

# Attracting Foreign-Affiliated Firms to Yokohama : Trends and Issues

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## 1. Introduction

Japan's inward foreign direct investment (FDI), including acquisitions of Japanese companies and real estate by foreign companies, is surging. Despite the mass media attention often focused on inward FDI in the auto industry, today's inward FDI in fact encompasses a broad range of industries, from finance and insurance to services, machinery, trade, and telecommunications. Foreign companies have always been attracted to Japan's markets but faced numerous impediments, such as Japan's unique business customs, nontransparent and inefficient bureaucratic processes, the language barrier, and a high cost structure resulting from the price gap between Japan and the rest of the world. Recently, however, investments by foreign companies have surged because of such factors as declining investment costs (due to the drop in share and land prices following the bursting of the speculative bubble), financial reform and other deregulation, and a protracted recession that has weakened Japanese firms and prompted them to seek support from foreign firms to increase their competitiveness.

Such developments have made investing in Japan more appealing to foreign companies. Even the Japanese government has clearly stated its view that entry into Japan by vigorous foreign companies will promote economic

recovery. Such enthusiasm on the part of foreign and Japanese companies and the Japanese government notwithstanding, it is not known how beneficial inward FDI will be to the Japanese economy. Furthermore, foreign companies will potentially face numerous problems in entering the Japanese market. The objective of this paper, therefore, is to consider, using the city of Yokohama as an example, the state of foreign-affiliated companies in Japan and the issues they face.

Chapter 1 discusses the entry of foreign-affiliated firms into Japan up to the present; Chapter 2, the state of FDI in Japan, trends in Kanagawa Prefecture, and the efforts of Yokohama City to attract foreign-affiliated firms; Chapter 3, the effects of FDI; and Chapter 4, issues Japan must now address, e. g., improvements in healthcare, education, and living environments for foreigner residents; improvements in the cultural environment; and central-local government cooperation, among others.

## 2. The State of Japan's Inward Foreign Direct Investment

### 2.1 National Trends

Inward FDI (i. e., direct investment in Japan from overseas) began to surge in the latter half of the 1990 s. International balance of payments statistics show that Japan's inward FDI for the first half (i. e., January-June) of 1999 totaled 1.2287 trillion yen, which, on an annualized basis, exceeded the previous record of 4. 179

trillion (1998)<sup>1</sup>. Previously, Japan had not been a popular recipient of direct investment and instead received indirect investment almost exclusively. The recent upswing in direct investment in Japan is explained by the increasing tendency of Japanese firms to view international alliances and acquisitions as a strategy for their very survival. The overwhelming majority of foreign-affiliated firms operating in Japan are headquartered in the Tokyo metropolitan area; in fact, Tokyo proper alone accounts for over 70% of the total. However, 47.4% of those firms' plants are located in provincial areas (i. e., outside Japan's three major economic spheres).

This tendency of foreign-affiliated firms to locate their headquarters in the Tokyo metropolitan area but their production facilities in the provinces suggests that many of those firms see some sort of advantage in establishing at least a base of operations in the Tokyo metropolitan area, even if land prices still rule out siting plants and similar facilities there. This tendency also indicates that the high (in international terms) production costs that once kept foreign companies out of Japan can now be avoided outside of Tokyo, where production-related costs, such as labor costs and land prices, are extremely high relative to those in the rest of the country. Nonetheless, a great gap still exists in land prices, and local governments must focus on production costs and the other advantages their areas offer in their efforts to attract foreign-affiliated companies. This is because the industrial parks that are often showcased as examples of independent, local endeavors by local governments to attract investments are often not as appealing to foreign companies as is hoped. Furthermore, local governments must strive for greater distinctiveness in attracting foreign companies by emphasizing such benefits as local characteris-

tics, incentives, local infrastructure improvements, and the availability of an educated workforce.

## 2.2 Trends by Sector

In the manufacturing sector, inward FDI in FY 1998 increased 16.9% over the preceding year, to 312.6 billion yen. The number of investments also rose sharply, from 189 to 228. Although this increase in the value of investments is low compared to that of the non-manufacturing sector, Japanese companies, as they accelerate their restructuring efforts, have been entering into more capital alliances with foreign companies. A major recipient of investments in the manufacturing sector is the machinery industry, which received 212.9 billion yen, a 46.6% increase year over year (YOY). Alone, Renault's 640-billion-yen investment in Nissan in FY 1999 is more than twice the FDI received by the entire manufacturing sector in FY 1998. Also in the auto industry, Ford increased its investment in Mazda as GM boosted its investments in Suzuki and Isuzu. In foodstuffs—where the effects of deregulation are expected to soon become apparent—FDI rose 11.73% YOY after having surged from 2.2 billion yen in FY 1997 to 25.8 billion yen in FY 1998.

In the nonmanufacturing sector, which has exceeded the manufacturing sector in FDI since FY 1994 and which in FY 1998 saw a huge jump in FDI of 250% YOY, to 1027.8 billion, many foreign-affiliated firms with a Japanese presence have been increasing their sales despite Japan's recession. One reason is the increased opportunities for foreign-affiliated service-sector firms made possible by deregulation, technological advancements, diversifying consumer preferences, and the increasing internationalization of Japanese society. In previous years, when

many service-sector industries were shielded from competition by regulation, exposure to international competition was less common than in manufacturing, and consumers had few opportunities to compare domestic services to those overseas. Today, however, not only are deregulation and advancements in technology expanding markets and providing greater opportunity for market entry, but post-bubble-era consumers have exhibited more-diverse tastes and have come to demand higher-quality services because of improvements in telecommunications and other technologies that make information from foreign countries more accessible. To foreign service industries, hardened by intense competition in their home markets, the Japanese market therefore presents the potential for considerable profitability.

A particularly sharp increase in inward FDI has occurred in the finance and insurance sector, which in FY 1998 totaled 200 transactions worth 456.9 billion yen (up 114 transactions and 282.7% in monetary value over the preceding year). Major transactions included the huge American nonbank GE Capital's 72 billion yen investment in a joint venture with Toho Life Insurance Company and acquisition by America's Travelers Group of a 25% share in Nikko Securities. In this field, Japan's "Big Bang" (i.e., financial reform), implemented in April 1998, has spurred considerable market entry and alliance formation by North American and European financial institutions striving for market expansion. The principal means of these companies' entry into the Japanese market are (1.) formation of an alliance or joint venture with a Japanese corporation in a specified field [e.g., individual asset management and investment trusts (i.e., mutual funds)], (2.) formation of a group by capital participation in a Japanese corporation, and (3.) acquisition of the offices,

sales network, or other assets of an insolvent company, among others.

Inward FDI is also surging in the telecommunications sector, where in FY 1998 41 transactions worth 16.8 billion yen took place (up 64% and 509%, respectively, from the previous year). Such figures reflect the active investment in computer-related services in Japan (e.g., software planning, development, sales, and service; Internet-related services, such as retrieval, information distribution, and e-commerce; and network security) in response to the accelerating pace of corporate IT system construction, personal computer purchases by households, and Internet use. In addition, there has also been conspicuous entry by foreign companies into fields where FDI had previously been uncommon, such as advertising and digital satellite broadcasting, indicating that FDI in Japan's service sector is diversifying<sup>2</sup>.

### 2.3 Trends in Kanagawa Prefecture

One consequence of last year's entry of foreign-affiliated firms into Yokohama is an increase in the population of foreign white-collar workers in Kanagawa Prefecture<sup>3</sup>: Between FY 1996 and FY 1998, the number of foreign engineers, managers, salespersons, and clerical workers rose nearly threefold, to 1,807. The number of offices employing foreigners has also increased, but at the same time, the number of foreign production process workers is less than that of FY 1997, and white-collar workers as a percentage of foreign workers are steadily increasing. One factor behind this trend is the concentration of foreign-affiliated firms in Yokohama City and the surrounding area. Prefecture-wide, the number of offices directly employing foreigners rose 23% between FY 1996 and FY 1998, to 1,152, as the number of those foreign workers rose 22%, from 6,521 to

7,9323.

By job category, the number of specialists, engineers, and managers accounted for 1,520 of the total in FY 1998, with salespersons and clerical workers accounting for 287. The total of these two numbers, which represents the foreign white-collar population, was 29.4% larger than in FY 1996 -a faster rate of increase than that of the overall foreign worker population. Particularly sharp was the rise in the number of specialists, engineers, and managers, which by FY 1998 had passed the 1,500 mark from less than 1,200 in FY 1996 and which accounted for 19.2% of all foreign workers, compared to 17.7% in FY 1996. In contrast, the percentage of foreign workers employed as production process workers at plants and other facilities declined from 66.1% in FY 1997 to 61.7% in FY 1998, reflecting the shift in the primary place of employment of foreign workers from production to management.

More and more foreign-affiliated firm are establishing a presence in Kanagawa, primarily in Yokohama City, which alone is now home to the head offices of approximately 170 foreign-affiliated firms, many of which are busily increasing their staffs as part of expansion efforts. According to the Yokohama municipal government, firms establishing a new presence within city limits in the first half (i. e., April-September) of FY 1999 numbered 11 -all of which were foreign-affiliated firms. (This rate of increase thus far compares with that of the largest single-year increase, in FY 1996, when 20 addition foreign-affiliated firms set up operations in the city.) With Japan's recession discouraging domestic firms from locating to Yokohama, these 11 foreign-affiliated firms, which have created roughly 300 jobs, were attracted to Yokohama by the city's convenient location, relatively affordable rents, and other advantages.

A report issued by the Yokohama municipal government in 1999 and entitled, "Industrial Foreign-affiliated Firms Locating in Yokohama," states that 19 firms opened new offices or R&D centers in the city in 1997. By nation, the U. S. accounted for the largest share (7 firms), followed by the UK (5 firms). This is partly an effect of the Technology Village Partnership (TVP)<sup>4</sup> and British Industry Center (BIC)<sup>5</sup>, production centers built by the Yokohama municipal government to attract American and British firms, respectively. With 18 Japanese firms also locating in Yokohama in FY 1997, these foreign-affiliated firms accounted for more than half of all the firms, foreign or Japanese, that located in the city in that year. A conspicuous number of these foreign-affiliated firms represent the high-tech sector, such as software development for the semiconductor industry, R&D relating to color printers, and automatic credit-card approval systems. A total of 56 foreign-affiliated industrial firms have located in Yokohama since FY 1993. Although more Japanese firms than foreign-affiliated firms located in Yokohama in FY 1993 (15 versus 4, respectively), by FY 1996 the latter had begun to exceed the former. The Economic Bureau of the Yokohama municipal government, currently in negotiations with additional foreign-affiliated firms, expects the number of foreign-affiliated firms locating in Yokohama to continue to increase.

### **3. Yokohama's Location Promotion for Foreign-affiliated Firms**

#### **3.1 Specific Efforts**

Created in 1998, the Location Promotion Section of the Yokohama City *Economic Bureau* is a new section charged with attracting not just foreign-affiliated firms but also domestic firms. Yokohama offers to subsidies for firms locating



there, but it is clear that foreign-affiliated firms locating in Yokohama have not done so in expectation of such financial incentives. Why, then, have these foreign-affiliated firms chosen Yokohama over other ordinance-designated cities and local governments?

The city's separate production centers for German, British, and American firms—i.e., the German Industry and Trade Center (GITC), BIC, and TVP—are undoubtedly a primary factor in the large numbers of foreign-affiliated firms locating in Yokohama. Some firms chose Yokohama for this reason. In addition, more than a few chose the city for its environment and atmosphere. In other words, terrain, cultural factors, and historical background are also significant contributing factors in location promotion for foreign-affiliated firms.

Furthermore, the district of Shin-Yokohama has also been popular of late because of its convenient location, low rents, availability of small offices, and other elements that make it a good location for growing businesses. By the end of 1998, the over 160 foreign-affiliated firms with head offices in Yokohama propelled the city past stagnant Osaka to the nation's number-two spot, after Tokyo. With many domestic firms languishing because of Japan's protracted recession, an increasing number of foreign-affiliated firms are attempting to forge alliances with local companies as a way of entering the Japanese market. Although land prices in Yokohama City as a whole are dropping with no end in sight, exclusive properties in some upscale districts of the city—Yamate, a long-developed area in proximity to downtown Yokohama, and Nakamachidai, in the Minatokita New Town residential district—are selling at prices comparable to those in prestigious locations in downtown Tokyo.

### 3.2 Trends Among Foreign-affiliated Firms

Foreign-affiliated firms with a head office in Yokohama City have increased each year, reaching 165 by the end of 1998 to overtake the previous number-two city, Osaka. Although this number is far lower than the over 2,500 firms in number-one Tokyo proper (i.e., the 23 wards of Tokyo), the number of foreign-affiliated firms in Tokyo has remained static of late, whereas Yokohama has registered continuously sharp increases. (The number of jobs at foreign-affiliated firms in Yokohama City has passed the 11,000 mark.) This number has continued its sharp climb into 1999 and is expected to pass 170 in July. A cluster of nearly 60 foreign-affiliated firms is centered around the Shin-Yokohama Station area behind Kohoku New Town, whose residential area is similarly enclosed by a grouping of foreign-affiliated R&D centers, such as those of Bosche and Ford.

Emmes and Company—holder of a 120-billion-yen real estate portfolio that includes office buildings and commercial facilities in and around Manhattan, New York—in late January 1999 purchased a Shin-Yokohama office building at a price of 2 billion yen. The building's sole tenant, a foreign-affiliated telecommunications company, had come to Emmes for "support"<sup>6</sup> after the building's previous owner, a Japanese, encountered financial difficulties. Emmes Japan concluded that a suitable return on investment was possible, as local land prices had nearly bottomed out and would recover in the near future. Thus, unlike the many Japanese companies that see Shin-Yokohama as an inconvenient location far from Tokyo and other centers of commerce, foreign-affiliated firms see today's advanced information technology as freeing them from the need to locate in Tokyo and view Shin-Yokohama as an excellent location (complete with a Shinkansen station) that is a door-

way not just to Tokyo but to the entire nation. Office rents that are roughly half of those in Tokyo's urban core are also a major attraction to foreign-affiliated startups struggling to succeed in the Japanese market. Already containing more than one-third of all foreign-affiliated firms in Yokohama City, the Shin-Yokohama district has the potential to become a national center for foreign companies establishing their first presence in Japan.

### 3.3 Determinants of Location Selection by Foreign-affiliated Firms

Why have so many foreign-affiliated firms chosen Yokohama City as a base from which to launch operations in Japan? An important factor is the proactive location promotion measures of Yokohama's municipal government, which, in cooperation with foreign governments and chambers of commerce, built the aforementioned production centers specifically to attract foreign-affiliated firms. These production centers set in motion a virtuous spiral whereby firms were encouraged to move into surrounding areas after a period of tenancy in the production centers.

The 11 aforementioned foreign-affiliated firms that located in Yokohama in the first half of FY 1999 cited the living environment—e. g. , the quality of communities and residential environments—as the most important determinant in their choice of a location in Japan. This reflects the large number of foreign workers who are bring their families with them to Japan. Second, and just as important as location, is the public transport infrastructure: Yokohama's convenient and accessible network of trains (including the Shinkansen) and other forms of public transport offer the same convenience as Tokyo, but without the high rent. The third determinant was the affordability of land rela-

tive to Tokyo.

The difference between Yokohama and Kobe is clear when the former's Minatomirai 21 district<sup>7</sup> is compared with the latter's Rokko Island and Port Island. For instance, Queens Square Yokohama, a core facility in the Minatomirai 21 district, previously struggled with occupancy rates as low as 50% in two of its three office towers when it opened the summer of 1998 but today has an occupancy rate of 80% in those towers. This is due to the facility's popularity among foreign-affiliated firms. Falling occupancy rates downtown and in other districts contrast with the vigor that foreign-affiliated firms have bestowed on the Minatomirai 21 district.

Also driving the strong demand for office space in this district are companies such as America's Silicon Graphics, which established its Japanese sales and service base there, and Yokohama-based 3 D, which headquartered a VR (virtual reality) software-related joint venture founded with a Swedish firm. The three towers of Queens Square Yokohama alone already contain nearly 20 foreign-affiliated firms, with the adjacent Landmark Tower and Nisseiki Yokohama Building together housing another 10. The average vacancy rate for Yokohama's three major business districts—i. e., Sekinouchi, Yokohama-Eki, and Shin-Yokohama—was 10.61% at the end of July 1999 but had been in the single-digit range from 1996 until May 1999, when it rose above 10%. The vacancy rate in the Sekinouchi district, adjacent to the Minatomirai 21 district, was a relatively high 12.9%.

The recent surge in the number of foreign financial institutions locating in the Tokyo metropolitan area does not mean that foreign-affiliated firms are avoiding areas outside Tokyo. For instance, Kobe's Rokko Island, which is built on reclaimed land, has become an international lo-

cation with not only rows of offices occupied by foreign-affiliated firms, but also housing and schools for foreign residents. Consumer-product conglomerate Procter & Gamble Far East, believing that success with Japan's demanding consumers would translate into success for P&G products in any market, built a 30-story head-office building in Kobe in 1993 after concluding that a Tokyo location was not necessary. Strong foreign-affiliated firms play a major role in regional economic revitalization, as evinced by the fact that foreign-affiliated firms accounted for four of the 10 top corporate income tax payers in all of Hyogo Prefecture in FY 1997. The supply of developable land on Rokko Island and Port Island, however, is dwindling.

#### 4. Issues to Address

Many foreign-affiliated firms are fiercely independent and bring to Japan detailed project plans and their own existing business strategies. Rather than depend on local governments, these companies often limit their expectations to information infrastructure, for instance. Many foreign-affiliated firms that have located in Yokohama in recent years have been American. In fact, the TVP, built specifically for American firms, has proven so popular that it is currently full, and construction of a second TVP is being discussed. Further, statistics for FY 1998 released by the Yokohama municipal government show that U. S. companies, such as TeleCruz Japan (located in the Hodogaya ward), account for eight of the 30 companies that located to the city of Yokohama in that year (which also included Yamatake Industrial Systems, now in the Kanagawa ward). A total of 18 of those firms were foreign-affiliated, including seven British firms, such as CAD Cen-

ter (Hodogaya ward).

In Yokohama, as anywhere else, the vigorous activity of foreign capital compels Japanese firms to become more competitive internationally. Japanese businesses, which in their current state cannot compete with foreign-affiliated firms, must accept foreign-affiliated firms in order to become more competitive and, in so doing, grow and expand<sup>8</sup>. The next section considers the issues that must be addressed in this respect.

#### 4.1 Improving Healthcare

Although healthcare in Yokohama is commendable overall, and despite the English-speaking staffs of some hospitals, healthcare is often a source of consternation for many foreign residents because of the different approach of Japanese doctors. This is a problem faced by local governments all over the country. Hospitals, as well as schools, are where differences in culture and values are most pronounced and where the resultant difference in approach is a frequent cause of distress. In addition, few hospitals offer checkups by English-speaking doctors. Providing healthcare services in English and other foreign languages is therefore crucial for enabling foreign residents to live satisfying lives in Japan. This includes creating systems whereby foreign residents can easily acquire the appropriate healthcare-related information in their own languages. A private organization operating (with local-government support) in Tokyo and Osaka provides medical consultations in foreign languages and refers foreign residents to medical facilities with foreign-language capabilities. Further effort is needed to provide foreign residents with healthcare information in their own languages, including foreign-language interpreters and information on facilities with foreign-language capabili-

ties.

#### **4.2 Improving Living Environments for Foreign Residents**

Education, healthcare, and other aspects of the general living environment of foreign families are an important factor in location selection by foreign-affiliated firms. It follows that promoting FDI in Japan entails making improvements in living environments. Because North Americans and Europeans typically bring their families when transferred overseas by their employers, the living environment that foreign workers will encounter is an important determinant of a foreign-affiliated firm's location. The recent shortage of so-called "international schools" in major cities has been cited as one problem faced by foreign employees of foreign-affiliated firms. International schools in the suburbs of Tokyo, for instance, are already at full enrollment and would be unable to accommodate the additional potential students who would come to the area should a large foreign-affiliated firm establish operations there. Nationwide, as well, enrollment at international schools has been increasing in recent years, and the number of applications is expected to continue to increase with the continued increase in FDI in Japan.

Thus, promoting investment in Japan necessitates both improved education for foreign students at public schools and support for local, independent efforts to establish and operate international schools. Data for 1996 show that average per-student annual expenses at an international school are 710,000 yen in the case of a public school, 740,000 yen for a private school. In Tokyo, this expense is as high as 1.5 million yen per student. (High tuition ranging between 1.7–1.8 million yen makes Tokyo's international schools accessible only to a small

group of students.) One factor behind these high expenses is the difference in teacher/student ratios.

In addition, female students graduating from Japan's international schools need better opportunities for advancement to the country's institutions of higher learning. Although schools such as the Yamate International School are highly praised academically, graduates of international schools are not considered high school graduates for the purpose of acceptance to a university or college. Thus, the nation's education laws are inadequate<sup>9</sup>.

Furthermore, the unusual popularity of expensive real estate is due in large part to the vigorous business activity of foreign-affiliated firms: Companies expanding their payrolls as they establish or expand operations in Japan are rushing to secure employee housing<sup>10</sup>.

#### **4.3 Improving the Cultural Environment**

In their paper "Internationalization and Localization: A Double-Edged Sword," authors Peter Nijkamp and Sytze A. Rienstra categorize the deciding factors in location selection as economic, social, and cultural and state that in recent years, particular weight has been placed on cultural factors. In short, whether a location offers foreign employees the same living environment they could enjoy back home is now a critical determinant of location<sup>11</sup>.

Part of Yokohama World Porters, an amusement park built by Namco in the Minatomirai 21 district, is the Dream Fiesta area, whose American styling, pool tables, video game arcade (with 100 games), and other features are designed to attract foreign guests. This is one example of how local businesses are beginning to market to the growing population of foreign white-collar workers employed by the foreign-affiliated firms that are coming to Yoko-



hama. The Yamate and Minatokita districts, which are home to many foreign-affiliated firms, differ in history and geography but have one important commonality : international schools. This is how important a factor living environments are in location selection.

But areas with such living environments are not so numerous in Japan, and improvements are crucial to attract foreign-affiliated firms. Location promotion efforts that do not end once companies arrive but instead address post-location issues are the responsibility of the national government and local governments, as well. The key to successful location promotion lies in recognizing that what is important is not just to attract foreign-affiliated firms, but also to help those firms take root in the community.

Another important element is office building functionality, the quality of which is determined by three factors : security, information infrastructure, and underground cables and wiring. Of these, differences in the information infrastructures required by foreign-affiliated firms are a major problem. For instance, in the Landmark Tower, located in the Minatomirai 21 district, the type of information infrastructure required by foreign-affiliated firms is only available on the 35 th floor, formerly occupied by NTT. Japan is quite behind the rest of the world with regards to intelligent buildings. The Sekinouchi business district-no exception-is unappealing to foreign-affiliated firms because of the area's slow conversion to digital technology, as the existing environment, including the Sekinouchi shopping arcade, was sufficiently dense to attract businesses without such technological upgrades. Also needed are high-speed, large-capacity telecommunications circuits and backup power generators for use in a disaster or other emergency.

Current trends clearly indicate that foreign-affiliated firms will continue to come to Yokohama

in increasing numbers. The municipal government has decided to build an industrial center (tentatively named the "Canadian Industrial Center") specifically for Canadian firms. The city, which has already held orientations in Canada for prospective tenants, plans to announce a location next year and open the center in 2000. High-tech firms will be courted primarily. Support for joint ventures with local companies will be provided by a municipal government that hopes to further revitalize local industry by tapping the industrious vitality of foreign-affiliated firms.

Plans for the Canadian Industrial Center call for 10 to 20 companies of a high-tech bent, such as telecommunications, e-commerce, and software development. By bringing in R&D and growth-industry firms, Yokohama hopes to complement a local industrial base that until now has been strongly inclined to heavy industry, lying as it does at one end of the heavy-industry stronghold that spans from Kyoto to Yokohama. Taking advantage of the increase in inter-building moves spurred by office building consolidation and the reorganization of domestic companies, the city will minimize project costs by securing large chunks of office space in existing commercial buildings built by the private sector.

Candidate sites include the area centered on Shin-Yokohama Station, which already has a large concentration of foreign-affiliated firms : Of the approximately 50 foreign-affiliated firms in Yokohama that have head-office functions in Japan, 47 are located in the Shin-Yokohama Station area. An important prerequisite for utilizing the vitality of these foreign-affiliated firms is to encourage technology exchanges with local companies through, for instance, technology and product presentations and a system that

would enable foreign-affiliated firms to bid on city contracts.

#### 4.4 Central-Local Government Cooperation

Local information is essential for a company locating to a given area. However, when disseminated separately by the national government and local government, such information is difficult for newly locating companies to acquire and, once acquired, to interpret. Therefore, the national government and local governments, acting as facilitator and host, respectively, should exchange information. Further, the national government should actively publicize its incentives to the rest of the world, and local governments should provide not just “hard” information (e.g., information about industrial centers, land prices, and rents), but also “soft” information, such as that concerning education levels and technological capabilities. Local governments must also be keenly aware of and have a competitive attitude towards the characteristics that set their areas apart from others, because such awareness will lead to reinvigoration.

Viewed in this context, globalization in Japan can be seen as socioeconomic reconstruction to keep pace with international society with respect to deregulation, for instance. This is a welcome trend, but the fact remains that in Japan, deregulation has been small in scale and has not yet had any major effects. Consequently, Japan is still more expensive than other industrialized nations, offers inadequate incentives to foreign-affiliated firms, and still lacks the laws and institutions needed for foreigners and Japanese to live together. Aligning institutions to international standards is a task in which foreign-affiliated firms operating in Japan must also participate.

Local-level action is also critical to success.

For instance, in Yokohama City, where foreign-affiliated companies are firmly established, location promotion efforts are also generating interest in locating there not just among American and German firms, but also among firms in Hong Kong and China, but Japan is not ready to accept this surge in the number of foreign-affiliated firms wishing to come to Japan. Therefore, the central government, local governments, and the private sector must take prompt action in response to the rapid pace of globalization.

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- 1 Nihon Keizai Shinbun, May 5, 1999.
- 2 Yokohama City Hall publication, pp. 166 – 167.
- 3 Nihon Keizai Shinbun, August 12, 1999, “Chiho Keizai” (Local Economics).
- 4 The Technology Village Partnership (TVP) was built on the former site of the Yokohama plant of the Nippon Formula Feed Manufacturing Co., Ltd., with the objectives of attracting American firms (to which space is leased) and making use of the closed plant’s site, a 5,600 -square-meter coastal location in Moriyacho, Kanagawa-ku. There, a three-story office building-named the TVP Building and having a total floorspace of 8,000 square meters-was built. Office space in the building-to which Nippon Formula Feed Manufacturing will also relocate its head office-will be leased by five American companies, including auto parts makers Caterpillar and CTS and ball bearing maker Timken.
- 5 The British Industry Center (BIC) was established in the West Tower of the Yokohama Business Park in March 1997 through cooperation among Yokohama City, the U.S. government, and the British Chamber of Commerce in Japan.
- 6 Nihon Keizai Shinbun, July 14, 1999, “Chiho Keizai Men”

- (Local Economics), pg. 26.
- 7 Nihon Keizai Shinbun, morning edition, April 30, 1999, pg. 26.
- 8 Nihon Keizai Shinbun, July 14, 1999, "Chiho Keizai Men" (Local Economics), pg. 15.
- 9 Tokyo Yomiuri Shinbun, April 28, 1999, morning edition, pg. 9.
- 10 "Seven Recommendations for Promoting Direct Investment in Japan," Direct Investment in Japan Council, Expert Committee, April 23, 1999.
- 11 Nihon Keizai Shinbun, July 7, 1999, "Chiho Keizai Men" (Local Economics), pg. 26.

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List of Tenants  
at  
German Centre for Industry and Trade

As of April 1, 2001

	Company	Type of Business	Country
1	Atotech Japan K. K.	General Metal finishing(GMF)and printed circuit board(PCB)	France
2	Bäumer of Japan Inc.	Industrial Machines & Related Software	Germany
3	Correns Corporation	Machine manufacturer representative	Germany
4	DaimlerChrysler Japan Co., Ltd.	Automobile Industry	Germany
5	Dr. Schenk Japan Ltd.	Surface defect detection technology	Germany
6	Gretsch – Unitas Japan, Ltd.	Building Hardware & ventilators	Germany
7	Harting K. K.	Electric parts	Germany
8	JAI Corporation	Industrial TV Cameras & Related Equipment	Denmark
9	Karl Suss Japan K. K.	Semiconductor mfg. Equipment	Germany
10	Kodak Japan Industries Ltd.	Film processing	USA
11	Lambda Physik Co. Ltd.	Laser technology	Germany
12	Leitz Tooling Co., Ltd.	Mechanical Edged Tools for Woodworking	Germany
13	Leybold Co., Ltd.	Chemical Industrial Materials	Germany
14	Nihon Kaba K. K.	Keys/locks	Switzerland
15	Pepperl + Fuchs K. K.	Sensors & Interface Modules	Germany
16	Phoenix Contact K. K.	Electrical components	Germany
17	Trumpf Corporation	Machine Tools	Germany
18	Ultratech K. K.	Semiconductor mfg. Equipment	USA