

2011 Report

Perceptions of Japanese Investors About Business Retention and Expansion in California



Japanese Chamber of Commerce of Northern California

Japan Business Association of Southern California

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2011 Annual Report

The Economic Wonder of California and Japan

The United States is Japan's largest export market for consumer goods. As the world's 8th largest economy, California is also the most prominent gateway to North America and the largest market within the United States and Canada. Supported by over 150 years of cultural and diplomatic exchange, these primary factors have pulled two of the world's top ten economies into modern day interdependence. In turn, California has become the top location for Japanese manufacturing plants, distribution centers, retail outlets, finance operations and a wide array of other activities that employ hundreds of thousands of Californians and generate billions in state and local tax revenue.

Our Synergy Runs Deep

Beyond simple direct foreign investment and trade statistics, the synergy between our economies runs along other interesting dimensions. Although in past years this synergy was described in terms that were more cheerful, today this synergy is grounded in a common struggle – finding ways to deal with economic misfortune as the state's economy rebounds slowly and now, dealing with the social, environmental and economic challenges in Japan. More than ever, our futures are intertwined with our domestic counterparts and the well-being of California state government.

The recent natural disaster in Japan – and the overwhelming response by Californians – is perhaps the deepest reminder that our lives and futures are strongly interconnected. During this year's annual visit, JCCNC and JBA will be collaborating with California State Government at the highest levels to discuss the implications of the Tohoku Earthquake of 2011. These discussions will cover not only learning about the latest news from Japan; our talks will quickly turn to discussing ways to prepare for economic recovery in the event of the next disaster.

We thank the Brown Administration for helping us to start discussions that can lead to finding new solutions for dealing with shared seismic risks.

Japan will always remember California's compassion toward the people of Japan in time of need.

Why We Love California

The continued globalization of California presents opportunities and problems for Japanese firms – both old and new. On the side of opportunity, California remains the most preferred place in the nation for Japanese investors to conduct business even under tough economic conditions. Among the fifty states, California is the most acclaimed bilateral gateway; seasoned with natural beauty, comfortable climates, educational and technology excellence, rich and diverse cultures and everything else that goes into making California a place our members call home.

Equally significant is another asset – *California's unwavering attitude toward open investment and support for free trade.*

Shared Concerns Take On New Dimensions

Today and more than ever, Japanese investors in California share many of the same problems as our domestic counterparts. In recent surveys, our members continue to express anxiety about the stability of California's economy. They share worries about complex regulations, the state's chronic fiscal imbalances and the lack of governmental inducements to expand and attract a well-educated workforce.

Although they have many of the same industrial headaches as our domestic counterparts, these problems take on new dimensions. Due to the very nature of globalization, our parent companies are separated from California by time, space and culture. What seems familiar to domestic companies here is not so ordinary for our overseas decisionmakers and business managers. Thus, as a place to do business, California must be competitive with other host locations throughout the world. In other words, *since host government policies can advance or hinder even the wisest investment plans, our principals must know that they can anticipate and manage cultural differences and have confidence how foreign host governments operate.*

As in 2010, we wish to offer a unique perspective about the high cost of doing business in California. In better economic times, this factor is an important consideration for investors who potentially may invest or expand in employment-generating activity. In a recession, the lack of attention to addressing the high cost of doing business can be devastating to investors and the state's economy alike.

Unfortunately, discussions about strategies to reduce the high costs of doing business in California seem to be one-dimensional. While it is easy to blame controls and regulations, certain factors such as the high costs of living, housing, labor, energy and land exceed the scope of most governmental influence. Further, depending on the nature of the industry and commercial exchange, California's geographic location can either help or frustrate efforts to manage logistical costs. In promoting global investment, we think that the debate about dealing with the high costs of doing business in this state must

focus on things beyond the costs or regulation and labor and commodity factors that are beyond government control.

We wish to add some new perspectives to this debate. First, it is to be thankful that California is a wonderful, preferred-environment to do business. Second, rather than devoting energy to blame regulations or to attempt to change adverse factors that are stubbornly driven by economics forces – we should carefully focus on actions that California can take to compensate and outweigh factors that are adverse to investment.

There is a rationale for investors to pardon the high costs of doing business in California but only if the state adds more value to justify and offset these higher costs. The answer is for California is to find ways to do fundamental things that make life better and smarter for business than the other states. Last year, we asked California for a smarter tax policy, a clearer plan to promote (rather than simply regulate) green markets, a smarter way to finance higher education and job training, and a smarter way to move goods. We renew these requests.

Once again, if you build it - we will come.

Struggling To Understand California Government and Politics

In light of the above, Japanese investors continue to struggle to understand the cultural differences between governmental ways in Japan and California. It is an ongoing challenge for us to unravel how state governmental policies may affect the profitability of our operations and how to explain these matters to our parent entities. This year, more than ever, there is deep worry about the health of California and how this situation may be explained to business decisionmakers in Japan.

Today, from across the Pacific, the short to long-term outlook for the state's economy appears to be that the state is on the brink of disaster and there is much worry about the chances for finding bipartisan solutions.

Now more than ever, the need for more bilateral understanding and communication is obvious.

Things That California Could Do Better

This year's report reiterates several findings that California government could do that may: (i) lead to better bilateral understanding; (ii) create incentives for further investment; and (iii) improve the environment for job expansion and retention.

- As California considers new business and regulatory policies, please continue to consider the value of soliciting our views early in the process and recognize that U.S. – style advocacy is culturally difficult for our members.

- We recognize that with the state's huge budget shortfall there is a propensity to call for raising taxes to reduce the budget gap. We do not believe that the question is as simple as the choice between raising revenues and cutting essential governmental services. The state's economy is being transformed as fast as its demographics – California needs to revamp its tax policy in a way that is better designed to achieve its compelling objectives in the following areas: economic development, education, environmental protection and essential infrastructure. We stand ready to share information about comparative policies in Japan.
- Last year, the delegation asked for a closer working relationship with state officials and the California business community to help disseminate information about the importance and value of foreign investment and trade with Japan.
- We attach great importance to the value of close relations with the California Chamber of Commerce and wish to express our deepest appreciation for their efforts to feature the relationship between California and Japan in their first international web portal.
- Relations between the Japan chambers and the Governor's Office and the Legislature are much appreciated and grow stronger with each passing year. Of course, the challenge is always finding the best way to introduce new officials to Japan in an era of short term limits. Capitol interest in finding new avenues and forums to promote mutual understanding and follow-up is most welcome.
- The Legislature continues to have a strong interest in serious legislative exchanges between California and Japan. We hope that the executive branch, the Assembly, and state business leaders will recognize the value of participation to identify shared solutions and investment opportunities. More state officials need to visit Japan more regularly.
- Both JCCNC and JBA in Northern and Southern California are eager to continue this dialogue with public officials in our communities through facility visits, issues seminars and workshops. We especially hope that new legislators and state officials will join us soon.

Perceptions That Are Important to Japanese Investors

- Foreign investors remain very wary about many of the divisive debates and dramatic political changes that result in sudden swings in regulatory approaches.

- We hope that government can reemphasize the need to make progress toward finding reasonable balances between the needs of workers and employers in labor regulation.
- There is a continuing need for a more stable public finance system that can better accommodate fluctuations in regional and international economic conditions.
- Despite the passage of many infrastructure bond packages, we worry that California's transportation network and telecommunications infrastructure is lagging. In addition to public finance, the state should not overlook opportunities for public-private partnerships with Japan and new technologies that can lead to cost-effective solutions. Japan-based solutions may include incentivizing taxi services, smart parking policies and other cost-effective alternatives to reduce urban gridlock.
- There continues to be deep worry that California will run out of two the commodities that are vital to sustaining continued economic growth - energy and water.
- California and Japan are bilateral stakeholders in efforts to promote tourism. We must energize and properly support joint efforts in this important.
- The Department of Motor Vehicles continues to provide invaluable help alleviate the burdens on Japanese executives and their families in connection with the issuance and renewal of California Drivers' Licenses. Thank you!

Summary

Our organizations thank readers for taking the time to consider our concerns, perceptions, and recommendations. Of course, Japan is only one part of the global economic community. Nonetheless, we believe that foreign investors from countries other than Japan share the views expressed here. In asking to advance our productive dialogue, we hope that this process can help California to improve its competitiveness in dealing with investors from Japan and other trading partners.

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