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THE EFFECT OF ‘ABENOMICS’ ON JAPANESE COMPANIES’ OUTWARD FOREIGN DIRECT INVESTMENTS

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Abstract

Japan was introduced to a large variety of new economic policies named "Abenomics" in early 2013 when the Liberal Democratic party and its leader Shinzo Abe announced plans to revive the economy from a 20-year long recession. One of the points was to stimulate domestic investment through incentives. Elected as the ruling party in July of 2013, the author wanted to research the possibility of investments being directed abroad despite the government's attempts to keep the investments inside Japanese borders. The research questions answered in the thesis are:

- How could Abenomics affect outward foreign direct investment?
- Which geographical areas are likely to be targeted for future FDI?

Interviews with a Finnish diplomat and a representative of a large Japanese trading company were concducted to acquire primary information. Secondary information was acquired from Japanese government resources, related studies and some of the most reliable news agencies in the world.

The results turned out to be counter-effective for the government's agenda. Incentives are not strong enough to attract domestic investment and the Japanese yen is still too strong compared to other currencies. Japan's manufacturing process value chains in Southeast Asia proved to be a more attractive investment target for Japanese MNEs. After the natural and nuclear disasters of 2011, Japan is now dependent on foreign sources of energy and minerals to keep important industries active. It was concluded that Russia and South Africa with lower wages and vast natural resources are going to be the target of investments related to sourcing energy and mining.

The study implies that if the government fails to create even more attractive incentives for domestic investments, not only will the Japanese citizens lose faith to the government's actions but also a risk of the recession continuing exists.

Keywords
Japan, Foreign Direct Investment, Abenomics, Trade Policy, Liberal Democractic Party, Shinzo Abe

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Tiivistelmä

Alkuvuonna 2013 Japanin liberaalidemokraattinen puolue ja sen johtaja Shinzo Abe julkistivat suuren määrän talouspoliittisia uudistuksia joita kutsutaan nimellä ‘Abenomics’. Niiden määrä on nostaa Japanin talous kasvuun noin 20 vuotta kestäneestä taantumasta. Yksi suunnitelman pääpisteistä on kasvattaa kotimaisten investointien määrää. Kun heinäkuussa 2013 liberaalidemokraattinen puolue voitti parlamentin ylähuoneen vaalit ja nousi hallitsevan puolueen asemaan, kirjoittaja halusi tutkia investointien ulkomaille suuntautumisen todennäköisyyttä vaikka hallitus pyrkii pitämään investoinnit maan rajojen sisällä. Tutkimuskysymykset ovat:

- Kuinka ‘Abenomics’ vaikuttaa Japanin ulospäin suuntautuviin suoriin ulkomaaninvestointeihin?
- Mitkä maantieteelliset alueet voivat olla tulevien suorien ulkomaaninvestointien kohteena?

Ensisijainen tieto hankittiin haastattelemalla suomalaista diplomaattia ja japanilaisen kauppahuoneen edustajaa. Toissijainen tieto hankittiin Japanin hallituksen lähteistä, aluen talouteen liittyvästä tutkimusmateriaalista ja maailman johtavien uutistoimistojen kautta.

Tutkimuksen tulokset ovat hallituksen toiveiden vastaisia. Kannustimet kotimaisen investoinnin kasvattamiseen ovat edelleen liian heikkoja ja Japanin jeni on liian kallis muihin valuuttoihin verrattuna. Japani on rakentanut valmistukseen liittyviä arvoketjuja kaakkois-Aasiaan jo kauan ja ne ovat edelleen houkuttavampi vaihtoehto japanilaiselle investoinnille. Vuoden 2011 maanjäristyksen ja ydinonnettomuuden jälkeen Japani on riippuvainen ulkomailta tuodusta energiasta sekä mineraaleista joita tarvitaan tärkeiden teollisuudenalojen toimintaan. Venäjä ja Etelä-Afrikka ovat todennäköisiä tulevia investointikohteita edullisen työvoiman ja luonnonvarojen takia.

Tutkimus merkitsee hallituksen menettävän uskottavuutta ja taantuman jatkumisen olevan todennäköistä, mikäli se ei kykene luomaan tarpeeksi voimakkaita investoinnin kannustimia.

Avainsanat (asiasanat)
Kauppapolitiikka, talouspolitiikka, Japani, Shinzo Abe, liberaalidemokraattinen puolue, suorat ulkomaaninvestoinnit, foreign direct investment, FDI

Muut tiedot

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1 INTRODUCTION

Japan is an archipelago of four larger main islands and over 3000 smaller islands (Earth from space: the Japanese archipelago, 2007). It is an exciting nation that has been severely pummeled by nature's own disasters as well as man-made ones. Bombarded to the ground in the Second World War, it is one of the few economic miracles that has showed such vast demonstration of power and determination that it rose, quite literally from the ashes to be the third largest economy in the world (World's largest economies, 2013). Looking at the products that we use every day, if one paid attention, a baffling number of them is either invented by the Japanese, manufactured by them or is made by a company that is part of a Japanese supply chain. Domestic investment is emphasized in world-renowned know-how and cutting-edge expertise in fields such as design, engineering and technical implementation of products that the whole world uses. In the region where the neighboring nations are known for affordable labor force, the nation is also a big investor in production abroad.

Times have not always been so good for Japan, and continue to be that way today. The recession that hit the economy preceeded by the notorious real estate- and banking bubble that brought the economy on its knees in the 1990s was so severe that it is more commonly known as the *lost decade* (Horioka, 2006, 1). The economy still struggles to climb up from the hole that seems to be never-ending to the ordinary citizen. For a couple of decades now, governments one after another have tried their utmost to make a change and make the land of rising sun rise again. It is certainly not only the people of Japan who are keeping their eyes tightly locked on the rates of the Japanese *yen* and the development of the *Nikkei 225 Stock Average*. It is the sheer magnitude of the impact of changes on an economy of this caliber that economists, analysts and institutes around the world are gearing up for another level of vigilance as the people of Japan, the government and the Bank of Japan (BOJ) are introducing a heavy intervention never before heard of (Jolly, 2013). Unargueably, should Japan's economy shift in one way or another, it will affect other economies as well.

Freshly elected into power in July this year, the ruling Liberal Democratic Party and its leader, Prime Minister Shinzo Abe made crowd-hyping promises of ’New Japan’ and coined the term *Abenomics* to achieve an extraordinarily high support from the people. The *Abenomics* is a three-prong approach to revitalize the economy of Japan once and for all. The actions are definitely in order to push Japan out of the slump after the banking- and real estate bubble collapsed in the 1980s and caused strong deflationary cycles and pushed Japan into recession. The three prongs of Abenomics, or *arrows* as they are mentioned on the worldwide media, are a set of economic policies that are to be enforced in order to target the most severe problems in the economy.

It is certain that when government intervention of this extent is introduced, especially with the Prime Minister’s strong connections with the business world, changes in companies’ strategies, consumer patterns and other economy-affecting variables will take place. Consequently, company strategies also include investment strategies, and it is up to the government to what extent it is able to increase domestic investment, one of the main objectives on Mr. Abe’s agenda. To revitalize the economy, the government will inject huge quantities of money into the economy among other incentives and wish that it would stimulate consumption and domestic investment. (Factbox: Main targets and steps in Japan’s growth strategy, 2013)

However, when money is easily available, even the history of Japan verifies that not all of it will stay inside the country borders, as painted out further on in the study. That is what this study aims to look into. Thus the research questions are:

- How could Abenomics affect outward foreign direct investment (FDI)?
- Which geographical areas are likely to be targeted for future FDI?

The latter question is interesting for foreign companies and their boards of directors that are especially interested in business interaction with Japanese companies. If they are able to receive information through a reliable forecast in increase on the FDI outflows from Japan, they can in advance reposition themselves compared to their competitors, look into their company strategy and familiarize them with the Japanese business culture. Even if their Japanese business partner candidates do not entirely expect them to be familiar with their unique business characteristics and a plethora of nuances in the relevant etiquettes, the cultural code of the country and experience shows that they are deeply impressed even if a slightest attempt and effort is made to understand them. Combining the knowledge that comes with the forecast with some, even basic knowledge of the business culture, it can certainly make a company set themselves a world apart from competitors who are not familiar with any of such information. Japanese companies are also known to be loyal with their partners - when a partnership is sealed, it is almost guaranteed that it will stay fruitful, long and prosperous as long as everything goes well.

The structure of the thesis starts with a literature review that explains in detail the sources that have been used to appropriately formulate the secondary information of the study. It also serves as a briefing about Japan's new economic and political situation as well as historical background of the economy to achieve a better understanding of the changes implemented currently and how they might affect in the future. It also describes some of the traditional investment strategies of Japanese enterprises.

The thesis will then proceed into the methodology chapter that will in greater detail discuss the methodology used during the research and the justification of them and how they are exactly suitable for this study. It also explains the reasoning related to why other research methodologies are not suitable for this specific study and why they were not chosen. It also considers the reliability and validity of the study and analyses the possible pitfalls and good sides among those.

After a complete briefing of all the necessary background information concerning the research, the thesis moves on to the actual result section of the thesis. It goes through the most crucial findings in following the similar pattern when comparing the results received from primary information, which are the interviews, and secondary information that consists of articles from newspapers and previous studies on relative topics. Comparing the results from the sources will result in a hypothesis to answer the research questions as well as other additional information that add up to the value of the research.

In conclusion, the final chapter will analyse the implementations of the study, the potential issues in the study as well as what could be done differently in the future by other scholars investigating the same field.

The author was working as an intern at the Embassy of Finland in Tokyo when the competition for the upper-house election of July of 2013 was at its fiercest. Being employed at the commercial, financial and economic sector of the Embassy, the author was fortunate to be in the middle of it all when Abenomics was launched and thus participated in several briefings and seminars in Japanese ministries and other organizations. Among those are the International Monetary Fund, the Ministry of Foreign Affairs and the Ministry of Finance, just to name a few. Having realized the magnitude of the effects when fundamentals in such vast economy are changed, the author immediately realized the opportunity of seeking answers to questions that could bring more business opportunities for foreign enterprises in addition to having a deeper understanding of the mechanics of the politics, economy and society of Japan, especially since there have been very little to no changes at all in the Japanese economy during the last year, excluding the calamity of 2011. As a result, the thesis project was proposed to the author's supervisor at the Embassy of Finland in Tokyo, asking them to act as a consignor.

The impact of creating this thesis in terms of the author's personal professional growth is remarkable. Diving this deep into the topic also ultimately serves as a platform for my own career. The economic policies of Shinzo Abe, or *Abenomics* for short, have short and long term effects, thus creating concrete goals for further research later on in my studies.

2 LITERATURE REVIEW

This section serves as an introduction for the various sources of literature that have been carefully examined in order to produce reliable secondary information for the research. It begins with a definition of FDI and carries on to describe the previous studies, books and statistics used.

2.1 FDI

FDI is an investment made by an investor in another economy. A rule for determining if an investment relationship in question is in fact FDI is that the investor must own at least 10 percent of the shares or voting stock in the case of investing into a foreign company. This is seen as the limit where the investor is able to influence the company's decisions and management. According to the percent of the shares or voting stock, FDI can be divided further into three catogeries (Thorbecke and Salike, 2013, 4-5):

- **A subsidiary** is an enterprise that the investor owns more than 50 percent of.
- **An associate** is an enterprise that the investor owns between the lower limit of FDI up to the limit of it becoming a subsidiary (10-50%).
- **A branch** is an enterprise that is entirely owned by a foreign investor (Op. Cit. p. 5)

> *The direct investor may be an individual, an incorporated public or private enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises that has a direct investment enterprise (that is, a subsidiary, associate or branch) operating in an economy other than the economy or economies of residence of the foreign direct investor or investors.* (Op. cit. p. 4-5)

Additionally, Kavita (2011, 220-222) explains Dunning's (1993) four motives for FDI. Those are:

- Market-seeking motives

- Resource-seeking motives
- Strategic asset-seeking motives
- Efficiency seeking motives

Market-seeking FDI motives include those that arise from investing into a market that is geographically near the home country. The aim of being close to the host country is to acquire a greater understanding of the market in the host country, an ability to react to changes in demand patterns, avoid high costs that arise from transportation of goods in contrast to the markets that are further away as well as a closer contact in creating and securing value chains. This ultimately leads to a goal of protection from rivalry. Resource- and strategic asset –seeking motives are interested in securing matters that are valuable for the investor. Those can be for example valuable minerals or other natural resources and highly skilled labor force that are vital for the company to be competitive. Efficiency-seeking motives, on the other hand, seek efficiency and maximized profitability through cheaper labor or other resources, such as specialization in a certain process that is vital for the company. If investments are created into an economy with these assets, it will bring down the cost of manufacturing and, on the other hand, bring more added value to the MNE in the form of other possible advantages and is thus ultimately more profitable for the company (Kavita, 2011, 220-222; Dunning 2004, 6).

2.2 Abenomics, and what we know about it so far

’Abenomics’ by definition combines two things. The term *economics* and the current Prime Minister Shinzo Abe’s name together suggest that with the current man in power the economy would improve drastically, giving the whole pack of financial policies a name and a face to remember. The concept of three ’arrows’ or main categories of new economic policies of lifting Japan back on the growth track as a whole has its roots in Japanese mythology. One or two arrows may break easily, but three arrows form a solid group.

One of the main objectives and a milestone for Abenomics that continuously makes it to the headlines in Japan and elsewhere is to create lasting support from its citizens by setting a target inflation rate of 2%, which will be a joint operation of the government and BOJ with its fresh head, pro-Abe Gov. Haruhiko Kuroda. The deadline for the inflation target is optimistically set as ”earliest possible” (Van der Putten, 2013, 17).

Regardless of being in the political spotlight, Mr. Abe is not a new face for the Japanese. He returned to power just this summer to have a second go as the main man of the Liberal Democratic Party after his shorter term ended in 2007 when he resigned due to health issues.

The first measure taken to improve Japan’s competitiveness and growth potential was announced in January of 2013 when BOJ and Prime Minister Abe announced a supplementary budget of 10.3 trillion yen, the largest in the history of Japan (Op. cit. p. 17). The budget is up to 2% of the country’s GDP and is spread for several projects where additional capital is needed the most, for example the north-east area of *Touhoku* that was severely crippled in the calamity caused by the massive earthquake, tsunami and the subsequent nuclear accident in 2011.

It should be noted though, that a large portion of the budget has been allocated to increased defense, since during the time of the announcement of the budget the Senkoku island dispute with China on the East China Sea was fairly tense. The Prime Minister, quoted as the ”Right-Wing Hawk” is very cautious and defensive should any conflict compromise Japan’s rights and the safety of its nationals. (BBC News – Profile: Shinzo Abe).

The most aggressive monetary intervention from BOJ was seen this year when the Policy Board of BOJ announced a set of means to ease the current monetary situation by increasing the monetary base by approximately 60 – 70 trillion yen per year.

The first steps of the monetary easing include purchasing Japanese government bonds that have been a long-time favourite of Japanese investors due to the low risk involved. BOJ will also purchase exchange-traded funds and Japanese real estate funds resulting in an outstanding amount of 30 billion yen, making the amount of purchases stand at 1 trillion yen annually. Finally, it will continue purchasing corporate bonds until the outstanding amount is at 3.2 trillion yen by the end of 2013 and after that maintain the volume. BOJ reports moderate recovery in the Japanese economy, as well as overseas economies experiencing the same effect.

The growth strategy of Abenomics is a massive set of goals and measures in private sector and investment, income, free trade, public funding, tourism, labour, agriculture, women’s employment, health care and the topic that is under heavy discussion after the calamity of 2011, energy.

The private sector and investment reforms include tax breaks for corporations in order to promote spending and an additional three-year plan to increase private investment to 70 trillion yer per annuum, making it an increase of 10 percent from the current level. Also in favor of domestic investment, special economic zones are to be formed, including more international flights to the capital and a group of measures to be undertaken to make Japan more accommodative to foreign investment and a more appealing place to stay for expatriats, including tax breaks and flexible employment systems. Abenomics also supports start-up companies and is planning measures to make them more appealing to invest into (Factbox: Main targets and steps in Japan’s growth strategy, 2013).

One of the most argued and most worried measures is the sales tax hike that is implemented in two steps. From the present rate of 5% the tax is planned to increase to 8% during next year and, if the government sees that the measures have created a positive impact on the economy, it will continue to rise to 10% in 2015, doubling the present tax rate. (Ujikane and Shimodoi, 2013) Implementing such a hike would raise the prices of commodities and thus signals a need for companies to adjust their employees' wages as in order to not lower their quality of living permanently.

As Tokyo was declared as the host city of the 2020 summer Olympic games, many suspect that this could be a positive turn for Japan to not only prove that it is a safe country to be and invest in, despite the triple disaster of 2011. It also generates a massive need for spending to accommodate a completely new venue for the games as well as all the other spending that stems from such an enormous event. It is also suspected that the games will make the guests spending. That is news which are more than welcome for PM Abe (Ferguson, 2013).

2.3 History and current state of outward direct investments of Japanese companies

In order to have an understanding of the future development of outward FDI in Japan, the history of it and the general trends must be understood. To understand the past, it is vital to recognize the potential trends that come with Abenomics and also to see what might be mere bubbles that Japan has experienced in the past that have crippled the country's economy severely.

The extent of FDI that Japan is now capable of comes down to one modern term, globalisation. Nonetheless, trade between countries is not a late phenomenon. It has been practiced for thousands of years, all the way to the roots of recorded human history. The establishment of companies such as British and Dutch East India Companies gave a push start to modern trade but it was only when in Britain, the country where modern industralism has its roots, where cross-border activities really got started. By the First World War, Japanese companies accounted for 2% or US$ 14.5 billion of accumulated FDI in the world (Papryzcki & Fukao, 2005, 3).

The Second World War was a massive blow for Japan. After it had lost against USA, its people and economy were severely crippled. U.S. companies however, escaped both World Wars fairly untouched. That resulted in international trade in the 1950s and 1960s being mainly ruled by them.

It was in the 1970s after a successful reconstruction that Japanese companies saw daylight again. Also the development of other nations such as South Korea, Singapore and Taiwan really helped Japan to expand its basis in internationality. Again in 1990s times changed when a plethora of initiatives such as Common Market in Europe, NAFTA (North American Free Trade Agreement), Uruguay Round of GATT and WTO (World Trade Organization) were launched. Also the development and awakening of a sleeping dragon next door, increased Chinese cross-border trade promoted the integrity of what is known as globalization.

The 1980s and 1990s were turbulent times for Japan. For a long time, Japan preferred exports rather than FDI due to exchange rates, but the appreciation of yen in the 1980s and the underlying bubble in Japan acted as a catalyst for heavy outward FDI. This resulted in Japan buying almost anything at any price they were asked, with the outward FDI shooting from US$ 2.4 billion in 1980s to a staggering US$ 50.5 billion in the 1990s (Op. cit. p. 3-4).

The collapse of the real estate and bank bubble in the beginning of the 1990s consequently lead to a contraction in outward investments, but it has since picked up at a steady pace especially in the manufacturing section in electronics and automotive industries.

The strategy of manufacturing companies in Japan has traditionally been in sourcing labor-intensive components in lower-wage countries in the Asia region and importing them back to Japan for further processing and finally exporting to wealthier countries besides domestic sales. However, Baldwin and Okubo (2012) have recently introduced a new theory of Japanese FDI strategy. According to Thorbecke and Salike (2013, p. 3), Baldwin and Okubo’s theory explains that Japanese companies have lately not only manufactured and exported *all* goods from the host country but have instead sold some of the manufactured goods to the host country. It still remains, however as a fact that with certain conditions, developing countries such as ASEAN and China are favored by Japanese manufacturers. The theory formulated by Baldwin and Okubo goes by the name of *networked FDI* (Op. cit. p. 3).

Thorbecke and Salike also find that over time the theory of the Japanese outward FDI follows the pattern of investing into countries where labour is cheap. In 1985 the *Plaza Accord* was signed by the G-5 nations that include the United States, France, Germany, United Kingdom and Japan. The aim of the agreement was to depreciate the US Dollar to the Japanese yen and the German Deutsche mark. Followed by the agreement, the yen appreciated and Japan immediately started investing in developed neighboring countries such as South Korea and Taiwan. Once the location advantages such as wages in South Korea and Taiwan turned unattractive to Japanese companies, it quickly shifted its investments to ASEAN (Association of Southeast Asian Nations) countries that remained vastly undeveloped comparing to South Korea and Taiwan. (Op. cit. 2013. p. 8)

Again the pattern repeats itself in the history as most of Asia went through economic hardship through the *Asian Crisis* in 1997-1998 which rapidly depreciated many of the area's currencies and pushed most of East Asia into a recession and once again the volatility of the situation resulted in drastic decline of Japanese investment to the countries (Sundaram, 2007). The Asian Crisis also proves that despite the unfavorable conditions in ASEAN countries remained and no new investments were made, Japanese companies still did not withdraw their current investments from the area. This finding reinforces the theory of the Japanese business mentality and loyalty of not cutting ties to the current business partners even if the occurred difficulties are unfavorable for the investing company.

Shortly after China joined WTO in 2001 and thus promised to reinforce laws and regulations relevant to investment and production, Japan in turn became interested in it as an investment target. Geographical vicinity, low wages and now improved regulations and laws are again clear signs of Japan keeping an eye strictly on locational advantages mentioned by Dunning.

Most recently however, Japanese companies have considered Western markets' demand not to meet their supply. According to Thorbecke and Salike, a survey proposed to several Japanese companies shows that industrialized countries in the Asian region such as India, China and ASEAN have developed a strong middle class with serious purchasing power and are now creating attraction. It is thus proposed that Japan might be targeting this sector in particular with networked FDI. Wages of production are still low, but now there exists a growingly powerful and a larger group of people that meet the criteria of the Japanese companies as their target customers (Op. cit. p. 10).

However, the territorial dispute in the East China Sea that has made global headlines throughout the beginning this year, has created strong anti-Japan mentality in China. It has resulted in Japanese companies seriously consider any new investments (China should remember no country is an island in a globalised world, 2013).

In order to present a rigid foundation for the assumptions about the development of the outward FDI flows, more detailed information of the Japanese outward FDI must be examined. In the following table is described the situation of outward FDI from Japan. Presented are the four industries that have been the target of most investment. The year 2011 is excluded from the tables since it was the year when the massive earthquake hit the Northeast part of Japan and caused stagnation in the entire economy. Therefore including data from that year would cause distortion to the actual results, as it does not reflect the normal state of the economy.

Table 1: Japan's most invested industries in terms of outward FDI. Year 2011 is excluded (Japan's Outward FDI by Industry, 2013).

Outward FDI by Industry	2005	2006	2007	2008	2009	2010	2012	Average
Chemical and pharmaceuticals	3 863	4 413	3 744	11 467	7 407	7 902	6 494	**6 470**
Mining	1 372	1 577	4 053	10 518	6 482	9 061	20 934	**7 714**
Wholesale and retail	4 623	5 483	4 792	13 319	8 418	1 946	18 372	**8 138**
Finance and insurance	9 227	5 562	19 458	52 243	15 463	11 397	14 210	**18 223**

However, the industries pictured in the graph above are described to be highly incompetitive and vastly intervened by the government, whereas Japan's most internationally competitive companies specializing in products such as cars, video recorders, robotics, cameras and video games have not been intervened by the government (Porter, Takeuchi & Sakakibara, 2000, 14.)

However, the statistics show investment information from the time before Abenomics was implemented and it is vital to notice that these may not reflect the true target industries for future FDI. *Thus, in this study, the industries that are traditionally internationally competitive are studied*. An exception is made with the mining industry, since it is one of the industries that Japan needs to take advantage of in order to supply itself with energy until a solution for the energy crisis is realized.

The rapid increase in investment in the mining industry has an explanation through the energy crisis that is the result of the catastrophy of 2011 that put many of the country's mineral refineries, vital for the country's automotive and component industries, out of business. Japan has thus launched numerous investments in the mining industry, among many, in the African continent (Nishikawa, 2011). Natural resources valuable to the Japanese can be found in various countries on the African continent, but South Africa with its resources has been selected to represent region in this study and *is thus used in this study* as a benchmark against other nations.

2.4 The bubble and how it all came down

The sharp increase in the Japanese stock price index and land price in the 1980s was the beginning of Japan’s most well remembered bubbles. When the bubble burst, the stock index started to decline steadily in the 1990s followed by the land prices coming down in 1991. The most extreme changes in prices were found in the urban areas compared to the less-affected parts in rural areas.

According to Ohno (2005, 203), there are two theories for the formation of the bubble. The first theory argues that heavy bank deregulation was the cause. Previously under the strict control of the Ministry of Finance, banks were protected against bankruptcy and guaranteed a certain profit margin without much effort from the banks’ side. This shelter was removed entirely in the 1980s which naturally lead to more competition in the banking sector and as some large corporations moved away from certain banks for other benefits, they immediately had to look for other customers in order to stay in operation since the protection from the Ministry of Finance was long gone.

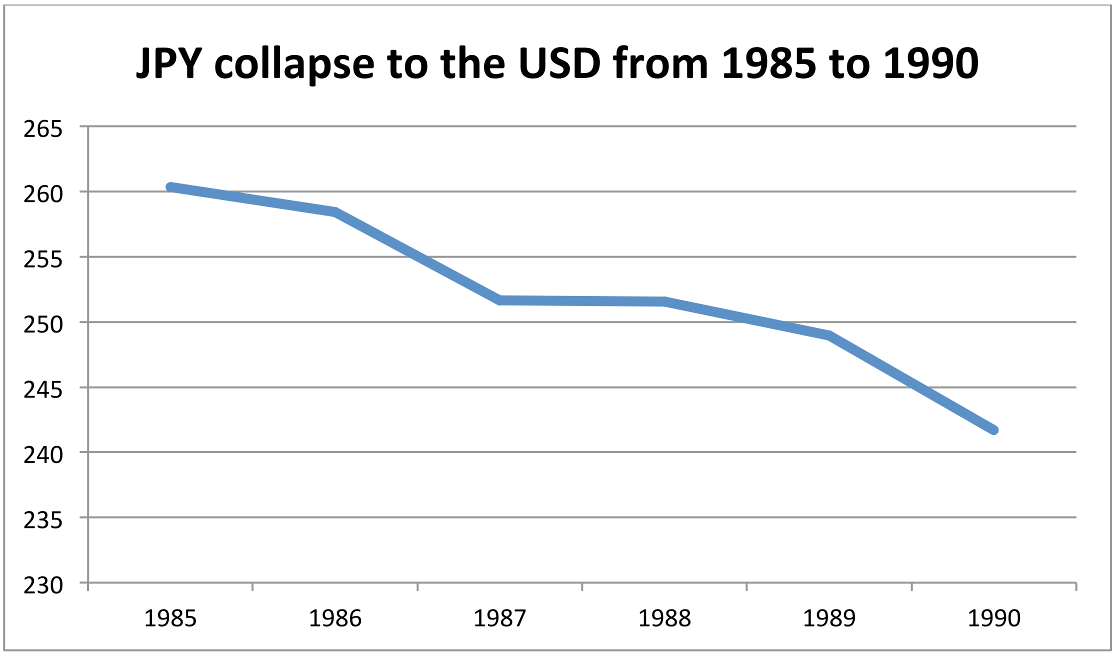

Figure 1: The depreciation of Japanese Yen to the US Dollar in 1985 - 1990 (BOJ Main Time Series)

As stable corporations walked away from these banks, they started to look for other customers that were looking for funding for more risk-intensive projects such as urban office building projects and holiday resorts in the Japanese countryside. However, due to little experience in risk-intensive investments, they ended up over-lending in the heyday of the bubble. This lead to a lot of lent money in unstable projects of which many failed resulting in gigantic heaps of toxic debt.

Another view of the story explains that the reaction of BOJ to a sharp appreciation of the Japanese yen in the 1985 was the bottomline reason for the bubble. As the currency appreciated, the regulatory body of BOJ lowered short-term interest rates and overall eased the availability of money. In short, it is argued that the head of BOJ, Governor Satoshi Sumita continued the policy for too long and excessively which lead to excessive liquidity in the economy. A clear signal of problems was when liquidity rates topped 10% while the economy was still growing at mere 4% (Ohno, 2005, p. 203)

Bitterly too late to avoid a calamity in the economy, the new head of BOJ, Yasushi Mieno acted in a way that was only inevitable. In 1999 Mieno tightened money and raised short-term interest rates that lead to the end of the bubble.

It is generally argued that since Japan is an island state in the Far East, the FDI flows have remained small. However, comparing to the second largest economy in the world, China, Japan has generated significantly more outward investment during the recent years. The numbers for the whole year of 2012 are US$ 122.5 billion for Japan when China was investing a mere US$ 62.4 billion. (FDI in Figures, OECD 2013). However, a clear indication for such figures can be found in lower labor costs and possibilities to create vast domestic value chains domestically. Since China is one of the largest countries in the world, it simply does not have to look for example lower manufacturing costs in other countries.

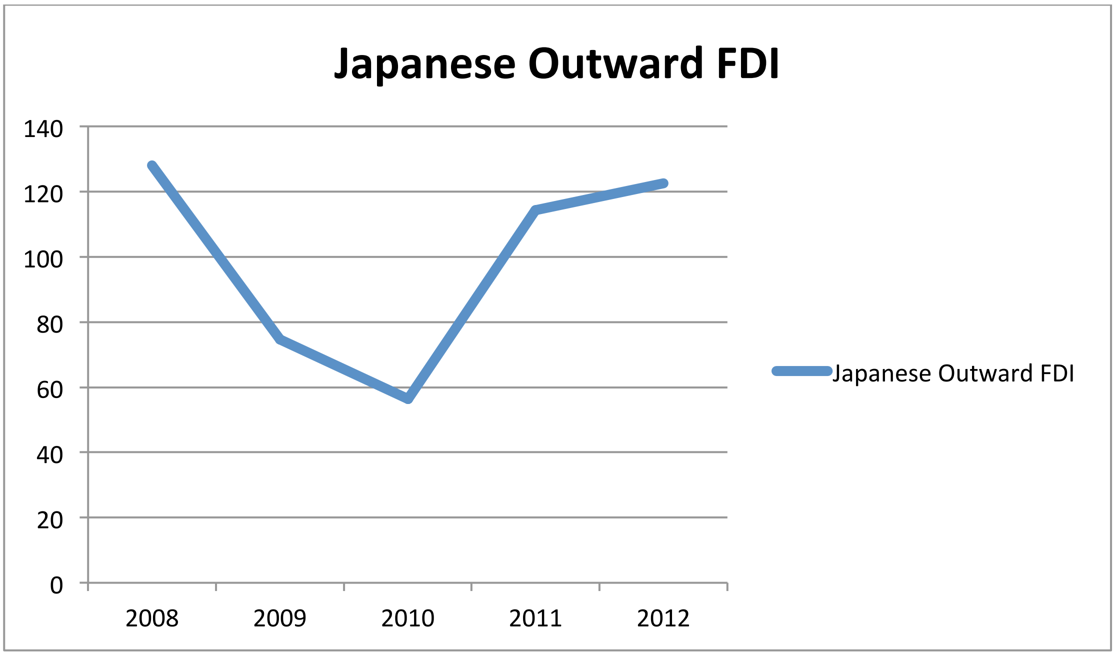

Figure 2: Japanese outward FDI trend from 2008 to 2012. *Units: USD billion* (OECD International direct investment database, FDI flows by partner country, 2013).

2.5 Theoretical framework

The theoretical framework of the study is a hybrid of Dunning's **OLI paradigm** (Dunning 1988b, 21, 27; Dunning 1988a, 21-66) and Porter's **Diamond Model of National Advantage** (Porter, 1990, 183-198). Dunning's paradigm suggests that companies that are aiming to expand their business into a foreign host country justify their decisions in internalizing their operations by looking at Ownership, Location and Internalizing advantages, hence the name, OLI paradigm. The advantages introduced by Dunning include:

Ownership advantages

These advantages answer the question of *why* of a FDI activity. It will also determine the proportion of FDI of multinational enterprises (MNEs) in a host country. Ownership advantages are tangible and intangible resources. Ownership advantages can be furthermore split into three sub-categories. The first concentrates on the advantages that are for the benefit of any MNE, regardless of industry, producing in the same geographical location. These include an access to a certain market, a sole access to a certain tangible asset such as a raw material or intangible assets such as trademarks and patents. The second advantage occurs when a branch plant, or a factory in a host country that belongs to a MNE in another country, receives when a company that already exists in the location begins producing a new product and thus has to pay all the costs relating in starting to produce an entirely new product. The extent of expenses being paid by the company manufacturing a new product determines the value of this advantage. The higher the cost for the other company, the higher is the benefit for the branch plant. The third advantage stems from the differences of locations that a MNE operates in. In short, the more diversity there is on the portfolio of different locations that the company has penetrated and successfully taken advantage of through utilizing different advantage factors, the more accumulated advantage it is likely to receive.

Location specific

Location specific advantages answer the question of *where*. They imply *natural* or *created* advantages that justify a greater benefit from implementing a certain section of, for example, manufacturing in a foreign country. Natural advantages consist of advantages that exist in a country without artificial human intervention, such as natural resources. *Created* resources include factors such as skilled labour, productivity, innovation, components, infrastructure quality and costs arising from the usage of it, such as transportation of goods. It also includes benefits or disadvantages of the commercial, legal and educational systems of the country, the existence or absence of incentives of investment, geographical distance from the home country and its implications on, for example, culture, customs and styles of business and the systems and policies implemented by the government on things such as frameworks of resource allocation. Additionally government intervention and barriers that could bar production or import of goods by i.e. taxes, tariffs and quotas are location specific factors.

Internalizing advantages

Internalizing advantages answers the *how* of FDI. It includes incentives of accumulated advantages that companies are looking for when deciding upon FDI activities. The company has to decide for itself what are the advantages of completely internalizing for example a smaller manufacturing company abroad as part of a MNE rather than just take advantage of a foreign company by using their services without making it a part of the MNE. Dunning argues that internalizing advantages should be undertaken to either avoid disadvantages or benefits from advantages. The disadvantages to avoid include costs arising from negotiations and enforcement of various rights or having to compensate the absence of markets that could develop in the future. Other disadvantages include the uncertainty of the buyer market with regard to the output being produced by a MNE. MNEs also wish to enter a market that has no significant barriers in terms of sale inputs or market outlets that could also be utilized by competitors. The advantages include the ability to participate in various practices, such as pricing and cross-subsidization in order to develop even a stronger competitive strategy in the market (Dunning, 1988b, 27; Dunning 2004, 6).

These factors, in co-ordination with each other ultimately decide the extent of FDI that a MNE will engage in. On top of the OLI paradigm, Porter's Diamond Model can be applied to offer an even deeper insight into understanding the layers of competitiveness and ultimately the reasons for investment decisions. Porter's Diamond consists of four main categories that, ultimately, define a nation's competitiveness. By definition, Porter's Diamond model consists of the following subdivisions:

Factor conditions

These are the beneficial factors that a nation possesses and define how it is ultimately positioned as a nation with advantages. They can be divided into two subcategories; basic and advanced factor conditions. Basic factor conditions include i.e. unskilled and semi-skilled labour and location. Advanced labor conditions, on the other hand, include advanced factors such as a highly skilled labour force, highly advanced infrastructure and other factors that brings more attractiveness for the to a foreign investor, differentiating the country from others. These skills *must* be very specialized skills in order to sufficiently support the nation's competitiveness. Whereas basic factor conditions are usually *inherited*, according to Dunning, advanced factor conditions essentially are the conditions that are created, not inherited and thus ultimately differentiates a country's competitive advantages from others.

Demand conditions.

This is exclusively the degree of demand for a product or a service in the host country. Especially companies that are in favor of not exporting all products out of the host country but wish to sell some of it there are interested in this condition. Demanding buyers in a large market offer the company an opportunity to develop their products and thus their competitiveness on a global scale. Demand itself can be divided into even more detailed subcategories. Highly demanding buyers are also able to anticipate not only the situation in their home country, but also the changing demand patterns in other countries as well. Demand is also growing at a fast rate and the demand for new products, in particular, is high. Demand can also be transferable, since buyers can be multinational distributors that eventually export the product into other markets as well. The demand may not come only from the side of the end consumers, but distribution channels can set demand conditions to the investor.

Related and supporting industries

This measures the degree of related companies that are already present in the host country. If present, this could mean various types of support for the investor in terms of their investment. An example of this is services in the field of research and development. Suppliers are able to communicate straight to the manufacturing end about current and upcoming trends in products and services and therefore gain an advantage competing on the market against other manufacturers. This can result in innovation and enhanced competitiveness in the shape of fruitful joint operations. Companies in related industries can be grouped in *clusters*. According to Porter (1998, 77-90) Clusters are “geographic concentrations of interconnected companies and institutes in particular field.” Clustered companies can add to their advantages without compromises as they have access to suppliers, information and institutions that they can share in order to benefit without additional costs. Clusters also help companies to innovate through interconnection and sharing ideas and knowledge in intra-cluster meetings. Finally, as a result of information and innovation in all the fields being exchanged within the cluster, it may result in entirely new industries or breakthroughs in innovation may take place.

Firm strategy, structure and rivalry

It is highly dependant on the nation’s nature and culture how companies are formed and how their hierarchies are structured. It will also affect the nature of how companies decide to compete against one another and is interrelated to the nature of doing business in the country and what is commonly pursued in the country. It is a strong combination of different country-specific factors that influence the orientation, the attitudes and the motivation of global competition in the minds of everyone included, which consists of staff, managers and employees. It is also a reflection of the nation’s ability to innovate. Strategic resources of a company include *all* factors that are hard to duplicate or scarce and create a competitive advantage for the company. These can include intangible assets such as unique patents, but also tangible assets such as delicate and specialized machinery, unique location and thus access to scarce resources or a unique asset in the field of human resource management, contributing to superior value chain management or manufacturing processes. These are the factors that allow the MNEs to differentiate from the competition. Additionally, strong rivalry in the host country constantly creates pressure and pushes the companies competing in the same industry to be even more innovative, cost-efficient and competitive (Porter 1990, 183-198).

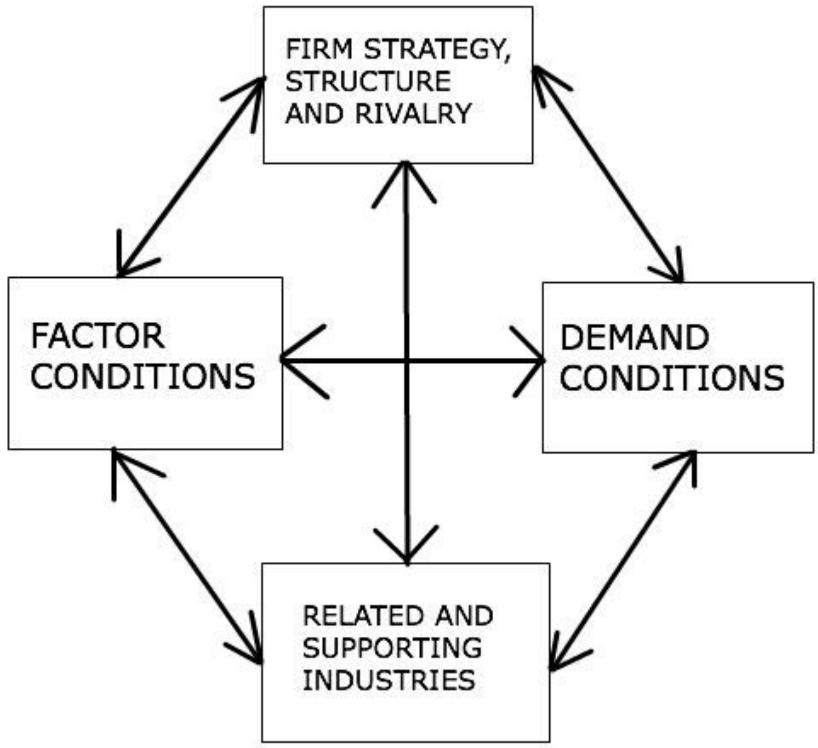

Figure 3: The Determinants of National Advantage (Porter, 1990, 72)

These two frameworks applied together form a strong tool to view the properties of the countries that Japan's major internationally competitive industries' companies appreciate. Together they are more accurate than if applied alone, especially in the case of this study where it is particularly important to come to clear conclusions in what are the types of environments that Japanese investors need for their investments to be as beneficial as possible.

Since the aim of the study is to look for potentially alternative motives to invest directly into another country, it is justified to concentrate specifically on the *location specific* advantages that attract Japanese companies to invest abroad. When Porter's model is applied in this assumption, even more accurate assumptions about the future FDI targets can be formulated.

On contrary, Rugman (2010, 2) argues that the three pillars of Dunning's paradigm are *overdetermined*. According to him, ownership advantages also include things that could be considered as country (location) advantages.

> *According to Dunning, these [ownership advantages] include not only the firm's intangible assets, such as knowledge, brands, organizational structure and management skills, but also natural factor endowments; manpower; capital; the cultural, legal and institutional environment; and industry market structure. Obviously the latter set of O (ownership) advantages is easier to analyze as country factors.* (Rugman, 2010, 2)

Overlapping of the classifications could be problematic while not necessarily a major problem, as it could result in some incoherency in conclusions of further analysis of company strategies.

Rugman furthermore discusses problems with classifications in location advantages. In such broad definition of them, it is easy to confuse them with ownership advantages as location advantages include, for example, the education system and governance structures. As companies have an ability to lobby host country governments to acquire ownership type of protection for example in sole ownership of a natural resource, the advantage that could have been clearly classified as a location advantage is now transformed into an ownership advantage.

3 METHODOLOGY

This chapter contains a detailed explanation of the methodology behind the study. It describes the exact selection and justification of the methodology for this particular study. It then proceeds to an overview of the research process. Further on, the nature and the philosophy of the research are described as well as the method of data collection and how it was analyzed. The chapter will end in discussing the verifications of the findings of the information.

3.1 Description of the methodology

Since the aim of the study is to create a completely independent hypotheses about the effects of the newly implemented economic policies instead of testing an existing theory, the author decided the most suitable research methodology to be *applied research* which implies looking for answers in real-world problems which in my case were discussed with my consignor (Price and Oswald, 2006). Furthermore, the thesis is of an exploratory nature (Degu and Yigzaw, 2006, 26). An exploratory study is interested in a new or a less studied topic or area and aims to generate a new theory based on the findings from the primary data compared to the trends and patterns of the secondary data. (Jupp and Davies, 2006). While the duration of the study at this point from the introduction of the new economic policies up to this date is of relatively short duration, only a little is known about the problem. While secondary information about Japanese companies' outward FDI is vastly available, only a little to no forecast was found by the author about the possible projections of the economic policies to the current situation of FDI outflows. The process of the research was as follows:

1. Identifying the possible problems, evaluating them and formulating appropriate research questions
2. Reviewing appropriate literature to acquire background and secondary information of the topic itself and information about implementation of the research
3. Implementing the interviews with designated interviewees, recording the interviews and transcribing them for further analysis
4. Analysing the results and comparing with findings from the secondary information
5. Concluding the findings in a coherent and a meaningful way that will provide as much useful information as possible

The research process is described later in the chapter in greater detail.

The research philosophy of the study is *realism*. As a philosophical stance realism is described by Saunders et al. (2009):

> *Realism is a branch of epistomology which is similar to positivism in that it assumes a scientific approach to the development of knowledge. This assumption underpins the collection of data and the understanding of those data.* (p. 114)

This stance is valuable for the research, since the aim is to gather as much information as possible and understand that data in a realistic manner. The study is described as *inductive*, since the author aims to understand the nature of the current situation and the past developments, and then compare the interview data to produce a solid theory of predicted upcoming development (Op. cit. p. 126).

3.2 Method of data collection

The author suggested already in the thesis proposal phase that for a study that concentrates on such an elaborate topic and requires years or even decades of experience to understand it thoroughly, it was assumed that regardless of acquired information from secondary sources, the author's information would not be sufficient to use a method of data collection that would require great understanding of the topic, such as a surveys or a questionnaire. Thus, the primary data collection method of the study was decided from the beginning to be qualitative instead of quantitative.

Whereas a quantitative research attemps to *measure* possibly a number of things, according Bricki and Green (2002, 2) ”qualitative research is characterised by its *aims* which relate to *understanding* some aspects of social life and its *methods* which (in general) generate words, rather than numbers for analysis”. The amount of unmistaken expertise needed for the study to be coherent and to have the amount of depth, as it requires especially in this field, a qualitative research method is the most prolific form of research.

Quantitative data collection method would be justified if the aim was to instead collect information about opinions about the new economic policies from a greater number of people with simple questions with pre-selected answers to choose from. However, this study requires greater understanding of chains of consequences and experience in the field, thus a mere questionnaire would not create sufficient results.

The method of the interviews was decided as semi-structured interviews. It is justified by having one main question and an additional, more pinpointing question that I needed to be answered in order to construct a solid frame for the study. Additionally, the semi-structured nature of the interview is supported by the fact that during the interview it is useful to state more precise to create more precise chains of information or to discover a completely new sub-topic that can be discussed further when it is seen as vital to create coherent information around the mainframe that is based on the answers to the two research questions. The primary data received through the interviews was reflected on the findings based on the secondary data that was then formulated to a forecast. The study includes a main question and a supplementary question that brings more value and depth to the research. The questions that the author wished to find answers into and thus add value to the research are:

- What are the effects of Abenomics to Japanese companies' FDI outflows?
- Which geographical areas are likely to be targeted for future FDI?

During the author's internship at the Embassy of Finland in Tokyo the author had an opportunity to interview an employee of the Itochu Corporation, one of the largest Japanese general trading concerns. The company's representative, Mr. Shinji Ishida from Planning & Administration section of the Forest Products & General Merchandise Division was an optimal interviewee, since his division acquired 24.9%

of Metsä Fibre Oy, one of the world's largest softwood pulp producers, for 472 million euro in 2012 (Itochu Corporation, 2012) making it one of the largest foreign investments in the Finnish history.

My second interviewee, Mr. Jukka Pajarinen, was the first secretary and chief of the commercial, economic and financial sectors at the Embassy of Finland in Tokyo. During his term in Tokyo he served as a medium of communication between Japan and Finland in the field of economy and investments and has been a representative of Finland in numerous ministry-level meetings. Even though Mr. Pajarinen's reports and articles have been published in the most highly recognized economy-related publishings in Finland, these sources are still considered as exclusive primary sources.

The author chose the two interviewees specifically since they come from different backgrounds, not only considering their current place of employment, but almost every variable of them differed from another. While Mr. Pajarinen is a diplomat dispatched by the Ministry of Foreign Affairs of Finland, he perhaps has a more analytic and an objective way of seeing things where as Mr. Ishida comes from a very traditional Japanese corporation and thus may have a different view on certain topics. The variance in the backgrounds created a possibility for the author to compare their stances in different topics and thus creating more credibility and variance to the primary data. Since my other interviewee was a native Japanese and another one was a native Finn, the first interview was conducted in English and in the second interview Finnish was used throughout the interview. However, in both interviews some field-specific vocabulary in Japanese language did appear and this required special knowledge from the interviewer to entirely understand the meaning of the words in the said context.

The interview questions proved to be well thought out since they stemmed plenty of useful information and information that had not occurred to the author earlier and thus created depth to the study. The questions were purposedly laid out in such manner that the interview begins with macroeconomic questions and narrows down into slightly more detailed questions.

Secondary information is information that is already published and not acquired from an exclusive source. Those include numerous Japanese and other internationational publishings, articles and researches. The author considers it beneficial for the study that since the effects of East Asian countries' economic events have been closely examined by many scholars around the world and Japan having a close relationship to them throughout the history of FDI, Japan's situation is also studied to a very satisfying degree.

In order to have a greater view of the history of the Japanese economy and FDI outflows out of Japan and thus being able to create a more accurate outlook on the future, other secondary sources including academic publishing such as *The Extent and History of Foreign Direct Investment in Japan* (Papryzcki & Fukao, 2005). Despite the title suggesting that the paper would discuss inward FDI in Japan, it also discusses a necessary amount of outward FDI as well. Additionally, *Foreign Direct Investment in East Asia, RIETI Policy Discussion Paper Series 13-P-003* (Thorbecke & Salike, 2005) and *Can Japan Compete?* (Porter, Takeuchi & Sakakibara, 2000) were studied.

Additionally, in order to understand the trends in FDI in recent years, *FDI in figures* (Organisation for Economic Co-operation and Development, OECD, 2013) provided detailed information of investment flows in recent years. The World Bank website provided additional information of wages and other relative statistics. This does not only help to understand the past, but also to draw conclusions of what sort of changes can be expected with the new economic policies. It is not only important at the early stages of the implementation of *Abenomics*, but also from now on it is vital to compare changes in investment figures.

3.3 Method of data analysis

The method of the data analysis process began with the interviewer recording the interview with a digital recorder. This proved to be a successful method and instead of continuously taking notes during the interview, placing the digital recorder on the table made it possible to concentrate more on the interview and what was said and *how*, which is also an important part of the interview process. The small nuances in the interview, such as tones and gaps in speech enabled the author to give time to process the situation and perhaps ask more questions.

After the interviews were done, the recorded audio was transferred onto a laptop computer and then *transcribed* using a word processor. Even though time consuming, the results proved to be good. During the transcription phase, the author decided not to include some minor parts of the interview that were not connected with the actual research questions at all with the interviewees discussing other matters such as their personal life. However, these only accounted for some minutes of the whole interview.

Since the study is of an inductive nature, the interview data must be processed accordingly. The author's aim was to examine the interview data carefully and look for patterns and themes in the answers to research the questions and data from secondary sources.

The analysis of collected interview data began by summarizing the rather long answers in fewer words and key points (Saunders et al. 2009, p. 492). Even though time consuming as well, this is a crucial step for further processing of the information, since larger chunks of data would render the next steps very burdensome and even distort the results.

The further processing of the information included the categorization or *grouping* of meanings (Op. cit. p. 490). It is extremely vital for the research to carry out grouping in a meaningful and exact manner, since that will serve as a base for the researcher to notice patterns and themes in a precise way. Well-summarized and categorized data is much more accurate and easier to handle if these steps are being followed in a professional manner. The groupings of the meanings were *coded* in a way that for each theme that was repeated during the interviews there is a set of summarized answers ready for further processing. While it requires caution in order not to miss anything crucial, it decreases the possibility of analyzing information that is not essential. According to the dimensions a of data analysis (Op. cit. p. 491), inductive data is less structured and relies on interpretation in contrast to a deductive approach. Categorizing data has much to do with *unitizing* information that is more of labeling bits of information acquired, which was done manually using the help of a word processing software (Op. cit. p. 493). Since the structure of the interviews was semi-structured, it was particularly useful to categorize the summarized data based on a classificiation of themes repeated in the interviews and apply the same technique to both interviews, even though the interviews were not entirely identical due to their semi-structured nature.

The last step in processing the information is crucial and it deals with recognizing causalities within the assumptions and findings in the categorized information. Looking for definitive explanations acquired from secondary information is used to test these causalities to look for definitive conclusions that have a scientific base in the previously acquired information (Op. cit. p. 495). This allows for picking out the correct conclusions from the interview data that best answer the author's research question and develope a frame for the author's theory.

3.4 Verification of findings

Although at no point of the interview was the interviewee's professionalism and honesty questioned, it still has to be considered that some reliability issues may rise due to the different backgrounds of the interviewees.

According to Lecompte and Goetz (1982, 80-83), the verification of the findings can be divided into four categories. *Internal validity*, also known as *credibility* is the most basic form of validity that the whole study *must* base on. It looks into the grassroot level of the study; are the findings coherent and most importantly, do they answer the research questions properly? It does not only include looking for positive linkages in the findings, but also looks for negative correlations of findings to the same question and looks for explanations for that. Also alternative explanations in addition to the main explanation should be taken into account. Regarding to this study, the internal validity of the research has been maximized by looking into reliable primary and secondary resources and realistic conclusions of the future outward investment movements of Japan by combining the history of the economy of Japan and its phenomenons arising from the current situation have been drawn. It is important to notice that some reliability issues may arise from the native Japanese interviewee’s results since they are representing their company in a very official setting and thus they do not wish to say anything that might upset the company image or take a strong political stance in order to stay neutral, as it is often in Japanese culture.

External validity, or *transferability* looks into the generalization of the research. Can the study be generalized into, in the case of this assertion, to other nations’ economic situations as well? Especially in the case of this study, transferability may cause problems since the trends and the phenomenons that are under examination may not even aim to generalize the theory into other nations’ economies due to the unique aspects of each nation, their economic situation and structure, governance, propositions and so on. The situation of Japan is unique to its own history of investment, politics and general history of the nation that have all contributed to the current situation. This combined with a cultural environment very distinct of any other in the world, the study’s external validity is not high and should not be compared to the situation of any other nation without taking the background into consideration.

Reliability or *dependability* looks into until what extent can someone else duplicate the results. This is often complicated due to possible bias, which is not regarded as an issue in this research. The primary and secondary sources of information were widely and critically examined, leading into a choice of sources that are regarded highly in terms of international standards (i.e. *Bloomberg* and *Reuters*). The interviewees, regardless of one of them coming from the corporate world were chosen to be in positions that are as neutral as possible in order to not cause distortion to the research results especially due to personal political views.

Objectivity or *confirmability* is one of the main characteristics of a coherent research. It immediately shows if the scholar has made a proper work in processing his or her data as an entity. If someone else were to reproduce the research, the research would result in similar results with high reliability. Issues in this area are often simply based on individuality of scholars; how one understands the findings and proceeds to process them according to their own perception. Regarding to this research, with the current information available of Abenomics' effects, the study aims to be as profound and analytical as possible in order to maximize confirmability. There is still a possibility of another scholar with much more in-depth knowledge of the political field and the investment strategies to result in slightly varying results regarding the future targets of outward FDI. The author finds the confirmability of the general effects of Abenomics very high, since an article about the counter-effect of Abenomics to the outward FDI was discovered during the final stages of the study and included very similar results that the author had resulted with (Arnold and Sririring, 2013) (LeCompte and Goetz, 1982, 80-83).

4 RESULTS

This chapter discusses the outcomes of the research and how they are interrelated to each other. It provides answers to the research questions in a logical manner via utilizing the theoretical framework explained earlier in the study.

4.1 How could the Abenomics affect outward FDI?

Regarding the effect of Abenomics to the Japanese outward FDI in general, an approximate consensus was achieved through the primary information. As one of the main objectives in order to revive the Japanese economy is to achieve a rise in domestic investment, both interviewees agreed that most of the money injected into the economy should stay inside the Japanese borders in order to pursue the success of Abenomics (Factbox: Main targets and steps in Japan's growth strategy, 2013). Reviving the domestic economy is naturally also in the interest of Japanese companies, which will thus be complying with the government's intentions about increasing domestic investment as long as the incentives are strong enough. ”Naturally, from Japan's point of view it is essential that most of the investments have to stay in Japan. That has lead to the point that the growth of the economy has not been as good as it could have been”, states Mr. Pajarinen (Pajarinen 2013). According to Pajarinen, much of the level of effectiveness of the whole concept of Abenomics and consequently the investment staying domestic depends on how successful the implementation of the new political agenda as an entity is. At this point, when Abenomics has been already introduced and regardless of much objection that has come with its popularity, from a very recent poll conducted by the news agency Kyodo News, the support rate for PM Abe's Cabinet is standing at 63.3% which is a clear signal of the success of the Liberal Democratic Party (Support for Abe Cabinet rises to 63.3%: Kyodo Poll, 2013). Additionally, with the Prime Minister's connections with the business world and his past membership of the *Keidanren* (Japanese Business Foundation) have created a strong link to the business world that could help the LDP to push their agenda (Op. cit.). The authenticity of such an existing link can be verified through news about Seven & I Holdings Co. increasing the wages of 53,500 employees while other large Japanese companies paid larger bonuses instead. These companies include global giants such as Nissan Motor Co, Honda Motor Co, Fuji Heavy Industries and Hitachi Ltd (Kubota, 2013).

The news about wage and bonus rises were already introduced in early 2013 when Abenomics was freshly announced. It can be concluded that since Japanese companies, especially the ones that have made announcements of wage and bonus rises are large and traditional Japanese companies, they are very careful and conservative about their use of company capital. Therefore, it can be safely determined that the companies were informed about the intentions of massive government intervention long before it was announced to the public. It is important to notice that this took place long before the upper-house election of July of 2013, which reinforces the assumption that the LDP and PM Abe have a link to the business world and enjoy mutual benefits. In return of the government granting tax cuts to the business world, the companies are willing to co-operate by giving credibility to

LDP from their side and, furthermore, enhance the smooth implementation of Abenomics *if* things are going as planned.

Even if evidence of what seems already to be only a partial success of Abenomics exists, also evidence of the government being unsuccessful in creating excitement to invest domestically can be already seen due to large investments from Japanese companies to foreign countries. They are discussed in greater in detail in the next chapter. Mr. Shinji Ishida, a representative of a large and traditional Japanese trading company, voices criticism about the future of Abenomics. According to him, since Abenomics has depreciated the value of the Japanese yen against other major currencies, some Japanese companies could invest abroad and make a profit through taking advantage of the situation. He finds the situation deceptive. Mr Ishida sees the situation of the stock market rising sharply with the Nikkei stock average climbing by 39% already this year to a 14,500-yen level, unrealistic. (Ishida 2013).

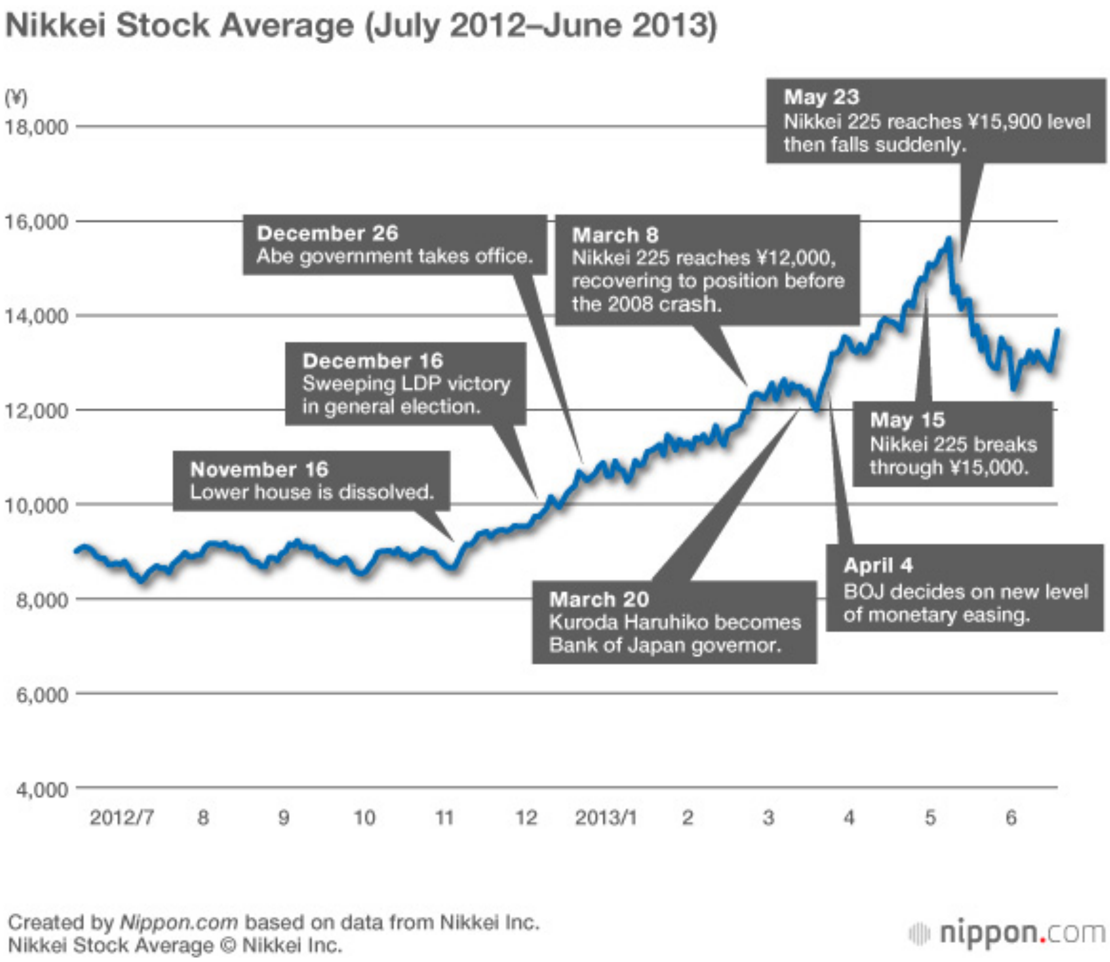

Figure 4: The Nikkei Stock Average development from July 2012 to June 2013 (The Impact of Abenomics on Japan’s economy, 2013).

According to him, the relatively freshly introduced Abenomics and hopes of a new Japan has set on enthusiasm that might have created an artificial feeling of the economy reviving even if it is theoratically impossible at such pace. Ultimately Mr. Ishida is expressing concerns about the formation of yet another bubble, similar to the one that was discussed earlier in this study that eventually sent the country in vast economic downtime that Abenomics is tackling to get rid of. Given the differences between backgrounds, Mr. Pajarinen brought up the fact that many of the people who witnessed the turmoil resulting from the previous bubble have been left largely traumatized and naturally cautious in order to not make history repeat itself. ”According to many economists it [the bubble] has indeed left a big trauma”, Mr. Pajarinen sums (Pajarinen 2013). Economists in Japan and abroad have noticed this possible hidden problem as well.

> *At issue is Abe failing to match fiscal and monetary pump-priming with structural reforms -- deregulation, increased productivity, greater entrepreneurship -- to make recovery self-sustaining. This mismatch has plagued Japan for 20 years*. (Pesek, 2013)

Despite the connections with the corporate world and what seems to be a rather good beginning of the implementation of the new economic policies, this information concludes that many of the corporate managers, especially of the companies that have been around long enough to witness the history are cautious about making any hasty decisions in making a sharp increase in domestic investment despite the atmosphere of reviving the economy once and for all.

This consequently has a link to decision-making and leadership styles in Japanese companies. Japanese MNEs are widely considered as conservative in their way of managing their investments. Mr. Ishida finds that even if Abenomics created some investment opportunities, it might be that the Japanese style of very thoroughly calculating decision-making processes are simply too slow and could thus result in missing some opportunities. He also mentions countries such as China that are more aggressive and quicker to find action (Ishida 2013) that could threaten Japan's success in implementing their investment strategies. It indeed is the tough lesson learned from the history that might leave business managers in Japan hesitating and thus lose some opportunities to their neighboring nations that pursue economic growth with greater risk-taking abilities. Pajarinen notes that despite what seems to be dominance by traditional Japanese powerhouses with their conservative and calculated decision-making processes, new faces have lately crowded the billionaire charts of Japan. They are the CEOs of the Japanese companies that did not exist ten years ago and their managers who are coming from outside the old establishment, have adapted entirely new leadership skills and thus are able to act more quickly when it comes to making decisions (Pajarinen 2013). This implies slowly but surely that quicker action and greater risk-taking is catching wind below its wings in Japan. Whereas it is certain that it will not let go some of the characteristics of traditional Japanese business-making, even the most conservative companies might see more aggressive leaders later.

To conclude the results of the first research question of *how* Abenomics will affect Japanese outward FDI, it can be said that even if there is concrete evidence of the stock prices rising and a seemingly artificial hype about Abenomics, Japanese companies will be very careful about letting political factors affect their outward FDI decisions let alone ultimately turning them into domestic investment. Traditional Japanese companies with conservative leaders who have witnessed the economic calamity and paid the consequences followed by the bubble some 20 years ago are still largely ruling Japan's corporate world. It signals that they will most definitely be cautious about getting carried away and be mislead by anything that could indicate another asset bubble through miscalculated and poorly executed economic reforms that include large injections of new money into the market. This leads to the situation in the economy where the already incredibly wealthy Japanese companies are getting their hands on even more money even more easily through tax cuts and other proposed government incentives. As discussed earlier, Japan has previously invested vast sums of money in their value chains in the manufacturing sector across Asia, pursuing even more affordable labour force and other advantages as well as the latest trend, practiced *networked FDI* according to which the ultimate point of investment is not only to export all manufactured products to wealthier countries, but to also sell some of the completed products to the host country. This is widely pursued in economies that have largely stayed developing but due to domestic economic growth a large middle class has developed, creating an entirely new group of potential customers that did not exist ten years ago.

4.2 Which geographical areas are likely to be targeted for future FDI?

Traditionally Japanese MNEs have built vast value chains in countries in the Southeast Asia region for manufacturing purposes in order to export products to wealthier countries in the West and thus to gain a larger profit margin through sales. Now, with the latest trend of selling products in the host country as well in the form of networked FDI, it is quite obvious that among other possible targets of further FDI, Southeast Asia will be among its top targets. Mr. Pajarinen agrees and finds it very likely that due to the existing value chains in the Southeast Asian region, some of the money will find its way there if incentives for domestic investment are not strong enough. ”The Japanese have always been quite skillful in creating global, cross-border value chains. These include Asian value chains and it is quite natural that some of the investment will go there,” Pajarinen estimates (Op. cit.).

Looking at the events that have taken place in Japan over the recent years, the triple disaster of 2011 have turned Russia and Africa into very appealing targets for future FDI. Due to the catastrophy of 2011 Japan has shut down its nuclear power reactors in the fear of future catastrophies that would damage the country even more (Japan shuts down last nuclear reactor, 2013). This has lead to a situation of Japan having to import vast amounts of energy from abroad at a very high price, since it was practically dependant on nuclear power before the plants were closed after the nuclear accident of Fukushima.

Despite North America having passed Russia this year as the world’s largest oil and natural gas producer, its wages are still high compared to Africa and Russia. North America’s production was at 25 million barrels a day when Russia was standing second, at almost 22 million barrels a day (Goldenberg, 2013). Pajarinen agrees with the assumption of oil-related investment forecasts. ”Russia is one of the countries where Japanese have always been [in terms of investment] due to their energy production. And since we [Japan] are in need of energy, they [the Japanese] will probably be there for a long time as well.” (Pajarinen 2013).

Examining even closer the possible targets for future FDI, the research framework must be applied. While applying Dunning’s eclectic paradigm, it can be determined that Japanese companies are mostly interested in location advantages (L). These include the reasonings that the Japanese companies have been looking at while investing into Southeast Asia in the first place. These are the factors which, if utilized correctly, will make it more profitable for the companies to move some of the production into a foreign host country in order to pursue less cost and more value for the manufacturing process of their products. Via the utilization of Porter’s

Diamond Model, location factors can be split further to four different categories. They are factor conditions, demand conditions, related and supporting industries and firm strategy, structure and rivalry.

When Southeast Asia as a region is examined more closely, some developing nations have been the target of Japanese outward FDI more than the others. However, fluctuation can be seen in the outward investment flows of every target country. The three countries that have received Japanese outward investment the most among the developing nations of Southeast Asia are Thailand, Indonesia and India, each of them exceeding 1000 US$ billion of Japanese outward FDI when an annual average is calculated from the year 2007. The year 2011 is excluded from the calculations due to the natural disasters that took place in Japan during the said year since it might distort the results when the economy was not in a normal state of operation.

Figure 5: Japanese outward FDI to Thailand, Indonesia and India in 2007 - 2012 (Japan’s Outward FDI by Country and Region, 2013).

Despite the fluctuation that can be seen in the investment flows, each of the countries as developing nations has been a partner of Japan for years. Dunning’s four motives of FDI also support the action of investing to the region. Market-seeking with close geographical proximity to Japan and thus ensuring swift transportation of goods from the host country, resource- and stratey -seeking with skilled labour and extensive history of manufacturing for Japanese companies and efficiency-seeking with affordable and skilled labour force compared to that in other countries, especially Japan (Dunning, 1988b, 27).

4.2.1 Factor conditions

Factor conditions are the beneficial factors that a nation possesses in how it is ultimately positioned as a nation with advantages. These include, among many, skilled and affordable labour that brings more attractiveness for the country as seen from the eyes of an investor. Since most of the manufacturing processes are mainly conducted with the help of automated robots in, for example, component manufacturing and in the automotive industry, Japanese companies are thus mainly interested in human resources. To support the evidence, the average hourly wages of the countries are US$ 0.53 in India, US$ 0.65 in Indonesia and US$ 2.50 in Thailand. When Japan stands at US$ 17.15, it is clear that abundant labor force combined with low wages compared to those of Japan it makes it an inviting target of investment for Japanese companies.

Looking at wages, Russia and South Africa can hardly compete with Southeast Asian countries with an average hourly wage of US$ 2.52 in Russia and US$ 3.13 in South Africa. Even less so is the case with the United States, which has an average hourly wage of US$ 21.52 (The World Bank, 2013). Thus, it can be concluded that some of the main incentives of investing in sourcing of energy in these countries are natural resources and affordable labour that is capable of producing sufficient amounts of energy, which is vital for Japan to survive. Along comes the track record to prove it, hence the competition of world’s largest energy producer that Russia was titled as for a long period of time, before North America took over. Despite the long relationship with the United States, Russia is even more of an appealing target for investment due to its close geographical proximity and lower wages. South Africa, even if a relatively far of a location is an attractive option for investment due to vast natural resources and relative untapped nature by Japanese corporations. Thus for manufacturing and sourcing type of FDI it is implied that Japanese MNEs value basic and advanced factor conditions (Porter 1990, 182-198). In the Southeast Asian region it is the location that is certainly one of the main advantages as it is close to Japan, as well as affordable labour force. Advanced factor conditions include specialized labour force and the infrastructure that serves as a link between the host country and Japan. As it is often with developing nations, the developing nature of infrastructure may create some disadvantages for the poorest nations. Russia and South Africa may still experience issues with their infrastructure development but the advantage brought to them through their basic factor conditions, affordable labour and most importantly natural resources, make up for the disadvantages in other areas.

4.2.2 Demand conditions

Demand conditions are defined exclusively as the degree of demand for a product or a service in the host country. Especially companies that are in favor of not exporting all products out of the host country but wish to sell some of them to the host country are interested in this condition. Demanding buyers in a large market offer the company an opportunity to develop their products and thus their competitiveness on a global scale.

Again, as Japan is increasingly in favor of networked FDI and thus aim to sell their production to the host country instead of an earlier trend of exporting its entire production into wealthier countries for sales, the growing standard of living in developing nations where Japanese value chains are already existing provide a natural target for increasing Japanese outward FDI. Networked FDI can truly be profitable especially if combined with the early-warning indicators of possible global trends (Op. Cit. 191). An example of such in the Asia region is the mobilephone chat platform *LINE* that was launched in mid-2011 and has spread from Japan, often a trendmaker in the region, to other nations. In only two years' time it has exceeded

200 million users worldwide in areas such as Taiwan, Southeast Asia and Middle East. As it is often with trends from the east, they are slowly being picked up in Europe as well (LINE exceeds 200 million users worldwide! 2013). This implies that the ability of Japanese companies to react swiftly to changes in the demand patterns will grant them an advantage, should those indicators exist.

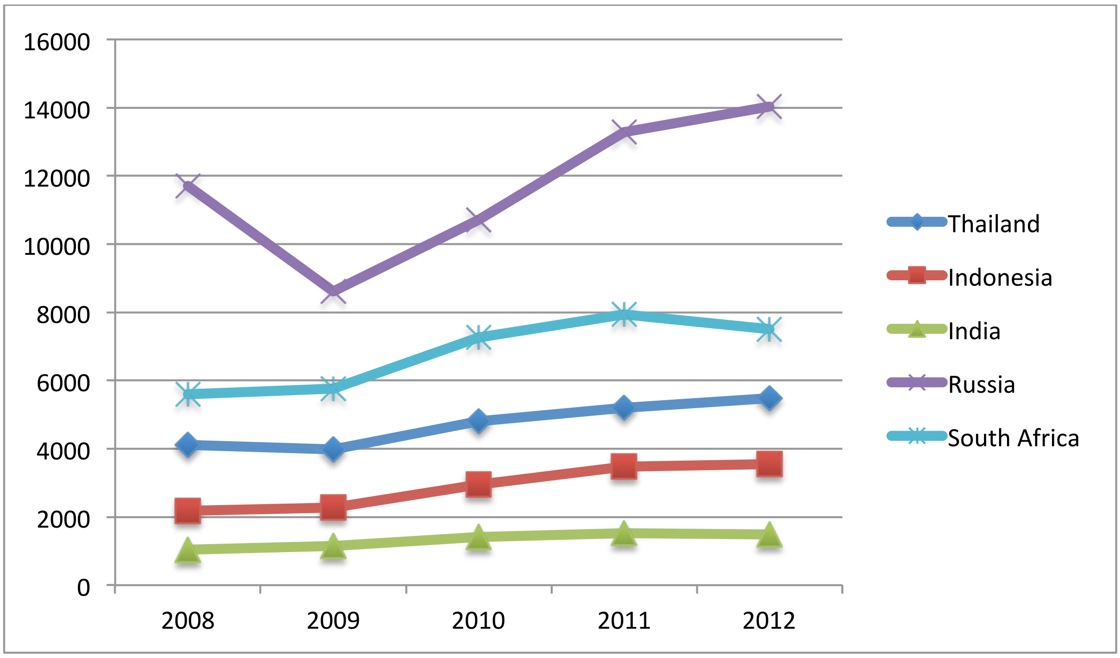

Figure 6: GDP per capita development 2008-2012 in US$ (GDP per capita (current US$), 2013).

As shown in the graph above, each of the nations shows a steady increase shown by gross domestic product per capita, which was chosen as an indicator of the standard of living. India as a very large nation compared to the other two is growing slower than the other two since it is still combating severe poverty.

A clear indication of the validity of the estimates of Japanese companies investing in developing nations is the announcement published in September this year by two Japanese automobile giants, Mazda Motor Corp and Honda Motor Co Ltd making a US$ 900 million investment in the automotive manufacturing industry in Thailand. It is estimated that even if the spirit of putting Japan back on its feet by working together exists, analysts find that the Japanese yen is still too strong compared to other currencies. Since the incentive of investing in developing nations nowadays is vastly in the growing middle class, Japan, one the contrary, faces a great problem of an aging population in addition to the incentives that simply do not encourage domestic investment enough. As described earlier, Japanese companies tend to calculate their investments in order to make long-term good investments with high profitability; the demand conditions and incentives of investments in Japan simply are not strong enough to accommodate the potential of Japanese MNEs (Arnold and Sririring, 2013).

Looking from the point of economic growth and the growth of the middle-class that is interrelated, Russia and South Africa are also seeing a rise in their GDP per capita, however on a higher level than in the Southeast Asian countries. Since Japan's main point of emphasis with regard to supply chains has always been in its developing neighbors, Russia and Africa will not be seen as a target of similar interest. Energy is the reason of Japan investing in Russia and South Africa due to their high capacity of production and the great demand in Japan at the moment.

4.2.3 Related and supporting industries

The presence or absence of related and supporting industries measures the degree of companies already present in the host country that are capable of further supporting the investor in their investments. This is especially taking place in Southeast Asia, where it can be estimated that networked FDI will bring the Japanese companies straight to the country of the target customer group, existing value chains and retailers. Such is the case in the investment decisions of Mazda Motor Corp and Honda Motor Co Ltd, Japanese manufacturers that have invested in Thailand, which is a growing nation with an expanding base of potential buyers. Consequently, they are able to move closer to the end users of their products and thus receive first-hand information from their customers and suppliers for research and development purposes in order to develop their services and products even more to be competitive in the target market and thus on a global level as well.

The situation in Russia and South Africa is different. Japan is not exporting its own technology into the country due to Japan's dependence on nuclear power until now. Russia and Africa, on the other hand, have been in the energy and mining business for an impressive number of years and have thus developed their own expertize in the field. Russia's largest oil and energy companies have acquired many of the smaller companies that concentrate in offering special operations that rise from energy production. That also serves as a basis for the reason that there is competition only among few giants such as Gazprom, LUKoil and Rosfneft (LUKoil Tops Forbes List of Biggest Russian Private Companies, 2013).

As South Africa and Russia both have a long history in utilizing their natural resources, there is a possibility of forming strong allies with existing giants such as Gazprom and form *clusters* (Porter, 1998, 77-90). This allows the free flowing exchange of information that the Russian and South African companies already possess in the field, combined with extensive experience. Thus Japanese MNEs that set their investments in the region can benefit from that with minimal investments in research and acquiring needed techniques of sourcing and processing of the materials.

4.2.4 Firm strategy, structure and rivalry

Firm strategy, structure and rivalry are factors that are all reflecting to the nature of conducting business in the country, as well as its general culture. Part of the nation's culture and context are also elements that contribute to this factor, since they are determinants for individuals' general behaviour and consequently companies' goals. It also determines the nature of domestic competition. "A nation's success largely depends on the types of education its talented people choose, where they choose to work, and their commitment and effort" (Porter, 1990, 195). Strong rivalry pushes companies to innovate and optimize their processes to keep up with competition on a domestic level and thus also on global level.

When it comes to manufacturing in the field of automotive and component industries, robots do a great part of the manufacturing in order to minimize human error. Nonetheless, people are needed in the operations as well, creating a sense of co-existence between man and machine. Several documentary programs produced by western television companies show the tediousness and endless attention of detail during the manufacturing processes. This proves a great level of dedication to the individuals' work. There can be, however, a level of fear of being held responsible for an individual mistake that piles up to be a larger problem since the sense of hierarchy in the society in many developing nations is still strong and extends into corporate world as well. This can be assumed about all industries from mining in African caves to circuit board manufacturing in Indonesia. Since the wages are low, everyone wants to get their job done and stay out of trouble in order to keep their jobs.

In order for Japanese companies to have interest in investing into a new market, they must be convinced about the fact that there is a shared level of communication between the Japanese and the local managers. Mr. Shinji Ishida also notices this as an issue while entering new markets. ”We don't have good techniques to control local staff”, he ponders (Ishida 2013). This may lead to hesitation in entering new markets, such as Russia or Africa. However, if Japan wishes to survive especially in the energy sector, it must immerse itself into alien cultures with determination. Mr. Ishida has similar thoughts. ”Both Japanese companies and the Japanese government must get together and go forward. And have to go to a new world (Op. cit.)” However, these relatively unknown regions for Japanese MNEs offer vital strategic resources. In the case of Russia and South Africa it is the mining and sourcing of not only energy, but also the minerals that are vital for manufacturing the components that are capable of maintaining the supreme quality of their products.

In this sense, Japanese companies that have been familiar with the region of Southeast Asia for a considerable time, it is naturally easier for them to invest even futher into the region that they are already familiar with, and where both nationalities are aware of characteristics in each other's cultural differences. Vast value chains, not by only Japanese companies but companies of other countries as well, have created competitive manufacturing sectors into the regions. Globally competitive manufacturing with affordable labor force, good and varied demand conditions, existence of strategic resources and often low barriers of entry in order to maintain economic growth in Southeast Asia combined with design and engineering coming from Japan's highly demanding market makes a good combination for profitable business.

However, as stated before, Japan still faces a huge problem with energy and mining, which are essential not only for their survival as a nation, but also for their component and automobile industries. This brings Japanese MNEs to a situation where they are forced to enter new markets that provide them with the said resources. Even though there may be some growing pains when settling into an entirely new market with foreign hierarchies, goals and rivalry, there is little choice for Japan to tackle its energy issue but to form an entirely new mindstate of approaching new markets with fewer phobias of things failing.

As a conclusion, the long establishment of Japanese companies in the Southeast Asia region will continue to be the primary destination of Japanese outward foreign FDI when calculating all of the factors that come with the factor and demand conditions, the related and supporting industries and the strategy, structure and rivalry. The Japanese companies must continue to develop their strategies in entering entirely new markets for their energy sector to pick up again and fuel the businesses which made Japan world-known in the first place. Africa has already seen some picking up in investment from Japan and the next logical location would be Russia due to their vast natural resources and proximity to Japan.

5 DISCUSSION

The implications of conducting this type of research of a highly explorative nature are important for conducting actual business. However, it is still unknown what future will bring and what course Abenomics will take as more of its elements are implemented. On the other hand, making forecasts at this point, based on assumptions and observations that are as solid as possible, will be benefitial for foreign companies' boards of directors who wish to attract Japanese investment into their country. If credible and coherent conclusions can be made at such an early point of implementing economic policies, it can serve as an early notification of what might be the reality in two or three years, when the actual results of Abenomics, be it good or bad, can be seen.

This study aimed to answer two macroenomic questions about Japanese outward FDI:

- What are the effects of Abenomics to Japanese companies' FDI outflows?
- Which geographical areas are likely to be targeted for future FDI?

It was crucial to make the main research questions valid and revelant, irrespective of what would happen in the future. Semi-structured interviews proved to be the right choice for this type of study since they allowed a rather free flow of conversation but still keeping it to the point whilst discovering new ideas and sub-topics which were also valuable to bring additional value to the study.

5.1 Implications of the study

When adding up all the information that currently floats around Abenomics, the assumptions, the contradictions and what has really happened, the investment sector that Mr. Shinzo Abe hoped that would pick up inside the boundaries of Japan, not outside them, is not looking good in terms of succession of the government's domestic investment agenda. Regardless of a strong national spirit that has brought the country back on its feet time after time, Japanese companies are clearly thinking with balance sheets and portfolios in their minds as well. Immediate help is needed especially in the energy sector due to the slow action from the government side and continuous problems with Fukushima's damaged reactors.

Despite the efforts of the BOJ and the government, incentives are still not strong enough, and the yen is still too expensive to actually encourage massive domestic investment. As a result, it has been working the other way around. Responding to the energy crisis and weak incentives from the government side, Japanese companies are ready to enter new markets and abandon co-operation with the government if they find that the promises they made before the elections are not fulfilled. Even more so, if the LDP ends up injecting enormous quantities of money into the economy to revive consumption, the companies will end up receiving even more money and continuously failing incentives from the government will result in still more of companies aiming their production abroad. The manufacturing industries within which Japan is globally competitive will even further reinforce their presence in the Southeast Asia region, which will lead to even more mutual benefit for Japan and the host countries, while creating more wealth in the host country, which enables Japanese companies to produce even more and sell some of their production to the host country in the form of *networked FDI*. This combined with the Japanese mentality of once making and investment and not withdrawing investments easily, the future certainly does not look good for Abenomics. Similarly any changes in the outward FDI of Japan will be a result of Abenomics since, in the end of the day, this is the largest government intervention project that the nation has seen, no matter how the Prime Minister sees it.

Scarce in natural resources, slow government action to find any actual solutions and each one of the nuclear power generators in the country shut, it is only natural that such a high-profile country as Japan is a massive consumer of energy and it must find its natural instinct to survive by looking for available energy somewhere else. Some of the world's main low-wage and rich in resource -countries to turn to are in Africa and with Russia close to Europe. Africa was picked up as a candidate for sourcing energy and exporting it back to Japan after the two natural disasters, the tsunami and the earthquake and a nuclear accident at the nuclear power plant took place on March 11th in 2011. Russia with its ability to produce almost 22 million barrels of oil a day and a shared borderline with Japan will be a target of Japanese investment if Africa is not seen as a sufficient source for Japan's energy needs.

5.2 Generalisation of the study

Japan is an ever-changing nation and it has experienced its ups and downs along the history of the nation. Implementation of Abenomics and how the stock market has reacted to the initial excitement, alongside with the ineffective incentives for domestic investment have created a situation where forecasting is difficult and every hint of progress is valuable. Thus the generalization of the study at this point is dependant on asking more questions in order to understand the policymaking situation in the government boards when they realize that their efforts so far have not been effective enough.

This study has shown that some generalisations can be made about certain fields, those of which Japan is internationally competitive, the automotive and component industries. They search to expand to foreign countries to look for even larger markets and lower expenses in order to look for competitive advantages that they can bring back to Japan and compete with domestic rivalry. Due to the uncertainty of the future, an absolute generalisation cannot be made. However, for couple of years from now some variables will remain the same, one of which is problem with energy after the catastrophy of 2011. It might, and hopefully is possible that the government will take even further action to depreciate the yen against other currencies and make more incentives for investment, but at this moment that is not the case. Factors studied in this study thus make the generalisation of the Japan's situation in other nations of the world unrealistic. The uniqueness of policymaking and companies' outward FDI decisions and strategies are interrelative to the decisions of the government that trace back to the history of Japan, which as an isolated country is unique. That accumulates into an entity of factors that makes this study not being generalizible to other nations of the world. It is thus important to look deep into the unique characteristics of each nation and decide what might affect their investment decisions.

5.3 Limitations of the study

Due to the exclusivity of the issue taking place in a country as remote as Japan, there were certain limitations to the study that the author was partially able to overcome. One of the reasons was the language. Even though the author has working proficiency in the Japanese language, it was still considered as a precaution to conduct the interview with my Japanese interviewee in English. The availability of connections to potential interviewees was also an issue, since Japanese companies' representatives are typically cautious in their statements and their schedules are busy even without additional interviews. It was also relatively difficult to acquire interviewee candidates outside the Embassy of Finland in Tokyo. This was compensated in large amounts of secondary information.

The larger picture suggests that the mere distance and exclusivity of Japan caused some issues. In Japan, Abenomics makes headlines in the news every day, but ever since returning to Finland the author noticed that information about Japan's economy was very scarce. Japan's largest newspapers such as *Nihon Keizai Shimbun, Yomiuri Shimbun* and *Asahi Shimbun* were available for acquiring up-to-date information every day at the Embassy, but ever since the author returned to Finland, he noticed that all of the Japanese sources were charging quite high charges for accessing their full database, making the acquirement of secondary information challenging as well. Fortunately international news agencies such as *Bloomberg* and *Reuters* proved to be covering changes in Japanese economy to a satisfactory extent that helped in acquiring up-to-date secondary information.

5.4 Suggestions for future research

Since the situation can change on a daily basis, it is suggested for future researchers to use this study as a basis for their study. The situation in Japan should be closely monitored and attempts to find any changes in investment patterns, also domestic ones are recommended. If domestic investment picks up, it signals that there have been drastic changes in government policies that might lead to contractions in outward investments.

If possible, trying to acquire interviewees from a variation of institutions would bring more angles to the study as the interviewee's backgrounds and their current positions might change the way they see the current situation from the company's point of view or simply have a personal interpretation of the situation that might not reflect reality.

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APPENDICES

Appendix 1: Interview with Shinji Ishida of Itochu Corporation. 13.6.2013.

Interview questions:

- Will Abenomics encourage Japanese companies to invest abroad despite the need for domestic investment?
- Even if economy takes turn to be unfavourable in terms of investments in some country for Japanese companies, they still do not withdraw their investments?
- It could be unbeneficial to be slow but also beneficial since obvious mistakes are not being made when considered slowly?
- Is it possible to forecast which geographical areas could be targeted by future FDI?
- Do you imply that Japanese companies should carefully examine where to invest and be open-minded?
- Are Japanese companies sensitive of issues such as infrastructure quality? Example: Africa.
- Should the foreign companies that wish to do business with Japanese companies be familiar with changes in Abenomics to position themselves and attract investment?
- Is it too early to make investment decisions based on current information about Abenomics?
- Will seeing changes in investment patters take time?
- Do you believe other Japanese giant companies have same problems in being too domestic-oriented?
- PM Abe stimulates domestic investment but if there is no concrete incentives, do companies go their own way of pursuing global thinking?
- Some companies have announced (with potential PM Abe connections) that wages will rise. Is this a problem?
- Will aging population in Japan affect spending that PM Abe would like to stimulate?
- Do politics affect Japanese investment strategies?
- Does the current situation imply another bubble?

Appendix 2: Interview with Jukka Pajarinen, the First Secretary of the Embassy of Finland in Tokyo. 18.7.2013.

Interview questions:

- What is your view on the impact of Abenomics to Japanese outward FDI?
- Is it possible to say what changes in outward FDI is the result of Abenomics?
- Japanese companies are conservative. How do politics affect Japanese companies' policy making?
- Is it possible to describe any geographic areas for future FDI, such as Russia?
- Would foreign companies that are familiar with Japanese business style benefit from that information as appearing more appealing to Japanese companies?
- However, Japanese companies understand that they are on a global market, but still if they as an addition know how Japanese business works, is it more appealing to Japanese companies?
- What would be the earliest possible time to tell if Abenomics actually works?
- Do companies regard Abenomics as irrelevant and do not react to it at all?
- Could that possibly work in favour for PM Abe if some companies for example, raised their salaries in order to give foundation to his promises?
- Probably most of it will go to Asia which is the place for most Japanese value chains?