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## Japanese Direct Foreign Investments IN The U.S. In The 1990s

Arastoo Emami (Ph.D.)

### I. Abstract

The recent collapse of Japanese land and stock prices, the deregulation of financial markets, a more restricted monetary policy by the Central Bank of Japan, and the falling household saving rate have all adversely affected the supply of funds in Japan. The global recession merely has exacerbated them, leaving Japan with a growing burden of debt. As a result, unlike the past remarkable rate of growth, Japanese investments abroad have dwindled and their direct foreign investment (DFI) has sharply declined in the U.S. during the early 1990s. Is this retreat a temporary response to recent events or does it presage a deceleration of DFI abroad and in the U.S., in particular, in the 1990s, beyond the present financial and economic difficulties?

To provide appropriate answers to the above questions, this

paper will first identify the trends, magnitude, and characteristics of Japanese investments in the U.S. in the 1980s. Second, it will look into factors which have contributed to this growth in contrast with other foreign investors. Finally, the prospects for the Japanese DFI in the U.S. in the 1990s will be examined.

## II. Introduction

In contrast with the U.S.'s DFI which grew less than two-fold, from \$215 billion to \$346.6, Japan's DFI grew more than 14 times, from \$4.7 to more than \$67.5 billion during the 1980s. Japan's DFI in the U.S. grew at an even more remarkable rate, more than 20-fold, from \$1.5 billion to \$32.5 billion in the 1980s.

Table No. 1- Japanese Direct Foreign Investment By Area (in millions of dollars, current exchanges rates)

Years	Total	N. America	Asia	Europe	Middle E.	Oceanic	Africa
1980	4693	1596	1186	578	158	448	139
1981	8931	2522	3338	798	96	424	573
1982	7703	2905	1158	876	124	421	489
1983	8145	2701	1874	990	175	191	364
1984	10155	3544	1628	1937	273	157	326
1985	12217	5495	1435	1930	45	525	172
1986	22230	10441	2327	3469	44	992	309
1987	33364	15357	4868	6576	62	1413	272
1988	47022	22328	5569	9116	259	2669	653
1989	67540	33902	8238	14808	66	4618	671
1980-89	222000	100791	31847	41078	1302	11858	3968
1951-79	31896	8142	8618	3894	2102	2075	2308
1951-89	253896	108933	40465	44972	3404	13933	6276

Sources: Bank of Japan Statistics Monthly and Japan External Trade

Note: North America includes U. S. and Canada

Similarly, it is estimated that the overall accumulated Japanese DFI increased less than eight-fold, yet its accumulated DFI in the U.S. surged more than 13-fold, from about \$8 billion to \$105.9 billion during this period. (Table No.1 and 2)

Clearly, the rate of growth of the Japanese DFI in the U.S. was substantially greater than its DFI in the rest of the world. So that, by the end of the decade, the Japanese replaced the Dutch as the second biggest foreign investor in the U.S. and was slightly behind the British who remained the biggest investor in the U.S.

Table No. 2- Japanese Direct Foreign Investment In The U. S. (in millions of dollars, current and constant exchanges rates)

Years	Current: Amount & Growth Rate		Constant: Amount & Growth Rate	
	Amount	Growth Rate	Amount	Growth Rate
1980	1563		1563	
1981	2398	53.4	2332	49.2
1982	2818	17.5	3095	32.7
1983	2620	-7.5	2744	11.3
1984	3438	31.2	3602	31.3
1985	5330	55.0	5607	55.7
1986	10128	90.0	7527	32.2
1987	14896	47.1	9502	26.2
1988	21701	45.7	12274	29.2
1989	32540	49.9	19804	61.3
1980-89	104400	42.5	68050	34.1

Sources: Calculated based on the figures in Table No. 1 and No. 4.

Japan increased its DFI in the U.S. partially through relocation from other parts of the world. By 1989, close to half (48.2%) of the Japanese DFI was in the U.S., compared with 27.5% in 1981. (Table No.3) More importantly, the Japanese share escalated

from less than 9.2% to more than 47.6% of the total DFI in the U.S. This led Japan to its top position in DFI in the U.S. by the end of the 1980s.

Table No. 3- Japanese Direct Foreign Investment By Areas (shares are percentage of

total	Japanese DFI)						
	U.S.	N. America*	Asia	Europe	Middle E.	Oceanic	Africa
1980	33.7	34.4	25.3	12.3	3.4	9.5	3.0
1981	27.5	28.2	37.4	8.9	1.1	4.7	6.4
1982	36.6	37.7	18.0	11.4	1.6	5.5	6.3
1983	32.2	33.2	23.0	12.2	2.1	2.3	4.5
1984	33.9	34.9	16.0	19.1	2.7	1.5	3.2
1985	43.7	45.0	11.7	15.8	0.4	4.3	1.4
1986	45.6	47.0	10.5	15.6	0.2	4.5	1.4
1987	44.8	46.0	14.6	19.7	0.2	4.2	0.8
1988	46.2	47.5	11.8	19.4	0.6	5.7	1.4
1989	48.2	50.2	12.2	21.9	0.1	6.8	1.0
1951-79	25.0	25.5	27.0	12.2	6.7	6.5	7.2
1980-89	44.0	45.4	14.3	18.5	0.6	5.3	1.8
1951-89	41.1	42.9	15.9	17.7	1.3	5.5	2.5

Sources: Calculated based on the figures in Table No. 1.

In terms of total accumulated DFI in the U.S., Japanese investors, who were holding less than 10% of the total \$83 billion in 1980, held more than a quarter, or \$104.4 billion of the total accumulated \$390 billion by the end of the decade.

What enabled and encouraged Japan to achieve this remarkable rate of growth in its DFI in the U.S. can not be explained by the general characteristics of the Japanese economy such as: a more producer focused economy (compared to the American consumer-oriented economy), a higher economic growth rate and savings (more than double the U.S. rates). Nor

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can it be explained by the features of the U.S. economy such as: the large size of the market, the richness of the market, and political stability, since, for the most part, these factors existed prior to the 1980s. Therefore, there must have been additional prevailing factors in the 1980s.

### **III. Japanese DFI in the U.S. in the 1980s:**

The Japanese DFI in the U.S. grew by an annual average rate of 42.5%, from \$ 1.5 billion to \$32.5 billion in the 1990s. Whereas, the annual average rate of growth of the overall DFI in the U.S. during the 1980s was about 26.7%, an increase from \$ 16.9 billion to about \$71.1 billion.<sup>1</sup> Thus, the surge in the Japanese DFI in the U.S. was substantially greater than the overall increase. The devaluation of yen by more than 39% against the dollar during the 1980s equally inflated the Japanese DFI. Under a constant exchange rate, the increase was from \$1.5 billion to \$18.4 billion, instead of \$32.5 billion, and the real annual rate of growth was about 34.1% or significantly lower than 42.5%. But even the real rate of growth of the Japanese DFI in the U.S. remained

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1- This is in contrast with the U.S. DFI abroad which rose from \$37 billion in 1980 to its peak of \$55 billion in 1987 and then fell to about \$45 billion in 1989. It is interesting to note that it is estimated that foreigners owned 4.5% of the total U.S. assets, employed 3.5% of the labor force, and held about \$ 2trillion in the U.S. Whereas, the U.S. held about \$1.32 billion by the end of the last decade.

significantly high which reflects factors that favored the Japanese and provided them with a comparative advantage over other countries so that, they were better able and more encouraged to expand their DFI in the U.S. These factors include: trade deficits, budget deficits, deregulation, and fluctuations in the exchange rates (dollar vs yen).

#### **A. Trade Deficit:**

The double-digit rate of inflation in the U.S. during the late 1970s and the early 1980s encouraged imports, as exports were left relatively flat, which led to the trade deficit which rose from \$25.5 billion in 1980 to more than \$145 billion in 1986.<sup>1</sup> (Table No.4)

Among U.S. imports from industrialized countries, the Canadians ranked highest, with about a third of imports, followed by the Japanese whose share was less than a quarter. The German and British were a distant third and fourth. By the end of the decade, Japanese imports replaced the Canadians as number

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1- The current account which includes services as well as merchandise, fell from \$1.8 billion surplus to about \$105 billion deficit during the same period. This indicates a relatively better market for U.S. services than for merchandise which declined even faster during the 1980s. The trade deficit later declined to about \$113 billion by the end of the decade which was Partly due to the economic recession.

Table No. 4- Major U. S. Economic And Trade Indicators (in millions of dollars)

Years	Trade Balance (Exports-Imports)		DFI	B. Deficit (Domestic+Foreign)		
1980	-25.5	224.8-249.8	16918	-76.2	67.4	0.2
1981	-28.0	237.1-265.1	25195	-78.7	75.0	9.8
1982	-36.4	221.2-247.6	13792	-125.7	129.3	9.5
1983	-67.1	201.8-268.9	11946	-202.5	200.1	15.5
1984	-112.5	219.9-332.4	25359	-178.3	158.8	15.6
1985	-122.2	215.9-122.2	19022	-212.1	167.9	32.6
1986	-145.1	223.4-145.1	34091	-212.6	191.4	41.6
1987	-159.5	250.3-409.8	46894	-177.5	132.0	16.5
1988	-127.2	319.3-446.5	58436	-155.5	94.9	66.6
1989	-113.2	361.9-475.1	71200	-141.9	90.4	49.1

Sources: Statistical Abstract of the U. S., 1991, International Financial  
 Statistical Yearbook, 1991, and International Financial  
 Statistics, 1991.

Note: DFI - is direct foreign investment in the U. S.

B. Deficit - is the U. S. federal government's budget deficit

(Domestic + Foreign) = net government borrowings

one.<sup>1</sup> Clearly, this indicates Americans, increasing preference for Japanese products, which will be explained. later. Thus, the U.S. trade deficit with Japan rose significantly, from \$10 billion to \$ 57 billion by 1987 and then declined to about \$49 billion in 1989.<sup>2 3</sup>

1- These ratios are calculated based on the figure published in Direction of Trade Statistics Yearbook, by IMF, 1991.

2-"Japanese-U.S. trade: harmony or discord?", **Great Decisions** 1991, World Affairs Council PP. 51-54.

3- Some argue that the U.S. trade deficit with Japan is due to the Japanese Protectionist trade policy or other unfair trade practices. Others argue that it is due to

This favored Japanese investors by providing them with the greatest earnings and thus future sources of capital for reinvestment in the U.S. As imports from Japan increased, the share of Japan's contribution to the U.S. trade deficit steadily declined, from 39.2% to about 36.6%. This implies that Japanese imports from the U.S. also rose significantly. Thus Japan was recycling its dollars through the purchase of U.S. products as well as through investing.

#### **B. Earnings in the U.S.:**

The U.S. government net borrowing rose from \$76.6 billion in 1980 to its peak of \$233.1 billion in 1986 and then dropped to \$139.5 by the end of the decade which led to a rise in the deficit from \$76.6 billion to \$212.6 billion. (Table No.4) Not only was the American government borrowing more, but this borrowing was significantly increasingly from foreign sources throughout the 1980s. Initially, out of \$76.6 billion net borrowing only \$0.2 billion or less than 1.3% was from foreign sources. Later, at the peak of borrowing, the foreign share of net borrowing climbed to 18% and to more than 35% as the deficit declined. It is important to note that the decline in the deficit during the second half of the

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← American consumers' desire to buy well-made and cheaper Japanese products. Nevertheless, in the final analysis, it should be the product itself (its price and quality, etc.) that makes the sale.



1980s reflects both an improvement in the balance of trade and a devalued dollar.

Increased net foreign borrowing led to an increase in U.S. government payments on foreign assets from \$11.1 billion to more than \$29 billion. Japanese investors provided about one third of these loans.<sup>1</sup> Out of accumulated payments of \$226 billion, they received about \$76 billion or an annual average of \$7.6 billion to reinvest in the U.S.

The deregulation of the U.S. markets in the 1980s led to an unprecedented surge in mergers and acquisitions, from \$30 billion to about \$225 billion. In order to take advantage of this trend, given the shortage of capital and liquidity at home, some American corporations had to borrow from foreign sources. They borrowed about five times more in 1989 compared with 1980, from \$19.3 billion to about \$94 billion. Japan, which was already a major net exporter of capital and had large dollar holdings, became their major financier.

As public and private sectors competed to attract more foreign capital, interest rates rose which led to an appreciation of the dollar during the first half of the 1980s. Since, the magnitude of the appreciation of the dollar was smallest against the yen (5% vs 25% for the DM and 64% for the pound), it gave Japanese products a comparative advantage over other U.S. trading

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1- Ibid, PP. 51-54.

partners' products. This partially explains why American consumers preferred Japanese products. This in turn caused a significant increase in the U.S. trade deficit with Japan.

The on-going mergers and acquisitions also provided a unique opportunity for direct and easier access to the U.S. market and its technology which were additional incentives for foreign investors to increase their DFI. The Japanese investors, empowered by their massive dollar holdings and dollar earnings, compared with other competitors, were in a superior position to take advantage of this opportunity. To acquire American businesses, Japanese investors shifted their capital from loans (which dropped almost in half), by simply trading their dollar denominated IOUs for the equities. They also dropped their investment in newly established businesses to only 20% - 30%, significantly less than the first part of the 1980s.<sup>1</sup>

### **C. The exchange rate fluctuations:**

In spite of the mounting trade deficit, the dollar initially appreciated against other major currencies during the first half of the 1980s. The federal budget deficit which led to high real interest rates in order to attract foreign capital was the primary factor responsible for the appreciation<sup>2</sup>. But, later the dollar was

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1- "BT 100", Business Tokto, May 1991, page 18.

2- Thomas Carghill, "A Perspective on Trade Imbalances and United States policies

sharply depreciated against the yen by 46%, compared with 28% against the Deutsche Mark, 20% against the British Pound, and 6% against the French French. (Table No.5)

Table No. 5- Changes of Foreign Exchange Rate (unit of Currencies per dollar)

Years	Franc	Deutsche Mark	Pound	Yen
1980	4.5	2.0	0.42	226.7
1981	5.7	2.2	0.52	220.5
1982	6.7	2.4	0.62	249.1
1983	8.3	2.7	0.69	237.5
1984	9.6	3.1	0.86	237.5
1985	7.6	2.5	0.69	238.5
1986	6.5	1.9	0.68	168.5
1987	5.3	1.6	0.53	144.6
1988	6.1	1.8	0.55	128.2
1989	5.8	1.7	0.62	137.9
1980-85 (% changes)	+68.9	+25.0	+64.3	+5.2
1985-88 (% changes)	-6.2	-28.0	-20.3	-46.3
1985-89 (% changes)	-10.8	-32.0	-10.1	-42.2
1980-89 (% changes)	+28.9	-15.0	+47.6	-39.2

Source: International Financial Statistics, 1991.

The new exchange rates had multiple effects on Japanese DFI in the U.S. First, as pointed out previously, inflated the Japanese DFI figures. Second, they equally lowered prices on American goods, services and assets, i.e. wages, factories, land, stocks and bonds. This further encouraged acquisitions of American assets. Third, since the depreciation against the yen was by far the greatest among the major currencies, the Japanese gained a comparative advantage to buy American assets at the largest discounted prices. Therefore, they were the most enabled and

encouraged to acquire American businesses and establish implants which later helped them to avoid the rising trade restrictions.

The remarkable growth of the Japanese DFI in the U.S. Was made possible and encouraged by the combined rise in the government's deficits, market deregulation, and a sharply devalued dollar which favored Japanese investors more than others. While the significant U.S. trade deficit was initially the source of the growth, the increase in earnings provided the additional capital, the sharp devaluation of the dollar made it affordable, and the deregulation of the U.S. market was the vehicle which made it easier.

#### **IV. The trends in the 1990s**

In the early 1990s the Japanese investors started to decrease and reverse their DFI abroad, including the U.S. Japanese DFI dwindled from a peak of \$65.7 billion in 1989 to 37.2 billion in 1990. The Japanese share of loans to non-bank companies fell from 46%, during the second half of 1990, to 5% in mid-1991. In Japan in 1991 there was even a net inflow of \$36.6 billion compared to a net investment outflow of \$136 billion overseas in 1987. Similarly, the Japanese DFI in the U.S. dropped sharply from \$32.5 billion to \$19.9 and then to about \$5 billion between

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1989-91.<sup>1</sup>

Is the Japanese investors' retreat from international markets and repatriation of capital into Japan a temporary response to recent events or are the indicative of a deceleration of Japanese DFI in the 1990s? Or, more specifically, will Japanese investors resume their level of DFI in the U.S. once the present financial and economic difficulties are over?

Based on the principal contributors to the Japanese DFI, in the case of the first question, the former appears to be more accurate than the latter. The recent collapse of land and stock prices, the deregulation of financial markets, a more restricted monetary policy by the Central Bank, and the falling household saving rate from 18% to 15.3% all adversely affected the supply of funds in Japan. The global recession merely exacerbated them, leaving Japan with a growing burden of debt.<sup>2</sup> These combined factors have resulted in an increase in costs and a reduction in the availability of capital.

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1- These figure were published by the U.S. Chamber of Commerce which used in an article "Foreign purchases in U.S. Fall", in **Hartford Courant** (a daily newspaper), 6/10/1992.

2- Due to a record number of bankruptcies last year there was a debt total of Y8000 billion, four times higher than in 1990. It is estimated that this figure could double in 1992. For more discussion see the **Financial Times**, Survey on Japanese Financial Markets, March 27, 1992.

The higher costs of capital partly resulted from the financial deregulation of the past decade. As was the case with the U.S. where the financial reforms initially led to higher interest rates which then dropped, the present high rates in Japan will fall although not to their previous levels. As for the availability of capital, despite its present problems, Japan's economy remains relatively strong and has the potential to resume its past economic rate of growth and savings, which remains largest among the industrialized countries because Japanese manufacturing companies have healthy capital reserves and its government finances are sound.<sup>1</sup>

Indeed, even with the recent financial constraints, the real growth rate of Japanese investment was 8.6% in 1990 (similar to the average rate for the 1980s) and more than 4% in 1991, compared with the U.S. rates of 1.2% and - 3.3%. According to the latest reports, despite the falling real rate of investment last year, Japan returned to its usual position as a net exporter of capital later this year. According to the U.S. Chamber of Commerce report, Japanese investors turned into net buyers of foreign bonds, worth \$4.88 billion in April, compared with sales of a similar amount in March.<sup>2</sup> With a total of more \$5 billion in DFI, Japan has retained its top position in DFI in the U.S. in the

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1- Ibid, 4/27/1992.

2- Ibid, 6/7/1992.

early 1990s.<sup>1</sup>

So, most likely, the Japanese investors' retreat from international markets and repatriation of capital into Japan is a temporary response to recent events. The lower cost of capital and its greater availability will allow and encourage Japanese investors to resume their previous position in the latter part of the 1990s. Whether Japanese investors will resume their past level of DFI in the U.S. will depend mostly on the aforementioned factors. A re-examination of these factors should help to provide an appropriate answer.

#### **A. Trade Deficit:**

The high rate of inflation in the U.S. during the late 1970s and the early 1980s which led a product price advantage which encouraged Japanese imports, was due significantly to the two oil price hikes of the 1970s.<sup>2</sup> This factor is less likely to reoccur in

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1- "Foreign Purchases in the U.S. Fall", **Hartford Courant**, 6/1092.

2-The oil price shocks had caused higher inflation and an economic slow down in the U.S. Initially the Japanese economy was more vulnerable than the U.S. economy to rising oil prices. In 1973, when oil prices rose from \$2.60 a barrel to \$115. a barrel, the Japanese economic rate of growth dropped from 9.2% to -0.9% while the drop in the U.S. economy way from 5.2% to 0.5%. But this sensivity was reversed through time which was attributed to a better energy policy in Japan. Therefore, When oil prices rose from less then \$14 to close to \$35 between 1978 and 1980, the growth rate of the U.S. →

the 1990s for two major reasons - a greater need by some OPEC members for stable and steady oil revenues to finance their economic reconstruction and the U.S. victory in the Persian Gulf which made it a de facto OPEC member. The latter provides the U.S. with greater power to wield its influence and thus prevent any significant prices increases in the 1990s.

Indeed, a significant drop in the rate of inflation in the U.S. and the devaluation of the dollar during the second half of the 1980s reduced, if not eliminated, price advantages for Japanese products.<sup>1</sup> The continued U.S. demand for Japanese products shifted more to non-price factors. Thus, recently there has been a greater emphasis on non-price or "real" comparative advantages for Japanese products - quality, marketing savvy, social and cultural impediments.<sup>2</sup> And some "real" barriers to American exports are: the Japanese curtailment of imports when they directly compete with an industry that they are trying to develop, Keiretsu that has cross-owned company groupings, and their distribution system which tends to exclude foreign goods. These

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economy fell from 5.3% to - 0.2%. The impact of the same oil price increase on the Japanese economy was significantly less-a decline in the rate of growth from 5.2% to 4.0%.

1- One could argue with the advancement of a fast-track, the U.S. might indeed be able to produce goods at even lower prices and thus become more competitive.

2- Jeffrey E. Garten, "Japan and Germany: American Concern", *Foreign Affairs*, 1991.



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have become the focal point for improvement in trade balances between the two countries.

The combined improvement of prices and exchange rates have already caused a significant improvement in the U.S. balance of trade deficit, from \$110 billion in 1990 to almost \$70 billion in 1991.<sup>1</sup> The removal of these non-price or "real" barriers will reduce the deficit further which in turn will dampen the prospects of the Japanese DFI in the U.S. in the 1990s by reducing their sources.

#### **B. Earnings from the U.S.:**

Japan's earnings on its loans to the U.S. government should decline in the 1990s because of a lower deficit due to the end of cold war and a greater national concern which is manifested in the deficit-reduction debates and packages of the 1990s.<sup>2</sup>

Some of the past Japanese investments have proven to be unprofitable and the recent prolonged economic recession in the U.S. has shrunk earnings even on the more profitable projects.

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1- For a more detail analysis of the recent improvement on the U.S. balance of trade see "U.S. International Trade and Competitiveness", Federal Reserve Bank of San Francisco Weekly Letter, Number 92-13, 3/27/1992.

2- The U.S. government budget deficit which had declined in the second half of the 1980s increased again during 1989-1990 to its previous level. This time it was due to the bailout of the insolvent savings and loans banks.

But as the economic recovery proceeds, earnings will improve in the latter part of the 1990s and this in turn will enhance the prospect for Japanese DFI in the 1990s. During the 1980s the U.S. market became even more conducive for DFI because of the market deregulation. But, last year Congress extended the Exon-Florio amendment which allows the government to review foreign business deals for national-security implications. Furthermore, Congress amended the 1990 budget to increase tax-reporting requirements for subsidiaries of foreign firms. These and other similar laws have already scared a few Japanese investors away.<sup>1</sup> For example, machine tool giant Frnuc called off its planned purchase of 40% of Moore Special Tools. Thus, while the improved earnings will provide the capital for re-investment, the less conducive investment environment might discourage Japanese DFI in the 1990s.

### **C. The Exchange rate fluctuations:**

Unlike the past, the impact of the exchange rate on Japan's DFI in the U.S. will be more ambiguous. Indeed, any significant appreciation of the dollar and or a strongly unfavorable investment environment may accelerate the outflow of Japanese capital from the U.S. The former would create a windfall profit for them.

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1- "BT 100", *Tokyo Business*, May 1991, PP. 18 and 19.

An additional incentive for the Japanese to reduce their DFI will be an opening of alternative markets where their capital is more welcome and may earn higher yields. This is becoming increasingly possible by the present economic revolution around the globe - privatization, deregulation, and expansion of market economies.

As Japanese capital fueled the economic growth in the U.S. in the 1980s, its shortage will seriously dampen the speed of the economic recovery unless alternative sources of capital are found. Obviously, as pointed out in Paul A. Volker's testimony to Congress, a lower federal deficit combined with higher household savings can help to alleviate the shortage.<sup>1</sup>

In summary, an improved economy which will lower the cost of capital and increase its availability will enable and encourage the Japanese investors to resume their position as net exporters of capital. But, while there will be an increase in earnings from DFI in the U.S., a Lower U.S. trade deficit, less favorable investment conditions in the U.S., and the improved investment opportunities in other countries will discourage and thus reduce the prospect for Japanese investors to resume their DFI in the U.S. with the intensity of the 1980s even after Japan overcomes its present economic difficulties.

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1- The Annual Report of the Federal Reserve Bank of Minneapolis, 1986.

## V. Conclusion

This study has demonstrated that the remarkable growth of the Japanese DFI in the U.S. was made possible and encouraged by the combined rise in government deficits, market deregulation, and a sharply devalued dollar which favored Japanese investors over others. While the significant U.S. trade deficit was initially the source, the increase in earnings provided the additional capital, the sharp devaluation of the dollar made it affordable, and the deregulation of the U.S. market was the vehicle which make it easier to achieve.

The prospect for Japan to resume its DFI abroad in the 1990s is promising and is not seriously damaged. While there will be an increase in Japanese earnings from its DFI in the U.S., a lower U.S. trade deficit, less favorable investment conditions in the U.S., and the improved investment opportunities in other countries will significantly reduce the prospect for Japanese investors to resume their DFI with the intensity of the 1980s even after Japan overcomes its present economic difficulties.

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