

The Japanese deepen British economic ties

I had the pleasure of visiting Old Trafford, Manchester last Tuesday for a conference on Japanese inward investment, jointly organised by the Anglo Japanese Economic Institute (AJEI) and Agency for Investment into North-West England (Inward).

The timing of the conference was opportune, as it followed press reports that Toyota was to build a huge new plant in Northern France. Officially, Toyota has not decided on the location, but the press story was sufficient to feed concerns that Britain's scepticism towards monetary union will deter future inward investment.

Anyone who had been at the AJEI-Inward conference would have realised this is not the case. Instead, a range of expert speakers, British and Japanese, highlighted the depth of the existing cultural and commercial relationship between the two countries. This is reflected in the continued inward investment by the Japanese and the two-way exchange of ideas and people in university research departments and the corporate sector.

As if to highlight how strange it would be if Toyota was to invest in France, with its

high labour costs and inflexible labour market, the head of their UK operation Mr Mizushima, outlined how successful their investment here has been. Last year, Toyota was the fifth-largest exporter of vehicles from the UK, adding a net £444 million to our trade balance. Four factors had "made Toyota UK unbeatable", including dynamic investment, technology, the quality of the British labour force and the Toyota production system.

This system is based on *kaizen*, or continuous improvement, aimed at eliminating *muda* (waste), *mura* (unevenness) and *mur* (burdens). It is a lesson in how to manage a manufacturing company. And, in view of their success here, Toyota plan to boost investment and production. Although large, one could imagine the size of the plant is still smaller than the critical mass it could attain. It would seem a strong reason to invest here, and not France.

But even if Toyota does invest in France, so what? The French need the jobs, and they pose few threats to UK competitiveness. The French have tried to learn from the success

of the UK in attracting inward investment. This year their government is hosting a "Japan in France" campaign, to follow up their "Japan the possible", all aimed at wooing the Japanese. It has been successful, but still the UK receives the lion's share of inward investment in Europe, and not just from Japan.

This investment has been attracted over a long time, mainly from manufacturing companies, many of whom have reinvested after basing their production here and seeing it grow.

Whereas there is much focus on the flexibility of the British labour force it is clear that this is not the reason why companies invest in the UK. Time and again Japanese investors comment on the welcoming aspect of the UK towards inward investment. Now, many foreign firms co-ordinate their European business from the UK, in the manufacturing as well as financial sectors. All this shows a continued commitment to the UK. But what is particularly encouraging is that inward investment is becoming less linked to cost, and increasingly tied to research, design and

development (RD&D). There seems little fear of Britain's scepticism towards EMU deterring such inflows.

Louis Turner, Head of the Anglo Japanese High Tech Industry Forum, highlighted how successful and deep-rooted such investment in RD&D has become. One third of Japanese firms already have some RD&D activities here, including 20 significant stand-alone laboratories.

Britain, it is often said, is good at inventing, but others usually produce and benefit from the ideas. That problem, it seems, is being overcome with the help of Japanese inward investors. Both countries share a complementary set of research traditions. The UK has a more individualist and academic R&D base. The Japanese have been more successful at commercial R&D, actually converting ideas into profitable, scientific projects. This complementarity has worked well.

Turner provided an impressive list of success stories, including Daiwa Precision Engineering's fly fishing rod, and additions to the Nissan Primera range. And more success is likely. The UK is already one of

the leading global centres in pharmaceuticals. And there are some very long-term research facilities being set up to look into research ideas that will bear fruit more than ten years ahead.

One of the reasons for such benefits accruing to Britain is our impressive science base. Such successful projects not only reinforce the UK science base through the funding received from inward investment flows, but this also helps our industrial base.

All this is very encouraging for the British economy. The success we have had in attracting inward investment emphasises two factors.

First, the need to maintain a flexible, innovative and competitive labour force. Competition doesn't just mean downsizing and cost cutting. It means making it profitable for firms to employ people here in Britain. Second, the success of research, development and design, highlights the importance of investing in education.

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writes

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