Japanese Multinational Enterprises and Their Impact in the United Kingdom

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INTRODUCTION

The internationalisation of economic activity is not a new phenomenon. What has become apparent in recent decades, however, has been the increasing rate at which economic activity has become international. This globalisation process has been brought about by several inter−related factors, for example, by economic growth; by declining barriers to international trade; by reductions in the costs of communication and transportation; and, more specific to the manufacturing sector and central to it, by the fragmentation that has occurred within the production process. More than any other institution, the multinational enterprise has been the principal force defining, extending and shaping this cross border activity. For example, although merchandise trade grew by 6 percent per annum in the period 1990-1999, and services trade grew by 10 percent in the same period, foreign direct investment increased by 12 percent (Greenaway and Nelson, 2000).

Multinational enterprises and their foreign direct investments were viewed positively by the policy influential OECD Jobs Study. To quote: "Foreign direct investment creates jobs directly through new establishments and expanded activities in the host economy: and indirectly by strengthening both host and home economies through a two-way transfer of improved technology and management techniques and through increased competition" (OECD, 1994, Part e, p1).

Within this context, and focussing especially on outward direct foreign investment in manufacturing from Japan to the United Kingdom, this paper addresses three questions:

- what prompts companies to undertake direct foreign investment as a corporate strategy?
- what has been the magnitude and nature of foreign direct investment flows from Japan? and
- what impact have Japanese multinational enterprises had in the United Kingdom?

FOREIGN DIRECT INVESTMENT AS CORPORATE STRATEGY

Organisations have several strategic options when contemplating extending their economic activities across national boundaries. These options are threefold viz.

- Exporting, by which is meant the selling of goods in overseas markets. Exporting may be done directly, via agents or distributors if not to foreign wholesalers and retailers, or indirectly, via, for example, confirming houses or export houses
- Licensing or Franchising, by which is meant the selling of well specified intellectual property rights, such as technologies, products and brand names, to an overseas organisation which is able to make use of these rights in accordance with the terms and conditions of the contract negotiated and agreed
- Foreign Direct Investment, by which is meant the acquisition or establishment overseas of

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income-earning assets over which the investing organisation has control.

Each strategic option is associated with a set of potential costs and benefits identified, for example, in terms of the amount of resources committed, the control the investing organisation has over the resources committed, the risks to these resources and the learning which may accrue to the organisation from the selected strategic option. Consequently, each organisation must identify and evaluate these costs and benefits and choose accordingly.

Foreign direct investment (hereafter FDI) has been the most extensively studied and researched of these strategic options. The twin attributes of owning and controlling productive assets overseas identify the salient characteristics of the multinational enterprise (hereafter MNE) and give meaning to Hood and Young's (1979) definition of this particular type of business enterprise viz. "a corporation which owns (in whole or in part), controls and manages income-generating assets in more than one country. In so doing, it engages in international production, namely production across national boundaries financed by foreign direct investment" (p 3).

MNEs, however, are not homogenous. It is possible to identify three different types of FDI and, therefore, three correspondingly different types of MNEs (Grimwade, 1998) viz.:

- Horizontal FDI. This occurs when an MNE locates the manufacture of the same product or group of products in different plants in different countries. Initially, this type of investment is undertaken when companies are market seeking and/or market protecting. Latterly, it is compatible with an efficiency enhancing strategy. The prime examples of Japanese multinationals which have participated in horizontal FDI are automobile manufacturers, such as Honda, Nissan and Toyota, and electronic consumer goods companies such as Hitachi, Sharp and Sony
- Vertical FDI. This occurs when an MNE locates different stages of the production of a good in different countries. Most frequently, this type of investment is associated with companies seeking to secure access to sources of supply either in the extractive industries or where raw materials are of paramount importance. The example of Bridgestone in the context of rubber is illustrative of the latter.
- Conglomerate FDI. This occurs when a MNE acquires or amalgamates with another company in another country which manufactures a seemingly unrelated set of products. This type of FDI is undertaken for the purpose of asset accumulation. The financial keiretsu of Mitsubishi and Mitsui are frequently quoted as good examples of Japanese MNEs which have undertaken conglomerate FDI.

Inevitably, therefore, there are several 'theories' of MNEs, explaining why FDI occurs, creating, thereby, the trans-national company. Four theories are especially relevant to this paper, those associated with Vernon; Buckley and Casson; Hymer and Dunning.

The conditions of market demand and supply change as a product progresses through the stages of its life-cycle, from the stage of being 'new' to the stage of being 'mature' and, ultimately, to the stage of being 'standardised'. Vernon (1966) relates the changes between these stages to the location decisions of the firm and its strategic choice between the options of exporting and FDI. As the product moves through the stages of the life-cycle, so the market becomes more expansive geographically. Consequently, the physical problems of exporting grow and the financial costs associated with this particular option increase. These changed circumstances tend to favour the alternative strategy of FDI. Furthermore, and simultaneously, as the product moves through the stages of its life-cycle, price competition becomes more intense. Consequently, the need to reduce costs becomes paramount. To

the extent that specific overseas locations offer the prospect of reducing these costs, for example, via access to cheaper labour and reduced costs of transportation, so FDI becomes the preferred, more profitable strategic option.

In principle, however, when the strategy of exporting becomes less profitable, in addition to FDI, the firm has the alternative overseas market servicing options of licensing or franchising. Buckley and Casson's (1976) internalisation theory explains why FDI is frequently the preferred strategic option. Many activities are associated with the supply of the final good by firms, for example, the research and development into process and product that precedes the marketing of these goods and the training of labour and management to ensure their effective supply. These and similar other activities are best described as 'knowledge-based' intermediate activities, inextricably interconnected with the final product. The firm could sell these knowledge-based activities using market contracts, by means of creating license or franchise agreements. The problem is that the market for knowledge-based activities of this type is fraught with inherent uncertainty. Given this market imperfection, keeping the knowledge internal to the firm is the logical solution to this problem. Accordingly, FDI becomes the preferred strategic choice.

Hymer (1976) also bases his explanation of FDI on the assumption of market imperfections.[1] According to Hymer, incoming MNEs are at a competitive disadvantage relative to indigenous firms when serving local markets because the latter have superior knowledge of the local business environment, customs and legislation. To offset these advantages and compete successfully, therefore, incoming MNEs must possess alternative sets of advantages specific to each firm. These advantages cannot be exploited by exporting because of import restrictions of various kinds. They are realised only by FDI. These firm specific advantages are of several types. They may be technological advantages, manifest, for example, in new products or new processes, but, also, they may be reflected in the capacity to offer variants of familiar products associated with 'brand names'. Additionally, they may be managerial and entrepreneurial advantages, reflected in superior organisational skills and management techniques, such as in production management, labour resource management and product marketing.

The feature of Dunning's (1977: 1993) eclectic paradigm is the synthesis of these (and other) explanations of FDI. Dunning identifies three necessary and sufficient conditions for FDI to take place viz.:

- The presence of Ownership Specific Advantages: the firm must possess exclusive advantages over which it has proprietorial rights. These give the firm a competitive advantage over others in the countries in which it invests. Examples of ownership specific advantages include the nature of the product; the process of its production; and entrepreneurial and managerial skills associated with production and marketing etc..
- The presence of Location Specific Advantages: the overseas location selected by the firm must possess certain advantages relative both to the firm's home country and alternative overseas locations. Examples of location specific advantages include the supply and price of available labour; the generosity of the tax regime; the size and potential of the market; and cultural affinities, including language etc..
- The presence of Internalisation Advantages: there must be some transactions undertaken by

1) Kindleberger (1969) argues similarly. Indeed, it is from this Kindleberger reference that examples to illustrate these market imperfections are frequently taken.

the firm which are conducted better when administered within the firm rather than by means of market activity. Transactions which embody 'knowledge' are the prime examples of these.

The ownership specific factors explain why firms engage initially in cross border activities; the location specific factors explain why overseas production is preferred to exporting; and the internalisation advantages explain why overseas production by means of FDI is preferred to the strategic alternatives of licensing of franchising.

THE NATURE OF JAPANESE MANUFACTURING FOREIGN DIRECT INVESTMENT

Japanese total outward FDI for the period 1994 - 1999 is presented in Table 1. In the six year period, total outward FDI increased by a factor of 1.73. Outward manufacturing FDI increased by a factor of 3.27. Whereas in 1994 outward manufacturing FDI constituted 26.7 percent of the Japanese total, by the end of the period, it accounted for 63.4 percent. In terms of the geographical direction of the total capital outflows, the United Kingdom (hereafter, UK) is of increasing importance. No longer is it a relatively minor recipient of Japanese outward investment. Outward FDI from Japan to the UK increased by a factor of 5.78 over the period, and, in 1999, the UK received 17.6 percent of the total outflow.

Table 1: Recent Outward Foreign Direct Investment Flows from Japan (notification, billion yen, fiscal years beginning 1 April)

	1994	1995	1996	1997	1998	1999
Outward Investment	4,281	4,957	5,409	6,623	5,217	7,439
Of which to						
United States	1,802	2,185	2,479	2,549	1,321	2,487
Cayman Islands	201	226	231	449	709	408
Asia	1,008	1,192	1,308	1,495	836	799
UK	226	333	387	505	1,252	1,307
Netherlands	110	144	124	404	271	1,156
France	44	156	57	213	67	126
Other Europe	273	195	263	253	204	200
Oceania	151	272	101	253	283	100
Of which	1,443	1,824	2,282	2,373	1,569	4,719
Manufacturing						
Finance and Insurance	687	527	876	1,469	2,096	1,103
Real Estate	539	581	700	679	360	236
Services	718	1,035	456	795	263	481

Source: OECD Economic Surveys 1999-2000 (Japan) (p.44)

The direction, by continent, of the outward flows of manufacturing FDI for the period 1990 - 1996 is presented in Table 2. Here the relative unimportance of Europe for this type of FDI during this particular period is apparent. Europe's share of the total decreases progressively from 29.7 percent in 1990 to 10.7 percent in 1995.

FDI decisions made by MNEs are not always wholly independent of the economic and financial conditions prevailing within their countries of origin. Nowhere is this more apparent than in the context of Japanese MNEs. Ozawa (1991a: 1991b), for example, maintains that Japanese FDI is seen best in the context of the ongoing restructuring process within the Japanese economy. Similarly, Dent

Table 2: Japanese Manufacturing Foreign Direct Investment (Outflows), by Continent of Direction (US$, millions)

	1990	1991	1992	1993	1994	1995	1996
USA	6,388	5,559	3,784	4,039	4,575	7,042	8,150
Europe	4,593	2,690	2,101	2,041	1,855	1,995	2,871
Asia	3,068	2,928	3,104	3,659	5,181	8,058	6,628
Latin America	649	364	268	364	1,159	320	1,489
Total	15,486	12,311	10,057	11,131	13,783	18,623	20,258

Source: Seyf(2001) Table 1, where the author's original sources were JETRO White Paperson Foreign Direct Investment, 1996, 1997 and 1998.

(1997) identifies various developments which link changes within the Japanese economy to developments in outward FDI on the part of Japanese MNEs. Stone (1999) also pursues this theme, latterly from the more specific - and for the purpose of this paper, the more relevant - context of manufacturing FDI outflows from Japan into the UK

Stone identifies three phases of Japanese outward manufacturing FDI. Phase one commences only in the early 1970s. Restrictions imposed by successive governments on the outward movement of capital from Japan precluded any activity of this sort before this time (Flath, 2000). This first phase is associated with two distinct types of FDI activities on the part of Japanese firms: the relocation of both labour-intensive manufacturing and resource-intensive processing to sites outside Japan. Labour-intensive production was relocated to maintain price competitiveness in overseas markets. Resource-intensive processing activities (especially those related to mining, extraction and timber) were moved off-shore to overcome the problems of domestic resource-scarcity and uncertainties surrounding the import of natural resources, most especially oil. During this first phase, most Japanese manufacturing FDI took place in Asia. Although some occurred in Canada and Oceania, little of consequence took place in Europe.

Phase Two of Japanese outward manufacturing FDI is associated with export-substituting investment in the industrialised economies of Europe and the USA. During the 1970s and 1980s, the ownership specific advantages of Japanese companies in assembly-based mass production consumer durables, such as automobiles, televisions and other electronic products, brought them considerable export success. In its turn, however, this success led to increasing trade frictions between the exporting and importing nations. Tariff and non-tariff barriers were established or threatened by the latter. To protect their markets, Japanese companies considered market servicing options other than exporting. FDI became the most popular alternative strategy.

At the same time, however, there were additional factors which favoured a strategy of FDI on the part of Japanese multinational enterprises which were of particular relevance in the context of Europe. The value of the yen, relative to the European currencies, continued to appreciate; member nations of the European Union began their preparations for the construction of a single European market; and the European Union had introduced 'home content' rules, designed to increase the value-added element in overseas-owned, but principally Japanese-owned, production plants.

What becomes of increasing consequence during this second phase is the search on the part of Japanese companies for 'location advantages' throughout Europe. Aoyama's (1999) research into the location decisions of Japanese MNEs in the electronics sector shows, however, that what was sought was not necessarily 'low cost' manufacturing sites *per se*. Rather, the relatively higher cost locations of the UK and Germany were selected not only because of the presence there of abundant supplies of

highly skilled engineers, experienced industrial workers and reliable industrial infrastructure but also favourable political climates in which firms could operate. In the UK, this was the era of the 'greenfield' site developments on the part of Japanese manufacturing MNEs (Taylor, 1993).

According to Stone, Phase Three of Japanese outward manufacturing FDI sees the replacement of market seeking and market protecting investment with efficiency-seeking investments as Japanese MNEs seek to devise and implement globally integrated production strategies. As products and processes become more knowledge based, so the search is for the appropriate technologies and skills. There are two important features associated with this third phase. First, FDI is used increasingly to acquire foreign firms to access their ownership specific advantages.[2] Secondly, joint ventures become more prevalent, as companies seek to share the risks and uncertainties associated with new prospects.

The research by both Seyf (2001) and Cleeve (1997) illustrates well the nature of the changing investment and re-investment strategies of Japanese MNEs and the diverse determinants of these strategies during this third period. Seyf surveys a cross section of Japanese MNEs located in member states of the European Union to explore the underlying reasons for their FDI decisions. Seyf finds, like Aoyama, that 'greenfield' site investment decisions are influenced by non-labour local cost advantages. The increasingly more important re-investment decisions, however, are influenced by both a different set of local factors (viz. market size and the availability of labour of proven quality) and globalisation issues (viz. notably seeking to reduce their transactions costs by decreasing the number of market transactions associated with their activities). Cleeve studies joint venture activity undertaken by Japanese MNEs in Britain. He finds that Japanese investors demonstrate a preference for joint ventures rather than other forms of equity ownership when intermediate inputs are required from other firms and when these inputs are subject to high market transaction costs. For example, joint ventures are undertaken when the Japanese branch plant is supplying a product range different from that of the parent company and there is a need for inputs from local firms already supplying these product lines.

During this third phase of FDI activity, however, for both Japanese MNEs and the MNEs of other countries too for that matter, the relationship between the company and the economy of the country of its origin becomes increasingly disconnected. The competitiveness of countries depends upon the quantity and quality of essentially immobile resources resident within national boundaries. By contrast, the competitiveness of companies is based upon assets which are potentially transferable across national boundaries. The competitiveness of countries and companies in time, therefore, come to be based upon different assets with different characteristics. Consequently, the link between them becomes somewhat tenuous (Nachum et al, 2001). In extreme cases, they might develop independently of each other. Competitive MNEs, therefore, do not guarantee competitive nations. As Britain has come to discover-and Japan may well come to experience - economic recessions in the domestic economy do not necessarily hinder the business prospects of a country's successful MNEs; nor do prospering MNEs necessarily generate economic growth and expansion in the country of their origin.

FOREIGN MANUFACTURING MULTINATIONAL ENTERPRISES IN THE UNITED KINGDOM

Foreign owned MNEs are an important subset of the firms operating within the manufacturing sector

2) The classic Japanese–British example of this is Fujitsu's acquisition of the British computer mainframe manufacturer, ICL.

of the UK economy. Although they constitute only 1.6 percent of the total number of firms in the sector, they are responsible for 19.2 percent of the sector's employment and 33.2 percent of its turnover (OECD, 1999).[3] 746 (i.e. 27.7 percent) of these firms are to be found within the 'machinery' sub sector of the manufacturing sector. This sub sector is responsible for the highest percentage number of employees (27.6) employed by foreign owned MNEs. The 514 firms (i.e. 19.1 percent of the total) in the 'chemicals' sub sector are responsible for the highest percentage of turnover (i.e. 27.6) on the part of all foreign owned manufacturing MNEs. Notably, 171 firms (i.e. 6.4 percent of the total) in transport equipment sub sector-effectively motor vehicle manufacture - are responsible for a disproportionately high 20 percent of employment and 20.6 percent of turnover. (See Table 3.)

Table 3: The Number of Foreign Owned MNEs in the UK; employees; and turnover, by manufacturing sub sector, 1996

	Number of Enterprises	Number of Employees	Turnover (millions of £s)
Total Manufacturing	2,686	815,161	146,969
Food, beverages and tobacco	151	74,639	17,864
Textiles, leather, clothing footwear	78	21,787	1,626
Wood and paper products	358	58,879	8,107
Chemicals	514	151,217	39,884
Non-metallic mineral products	90	19,049	1,298
Basic and fabricated metals	305	56,737	7,239
Machinery	746	225,168	35,807
Scientific instruments	175	28,587	3,112
Transport equipment	171	163,333	30,203
Other manufacturing	98	15,765	1,443

Source: OECD (1999), Tables 1, 2 and 4.

39.7 percent (i.e. 1,067) of foreign owned MNEs in the manufacturing sector in the UK are United States owned. These US owned MNEs are responsible for 46.5 percent of total employment of all foreign owned MNEs and 57.2 percent of turnover. The role of US owned MNEs is greater than that of the MNEs whose origins are the combined member nations of the European Union.[4] 5.2 percent (i.e. 139 firms) of the foreign owned MNEs in the manufacturing sector in the UK are Japanese owned. In terms of the total number of manufacturing MNEs, therefore, Japanese MNEs are less numerous than those from The Netherlands (at 6.6 percent), France (at 5.8 percent) and Switzerland (at 5.8 percent). Japanese owned MNEs' share of total MNE employment is 7 percent, the same percentage as French owned MNEs and greater than the share of MNEs from either The Netherlands (at 4.8 percent) or Switzerland (at 5.4 percent). Japanese owned MNEs' share of total turnover of foreign owned MNEs operating within the manufacturing sector of the UK economy is 6.3 percent. Although less than the

3) In the context of Japan in the same year, there were 285 foreign owned MNEs in the manufacturing sector, 0.1 percent of the total number of firms in that sector of the economy. These foreign owned firms provided 0.8 percent of total employment in the sector and were responsible for 1.2 percent of turnover.

4) In the context of Japan in the same year, 46.3 percent of the foreign owned firms had their origin in the USA. 31.9 percent had their origin in the member nations of the European Union, with 8.1 percent coming from the UK. These two geographical territories dominated total foreign MNE share of employment and turnover. Although 7.4 percent of MNEs in Japan are Asian owned, this group of countries has a relatively insignificant share of both total MNE employment (0.5 percent) and turnover (1.4 percent).

share of MNEs of French origin (at 6.7 percent), this figure exceeds the percentage shares of MNEs from either The Netherlands (at 2.7 percent) or Switzerland (at 4.3 percent). (See Table 4.)

Table 4: The Number of Foreign Owned MNEs in the UK; employees; and turnover, by investing country, 1996

	Number of Enterprises	Number of Employees	Turnover (millions of £s)
All countries	2,686	815,161	146,969
USA	1,067	379,370	84,102
Canada	80	31,700	4,760
Japan	139	56,862	9,303
Belgium	27	5,800	2,142
France	155	56,689	9,887
Germany	265	85,106	10,732
Italy	25	9,800	2,365
The Netherlands	177	39,390	3,942
Sweden	188	20,900	2,569
Switzerland	157	43,645	6,298
Australia and New Zealand	63	12,400	2,017
Asia (non OECD)	31	4,554	517

Source: OECD(1999), Tables 1, 2 and 4.

Manufacturing foreign direct investment in the UK is concentrated into certain regions of the country, in particular those regions with relatively high levels of unemployment. The regions of the UK have experienced different patterns of economic development. Characteristically, there is a 'north-south' divide, with regions in the south experiencing relative prosperity and regions in the north experiencing relatively high levels of unemployment (Green et al, 1998: Jackman & Savouri, 1999) (See Table 5). Moreover, this pattern of uneven spatial development has persisted over time (Martin, 1997).

Table 5: UK Regional Unemployment Rates, selected years, Selected Areas

	1974	1984	1990	1995	2000
The English Regions					
North East	3.8	15.7	9.0	10.9	6.4
North West	2.8	14.1	7.9	8.2	4.2
Yorkshire and the Humber	2.1	12.2	6.9	8.3	4.5
East Midlands	1.7	10.2	5.2	7.2	3.5
West Midlands	1.7	13.1	5.9	7.8	4.1
East	1.5	8.2	3.7	6.3	2.5
South East	1.3	8.1	4.0	5.7	1.9
South West	2.0	9.2	4.3	6.6	2.5
Wales	2.9	13.6	6.9	8.2	4.5
Scotland	3.3	13.3	8.4	7.7	4.8

Source: Labour Market Trends (various issues)

To address these regional disparities, successive governments have made use of a series of different policy instruments. Consistently, however, the emphasis has been upon policies designed to

relocate capital rather than labour. Furthermore, these policies have been of a micro rather than macro nature and have focussed upon subsidising inputs to the organisation, by means, for example, of tax allowances on capital investments such as plant and machinery (Armstrong & Taylor, 2000). From 1945 through to (about) 1965, the principal aim was make use of these policy instruments to attempt to encourage UK based firms to move to (or expand by means of establishing branch plants in) these regions of relatively high unemployment. With de-industrialisation within the UK, the opportunities to encourage indigenous firms to re-locate were severely reduced. Consequently, from 1965, national policy has focused increasingly upon attracting into these regions overseas MNEs. Incoming manufacturing MNEs benefit not only from national (and, sometimes, European Union) subsidies, but also from varying types of assistance made available by various authorities within the regions (Raines, 2000). Effectively, these regions - and the various 'development agencies with which they are associated - are in competition with one another to attract overseas MNEs (Brooksbank et al, 1999). Inevitably, therefore, there have been instances in which some organisations have succeeded in using this situation to their advantage to obtain yet further subsidy and support (Garrahan & Stewart, 1992).

The geographical distribution of inward direct investment for manufacturing industry as indicated by 'project successes' is presented in Table 6. Consistently for the time period examined, the three English regions of the North East, the North West and the West Midlands together with Scotland and Wales, are seen to be the most favoured locations. In 1997-8, for example, 62.8 percent of project successes occurred within these geographical areas.

Table 6: Direct Inward Investment: Project Successes (manufacturing), 1984－1997-8

	1984	1986	1990	1992	1994-5	1996-7	1997-8
United Kingdom	285	236	308	261	325	317	358
The English regions							
North East	24	26	37	30	31	36	35
North West	29	27	55	33	42	27	43
Yorkshire and the Humber	7	13	20	28	15	31	45
East Midlands	9	9	13	1	28	16	12
West Midlands	11	37	56	36	47	49	49
East			2	2	6	3	13
South East	30	22	8	10	17	17	22
South West	13	8	2	6	18	21	22
Scotland	59	33	32	42	63	53	48
Wales	47	45	62	61	41	43	50
Northern Ireland	29	16	21	12	17	21	19

By "project success' is meant when an overseas company specifies an interest in investing and, subsequently, progresses to do so.
Source: Regional Trends (various issues) Table 13.7

Although there are clusters of Japanese owned manufacturing MNEs in the English new towns of Telford and Milton Keynes, most subsidiaries are located in the North East region and Wales. In the North East, are to be found, for example, Calsonic Exhaust Systems; Cookson Fukuda; Hashimoto Forming Company; Ikeda Hoover Ltd; Komatsu (UK); Mitsumi Electric; Nippon Seiko Kabushi Bearings Europe; Nippon Silica Glass; Nissan Motor Manufacturing (UK); Nissan Yamato Engineering Ltd; Oshino Lamps; Pico (UK) Ltd; Sanyo Electric Manufacturing UK; Tabuchi Electric UK Ltd; and

Yakasi (UK) Ltd (Stone, 1999). In Wales, there are, for example: Aiwa; Brother; Calsonic; Dowty Koike; Gooding Sanken; Hitachi; Hoya; Kyushu Matsushita; Lucas- Sumitomo; Meiki; Sekisui; Sharp; Sony; Takiron; and Yuasa (Wilkinson et al, 1993).

EXAMINING THE IMPACT OF MANUFACTURING MULTINATIONAL ENTERPRISES

Following the Steuer report (1973), in Britain, the economic impact of MNEs has been assessed according to a traditional template, irrespective of the level of economic aggregation at which the evaluation is undertaken. There are four dimensions to this template viz.

- Resource transfer effects, especially technology transfer and innovation i.e. the extent to which MNEs bring into the host economy embodied technology in the form of, for example, capital goods such as plant and machinery, and disembodied capital, in the form of, again for example, patents, management skills and techniques
- Market structure i.e. the extent to which MNEs change the competitive process and, thereby, change economic welfare in the host economy by modifying the pattern of both resource allocation and resource distribution
- Trade and balance of payments i.e. the extent to which MNEs affect trade inflows and outflows and, thereby, the trade balance of the host economy; and the extent to which the financial consequences of these trade flows and the nature of other financial transactions undertaken by MNEs affects the balance of payments of the host economy
- Employment and productivity i.e. the extent to which MNEs create jobs in the host economy, and, thereby, increase the demand for labour; and the extent to which they enhance the skills base of labour supply within the host economy and increase labour productivity

These effects, however, are not always unambiguously positive. The technology transferred into the host economy may be that associated with standardised assembly-line production. The fact that technology is imported may create some technological dependency on the part of the host nation. The MNE may increase the level of industrial concentration, thereby reducing the level of economic welfare. Furthermore, the MNE may adopt monopsonistic practices with respect to the purchase of local inputs with similar detrimental effects on economic welfare. The MNE may purchase intermediate goods from overseas, perhaps even from its own plants overseas, to the detriment of the trade balance of the host country; and the frequent practices of transfer pricing and profit repatriation may have detrimental financial flows in the balance of payments accounts. In the context of employment, the jobs created may be of a de-skilled nature and subject to all the uncertainties associated with the branch plant system.

Firn (1975a: 1975b) is only one of several authors who are critical of the extent to which external control exists within regional economies and the detrimental consequences this has had for economic regeneration and development (Hood and Young, 1976). With external control, management of the plants in question is subservient to decisions made elsewhere; managerial tasks, consequently, are routine and operational rather than entrepreneurial. Work is allocated to plants rather than won competitively; hence work loads at the branch plant are dependent upon work allocation decisions made by the parent company. Many of the important specialist business functions, such as research and development and marketing, are undertaken at head offices; consequently aspiring professional workers within the local economy must look elsewhere for employment opportunities of this type. Most of the employment created is low skilled, assembly line based, often offered only to women; it

does little, therefore, to reduce male unemployment or enhance skills within the local labour market. There is little job security, because of the ease with which operations may be transferred elsewhere, for example to locations offering the prospect of relatively lower labour costs.

Firn was writing in the specific context of Scotland and the consequences of, principally American MNEs' activities there during the 1960s and early 1970s (Forsyth, 1972; Hood and Young, 1982). Nonetheless, the sentiments were well received in the peripheral regions of England, especially the North East (e.g. Pike & Tomaney, 1999).[5] Accepting arguments from such as Firn, therefore, indigenous development strategies rather than the policy of encouraging inward investment would appear to offer a more appropriate route to economic regeneration, especially for the 'depressed' regions of Britain, the principal locations of incoming Japanese MNEs. Why, therefore, has inward investment on the part of Japanese manufacturing MNEs been sought after so much? And what impact has it had?

THE IMPACT OF JAPANESE MANUFACTURING MULTINATIONALS IN THE UNITED KINGDOM

Several reasons may be forwarded to explain why Japanese manufacturing MNEs were sought so competitively by a region such as the North East and Wales. First, in locations of relatively high unemployment, they created much needed employment. Of more importance, however, they created employment within the growth sectors of manufacturing industry, relatively under-represented in these areas. Historically, the industrial and, therefore, employment structure of the North East region of England and Wales were dominated by large scale, labour intensive, often capital goods related industries such as coal, engineering, shipbuilding and steel manufacture. Product demand for firms in these industries, and therefore the demand for labour on the part of these firms, was declining dramatically and secularly. Job losses in these sectors were not compensated by job creation elsewhere, thereby causing much of the regional unemployment disparities noted above. Incoming Japanese MNEs therefore, creating employment in the motor vehicle and related sector in the North East and the consumer electronics sector in Wales, helped diversify both local economies.

However, there were other positive features conventionally associated with Japanese manufacturing MNEs. Although the technology being transferred in was not necessarily innovative, it was assumed that it would be managed in such a way that levels of output productivity would be greater than the UK average. Historically, the UK economy has had relatively low rates of productivity growth. This, it has been argued, had impacted detrimentally on cost competitiveness and, therefore, on the nation's capacity to compete in international markets (Buxton & Lintner, 1998). It was assumed that directly and indirectly, by means of both product competition and positive demonstration effects, Japanese manufacturing MNEs would help rectify this situation.

The labour productivity of Japanese MNEs - and other quantitative measures of corporate performance for that matter - would be superior to that of UK owned firms, it was further assumed, because the apparently so successful labour management system conventionally associated with large scale manufacturing plants in Japan would be transferred in (Watananbe, 2000). In the UK, employment relations were typically characterised by voluntarist bilateral agreements between unions and employers in which, again characteristically, union power was seen to act as a major constraint

5) Amin et al (1994), however, would contend that the major feature of more recent foreign direct investment has been that plants have become more embedded within their respective local economies, manifest in a form of supply chain altogether different from that of their antecedents.

upon managerial prerogative thereby inhibiting both technical change and labour flexibility. By contrast, what the Japanese system of labour management appeared to offer was multi-skilling and labour flexibility in a more individual employee centred work environment which offered secure employment in plants where single status agreements and single union agreements generated a more consensual corporate culture. In effect, incoming Japanese MNEs offered the prospect of a 'new industrial relations' (Wilkinson et al, 1993).[6]

The prospect of something akin to an economic miracle consequential of 'Japanization' carried considerable ideological appeal, especially during the period of the Thatcher administrations (Ritchie, 1994). Moreover, "Japanese management practices became the holy grail for many industrialists" (Oliver, Delbridge & Lowe, 1998, p 248)[7]

Behind the rhetoric, however, what was the reality of the impact of Japanese manufacturing MNEs in the UK?

The impact needs to be put into the context of the relative insignificance of the size of the Japanese manufacturing MNE sub sector within the UK economy. The 139 organisations in question (in 1996) constituted only 0.08 percent of the total number of firms in manufacturing. These organisations employed only 1.33 percent of the total workforce employed in the manufacturing sector. These organisations produced only 2.10 percent of total turnover of the sector as a whole. Not surprisingly, therefore, although their contribution to investment and employment was especially crucial within the two geographical areas within which they were concentrated, as may be seen from Table 5, they did little to reduce regional unemployment disparities.[8] Nor were the incoming Japanese subsidiaries universally superior to their UK counterparts in terms of corporate performance, at least according to the data reported. Although superior in terms of labour productivity, in the context of other key performance indicators relating to asset efficiency, profitability and stock holdings, their comparative results were poor (Munday & Peel, 1999).[9] Although the industrial relations system in the UK was to change during the decades associated with the establishment of Japanese MNE subsidiaries, and, indeed, move towards a system which featured many of the elements contained within the Japanese model, change was a consequence of many complex factors not merely incoming Japanese managers attempting to transfer in their system of labour management (Millward et al, 2000).

By way of contrast, however, the impact of incoming Japanese manufacturing MNEs upon social science research, particularly 'management' research, was immense. They seemed to offer the classic requirements of the 'social experiment', as the extent to which subsidiaries attempted to transfer in the traditional Japanese model of production and labour management - or elected not to so do - or were constrained from doing so-was investigated and re-investigated by means of both case study and survey methodology.[10] Indeed, according to Proctor & Ackroyd (1998): "too much effort has been directed at understanding the operation of a small number of Japanese transplants." Moreover,

6) Indeed, in time, to the extent that "some aspects of UK industry appeared to be converging towards a Japanese-style model of management practice (Oliver & Wilkinson, 1992, p 1), Turnbull (1986) initiated the use of the phrase 'Japanization' to describe the process.

7) Notably, Wickens (1987) at Nissan.

8) Fothergill's (2001) contention is that regional disparities have widened further over the period under discussion, because the traditional measures of unemployment underestimate the magnitude of the true scale of the problem.

9) Confirmatory evidence of the superior performance of Japanese subsidiaries over UK owned firms in terms of their productivity is, however, provided by Girma et al (2001). That said, in this study, the performance of American MNE subsidiaries is far superior to that of the Japanese.

10) The special edition of Employee Relations (volume 20, number 3) offers an excellent reflective and contemporary survey of this. To give some further evidence of the magnitude of this research phenomenon, a search by the author of the British Library's 'Inside Web' facility using the keywords 'Japanese management' for the period 1993-2001, yielded 2613 'hits'.

according to the same individuals, this preoccupation with Japanese methods has "distorted our understanding of developments in British manufacturing industry" (p 238). However, as a direct consequence of this research, Japanese MNE case studies are a common feature in UK academic texts on corporate strategy and UK academic texts on human resource management frequently contain comprehensive descriptions of the Japanese model of labour management.

CONCLUSIONS

To address the three questions posed at the outset, therefore. From the late 1970s, Japanese manufacturing companies sought to continue to realise their ownership advantages in markets in Europe when exporting was both thwarted and became less profitable by undertaking, instead, a strategy of foreign direct investment. Implementing this strategy in Europe, their search for locations offering specific advantages took them to, in the particular context of the United Kingdom, the North East region of England and Wales, less for the generosity of the prevailing tax regimes, more for the relative abundance of appropriate labour in a stable political environment.

Despite a previous history which indicated the dubious benefits of a regional policy which sought to attract incoming companies to facilitate a programme of redevelopment of the local economies, nonetheless, local politicians within these areas and others from elsewhere competed with each other to encourage Japanese multinational enterprises to invest in their respective local areas. Incoming Japanese multinationals brought the prospect of much needed employment into areas in which unemployment was relatively high. Within both local and national narratives, these incoming Japanese multinationals were accorded the status of the catalyst which would not only regenerate local economies but also transform employment relations. They offered the prospect of some economic miracle, perhaps similar to that which the West has traditionally assumed had occurred in Japan during the 1960s and 1970s.

In employment terms, the local impact of Japanese multinational enterprises was considerable, although not enough to eliminate unemployment. They neither regenerated local economies nor transformed employment relations. Realistically, however, given their small numbers, they should never have been expected to do so.

Their activities and experiences did generate much social science, especially management research, much of which is now distilled into academic textbooks in the UK. Consequently, words such as 'kanban' and 'kaizen', as well as karaoke, are part of the UK management student's vocabulary.

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(Accepted February 7, 2003)