Japanese Direct Foreign Investment in the United Kingdom: A Survey

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The purpose of this paper is to survey recent publications on postwar Japanese direct foreign investment (DFI) in the United Kingdom (UK) in order to assess previous works and to identify the remaining areas to be explored. This forms part of an ongoing research project on Japanese investment abroad which has included studies of North America (See Kurihara, 1993, 1995, 1997, forthcoming, a, and forthcoming, b). Although the focus is on Japanese DFI in the UK, the related literature is also included. This paper is organized as follows; the first section deals with theoretical and methodological studies. The following two sections focus on Japanese DFI in Europe and Japanese DFI in the UK, respectively. The fourth section centers in Japanese DFI in Europe by *sogo shosha,* namely, the large Japanese general trading companies. The final section summarizes the special features of the covered literature and indicates areas for further research. Given the nature of a literature survey, please note that the summary of each work is largely based on author's abstract or concluding remarks.

1. Theoretical and Methodological Literature

This section covers theoretical literature, starting with the eclectic paradigm and the product cycle hypothesis to explain Japanese manufacturing investment in Europe, and then introduces an institutionalist approach and an evolutionary economics approach to understand the interaction between global forces typified by multinationals and regions as a host locality. Following that, methodological works are presented.

Dunning (1993) compares and contrasts the patterns of Japanese multinational enterprises' activity in the then European Community (EC) with that in the United States (US). He points out that throughout most of the 1980s, in terms of structure and organization, Japanese direct investment in Europe lagged behind the US, but foresees that, with current trends, in the post-1992 era Europe could surpass the United States in its strategic importance to Japanese multinationals. Dunning reveals that both the kind of Japanese investment it is attracting, and form it is taking, are rather different between in Europe and the US, and suggests that these differences can be explained by reference to his "eclectic paradigm" of international production. The eclectic theory is an attempt to integrate internalization theory with theories of trade and location in order to embrace the three main vehicles of foreign involvement; exports, direct investment and contractual resource transfers.

Thomsen (1993) utilizes Vernon's product cycle hypothesis to attempt to refute two common perceptions about Japanese direct investment in Western Europe. The first perception is that Japanese manufacturing companies invest in order to avoid actual or anticipated trade barriers in Europe. The author indicates that it is possible to explain why companies would invest in the absence of such barriers, since the companies invest abroad both to defend market share threatened by increasing competition and to free up resources at home for new products. The second perception is that the location of investment within Europe is determined by mixture of comparative advantage and government inducements. The evidence from Japanese investment both in the US and in Europe suggests that proximity to larger markets even within an integrated market is one of the prime concerns of Japanese companies. Thomsen concludes that the product cycle hypothesis provides a compelling rational for the pattern of Japanese manufacturing investment in both Europe and North America.

Strange (1993) presents a discussion of the theoretical literature on DFI in his book. The author contrasts the traditional industrial organization approach associated with academics such as forenamed Dunning and Mark Casson, with the alternative macroeconomic approach put forward by Kiyoshi Kojima and Terutomo Ozawa. The latter have argued that Japanese DFI has empirically been largely "trade oriented," and that such investment has tended to stimulate trade flows between Japan and the host country, while American and other Western DFI has been "anti-trade oriented," on the whole. Strange points out that the orthodox industrial organization theories do not throw much light on the entrepreneurial motivations for DFI as they treat the responses of economic agents within the host country as exogenous, and he also rejects the view advocated by Kojima and Ozawa. After examining the recent theoretical work by Michael Porter on the strategic management of multinational enterprises and on the sources of firms' and nation's competitive advantages, Strange concludes that the choice of trade policy and the form of foreign involvement within a host economy can be best understood using a political economy framework, which considers the interplay of various interested lobbies in response to shifts in comparative advantage.

Morsink (1998) analyzes the mosaic of geographical patterns of direct foreign investment from the theories of international production and economic geography. In Chapter 6, he examines Japanese outward DFI from 1982 to 1992. The geographical distribution of Japanese DFI in the world shows four regional clusters. North America emerges as a crucial region, with about half of total Japanese investments abroad. Western Europe is the second largest region, and its importance is increasing. The third cluster in the ranking is South and Southeast Asia, which is followed by Latin America. Regarding the sectoral distribution of Japanese investment, more than two-thirds of total investments is made by various industries. In assessing overseas Japanese DFI, Morsink indicates that complex international production strategies would exist, and that market potential, input orientation and complementary trade relations were identified as significant determinants.

Roy (1997) examines theories of DFI such as the transaction cost theory and Japanese DFI in the United Kingdom. He points out that current theories of Japanese investment within the advanced economies overstate the role played by manufacturing. In the UK, Japanese investment has been dominated by the tertiary sector, especially financial services and commerce. He argues that further empirical and theoretical work into tertiary sector investment, particularly its relationship with trade, is necessary if the net impact of Japanese involvement in the UK economy is to be fully assessed.

Before empirical studies in the perspective of regional economic development are presented in the third section of this paper, two important approaches are elucidated here. When local economic development paths are compared, it reveals that some successful local areas exist in Europe, while others do not. The difference between the successful and the unsuccessful regions largely stems from the conditions of host regions. In this regard, Amin and Thrift (1994) advocate the idea that the performance of local economies in a globalizing world is critically dependent upon their "institutional thickness," which is not universally available. In the book edited by Amin and Thrift, the economies of Baden-Württemberg, Emilia-Romagna, Switzerland among others are scrutinized, and it is argued that regional economic prosperity will depend on the degree to which regions are able to mobilize flexible institutional strategies. In conclusion, adaptable regions with a diverse institutional presence can harness the forces of globalization to their own ends, while other regions with more rigid institutional structures face a bleak future, namely, the state of "lock-in."

In addition to the institutionalist approach, Cooke and Morgan (1998) explore important issues of corporate reorganization in the context of heightened global competition, and examine four European regions from the evolutionary economics approach. Innovation is a key factor in corporate and regional economic performance and the authors show how interactive innovation based on collective learning and associative practices are becoming increasingly significant. The authors categorize the same examples of Baden-Württemberg and Emilia-Romagna regions as accomplished regional economies, while Wales and the Basque Country as learning regions. The book concludes that the most effective regional strategies will be those that engage with multi-level governance involving regional, national, and supra-national centers of political powers, and that the "associational economy" best captures the central idea concerning economic evolution.

With the surge of Japanese worldwide DFI, the burgeoning literature on Japanese management and the activities of Japanese multinational corporations appeared. However, methodologically, most of the studies have been based on case studies, host-country data, or Japanese data by the Ministry of Finance. Twenty years ago the Harvard Multinational Enterprise database was compiled based on large samples at firm-level data up to 1975, and has been used extensively. By necessity, Beamish, Delios and Lecraw (1997) presented key data based on one of the series of *Kaigai Shinshutsu Kigyô Sôran* (Japanese Overseas Investments) published in 1994 by Tôyô Keizai (Oriental Economist) in order to encourage other researchers to expand their studies on multinationals. The authors compare Japanese and US multinationals based on the forenamed two data sets, and discuss the information available pointing the way of new research after each data set.

Taylor (1993) attempted to discover important factors which determined the geographical distribution of Japanese manufacturing establishments in the UK from 1984 to 1991. The author undertook a multivariate statistical analysis, based on the Poisson model, to investigate the inter-county variation in the number of establishments locating in each UK county during the two separate time periods (1984-88 and 1989-91). According to Taylor, the statistical analysis examined the influence of variables such as labor costs, labor availability and industry mix on the locational choice of Japanese companies, as well as the influence of regional policy. Based on the multivariate regression analysis, the geographical distribution of Japanese-owned investment in the UK was only statistically associated with a small number of variables. The major explanatory variables in the models were whether an area had assisted-area status, and the variables which reflected an area's industry mix.

2. Japanese Direct Foreign Investment in Europe

Japanese DFI surged into the United States and Europe beginning in the late 1980s, after the appreciation in the value of the *yen*. Large inflows of Japanese DFI stimulated lively debate on the "Japanese Challenge" across Europe, and much of the debate echoed that of "The American Challenge" in the 1960s. In 1992 benchmark conferences were held, and presented papers and related comments were edited by Mason and Encarnation (1994) for *Does Ownership Matter?* The volume contains twelve chapters, and all examine Japanese multinationals in Europe. The book starts with a broad overview of recent and historical trends of Japanese DFI. Then, the authors analyze the causes and consequence of Japanese investment flows, the factors that shape them (market access, industry and firm specific characteristic, and technology flows), and the forms that may take (direct investment, joint venture, and more general trading networks). The following section of industrial studies focuses on three strategic sectors; financial services, electronics and automobiles. Finally, Encarnation and Mason conclude that "ownership can and does matter," although their conclusions require careful qualification. An emerging European policy model in reaction to the Japanese challenge would be instructive to the Americans, as well.

In another book *Japanese Firms in Europe* edited by Sachwald (1995), Japanese direct investment in Europe is also regarded as the Japanese challenge. The book consists of eight chapters. First, Japanese DFI is placed in the general context of the world economy since the 1980s when all industrial countries have increased their investment abroad. Then, Sachwald examines the theoretical aspect of Japanese foreign investment. He argues that the "Japanese model" of DFI advocated by forenamed Kojima and Ozawa corresponded well to the economic environment and to Japanese firms' strategies in the 1960s, but it is not entirely valid for the investment boom of the 1980s. The following chapters focus on three case studies in the electronics, automobiles and chemical industries, which exhibit different sets of investment motivations by Japanese firms. Two chapters deal with the management of Japanese subsidiaries in Europe. One examines the relationships with suppliers and human resources management, while the other assesses the international organization of research and development (R&D) activities by Japanese firms. The final chapter investigates the consequences of Japanese investment for European host countries. The general conclusion summarizes that the effects of trade barriers have been a fundamental factor in Japanese firms' decision. Market access and resource access are the key motivations of Japanese investment in Europe. Its principal effects are technology and know-how transfers to host countries.

Moreover, in his own book Mason (1997) analyzes European policies toward the Japanese Challenge in international and historical perspectives. He examines European policies in three key industries; automobiles, consumer electronics, and banking. Then, he compares the European policies with their respective American analogs, since the United States has faced the Japanese Challenge, as well. He points out that European policy actions toward the Japanese DFI are more restrictive than their American counterparts in the three critical industries. Finally, he places the European response in still broader international perspective.

Bourke (1996) looks at the relations between the European Community and Japan in the context of tensions between regionalization and globalization. He analyzes the impact of Japanese direct investment on the evolution of political integration in Western Europe in the period from 1985 to 1995, and examines Japanese investment at three levels; the European Community institutional level, the member state level, and the sub-state region level. The findings are that different levels of European political authority have persistently differing predispositions toward, and reactions to, the world's second largest economic power.

The following three papers discuss Japanese DFI in the European Community in connection with trade protection measures and "tariff jumping." Barrell and Pain (1999) analyze the factors determining the scale and location of Japanese direct foreign investment from 1980 to 1991. They use a mixed cross-section time-series annual data set covering Japanese DFI in the individual EC countries and the United States. The results suggest that Japanese manufacturing investment was significantly influenced by trade protection measures, and in particular by the level of anti-dumping actions initiated under the Tokyo Round Agreement. The location of direct investment is also affected by relative labor costs, either within the EC, or, for the United States, by costs relative to Japan. Prior export market penetration and the domestic cost of investment finance also have influence on direct investment flows, suggesting that the tightening of monetary policy in Japan in 1989/90 contributed significantly to the observed slowdown in DFI in the early 1990s.

Heitger and Stehn (1990) identify the determinants of Japanese direct investments in the EC. Whereas Japanese direct investments in the service sector of European countries may largely be explained by their complementarity to Japanese exports, the most important factor explaining the recent increase in Japanese DFI in the European manufacturing industries is the then European system of effective protection, as well as expected changes in course of the completion of the European Internal Market in 1993. In other words, European effective protection by various tariff and non-tariff barriers and favorable firm-specific non-tangible assets of Japanese firms determine the structure of Japanese DFI in Europe. If European integration results in a reduction of internal non-tariff barriers and an increase in external trade barriers, this will lead to further incentives for Japanese firms to establish their subsidiaries within the EC.

Balasubramanyam and Greenaway (1992) also note the association between European economic integration and DFI. They evaluate the factors underlying the growth of Japanese DFI and the extent to which it is driven by the anticipation of the completion of the Internal Market after 1992. The examination suggests that Japanese DFI has increased as a consequence of the 1992 program, in response to both the opportunities and threats created by the program.

As previously discussed in section one, Strange (1993) examines the recent developments of Japanese manufacturing investment in the European Community, and analyzes its causes and consequences in fourteen industrial sectors. Case studies are provided of 27 Japanese companies in order to chart the overseas development of a variety of Japanese firms and to illustrate how involvement in the EC market relates to firms' interests in Southeast Asia and North America. The author clarifies that the impact of Japanese competition and the inflow of manufacturing investment have already had profound effects on a number of the EC, and particularly the UK, industries.

Two papers compare locational patterns of Japanese automobile industry between in the United States and in Europe. Rawlinson and Wells (1993) compare the evidence on European spatial restructuring with that in the US in the light of Japanese assemblers' direct investment for a decade from the early 1980s. They conclude that globalization as process is highly uneven, and that the spatial form which Japanese automobile production has taken in Japan, the US and Europe are all different because of key differences in the structure of the economic environment.

Traditionally, European states and the EC have adopted more interventionist policies to protect local industry, and existing European firms have been more competitive in the small to medium-sized cars that Japanese firms excel in. Consequently, the scale of Japanese assemblers' investment in Europe has been smaller than that in the US. Since Japanese assembling companies in Europe are largely using existing suppliers in existing locations, in addition to the small scale of investment, the locational pattern of Japanese automotive investment shows no signs of clustering.

Sadler (1994) examines Japanese owned assemblers and automotive component companies in North America and Western Europe during the 1980s and early 1990s. In North America, substantial expansion by Japanese parts suppliers established new locational patterns conformed to carrying out "just-in-time" (JIT) delivery system for the Japanese transplant assemblers. In Western Europe, in contrast, Japanese auto makers chose to work from the outset much more closely with an existing supply chain, which is observed in the previous work by Rawlinson and Wells, as well. Sadler concludes that JIT is far from a universal organizational principle, but rather has different attributes according to its social context. There is no necessary association between JIT and spatial clustering, at least as practiced in Europe, and issues of technical collaboration between companies are increasingly important.

Research on Japanese investment in Europe concentrated almost exclusively on manufacturing investment. On the contrary, in addition to forenamed Roy (1997), Dicken, Tickell and Yeung (1997) emphasize the longevity of Japanese direct investment in Europe and the importance of services. Not only does Japanese direct investment have a much longer history in Europe than is usually recognized, but also the bulk of that investment is not in manufacturing production *per se* but in a variety of distribution services. Using establishment-level data, the authors show that the spatial manifestation of these distribution services is very different from that of manufacturing.

Hawawini and Schill (1994) identify two main factors to explain the rapid growth of EC investments by Japanese banks and securities houses during the 1980s. One is service to Japanese manufacturing firms operating in the EC, since there have been the deep-seated relationships between Japanese financial institutions and their domestic clients. The other is emerging opportunities in one of the world's most important financial centers, especially in the area of wholesale banking. However, the competitive advantage of Japanese financial institutions may partly erode, because of the banking crises in Japan and the structural changes occurring within the European financial services industry.

Hawawini and Schill (1994: 239) claim that Japanese banks followed the large-scale emigration of manufacturing capacity to provide advisory services, working capital, or project finance. In contrast, Balasubramanyam and Greenaway (1992: 186-188) point out that a striking feature of Japanese investment in both the US and the EC is its heavy concentration in the services sector, but there have been two major differences in Japanese DFI in services. First, in the case of the EC much of the non-manufacturing DFI is in banking and finance, whereas in the US wholesale trade accounts for a high proportion of Japanese DFI in the non-manufacturing sector. Second, in the EC Japanese DFI in services has preceded DFI in manufacturing, while in the US Japanese DFI in services followed manufacturing establishments.

In order to counterbalance the Japanese challenge, Williamson (1992-1993) advocates that the one way to fight the Japanese is to strike Japanese companies in their home territory. Japanese presence in Europe has become impressive with heavy investment in anticipation of the establishment of the single market. Despite the recent financial crises in Tokyo and the bursting of its "bubble" economy, Japanese investment in Europe is set to continue. The increased Japanese presence in Europe means not only the jobs their investment creates, but also tougher rivalry for many European and multinational companies. The author pinpoints that the international expansion of Japanese companies easily leads to an illusion that overseas operations drive their strategies. In reality, for most large Japanese companies, the domestic market is crucial, since the home market still accounts for some three-quarters of their total sales. Therefore, the best response the West can take is to compete with Japanese companies in the Japanese market.

3. Japanese Direct Foreign Investment in the United Kingdom

This section reviews the literature that focuses on Japanese direct foreign investment in the UK, along with relevant studies on worldwide DFI in the UK. Historically, Europe and North America have forged strong trade and investment linkages. With the development of economic integration by the Single European Market and the North American Free Trade Agreement (NAFTA), Pass, Prescott and Buckley (1998) look at Canadian companies' views and responses to the Single European Market initiative and likewise UK companies' views on the NAFTA. The authors conclude that there is a generally positive attitude toward economic integration, and that there is little indication of trade and investment diversion away from the two markets. However, while many Canadian companies view the UK as a gateway to the European Union (EU), UK companies are more likely to establish businesses in the United States from which they may serve the Canadian market. At present, continued differences between the Canadian and American markets mean that many companies are continuing to treat the markets as two separate entities.

In Chapter 8 of Dunning's *Governments, Globalization, and International Business,* Hood and Young (1997) discuss the evolution of macro-organizational policies in the UK from the perspective of its approach to DFI policy. When the Conservative government came into power in 1979, it implemented the radical policy changes, including deregulation, privatization and the restructuring of handling of labor disputes in order to enhance competitiveness. The authors review three sectoral cases in the electronics industry in Scotland, the automotive industry, and the financial-services sector in the City of London. Although the UK has benefited significantly from the development of the EU to the present, especially concerning its attractiveness as a location for market-seeking inward DFI, there has been increased competition between the member states of the EU. Hood and Young draw attention to some conflicts of interest between the UK government and the European Commission, for the former's interests are maximizing the quantity of inward DFI to the country, while the latter's are aiming at raising industrial competitiveness as a region.

Fitzpatrick Associates (1991) prepared a special report which examined DFI in manufacturing by five East Asian countries, that is, Japan, South Korea, Taiwan, Singapore and Hong Kong, in the UK and the Republic of Ireland up to 1990. A significant part of the report is allocated to the analysis of Japanese manufacturing DFI in the UK. The report contains the political and economic setting of the two host countries, the sectoral and locational East Asian investment patterns in the UK, the factors in investment location decisions, the industrial promotion and incentives in the UK, and the outlook for East Asian investment as well as for the UK economy. According to the report, the share of annual Japanese DFI to Europe increased from 19% in 1984 to nearly 22% in 1989. The greater part of Japanese investment in Europe is non-manufacturing, that it, banking and insurance, real estate and commerce, but Japanese manufacturing investment in the EC is expanding. In the Community the UK and France have attracted Japanese manufacturing companies. EC commercial policies such as trade restrictions have been a prime force behind inward investment flows, and the report predicts that Japanese investment into the EC is likely to continue at a fairly rapid rate over the medium term.

Aaron (1999) analyzes the determinants of the Japanese investment location decision at the market, national and subnational levels from an international relations framework, employing four case studies; Nissan in Sunderland, Toyota in Kentucky, and Sharp in Tennessee and North Wales. The author discusses the larger issues of protectionism, national incentive policies, globalization and interfirm rivalry, and asks whether and how subnational actors were able to influence the specific subnational choice of investing multinationals. Aaron concludes that subnational regions do actively participate in the inward DFI decision process through their transnational bargaining relationships with investors, and can thereby have some influence over its outcome of that process.

Hollerman (1996) reviews Japanese DFI in the UK between 1970 and 1991. He regards Japanese DFI as a means to pursue Japanese industrial policy which has been consistent with the national interest, while the UK accepted Japanese DFI because it seemed to be in British national interest, as well. After examining push and pull factors of Japanese DFI in the UK, he investigates the impact of Japanese DFI in the UK consumer electronics and automobile industries. Japanese electronics companies have taken over most of the UK consumer electronics industry, including color television. To the contrary, the British automobile industry collapsed largely of its own accord, while US and other foreign car makers within the UK have benefited both directly and indirectly from Japanese innovations. With the introduction of Japanese DFI, Britain's chief desiderata were an increase in employment, improvement in the trade balance, and the transfer of new technology. However, the fundamental ingredient of reindustrialization of the UK is infrastructure for education, training and R&D. Without such infrastructure, the UK cannot fully utilize the contribution of Japanese technology transfer.

Pickernell (1998) examines the influx of DFI into the UK automotive component industry from European and Japanese companies. According to his study, the market and growth potential of the Japanese car transplants Honda in Swindon, Nissan in Sunderland and Toyota in Burnaston was by far the most important reason for overall location decision by investors, regardless of the nationality of company ownership. The Single Market program was not directly important to the overall location decisions of component companies, although it could have indirectly influenced the decision of the Japanese car assemblers to locate in the UK. Interviews revealed the positive effects that DFI had on the UK industry in closing product gaps and on R&D. The author concludes that these results may have important policy implications for government agencies concerning the attraction of DFI, where it should be attracted, and the effects of such DFI.

In relation to the Japanese "importation" of sub-contracting complexes, Morris (1989) examines three case studies; the Welsh electronics industry, the Matsushita complex in West

Germany, and the Ontario automobile industry. With the surge of Japanese inward investment in North America, it might have been expected that industrial complexes such as those at Toyota City might develop, with sub-contractors located in close proximity to the main production facility. However, this phenomenon in Japan is only applicable to a few examples from the automotive industry. Nevertheless, the author indicates that there was evidence of hybrid complexes emerging in certain regions of North America and the EC, and that these complexes were very much in their infant stage in the late 1980s.

There have been many papers which focus on direct foreign manufacturing investment in the UK in association with regional economic development. Stone and Peck (1996) analyze the foreign-owned manufacturing sector in the four main peripheral regions of the UK, namely, Northern Ireland, Scotland, Wales and the North of England since the late 1970s. The study analyzes the sector's performance in terms of number of plants and associated employment with that of the indigenous sector in the four regions. It reveals distinct differences in performance between the regions. The analysis provides an insight into the process by which change comes about, specifically the importance to employment change of new plants relative to that of closures, acquisitions and *in situ* expansions and contractions. It also shows that regional foreign-owned manufacturing sector performance seems to be linked to the patterns of DFI change associated with the main countries/regions of investment origin.

The evaluations of effects ascribed to Japanese manufacturing investment in the UK present different interpretations. Some research recognizes its positive effects, while some throws doubts on the benefits accrued from Japanese transplants in the UK economy. The following first three studies largely support the former view, while the following two studies carried out by Munday and Peel illustrate the latter view.

Munday, Morris and Wilkinson (1995) present a detailed study of the economic impact of Japanese manufacturing in Wales, a region within the UK which has one of the highest concentrations of Japanese manufacturing investment in Europe. The study finds out that there are some problems with Japanese investment, but although Japanese companies appear to operate their businesses in different ways from other investors, many of these are beneficial to the local economy and the prevailing "warehouse thesis" is rejected. Contrary to the warehouse thesis, Japanese manufacturers have contributed to significant employment growth, a diversification of products and capital sources, and they have real demonstration effects.

Strange (1994) estimates the impact of Japanese manufacturing investment on UK output, employment and the trade balance in 17 industrial sectors. The main conclusion is that Japanese direct investment has had a disproportionate impact across industrial sectors, but that the overall effect has been beneficial.

Okamuro (1997) examines the buyer-supplier-relationship in the UK, which is regarded as an important source of competitiveness and has been substantially changing since the 1980s. Based on his fieldwork on 40 firms in the automotive and the electronics industry in the West Midlands area, Okamuro shows that in the recent years long-term oriented cooperation between customers and suppliers has been established for reducing the cost and quality improvement. Japanese transplants are the main promoters of this change, and the examination also provides evidence of the positive effect of the changing pattern of business relations on the performance of suppliers.

Foley, et al. (1996) examine the impact of Toyota's £700 million investment in Burnaston, Derbyshire, and investigate its direct and indirect employment effects. While approximately 3,000 jobs will be directly created by Toyota, there may be some disruptive effects in the local labor market. Moreover, the potential for employment through supplier linkages and multiplier effects has not yet been maximized, although it is possible that these may materialize in the longer term. The authors point out that the attraction of inward investment is only the first stage in the process of significant job creation.

Munday and Peel (1998) study the performance of Japanese manufacturing investment in the UK electronics and electrical sector. While Japanese subsidiaries are more productive in terms of sales per employee, on each of the five profitability indicators, they performed significantly worse than their US or UK counterparts. Munday and Peel recognize that Japanese firms in the electrical/electronic engineering sector have been successful in creating employment and incomes in the less favored areas of the UK, and have created opportunities for domestic suppliers. However, they question how far the Japanese transplants may be considered as a role model for UK electronics companies.

In addition, Munday and Peel (1999) compare changes in the performance of Japanese and UK manufacturing firms over the period of 1991-94. While Japanese subsidiaries perform well on selected labor productivity measures, their performance on other key variables relating to profits, asset efficiency and stock holdings results in poor. Given the results of Japanese investment, Munday and Peel raise questions pertaining to the contribution of Japanese firms to longer-term national development, since one of the objectives of UK government subsidies to foreign companies is to support high value-added, high technology manufacturing.

By European standards, the UK has attracted a high proportion of Japanese manufacturing investment, and an even larger share of R&D centers. Internationalization of corporate R&D is a recent phenomenon, especially so for Japanese firms with very short histories of multinational operations. Cairncross (1994) presents the results of a preliminary survey of ten major R&D centers in the UK. The centers were established for a variety of reasons, and one of the major reasons is to get close to universities and benefit from the creativity of British scientists.

The research by Tickell (1994) is one of the few studies on Japanese direct investment in the UK financial sector. He analyzes the changing role and geography of Japanese banks in Britain since the early 1980s. Japanese banks have increased the size and range of their activities in Britain as a result of economic changes in both Japan and the UK. Tickell indicates that Japanese banks have concentrated on lending to the subsidiaries of Japanese institutions, and that most activity has been concentrated in the south of England, although it is possible that such concentration will decline.

4. Japanese Direct Foreign Investment in Europe by *Sogo Shosha*

Sogo shosha are the large Japanese general trading companies which have played a significant role in the Japanese economic development. During the rapid economic growth period between the late 1950s and 1973, they were the chief promoters of Japanese trade by exporting Japanese manufactured products, while importing the industrial raw materials and energy resources from all over the world. Before the 1970s *sogo shosha* were the major pioneers in Japanese direct foreign investment, typically investing abroad using joint ventures with other Japanese companies, and local partners in developing countries.

Therefore, *sogo shosha* DFI is an integral part of the postwar Japanese DFI, and the following authors also include the discussions of *sogo shosha* in their works. Mason (1994) discusses the historically important investment role of *sogo shosha*, when he presents the relative value, geographical location, and other related characteristics of Japanese DFI in Europe over the past century. To comment on Mason's presentation, Kudo (1994) underscores the historical significance of direct investment by Japanese trading companies operating in Europe, and then offers an alternative periodization to Mason's largely policy-driven analysis. Jones (1996) spares a section on *sogo shosha* in his book, and elucidates their functions and characteristics from the viewpoint of Japan's foreign trade and direct investment abroad.

Burton and Saelens (1983) examine direct investment activities by nine *sogo shosha* in

Western Europe up to 1981. The article reveals that *sogo shosha* direct investment has been closely associated with their trading activities. In order to establish the traders' European commercial networks, the first investment wave, concentrated on the largest West European countries, ran from the mid 1950s to the early 1960s, and the second occurred during the first half of the 1970s. As the traders' main European networks were completed by 1978 and Japanese manufacturers set up their own distribution networks to export, *sogo shosha* direct investment in trade has remained stagnant since then. Accordingly, the traders' emphasis has switched to offshore trade inside third-countries.

Herbert (1992) recognizes the distinctiveness of Japanese mode of foreign investment, and suggests that one economic institution which has been at the vanguard of Japan's postwar economic transformation is *sogo shosha.* The author first reviews the investment behavior of *sogo shosha*, and then argues the theoretical frameworks underpinning their transactional behavior, which is different from the traditional Western form of DFI. He concludes that the above-discussed Kojima and Ozawa proposition (see section one), which is the extension of the neoclassical theory of international trade based on comparative cost advantage, explains the overseas investment activities by *sogo shosha.*

Although services are now by far more important sector for multinationals, a vast literature on international business is centered in manufacturing, especially its high technology sector. Recognizing the paucity of literature on trading companies, Jones (1998) edited the book which asserts the importance of trading companies in international business. One of the chapters is written by Yasumuro (1998), and he examines the historical evidence concerning the DFI of nine Japanese *sogo shosha* in the 1960s and 1970s. Yasumuro uses the idea of free-standing style DFI to analyze *sogo shosha* DFI projects. The free-standing companies first identified by Mira Wilkins in the early 1980s are a different form of direct investment when compared with classical multinationals. Although the prototype of a free-standing company originated largely in Britain, the basic rationale of the entity is universal. Its nature comes from a collaborative service network. Yasumuro suggests that studies of free-standing companies and *sogo shosha* DFI can contribute to the development of a theory of service multinationals.

5. Concluding Remarks

Japanese direct foreign investment in the various countries of the world from the 1970s to 1991 is characterized as the third marked surge in DFI by Myers (1996), after the first surge in DFI from the UK and other European countries in the nineteenth century, and the second surge from the US to Europe, Australia and Asia after World War II. This rapid increase in Japanese DFI within the short period of time is considered as the Japanese Challenge by the host countries in Europe. Academics, business community, governments and multilateral organizations have had a keen interest in this phenomenon, and a large number of theoretical and empirical studies have examined this topic in order to grasp the special features of Japanese DFI from the various angles.

This survey reveals that the majority of literature on Japanese DFI in Europe and the UK focuses on the manufacturing direct investment, and that studies centering in the service sector are scarce, even though the postwar Japanese DFI has started with *sogo shosha* investment to set up their commercial networks for trade. Following the Japanese manufacturers, Japanese financial institutions and real estate companies carried out huge investments in the United States from the 1980s. In contrast, Japanese DFI was made in the UK commerce and finance before significant Japanese manufacturing investment. Since the former entered the UK earlier and more gradually, and it was not accompanied by innovative practices such as lean production in the manufacturing sector, it has received much less attention. Nevertheless, the role of Japanese DFI in commerce and finance has been extremely important behind the scenes. As recently as 1998, Jones and others paid special attention to the service multinationals, including *sogo shosha*, but their work is one of the meager examples. As a few researchers in this survey already point out that theoretical and empirical research on Japanese DFI in Europe and the UK in the service sector needs to be explored.

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