JAPANESE FOREIGN DIRECT INVESTMENT IN REAL ESTATE 1985–1994

This paper explores the political economy of Japanese real estate foreign direct investment between 1985 and 1994. In this period there was a remarkable rise and decline in Japanese real estate investment abroad. This experience was important, not only because of the sharp growth in the share of real estate FDI in Japan’s overall FDI in these years, but because real estate investment became a focal point of international tension between Japan and other countries which absorbed it.

To understand both the speed of the advance and retreat of Japanese FDI and its impact on host economies and communities, it is necessary to explain its principal causes. There are two main explanations of foreign direct investment in the economic literature on the theory of foreign investment. One derives from the traditional industrial organisation theories of FDI, which explain direct investment in terms of the specific advantages and characteristics of investor firms. This type of investment promises investor control over assets and an active managerial role and is associated with the strategic international expansion of firms, based on their specific advantages over local firms (Dunning 1981). The second explains capital flows as a response to the differing yields on investment associated with variations in financial conditions across countries, developments in foreign exchange markets and regulations affecting capital flows. This type of investment occurs without significant investor control over assets held abroad (Hymer 1960).

The paper argues that, for the most part, Japanese real estate investment was of the latter type and that the organisational and corporate strengths of investor firms explain little of the timing or impact of Japanese real estate FDI in the 1980s. A wide range of Japanese investors, without specific capabilities or expertise in international real estate markets, participated in the often speculative acquisition and development of foreign office, hotel and other properties. This conclusion is critical to understanding not only why Japanese real estate investment emerged and retreated so rapidly but also why host countries responded to this experience in the way in which they did.

Introduction

Japan became the world’s largest creditor during the 1980s and real estate emerged as the largest single component of Japanese foreign direct investment (FDI). From 1985 onwards a range of Japanese construction firms, realtors, trading and insurance companies, and other investors acquired and developed office buildings, hotels, resort complexes and residential real estate in major cities and tourist destinations around the world, but particularly in the United States and Australia. By the early 1990s, however, many investors had withdrawn from foreign real estate