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Governor

KEIDANREN

FEDERATION OF ECONOMIC ORGANIZATIONS

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Governor's Office

April 11, 1986

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The Honorable Victor Atiyeh
Governor of Oregon
State Capitol
Salem, OR 97310
U. S. A.

Dear Governor Atiyeh:

I am enclosing "Summary of Findings" of our visit to five state which I presented to the Board of Directors Meeting of Keidanren on April 8. Well over 100 senior executives of major member corporations of Keidanren attended the meeting. I am also sending copies to our government agencies, embassies, and consult general. I hope it is of interest to you.

Sincerely yours,

Kazuo Nukazawa
Coordinator of Keidanren Investment
Expansion Mission to the U.S.

Director
International Economic Affairs Dept.
Keidanren

Yoh Kurosawa
Leader of Keidanren Investment
Expansion Mission to the U.S.

Deputy President
The Industrial Bank of Japan, Ltd.

Keidanren Investment Expansion Mission

to the U.S.

Group A: Washington, Oregon, Louisiana, Texas and Florida

Summary of Findings by Group A Leader

April 8, 1986

at the Board of Directors
Meeting, Keidanren
Yoh Kurosawa

I. Introduction: Background of the Mission's Visit

1. Direct overseas investment is conducive to the creation of employment opportunities in the recipient countries, the transfer of technology and the remedying of trade imbalances. In the long run, overseas investment also contributes to the adjustment of the industrial structure and the alleviation of trade frictions.

In a paper published late in February 1986, "Toward Stability and Prosperity of the World Economy--Japan's Responsibilities in the International Community," Keidanren called for increased direct overseas investment.

2. Keidanren had earlier conducted a survey in late 1985 of Japanese investment trends in the United States among its 866 member companies. Of the 366 respondents, 167 said that they were "envisaging" or "interested in" investing in the U.S.

3. The findings of the survey prompted Keidanren's International Investment Technology Exchange Committee (headed by Mr. Akio Morita, Sony Chairman) to send investment expansion missions to those states in the U.S. which were especially intent on attracting Japanese firms and in which the survey respondents showed the greatest interest. It was decided that the three missions, Groups A, B and C, visit five to six states each in March, April and June. I acted as leader for the first mission, Group A, which visited five states--Washington, Oregon, Louisiana, Texas and Florida--between March 9 and 22.

4. The purpose of the mission was: (i) to meet with governors, state government officials in charge of development, mayors and other leaders to be briefed on state and municipal policies for attracting foreign investment and on the investment environment; (ii) to tour industrial plants of Japanese, foreign and American companies and the major industrial areas, as well as to visit universities and research institutions; (iii) and thereby to explore possibilities for expanding investment in the U.S.

The ultimate goal of the mission is to boost Japan's annual \$3.5 billion investment in the U.S. To this end, the findings of the mission will be actively publicized, both to Keidanren member companies and, more widely, to other Japanese companies and related organizations.

II. Overall Impressions

1. All five states the mission visited experienced sharp increases in population during the decade from 1974 to 1984.¹⁾ Behind this sharp increase lay an inflow of people from other countries and other states and rapid economic expansion. According to an official forecast, this trend should continue and the combined share of the five states in the nation's total population will rise from 12.1 percent in 1984 to 19.9 percent in the year 2000.

Note: 1)	Florida:	32.0%	Texas:	30.3%
	Washington:	22.6%	Oregon:	17.2%
	Louisiana:	16.8%	U.S. average:	10.7%

2. The economic shift towards the Sun Belt has been continuing for some time in the U.S. Despite a temporary plunge in oil prices and the stagnation of agriculture, the U.S. economy retains its characteristic dynamism as seen in the fast growth of high technology and biotechnology, for which research & development is now concentrated in research parks, and in the structural improvement of the agricultural sector and the revitalization of markets through deregulation.

3. All of the states the mission visited stress the need for a balance between industrial growth and environmental protection. Improvement of the quality of life is an integral part of all industrial development projects. This is strongly reflected in the emphasis placed on high technology and

biochemicals. Great efforts are also being made to improve the living environment and the intellectual environment for research and development to attract competent managers, engineers and scientists from within and outside the U.S. The American situation provides valuable lessons for Japanese companies operating in the U.S. and for Japan itself in planning future industrial development.

4. With the growth of the high technology and service sectors and the concurrently growing awareness among workers of the challenges posed by keener international competition the weight of organized workers in the labor population is waning, and unions are now cooperating with management to a much greater degree than in the past. Attention was called to this point in all the states the mission visited.

5. The five states have no world-wide unitary taxes, giving them an advantage over the six states which impose unitary tax, including California, in attracting foreign investment.

6. Another nationwide trend is a movement towards "small government." This is leading to various deregulations including, for instance, more flexible freights by sea, air, trucking and railroads and more diversified services. Railroad companies, for example, are attempting to create demand by providing factory siting information to prospective clients and taking more flexible measures to better compete with trucks. (This will afford a lesson to Japanese railways.)

The flexible freight system can affect Japanese companies' choices in locating their factories in the U.S. If a place is chosen where large amounts of goods flow in from outside, the factory's products can be carried out by the returning trucks at low freightage.

7. The need was keenly felt to take adjacent economic areas into consideration in siting of factories for the long term interest of investment. Thus, when we study Washington and Oregon for investment, we have to examine a Pacific Basin and US-Canada free trade zone. Texas cooperates with Mexico through Maquila Dora under which 751 electric appliances, electronics, transport equipment and textile companies employ a total of 218,000 workers as of September 1985, and the added value

amounted to one billion dollars a year. In Louisiana and Florida, relations with Latin American countries are vitally important and the Caribbean Basin Initiative (CBI) deserves attention.

III. Observations on Each State

1. North Western States

Washington and Oregon have a relatively long history of contact with Japan, and their industrial workers share such qualities as diligence and frugality with their Japanese counterparts. Convenient transportation to Japan is another advantage. The two states are also expected to serve as the gateways to the Pacific Basin countries. The climate is mild considering their latitude. The mean number of days when the temperature falls below 0°C in a year are 93 in Washington and 82 in Oregon, significantly lower than the median value among all states of 118 days.

Washington

The state is intent on rapidly shifting the emphasis of its industrial structure from agriculture and forestry to high tech oriented industries. During the briefing by the state government and visit to the industrial areas, the mission was strongly impressed by the vigor with which for this policy is pursued. Industrial development is centered on the so-called "I-5 corridor," spanning 400 kilometers from north to south and 100-150 kilometers from east to west, and bordering both British Columbia and Oregon. Among the state's major advantages are the low cost of energy, particularly hydroelectric power, and highly educated workers. The coast is dotted with many deep-sea ports.

With traditionally close relations with Japan, the state is interested in introducing a Japanese style of management. The state government is also positively conducting worker education and retraining programs. The six major universities of Washington offer strong support to the enhancement in human resources and technological development.

Oregon

Over the past few years, Japanese companies have become increasingly interested in Oregon, a state that was previously relatively unknown to them. Oregon has taken several measures to attract industrial plants in 1985, including the abolition of the world-wide unitary tax. Fortunately, the state has been commanding the attention of the Japanese people since a popular TV drama, "From Oregon, With Love" was broadcast in Japan by Fuji TV station.

The state's major challenge is how to outgrow an economy dependent on primary industry. The state's hard-working people and the unpolluted natural environment should prompt interest from Japanese firms such as electronics, other high-tech industries, and in broader lines of industries and services.

Japan is Oregon's largest trade partner, and the state is heavily committed to an economic principle of free trade and competition with foreign corporations. This is a posture very encouraging to us.

The emphasis on computer science, bio-technology and management are pronounced at universities and we were highly impressed.

2. Three Sun Belt States (Louisiana, Texas and Florida)

The Sun Belt is an area that has shown rapid economic expansion. As there is an inflow of Latin workers into Sun Belt, it is advisable to pay due attention to Hispanic culture. The rate of labor organization is low in the three states because of their right to work laws.

Louisiana

The World Trade Center, a private organization in New Orleans, is making efforts to promote the state's external trade and made arrangements for the mission's visit to the state as a principal host.

Heavily dependent on the industries related to oil and natural gas, the state economy has been greatly affected by the recent plunge in oil prices. To cope with the situation, the state is making all-out efforts to diversify its industries and to build and foster bio-technology and high-tech industries. It has a strong interest in expanding economic exchange with Japan.

"The Industrial Tax Equalization Program" has been established in the State whereby matching tax advantages for newly locating manufacturing facilities are provided to neutralize the ones offered by other states. This leads to a highly significant tax incentive to new comers.

The state economy draws its vitality from an industrial zone extending over 600 kilometers from the state capital of Baton Rouge to New Orleans, along the long and deep Mississippi River. The array of oil refining, petrochemical, sugar and space equipment factories presents quite a spectacle.

The state ranks first in terms of tonnage of exports and imports via land, sea and air, followed by Texas. About half of the U.S. grain exports to Japan in 1984 were shipped from here, and nearly 20 percent of U.S.-Japan trade passes through this part of the state. These facts greatly impressed the mission as to the strength of bonds between the economies of Louisiana and Japan.

Texas

The mission (Keidanren's first to this state) primarily visited corporations and research institutions in the Austin-San Antonio Corridor. Extending over an area of 200 kilometers north to south between the two cities, the Corridor has a mild climate, with sunny days averaging 300 a year and the temperature averaging 20°C. It embraces many medical science institutions and various laboratories and is expected to develop into a major biomedical center of the United States. The National Science Foundation also sees this area as the most promising site for bio-technological development. Signs of development in bio-engineering and fifth generation computers are everywhere. Many workers are highly skilled, so the ratio of organized workers to the total work force is only 4 percent.

Under the leadership of the mayor of San Antonio, the city is carrying out long-term plans for high technology development as typified by the "Target 90" project, with cooperation between administrative agencies, civic organizations, business and academia. The city's population swelled from one million in 1970 to 1.61 million in 1980. A fifth generation computer research corporation chose Austin from among the 57

We were surprised to see so many buildings under construction from the hotel window in Austin. Fifteen universities and colleges with heavy research in computer science and microelectronics, including the University of Texas, provide an academic foundation for industrial development. The cooperation seen between industry, government and academia suggests a lesson for us to learn. Japanese industries, whether they intend to locate there or not, can profit from cooperating with such efforts.

As the governor remarked, Texas was virtually self-sufficient until a few years ago and felt little need for external economic exchanges. However, the need to reduce its reliance on oil and to diversify its industry has prompted Texas to offer tax incentives to attract companies from both within and outside the U.S. There are no corporate income or individual income taxes. The state is further improving the investment environment and is expanding investment opportunities. Texas ranks first in the U.S. in terms of the number of free trade zones.

Texas also ranked first in the number of factories newly constructed in 1984, second in manufactured shipments, and second in manufacturing employment increase over the past ten years.

Florida

The mission visited an industrial park in Orlando, located in the center of the state. Florida is reducing excessive dependence on traditional industries such as citrus and seasonal tourism, while rapidly developing industrial parks, research parks, deep-sea ports, and free trade zones. Particularly in the central part of the state, citrus cultivation, subject to severe frosts, citrus disease, and fruit flies, has been replaced by the dramatic development of new tourism, thanks mainly to Disney World, and high-tech industries attracted by the Kennedy Space Center. This area embraces many well-known space and electronics companies. Of the state's top ten manufacturing companies, nine are in the high-tech industry. Other notable projects include an expansion of the Orlando airport and its Trade Port (commercial and industrial facilities are included within the airport compound).

A survey conducted by a Chicago-based accounting office ranked Florida first for three consecutive years after 1981 in terms of investment environment. In terms of the number of housing construction permits, the

right to work laws, Florida's ratio of organized workers to the total work force is 9.6 percent and there have been no days lost due to strikes in the past five years.

Recently, the state is developing as an international commercial and financial center largely serving Latin America, and as such it is attracting people and information from other parts of the country. Investment for this purpose is increasing, and an ambitious super speed railroad project is under way.

IV. Some Problems

1. The deindustrialization in the U.S. and Japanese investment

It is often claimed that if U.S. manufacturing companies are shifting their production sites overseas for economic reasons, there would be little reason for Japanese companies to begin operations in the U.S. to replace them. The answer to this question may differ from industry to industry. However, beyond the mere need to invite foreign as well as domestic companies, the states the mission visited all showed keen interest in the Japanese style of management. If the advantages of Japanese management are successfully incorporated into the U.S. economy, which is expected to show dynamic growth, it would greatly improve Japan-U.S. relations. It is also advisable for Japanese companies to feel the intense activities of U.S. high-tech industries where they are massing.

2. Impact of the yen's appreciation

The sharp appreciation of the yen in recent months has two opposing impacts on the course of Japan's direct overseas investment. While it helps reduce investment costs and thus stimulates investment in the U.S., it also erodes the profit performance of Japanese export companies, which, under the pressure to adjust and mend ill afford to proceed with new investment plans. However, operations in the U.S. should be considered from a long-term perspective, taking into account the yen's upward trend. It seems that the earlier Japanese companies participate in the industrial and research parks projects, the greater the reward they can expect.

V. Acknowledgment

We would like to express our deep appreciation to the governors, officials in charge of development, mayors, states' representative offices in Tokyo, and members of the chambers of commerce and industry, and economic organizations of the states we visited as well as the Japanese government, Japanese consulate generals and Japanese companies operating in these states, for their tremendous cooperation and assistance to the mission. I am also grateful to the companies which sent their fine staffs as the members of our mission. The schedule was tight but they actively participated with a great sense of purpose. It is our sincere hope that all concerned will give us continued guidance and support.

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