from Japan. However, the majority have chosen instead a "When in Rome, do as the Romans" philosophy, adapting to local (i.e., American) conventions in both industrial relations and personnel policies. The Japanese model is transplanted rarely, and mainly in highly complex, capital-intensive operations such as auto assembly. Most Japanese-owned factories in the U.S. are branch plants of large Japanese multinationals engaged in relatively simple fabrication and assembly operations. Under these conditions, the training and other costs of implementing the Japanese model seem to be foregone, and American-style work organization and management practices prevail instead.

Although they seem to be atypical of Japanese-owned factories in the U.S., the high-profile auto transplants are of crucial importance in one respect. Their success unequivocally lays to rest the argument, widely accepted as recently as a decade ago, that Japanese management techniques are not transferable cross-culturally. The absurdity of this view is immediately obvious in light of the spectacular success of NUMMI and other automobile industry "transplants." At NUMMI, productivity and quality are comparable to similar operations in Japan: neither an American workforce nor American unionism, therefore, is inherently incompatible with the industrial achievements the Japanese are famous for worldwide.[18] NUMMI's president, Kan Higashi, recently told an interviewer that because of the plant's success, "Toyota gained confidence that their management concept is workable in the United States, using their management and a U.S. labor force." Alluding to the past reputation of the plant when it was operated by GM, he added, "The 'militant, lazy work force' here at Fremont is now the most efficient, most cooperative, most innovative, most sophisticated in the industry."[19] And Osamu Nobuto, president of Mazda's Michigan affiliate, went so far as to state, "I think it is fair to say there is no difference between the Japanese and American workers."[20]

Statements like this notwithstanding, questions have been raised about the willingness of the Japanese to employ the full spectrum of workers who have historically comprised the U.S.'s multicultural manufacturing labor force. There have been repeated allegations that Japanese firms discriminate against women and minorities (particularly Blacks) in hiring and promotions. Such complaints—several of which have led to employment discrimination suits—have involved both white- and blue-collar positions. In the case of blue-collar jobs, the main concern has been exclusionary hiring and racially specific plant site selection. One recent study demonstrates that in locating new plants, Japanese auto and auto parts manufacturers have tended to select sites where Blacks constitute a small proportion of the local labor force.[21] But the extent to which such behavior is specifically Japanese remains unclear. There is also evidence that in recent years many U.S. firms, particularly in high-tech industries, have avoided locating new plants in areas with large minority (again, especially Black) populations.[22]

The fieldwork done for this study, on the other hand, suggests that the primary labor force that Japanese-owned firms in California draw upon for their blue-collar hourly factory employees is the population of recent immigrants from Latin America and Asia. Few Blacks are employed in these plants, but U.S.-born Caucasians are almost as rare among unskilled and semi-skilled blue-collar workers. In this regard the situation in California is quite distinct from that in Japanese-owned plants in other states where immigrants are far less numerous. In California, the typical pattern combines foreign capital with immigrant labor, while native-born whites are employed primarily among lower- and middle-level management and in clerical jobs. Again, however, this employment pattern is hardly unique to foreign-owned firms: immigrants comprise the bulk of the blue-collar workforce in domestically owned firms in California as well, particularly in low-wage nonunion manufacturing.

In short, the distinctiveness of the labor policies of Japanese-owned firms in the U.S. is open to question. Like their American-owned counterparts, they tend to resist unionization efforts vigorously, especially in newer industries like electronics. Where unions are already established, the Japanese-owned firms attempt to minimize their effectiveness, just as American-owned firms do. Some firms in both the American- and the Japanese-owned groups are experimenting with teamwork and other worker participation programs, and attempting to increase flexibility as well; but both groups also include firms where such efforts are absent. Both U.S.- and Japanese-owned manufacturing firms employ primarily immigrants in blue-collar production jobs, and both take account of similar factors (demographics among them) in their plant location decisions as they maneuver for position within the domestic and the global marketplaces.

That Japanese- and U.S.-owned firms behave according to similar dictates and are subject to comparable constraints is not surprising: that is after all the basic logic of international capitalist competition. What makes this era of rapidly rising JDI distinctive is the increasing intensity of that competition and the fact that the U.S. no longer enjoys unchallenged global economic hegemony abroad or at home. Those developments put new pressures on workers' wages and working conditions, inserting them into the global marketplace in a qualitatively different way than in the past. Let us begin, then, by setting the growth of JDI in the context of the broader process of economic globalization.

NOTES

1. "How and Why U.S. Business Has to Shape Up," *New York Times*, 6 June 1987, op-ed page.

2. These are figures from the U.S. Department of Commerce. For more details, see Table 1 in Chapter 2 below. For an excellent overview of the history of foreign investment in the U.S. and of recent trends, see of Norman J. Glickman and Douglas P. Woodward, *The New Competitors: How Foreign Investors Are Changing the U.S. Economy* (New York: Basic Books, 1989), Chapter 2.

3. The U.S. Department of Commerce publishes portfolio investment in the form of annual flows, in contrast to the cumulative accounting used for direct investment. In addition, portfolio investment (foreign-owned bank accounts, securities and bonds of U.S. companies or governments) is more volatile than direct investment. This makes comparison between direct and portfolio investment figures difficult. But data for Japanese investment of both types in a few recent years suggest the magnitude of the two. In 1987, the Japanese invested $7.5 billion directly and $35.2 billion in portfolio investment; in 1988, the figures were $17.8 and $69.2, respectively. In 1989, portfolio investment fell sharply, to only $5.6 billion, compared to $17.4 in direct investment; and in 1990, while direct investment held steady at $17.3 billion, there was a net outflow of portfolio investment from Japan of $44.2 billion. Note that the direct figures given here are for annual investment flows, in contrast to the cumulative figures in the text. These data are from U.S. Department of Commerce, *Survey of Current Business*, vol. 70, no. 6 (June 1990), p. 103, and vol. 71, no. 6 (June 1991), p. 67. For an overview of the growth of Japanese portfolio investment in the U.S., see Daniel Burstein, *Yen! Japan's New Financial Empire and Its Threat to America* (New York: Simon and Schuster, 1988).

4. This figure represents the Japanese "foreign direct investment position," i.e., the book value of Japanese parent firms' equity in, and net outstanding loans to their U.S. affiliates, as reported by the U.S. Department of Commerce's Bureau of Economic Analysis in the *Survey of Current Business*, June 1991, p. 32.

5. *Survey of Current Business*, July 1991, p. 85. These data do not include Japanese-affiliated banks.

6. The term is borrowed from Alain Lipietz, *Mirages and Miracles: The Crises of Global Fordism* (London: Verso, 1987), p. 26.

7. U.S. Department of Commerce, *Survey of Current Business*, July 1991, pp. 77, 85; Glickman and Woodward, *New Competitors*, p. 34. All these data exclude employment by foreign-affiliated banks.

8. Janet L. Turner, *Foreign Direct Investment in California*, California Department of Commerce, Office of Economic Research, June 1988, p. 55;

U.S. Department of Commerce, *Survey of Current Business*, July 1991, p. 91.

9. This figure includes only those plants where Japanese held a majority ownership share. See "Japan's Expanding U.S. Manufacturing Presence, 1989 Update," *JEI Report*, no. 2A, January 18, 1991 (Washington, D.C.: Japan Economic Institute), p. 4.

10. The U.S. Department of Labor no longer publishes state rankings systematically. For 1986 data on selected states, see *Daily Labor Report*, September 1, 1987, pp. A-4, E-1; and for state rankings up until 1982, see Leo Troy and Neil Sheflin, *U.S. Union Sourcebook* (West Orange, New Jersey: Industrial Relations Data and Information Services, 1985), p. 7-6.

11. California Department of Industrial Relations, Division of Labor Statistics and Research, *Union Labor in California 1987* (San Francisco, 1989), p. 3; U.S. Bureau of Labor Statistics, *Employment and Earnings*, vol. 36, no. 1 (January 1989), pp. 225-226.

12. This is the only case I refer to by its actual name in this study. I do so because it is such a well-known case, about which a great deal has been written, and because it is not among the plants I visited.

13. See Thomas A. Kochan, Robert B. McKersie, and John Chalykoff, "The Effects of Corporate Strategy and Workplace Innovations on Union Representation," *Industrial and Labor Relations Review*, vol. 39, no. 4 (July 1986), pp. 487-501.

14. For a summary of recent trends, 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.

15. Quoted in "Trade Unions: Battle at Smyrna," *The Economist*, August 5, 1989, p. 27.

16. See, for example, Mike Parker, *Inside the Circle: A Union Guide to QWL* (Boston: South End Press, 1985); Mike Parker and Jane Slaughter, *Choosing Sides: Unions and the Team Concept* (Boston: South End Press, 1988); Guillermo J. Grenier, *Inhuman Relations: Quality Circles and Anti-Unionism in American Industry* (Philadelphia: Temple University Press, 1988); and for a more ambivalent view, Thomas A. Kochan, Harry C. Katz, and Nancy R. Mower, *Worker Participation and American Unions: Threat or Opportunity* (Kalamazoo, Michigan: The W.E. Upjohn Institute for Employment Research, 1984). It is noteworthy that all of these books deal primarily with the use of "Japanese" management methods by U.S. firms.

17. The five plants mentioned in the previous paragraph employ a total of 4670 people (320, 1400 and 250 at the three metals plants; 2700 at NUMMI and 250 at Suntech), according to 1987 data reported in *Japan's Expanding U.S. Manufacturing Presence, 1987 Update* (Washington, D.C.: Japan Economic Institute, 1988). If we take this as the numerator and the U.S. Department of Commerce's figure of 18,100 workers employed by Japanese-owned manufacturing plants in California in 1987 (*Survey of Current Business*, July 1989, p. 126) as the denominator, we arrive at a union density estimate of 27 percent. Both numerator and denominator include salaried employees who would be outside the union bargaining unit, but these should be roughly proportional to the numbers of hourly workers and thus not affect the ratio. The statewide figure is from *Union Labor in California 1987*, op. cit.

18. See John F. Krafcik, "A New Diet for U.S. Manufacturing," *Technology Review* (January 1989), pp. 29-36.

19. Interview in *Automotive News*, August 7, 1989, p. 57.

20. Interview in *Automotive News*, August 7, 1989, p. 55.

21. Robert E. Cole and Donald R. Deskins, Jr., "Racial Factors in Site Location and Employment Patterns of Japanese Auto Firms in America," *California Management Review*, vol. 31, no. 1 (Fall 1988), pp. 9-22. See also Mark Thompson, "Japan Inc. on Trial," *California Lawyer*, May 1989, pp. 43-46.

22. See Ann Markusen, Peter Hall, and Amy Glasmeier, *High Tech America* (Boston: Allen and Unwin, 1987); Cole and Deskins, "Racial Factors," p. 20.