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for a sustainable future

OCCASION

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1. INTRODUCTION

- (1) The structure of textile industry consists of three major parts, i.e. fiber process, textile process and apparel process.

(Chart No. 1)

- (2) There are American type and Japanese type of the textile industry.

- (3) Toray Industries, Inc. is a leader of Japanese textile industry both in domestic operations and in overseas activities.

II. OUTSTANDING OVERSEAS INVESTMENT FROM JAPAN

- (1) Japanese overseas investment has been accelerated in the 1970's.

(Chart No. 2)

- (2) Some 32% out of the outstanding overseas investment from Japan is made in the manufacturing field.

(Chart No. 3)

- (3) Approximately 60% of total Japanese overseas investment is distributed in the developing countries.

(Chart No. 4)

- (4) The overseas investment by Japanese textile corporations is centered in the developing countries, especially in Asia.

(Table No. 1)

- (5) A majority of the overseas investment by Japanese textile industry is engaged in textile process. (Table No. 1)

III. MAIN MOTIVATION FOR JAPANESE TEXTILE CORPORATIONS AS OVERSEAS INVESTORS

(1) 1st Stage (1950's)

Many cotton spinners invested mostly in Latin American countries for the purpose to protect their export market.

(2) 2nd Stage (1960's)

Man-made fiber producers came out in the front of overseas investment activities due to the fact that,

- a) They had successfully established their own export market in the 1950's,
- b) American and European giant producers of man-made fiber had become quickly multi-national corporations, as they set up numbers of subsidiary all over the world, (Chart No. 5)
- c) trade protection was adopted by many developing countries, mainly in Asia, that aimed at industrialization.

It is observed therefore that main motivation to invest overseas for Japanese textile corporations in 1960's was also the market protection in the import substitution field.

(3) 3rd Stage (1970's)

Having entered in the 1970's, Japanese corporations in general started

to seriously consider overseas investment for they had to meet a changing period in the industrial structure such as (1) the domestic market began to show its limitations, (2) due to the sharp rise in labor cost, international competitiveness for labor intensive industry had decreased, (3) the environment problem had become intensified and (4) due to world-wide shortage of resources, they had no choice but to set out by themselves to secure resources. With the balance of payments going considerably into the black in 1971/72, Japanese government took various positive steps to promote overseas investment, while the government had for the long time put controls on overseas investment for reason of balance of payments.

On top of the aforesaid changes, the revaluation of Yen, coincidentally followed by an export restriction on all textile goods to the United States, had completely turned down the basic business circumstance for the Japanese textile industry. Thus they could no longer continue their traditional managerial tactics to achieve a rapid growth through expansion of export.

As the textile industry grew up successfully, the government of recipient countries intended to adopt an expansion policy for integrating the industry. Japanese overseas affiliates were forced to choose either to stay in small operation or to expand rapidly and immensely.

In order to cope with those challenges, Japanese textile corporations increased their overseas investment at an abnormally high speed and changed their overseas activities from a mere "selling of goods abroad" to "manufacturing of goods abroad", and it was really a big change.

(Chart No. 0)

IV. OPERATIONAL PATTERNS OF OVERSEAS INVESTMENT BY JAPANESE TEXTILE CORPORATIONS

(Chart No 7)

(1) Share ratio

Japanese corporations have adopted a joint-venture system commonly, and they are now accepting even a minority share holding in a certain circumstance.

(2) Partner

Beside local partner(s) of the overseas joint-ventures, Japanese textile corporations have commonly selected Japanese trading companies as a partner.

(3) Type of manufacturing

Most of Japanese overseas investment were made in the field of textile processing.

(4) Management

The common strategy in the early stage of operation is to send a group of Japanese staffs to the overseas affiliate in order to place them in an overwhelming majority of the top and middle management posts.

As the managerial technology is gradually transferred to the local employees, those Japanese staffs are then transferred to the positions of adviser.

(5) Machinery, equipment and raw materials

The Japanese overseas affiliates currently meet their demands on machinery and equipment as well as raw materials by purchasing from any sources wherever the best condition is available. However, their old

pattern of purchase confined exclusively to the supply from Japan for the reason of economy.

(6) Products

Japanese investment were made originally with the purpose of market protection, thus products made by overseas affiliates were exclusively sold to the local market. As the local textile industries grew up, they have to start to export their products only after reaching to the limit of domestic market.

(7) Finance

There is a great difference between Japanese overseas affiliates having a short history and multi-national corporations of European or American origin which have many years of experience in overseas investment. As for the assets structure of Japanese affiliates, an extremely high percentage is occupied by fixed assets. And on the other hand, they depend less upon internal financing, but more upon borrowing from outside. Consequently Japanese corporations as investors have to bear a heavy burden to support such borrowing by the affiliates.

V. PROJECTED OVERSEAS INVESTMENT FROM JAPAN AT THE END OF FY 1980

The annual growth rate of the balance of overseas investment from Japan is estimated at approximately 20% on average for the period of FY 1975-80, which is nearly half that of the first half of the 1970's, but is still a high figure.

The outstanding of Japan's overseas investment at the end of FY 1980 is estimated at around \$40 Billion. This investment balance is three times

that of at the end of FY 1971.

In the field of textile, a slow growth of investment is also anticipated. However, the amount of net increase of the investment balance is estimated far bigger than that of the first half of the 1970's.

(Table No. 2)

VI. HONG KONG AS A FREE ZONE

No one could deny the following merits of Hong Kong as a Free Port;

- (1) Free trade policy has enabled the local industries to purchase at the lowest and to sell at the highest. Simple custom clearance procedures can help additionally such activities of the industries.
- (2) Free trade policy has also enabled the industries to enjoy a less expensive cost of finance.
- (3) Free trade policy has further made easily available ocean transport services at competitive rates.
- (4) Free trade policy has enabled foreign buyers and sellers to visit Hong Kong with no problem.
- (5) Good quality labor has been easily available at a less expensive cost. The continuous inflow of the refugees from the main land China has supported the labor situation in Hong Kong.
- (6) Imperial Preference System had been extremely effective to bring up the local industries from their infant stage.

However, there are certain unfavorable terms of location in Hong Kong. Among those demerits, the limit of area is fatal. The government of Hong Kong jointly with the people had solved this problem by setting up the most suitable industry, an apparel making industry. They had founded the industry as a labor-intensive industry with the least area requirement. As the industry grew up, the products became more fashion-oriented and more value-added. Special network of the overseas Chinese scattered world-widely did help the industry greatly through quick exchange of information on fashion and market.

VII. PARTICULAR THEME GIVEN BY UNIDO

(1) TORAY'S ATTITUDE TO INVESTMENT INCENTIVES IN DEVELOPING COUNTRIES

The investment incentives in developing countries should be considered not merely as a necessary evil but as the indispensable condition to the foreign investors in general.

As the government of the recipient country has authority to perform a screening or control on foreign investments in their country, it should provide appropriate control on foreign capitals in accordance with its overall development plan. Hasty industrialization or an excessively rapid localization would create an adverse effect on the progress of development. It must be realized that development of economy or modernization of a society is a time-consuming affair. And the measures of investment incentives should be decided according to the stage of the life cycle of direct investment. Please refer to Chart No. 8. The popular process of growth of overseas affiliates can be described as per in the center, from the view point of life cycle of direct investment. Upon commencement of

dividends by the overseas affiliates, tax holiday can be terminated but adoption of further radical policy by the government of recipient country may kill a chance of coexistence with foreign investment. If a gradualism is adopted, the transfer of capital, management and technology to the local side will be smoothly achieved.

These are certain merits and demerits of direct investments in developing countries, as Chart No.9 shows. What I like to state is that the greater the merits are, the greater the demerits. No matter how greatly direct investment contributes to the development of the recipient country, its original motive is " profit " after all. Despite of its great contribution to the industrialization, various social impacts such as the collapse of the traditional society or urbanization is unavoidable. Therefore, the policy toward direct investment by foreign enterprises should be decided in accordance with an overall economic and social development plan.

(Chart No. 8,9)

(2) TORAY'S ATTITUDE TO FREE ZONE GENERALLY

As explained previously, our investments in developing countries were originally made with the purpose of market protection in import substitution field. As the textile industry in the developing country has grown up to reach the limit of the domestic market, the industry including our affiliate try to export their products. However, the export can not be achieved easily as a matter of fact. Our past experience indicates that it is much more efficient for us to set up a new factory in an industrial free zone rather than to expand an existing small scale factory designed originally for the domestic sales, if we are in need of

opening a new export operation.

The Chart No. 10-A and B provide very interesting results of survey made for the Asian Productivity Organization. In this survey, a total of 32 occupant enterprises were interviewed in the Export Processing Zones of Republic of Korea (8 firms), Republic of China (11 firms), the Philippines (4 firms) and Singapore (9 firms). Among those 32 enterprises, manufacturers of apparels, electric and electronics products were most numerous, more or less reflecting the composition of occupant enterprises in the zones of the said four countries.

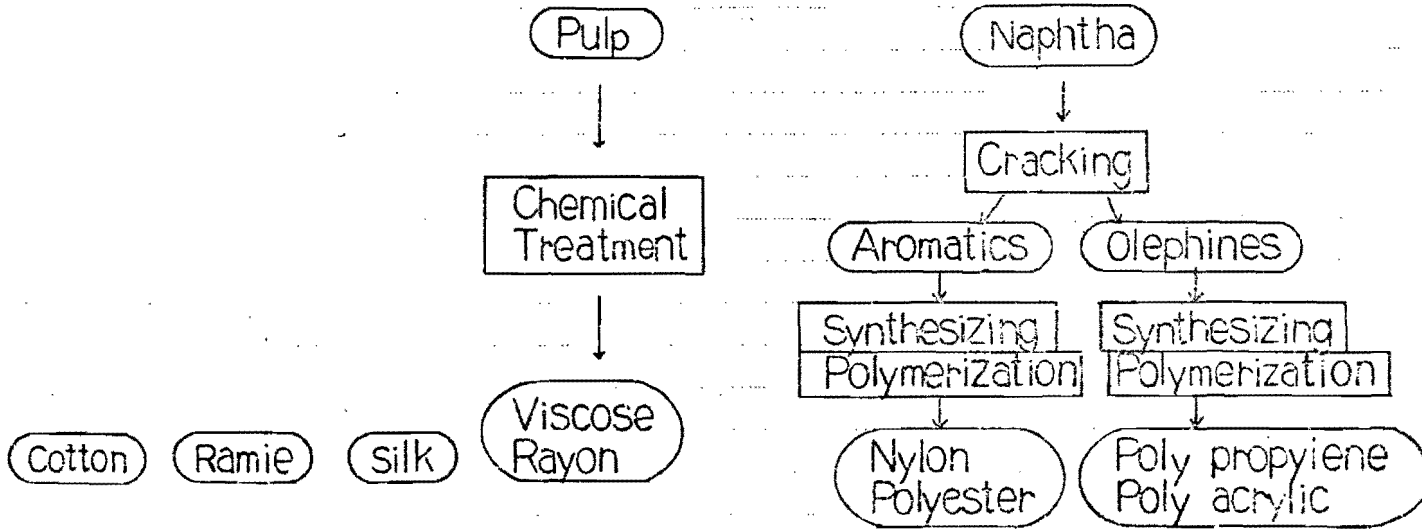
The overwhelming majority of zone occupant enterprises stated that their motives for investing in the zones are to use the zones as " low-cost production bases for export back to their home market and to other major markets ". " Securing, maintaining and/or developing a regional production base, mainly to serve nearby markets " is the second most important motive in ranking. In short, foreign investor's primary aim for investing in the Industrial Free Zone is export of the products and they are keenly interested in the use of the Zone as " low-cost production base ", in another word, in taking advantage of low-cost labor, low land and rental costs and low costs of any other items that the Zone can offer.

The Chart 10-B shows a classification of factors determining investment climate and the degree of their importance as far as foreign investors are concerned. The foreign investors considered political and economic stability the most important factor for the investment climate of a country. It is commonly held by foreign investors that stable and continuous government is a prerequisite for economic development and stability. The government incentives are considered the second important factor and then existence of adequate infrastructural facilities and services comes next. The importance of overall economic planning policy is also emphasized.

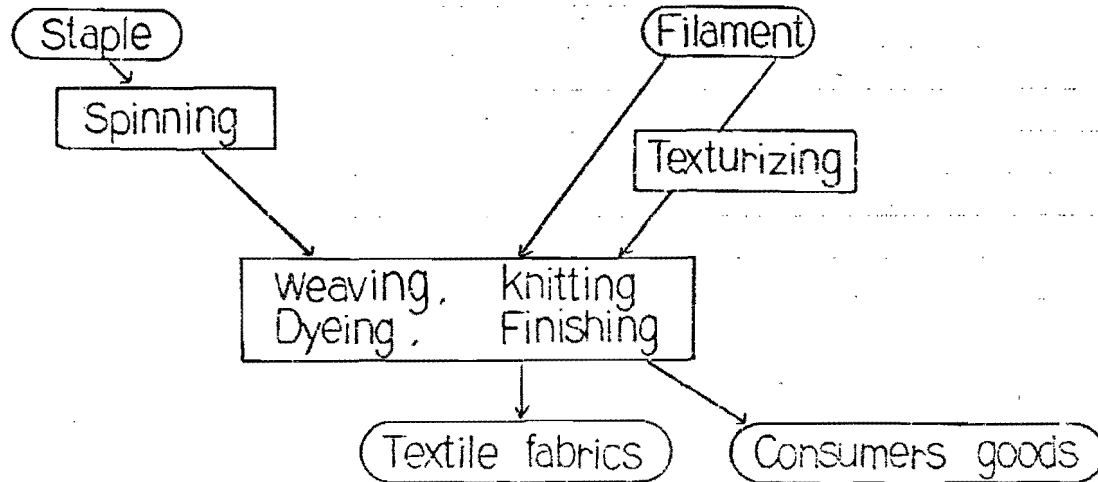
(Natural Fibers)

(Man-Made Fiber)

Fiber Making Process



Textile Process



Apparel Making Process

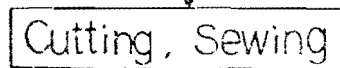
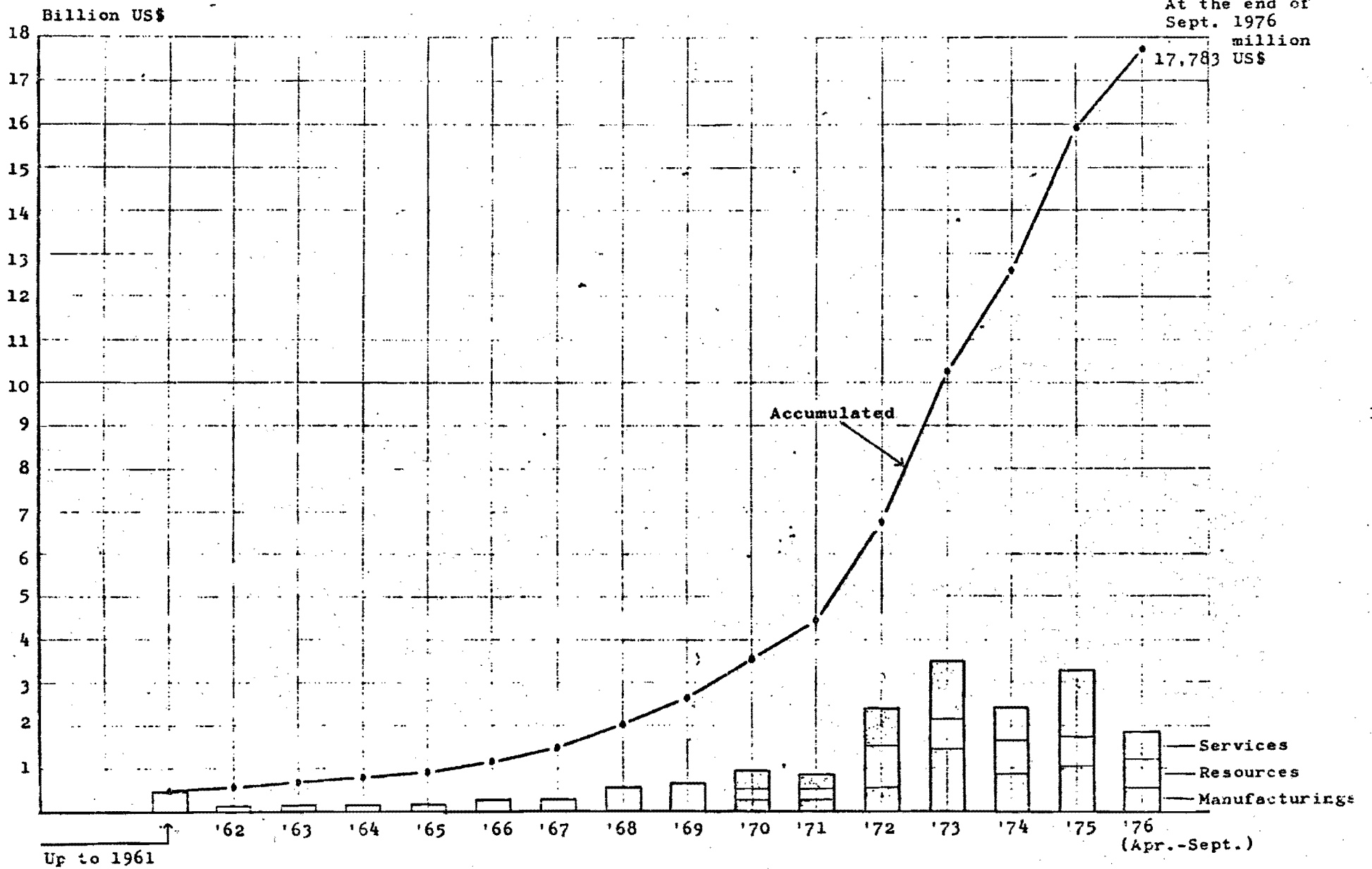


Chart No. 2

LICENSED AMOUNT OF OVERSEAS INVESTMENT
FROM JAPAN
(YEARLY AND CUMULATIVE)

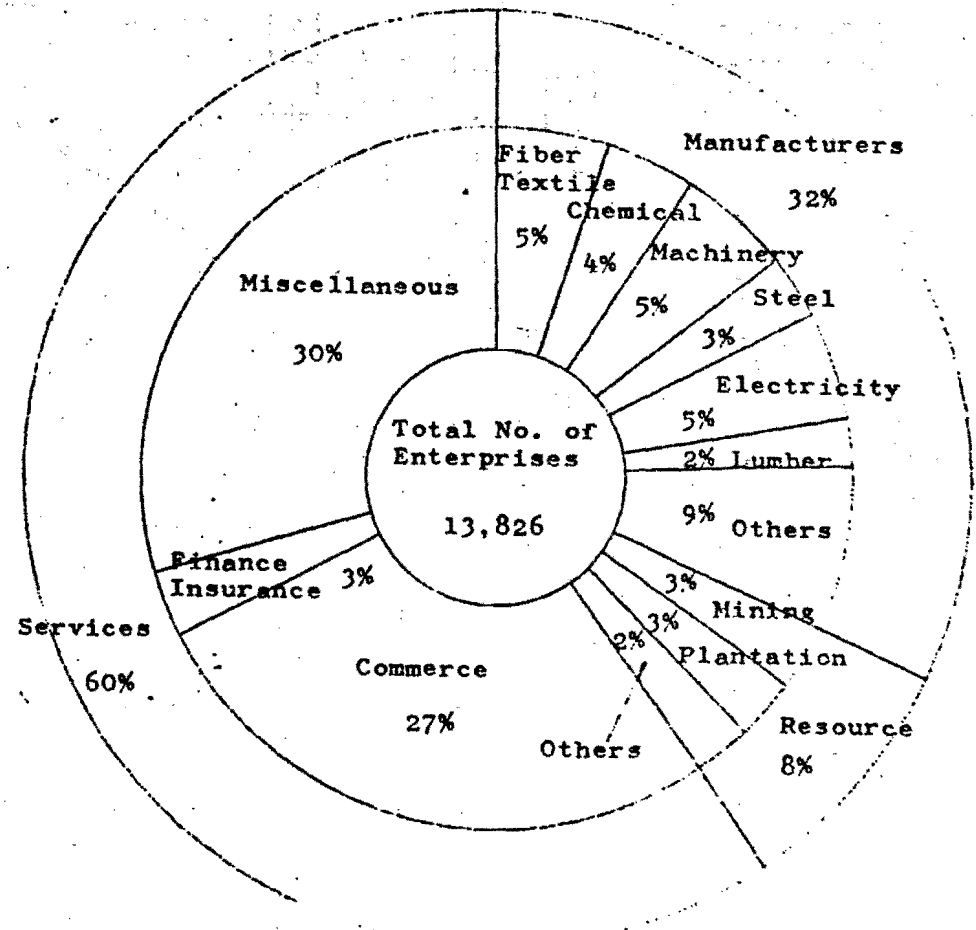
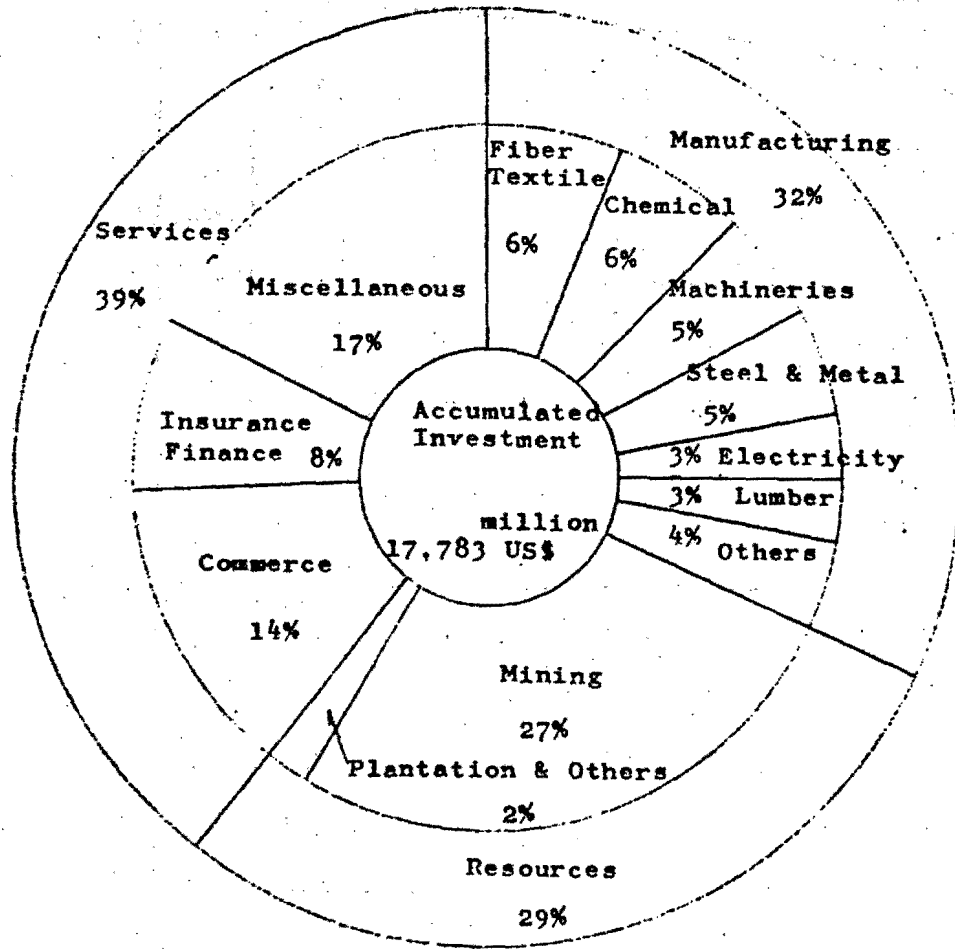


Source: Ministry of Finance

OUTSTANDING OF JAPAN'S OVERSEAS INVESTMENT

BY INDUSTRIAL SECTOR

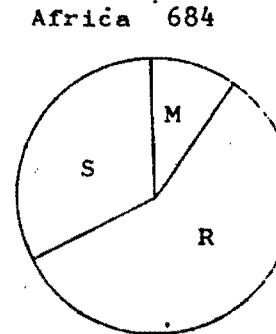
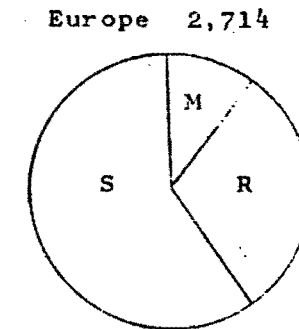
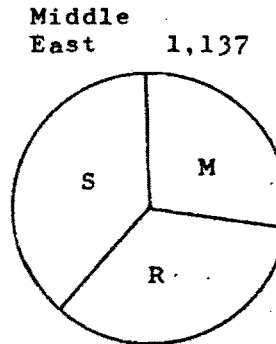
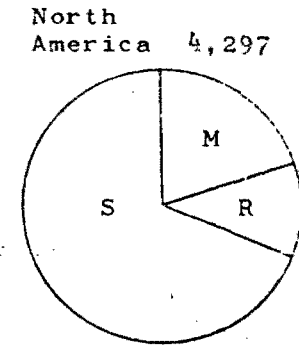
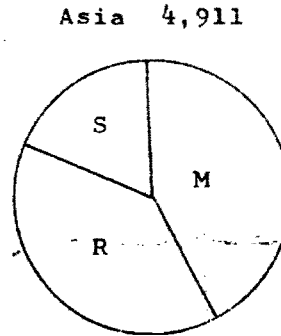
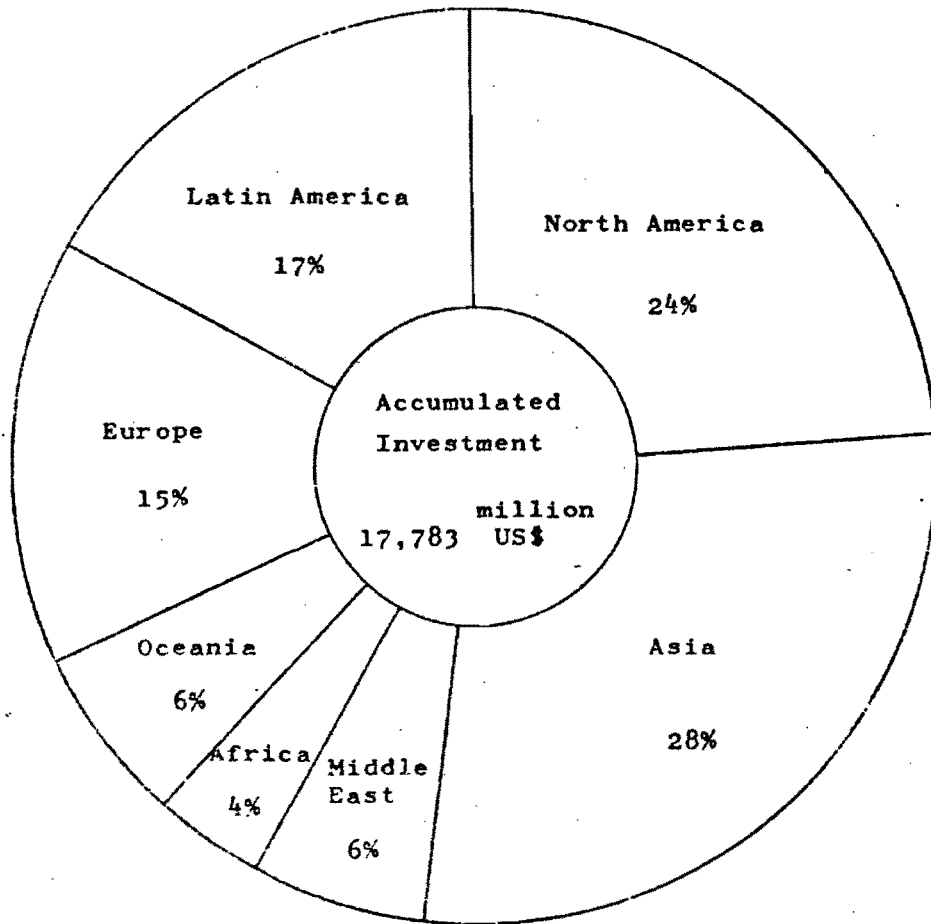
AS OF THE END OF SEPT 1976



Source: Ministry of Finance

GEOGRAPHIC DISTRIBUTION
OF OUTSTANDING OF JAPAN'S OVERSEAS INVESTMENT

Chart No. 4



Note:
M--- Manufacturing
S--- Services
R--- Resources

Unit: million US\$

Source: Ministry of Finance

Table No. 1

OUTSTANDING OF OVERSEAS INVESTMENT
BY JAPANESE TEXTILE CORPORATIONS
AS OF THE END OF MARCH 1976

(No. of cases)

Area	Fiber making		Textile processing		Apparel making		Others		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Asia	22	61%	134	62%	113	80%	15	58%	284	68%
Mid East	0	0	3	1	0	0	0	0	3	1
Africa	1	3	21	10	4	3	6	23	32	8
Europe	3	8	4	2	2	1	0	0	9	2
North America	1	3	16	8	15	11	0	0	32	8
Central & South America	9	25	33	15	6	4	4	15	52	12
Oceania	0	0	4	2	1	1	1	4	6	1
Total	*1 36	100	215	100	141	100	*2 26	100	418	100

Remarks: *1 Silk raising included

*2 Mostly manufacture of industrial items, such as tirecord, fishing nets and twines, and carpets.

Chart No. 5

OUTSTANDING OF OVERSEAS INVESTMENT
BY 8 GIANT MAN-MADE FIBER PRODUCERS

(As of End of FY 1969)

Corporate name		Du Pont	Monsanto	Celanese	I.C.I.	Courtaulds	Hoechst	Akzo	Rhone Poulin
Nationality		USA	USA	USA	U.K.	U.K.	W. Germany	Holland	France
Country to invest		USA	USA	USA	U.K.	U.K.	W. Germany	Holland	France
North America	USA	●	●	●	○	○	○	○	○
	Canada	○		○	○	○	○		
Europe	U.K.	○	○		●	●	○	○	
	France					○			●
	W. Germany	○	○		○		●	○	○
	Italy							○	○
	Spain							○	○
	Portugal				○				
	Belgium							○	
	Austria						○		
	Switzerland							○	○
	Sweden						○		
	Holland	○						●	
	Luxemburg		○						
South America	Mexico	○		○			○	○	
	Colombia		○	○				○	
	Venezuela			○					
	Peru			○					
	Uruguay		○						
	Argentine	○						○	
	Brazil			○					○
Chile						○			
Oceania	Australia				○				
Asia	India				○				
Africa	South Africa				○		○		

Note: ● indicates the location of principal operations

A PATTERN OF INTEGRATION
OF TEXTILE INDUSTRY

Process	1st stage			2nd stage			Final stage		
	No. of equipment	Investment amount required	Possible trade policy	No. of equipment	Investment amount required	Possible trade policy	No. of equipment	Investment amount required	Possible trade policy
Fiber making	—	—	—	—	—	Free import of fibers	1,000	1,000	Restriction of import of fibers
Spinning	—	—	Free import of yarns	300	300	Restriction of import of yarns	+700 (to 1,000)	+700	Import ban of yarns Promotion of export of yarns
Weaving & Dyeing	100	100	Restriction of import of fabrics	+200 (to 300)	+200	Strict restriction of import of fabrics	+700 (to 1,000)	+700	Import ban of fabrics Promotion of export of fabrics
Total		100			500			2,400	

COMPARISON OF OPERATIONAL PATTERNS
OF OVERSEAS INVESTMENT

	American & European	Japanese																									
		1960's	1970's																								
Share Ratio	100 % or overwhelming majority	Joint ventures commonly 50 : 50 basis	Minority																								
Partner	None or local partner	Japanese Trading Company and local partner(s)	Japanese Trading Company, local partner(s) and public shareholders																								
Type of manufacturing	Mostly Fiber making	Mostly textile processing, partially fiber making	same as in 1960's																								
Management	Almost exclusively depending on local man-power	Japanese staffs take most of top and middle management posts	Japanese staffs stay as adviser																								
Goods	Machinery & Equipment	Purchase from wherever the best condition is available	Purchase from wherever the best condition is available																								
	Raw Materials																										
	Products																										
Finance	Predominantly by internal funds	Small capitalization	<p style="text-align: center;"><u>Sources of Funds</u></p> <table border="0"> <tr> <td>used for:</td> <td></td> <td>Sources:</td> <td></td> </tr> <tr> <td>Land, Buildings</td> <td>14%</td> <td>Paid in capital</td> <td>32%</td> </tr> <tr> <td>Machinery, Equipment & Fixture</td> <td>65</td> <td>Long Term borrowing</td> <td>58</td> </tr> <tr> <td>Initial Expense</td> <td>6</td> <td>Short Term borrowing</td> <td>10</td> </tr> <tr> <td>Operating Funds</td> <td>15</td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td>100</td> <td>Total</td> <td>100</td> </tr> </table>	used for:		Sources:		Land, Buildings	14%	Paid in capital	32%	Machinery, Equipment & Fixture	65	Long Term borrowing	58	Initial Expense	6	Short Term borrowing	10	Operating Funds	15			Total	100	Total	100
	used for:			Sources:																							
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Machinery, Equipment & Fixture	65	Long Term borrowing	58																								
Initial Expense	6	Short Term borrowing	10																								
Operating Funds	15																										
Total	100	Total	100																								
Majority of external funds raised abroad at the risk of the subsidiaries	All borrowing supported by guarantee by Japanese shareholders																										

(Source: The Export Import Bank of Japan)

Table No. 2

FOREIGN INVESTMENT FROM JAPAN AT END F.Y. 1980

(\$ Million)
%

		ACTUAL				ESTIMATION BY N.I.R.A.		ESTIMATION BY M.I.T.I.	
		END FY 1970		END FY 1974		END FY 1980		END FY 1980	
		Cumulative Amount	Percent distribution	Cumulative Amount	Percent distribution	Cumulative Amount	Percent distribution	Cumulative Amount	Percent distribution
Resource	Mining	1,132	31.6	3,527	27.8	11,570	30.9	12,940	31.6
	Total	1,427	39.9	4,230	33.4	14,140	37.8	16,530	40.4
Manufacturing	Textile	189	5.3	918	7.3	1,810	4.8	1,440	3.5
	Chemical	60	1.7	634	5.0	2,460	6.6	3,830	9.4
	Iron	138	3.9	635	5.0	1,860	5.0	2,700	6.7
	Machinery	68	1.9	307	2.4	1,070	2.9	600	1.5
	Electric Apparatus	73	2.0	426	3.4	1,520	4.1	1,400	3.4
	Total	727	20.3	3,714	29.3	11,280	30.1	12,810	31.3
Commercial	Commercial	412	11.5	1,549	12.2	4,200	11.2	3,560	8.7
	Finance & Insurance	318	8.9	1,000	7.9	2,650	7.1	2,840	6.9
	Total	1,423	39.8	4,722	37.3	12,020	32.1	11,590	28.3
Grand Total		3,577	100	12,666	100	37,440	100	40,930	100
Annual Investment		912		2,396		5,620			

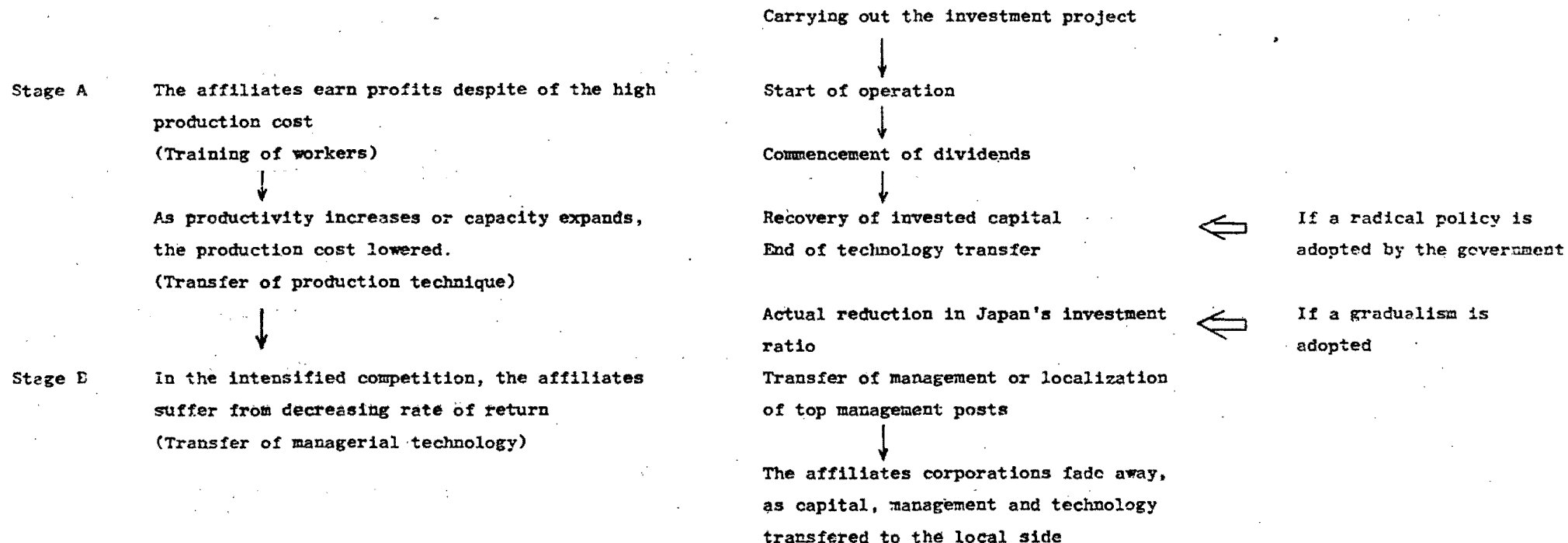
Note: N.I.R.A. --- National Institute for Research Advancement
M.I.T.I. --- Ministry of International Trade and Industry

PATTERNS OF LIFE CYCLE OF DIRECT OVERSEAS INVESTMENT

Chart No. 8

Popular process of growth
of overseas affiliates

Patterns of life cycle
of direct investment



Note: Descriptions in the parenthesis indicate assistance by the foreign affiliates to the industrialization of the recipient country

BALANCE SHEET CONCERNING THE ECONOMIC AND
SOCIAL FACTORS OF DIRECT INVESTMENT
IN THE DEVELOPING COUNTRIES BY PRIVATE ENTERPRISES

Positive Factors

- (1) In-flow of capital
 - a) Correction of the balance of payments deficit
 - b) Improvement in the investment-saving gap
 - c) Improvement in the budget balance
- (2) Transfer of technology
- (3) Improvement in human resources
 - a) Training of workers
 - b) Training of business managerial personnel
 - c) Cultivation of entrepreneurship
- (4) Modernization of the market system
- (5) Internationalization of the economy
- (6) Acceleration of economic growth
 - a) Rise in the standard of income
 - b) Creation of employment opportunities
- (7) Modernization of society

Negative Factors

- (1) Out-flow of capital
 - a) No immediate improvement due to increased import of capital goods
 - b) —
 - c) Too much preferential tax treatment given to foreign affiliates
- (2) Monopoly of technology
- (3) Spoiling of human resources
 - a) Introduction of bad customs
 - b) —
 - c) Deprivation of investment opportunities by local enterprises
- (4) } Collapse of the traditional economic and social system
- (5) }
- (6) —
 - a) Unfair distribution of income
 - b) —
- (7) Change in the traditional value system

SURVEY ON OCCUPANT ENTERPRISES OF EXPORT
FREE ZONE IN ASIA

SOURCE : THE REPORT TO THE SYMPOSIUM ON EXPORT
PROCESSING ZONES, OCTOBER, 1975, IN SEOUL, KOREA
BY THE ASIAN PRODUCTIVITY ORGANIZATION

(I) Motives for investing in Export Processing Zones

	<u>Primary Motive</u>	<u>Secondary Motive</u>	<u>Not Applicable</u>
(1) Competitive forces in the home and international markets necessitated the development of overseas low-cost production base for export back to the home country and other export markets	--- 24	1	7
(2) Securing, maintaining and/or developing a regional production base, mainly to serve nearby markets	--- 7	4	20
(3) Necessity to complement other activities of foreign investor, on a local, regional or world basis	--- 3	8	21
(4) Securing, maintaining and/or developing of raw materials, parts, components for production at home country	--- 3	6	22
(5) Securing, maintaining and/or developing host country market	--- 3	3	25
(6) Capitalizing on Know-Hows	--- 1	2	26
(7) Utilization of old machinery	--- 1	1	28

(II) Importance of all the factors foreign investors considered for assessing investment climate of the host country as a whole

	<u>Very Important</u>	<u>Important</u>	<u>Not Important</u>
(1) Political and economic stability	27	3	1
(2) Government incentives			
- Duty-free imports	23	5	2
- taxation	22	4	2
- grants	6	3	20
- tariff protection	1	2	27
(3) Infrastructure - ports, highways, railroads, air transport, communication, water supply	21	7	2
(4) Overall economic planning policy	20	10	1
(5) Stable currency value	17	9	5
(6) Overall interest of host country toward foreign investors	16	15	0
(7) Assistance by host country during and after establishment of foreign firm	16	9	6
(8) Availability of skilled labor	15	13	3
(9) Existence of planned and operating industrial sites	12	15	3
(10) Ready availability of foreign exchange	11	15	4
(11) Access to local finance	11	13	6
(12) Existence of support facilities	10	18	2
(13) Existence of training facilities for workers	7	6	17
(14) Assistance in providing data and local information	5	14	11
(15) Existence of marketing outlets in host country	5	4	22
(16) Existence of country with high technology industries	4	9	17
(17) Existing export markets in nearby countries	4	9	14
(18) General living conditions	3	16	11
(19) Assistance by host country in feasibility studies	3	7	21
(20) Developed manufacturing base	2	20	8
(21) Existence of data-bank in the country	2	9	19
(22) Assistance in arranging joint-venture partners	2	6	22