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THE POLITICAL ECONOMY OF PAX NIPPONICA:
PACIFIC ASIA, JAPANESE ECONOMIC EXPANSION
AND ELITE PERCEPTION

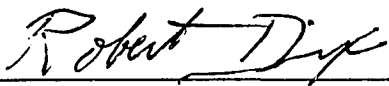
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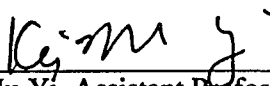
KRITTIBAS RAY

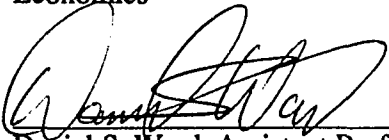
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ABSTRACT

THE POLITICAL ECONOMY OF PAX NIPPONICA: PACIFIC ASIA, JAPANESE ECONOMIC EXPANSION AND ELITE PERCEPTION

by

KRITTIBAS RAY

This thesis addresses the issue of Japan's economic expansion in East and Southeast Asia and its regional political implications. Both quantitative and qualitative approaches are employed to capture the significance of Japan's economic role in the world's most dynamic and productive region. This thesis tests the relationship between elite perception of dependence on Japan and the statistical reality and evidence of Japanese economic linkages in the region. More importantly from the methodological point of view, this thesis incorporates the phenomenon of Japan's economic expansion in Asia into the political economy paradigms of development. Advanced statistical analyses are used to capture the impact of Japanese investment and trade on three standard development indicators --the economic growth rate, employment generation and human capital development in Pacific Asia. This quantitative treatment of the topic is then supplemented by 98 in-depth elite interviews taken between September 1992 and January 1993 in Singapore, Thailand and Malaysia. Going beyond the questions related to dependency and Southeast Asian elites' concern about Japanese ventures in the region, the survey attempted to understand whether the elites regarded Japan as a potential political and military leader in Asia. Thesis findings provide access to the opinions of a powerful core group of current Asian leaders. The results from statistical analyses generally support the neo-classical model in the context of regional development experience

and economic linkages with Japan. The interview analyses reveal a perception among Malaysian and Thai elites of dependence on Japan. The Asian elites are concerned about technology transfer and opening up of management in Japanese corporations. A substantial percentage of the elites perceive a Japanese economic empire in Asia. A significant finding of this research is the divergence between statistical evidence of a lack of dependent development and the Southeast Asian elites' perception of economic dependence on Japan. Another important finding is that while an overwhelming number of the elites considered Japan to be the economic leader and a potential political leader of Pacific Asia, a slight majority of the interviewed elites disagreed with the general statement that Japan could emerge as a military leader of the region.

|

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my uncle, **Manabendra Ray**,
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|

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Houston

Krittibas Ray

March 31, 1995

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Chapter I Introduction

The Research Questions

“Political Economy of Pax Nipponica : Pacific Asia, Japanese Economic Expansion and Elite Perception” addresses a very central issue in the contemporary Asian political economy -- Japan’s economic expansion (or "economic hegemony ") in East and Southeast Asia and the regional political implications of that expansion.

The main hypothesis of this research is that Japan’s economic predominance and linkages in East and Southeast Asia are resulting in a perception among elites that their region is over-reliant (i.e. "dependent") on Japan for development and industrialization. Thus this thesis also explores the relationship between elite perception of dependence on Japan and the statistical reality and evidence of Japanese dominance and Japanese economic linkages in the region.

This research tests the hypothesis in two ways. First, advanced statistical analyses have been used to capture the impact of Japanese investment and trade on three standard development indicators -- economic growth rate, employment generation and human capital development in East and Southeast Asia. This rigorous treatment of the topic is then supplemented by 98 in-depth elite interviews personally taken by the author between September 1992 and January 1993 in Singapore, Thailand and Malaysia -- the most rapidly developing subregion of Pacific Asia. These interviews are used in the thesis to understand whether Asian elites’ perception of the issues reflects the findings of the quantitative analyses. The interview analyses also examine whether economic linkages lead to Asian elites’ perception of Japan as a political and military leader of the region.

The question of Japanese economic dominance in Asia has been commonplace for quite a few years, especially, between 1985 and 1991 -- during the period of the so called third wave of Japanese investments in Pacific Asia following the yen appreciation at the Plaza Accord among the G-7 countries. Political leaders, journalists and other opinion leaders in different

Asian countries have voiced concern about extensive economic links with and dependence on Japanese capital. The issue of Japanese economic expansion in the region and the region's dependence on Japan for industrialization has been seen as central and important by Asian, Australian, North American and even Japanese scholars (Manglapaus 1976; Robinson 1985; Robison 1985; Kunio 1988; Steven 1987, 1990; Wiliawan 1989, Pongpaichit 1991; Rix 1980; Hollerman 1988; Taira 1988; Orr 1990). Though quite a few of them drew conclusions based on research in individual countries, no one has completed a systematic study of the nature of Japanese economic expansion in Pacific Asia. This thesis does a systematic study of the issue and examines several research questions related to Japanese economic expansion, dependent development in Asia and Asian elite's perception of dependence on Japan.

The central research questions addressed in this thesis can be summarized as follows:

1. How extensive and significant is Japanese economic expansion in Pacific Asia?
2. Do extensive Japanese economic linkages result in dependent development (i.e. "ersatz industrialization" without any real benefit for the common people such as employment generation and development of educational, health and welfare facilities) in Pacific Asia?
3. Do the Southeast Asian elites perceive their region as "dependent" or reliant on Japan and consider Japan to be establishing an economic empire in the region? Are the elites concerned about the motive of Japanese ventures?
4. Do elite perception and statistical evidence match?
5. Do elites perceive Japan as the political and military leader of Pacific Asia?

The Importance of this Thesis

As depicted above, this dissertation uses both quantitative method and field research to address its research questions. As King, Keohane and Verba (1994) have mentioned, most research does not exactly fit into either a quantitative or qualitative category. "The best often combines features of each." As a result of testing the political economy models, this thesis is

also a comparative study of state, foreign investment and development in eight market economies of the region.

Vital questions regarding the role of the entrepreneurial state and transnational capital in the process of the development of the fastest growing region of the world have been rigorously examined. For the statistical analyses, I have created a "Pacific Rim Political Economy Data Set" from Economic and Social Commission for the Asia-Pacific (ESCAP) and World Bank data. This data set includes ten years of observations from eight countries for eleven independent variables and five dependent variables.

In a research project such as this, some data may be collected that is amenable to statistical analysis, while other equally important information may not lend itself to such analysis. Patterns of political or economic behavior are more readily subjected to quantitative analysis than is the flow of opinion and ideas among elite or within the society as a whole. Many of the crucial questions relating to political life such as sovereignty or proper relationship between national societies and transnational politics and economics are philosophical rather than empirical (King, Keohane and Verba 1993). To understand the rapidly changing social, political, regional and economic world of Pacific Asia, we need to include information (as I have done from the Southeast Asian elite interviews) that cannot be always easily quantified.

What is more, all social science demands comparison -- which entails judgments of which phenomena are "more" or "less" alike in degree (i.e. quantitative differences) or in kind (i.e. qualitative differences). In my quantifiable research, this meant three separate analyses of development indicators: one for the all eight countries of East and Southeast Asia included in the analyses, one for only the Newly Industrializing Economies (Korea, Taiwan, Hong Kong, Singapore) and one for the so-called ASEAN-Four (Thailand, Malaysia, Indonesia, and the Philippines). There follows an inevitable comparative discussion of findings from all Pacific Asia and its two most definable subregions.

|

Why Thailand, Malaysia and Singapore?

In the qualitative part of this research the comparative aspect of politics led me to select three particular countries of Pacific Asia. Although, Singapore, Malaysia and Thailand are neighbors and parliamentary democracies and belong to the same regional grouping called ASEAN (Association of Southeast Asian Nations), they are quite different in their industrialization status. Singapore is an already advanced Asian tiger (US \$ 24,000 per capita income); Malaysia is a middle-income country (US \$ 2,700 per capita income) by World Bank standards, and is on its way to achieve newly industrializing economy status; Thailand a still relatively poor (US \$ 1,600 per capita income) but very rapidly growing nation (average growth rate in the late 1980s was 8.5%). Thailand is also a homogenous nation, compared to multiracial Malaysia and Singapore.

All three countries are major recent recipients of Japanese investments. Malaysia and Thailand, despite their high-growth rate still continue to receive substantial Japanese aid, while Singapore was a big recipient of Japanese overseas economic assistance in the 1960s and 1970s. In more recent times, Singapore has emerged as the regional headquarters for numerous Japanese corporations. As already mentioned, the questions in the survey sought to capture elite perception of Pacific Asia's dependence on Japan. Going beyond the questions related to dependency and Southeast Asian elites' concern about Japanese ventures in the region, the survey attempted to understand whether the elites regarded Japan as a potential political and military leader in Pacific Asia.

Who Are these Elites?

The selected elites included policy elites (including former and current prime ministerial advisers and top economic bureaucrats), academicians (economists, development-specialists, Japan specialists and literary scholars), business leaders (in joint ventures with Japanese and in chambers of commerce), and student politicians. The role

that these selected elites play in policymaking and shaping opinion in developing Southeast Asia is formidable. At least a dozen interviewed elites are regularly quoted in major international newspapers and journals like the New York Times, the Wall Street Journal, the International Herald Tribune, the Economist and Far Eastern Economic Review.

Most bureaucrats are in senior policymaking position in different economic ministries and agencies. Some of the top officials interviewed were current economic advisers to their respective prime ministers. Others worked in foreign investment approval boards and central banks of these Southeast Asian countries. Of the thirty-three bureaucratic leaders interviewed only six were politically appointed bureaucrats. Four of them were in Malaysia, and one each in Thailand and Singapore. In Singapore and Malaysia, professional bureaucrats shape virtually the whole economic policy, while in Thailand their role in policymaking is substantial.

The influence of academics in Southeast Asia, in both policymaking and in opinion formation far exceeds that of their North American or European counterparts. Several academic economists interviewed by the author are members of their respective prime ministers' economic advisory councils. Some of the academic economists were former advisers to their prime ministers. The twenty-nine academics interviewed across the three countries included academic economists, political scientists, management specialists, Japan specialists, and cultural scholars. Two of the academics were the editors of the two most respected economic and policy journals published from Southeast Asia.

The twenty-two business leaders interviewed mainly represented various chambers of commerce including ethnic chambers of commerce (such as Chinese or Indian chambers of commerce in Singapore and Malaysia). Some of the business leaders were chairmen of firms conducting joint ventures with Japanese corporations. Two trading company chairmen in Singapore were actively engaged in export-import business with Japan.

Altogether, fourteen student leaders and activists were interviewed in Southeast Asia. The only Singaporean student activist interviewed was a leader of an umbrella organization of university student associations.

The fourteen student leaders belonged to the National University of Singapore, University of Malay, Penang Institute of Technology, Chulalongkorn University Bangkok, and Thamassat University Bangkok-- the five pre-eminent academic institutions in Southeast Asia. In Malaysia, both the student leaders belonged to minority communities of Chinese and Indians. In Thailand nine student activists, one major literary figure and one non-academic cultural authority were interviewed. Interview analyses compare not only the difference from one country to another but also among different type of elites (e.g. economic bureaucrats and academicians) about views of dependence and Japanese hegemony in the region.

The Major Findings

In Chapter Eight the most important findings have been stressed. First, the statistical evidence shows the impact of Japanese investments and trade in the Southeast Asian region. The results from the time series analyses for Thailand, Malaysia and Singapore support the neo-classical model in the context of regional development experience and economic linkages with Japan in the 1980s, thus statistically nullifying claims of dependent development in Pacific Asia. However, the interview analyses reveal a perception among Malaysian and Thai elites of dependence on Japan. A significant majority of the interviewed Southeast Asian elites certainly views Japan as the predominant economic power in the region. Also, the elites are concerned about technology transfer and opening up of management in Japanese corporations. When compared among the countries, Malaysian elites to a greater degree than their Thai and Singaporean counterparts perceive their country and the region as dependent on Japan. Among the different types of elites, the business

leaders and student leaders are more likely to perceive Southeast Asia as dependent on Japan. These two groups are also more likely to perceive undisputed Japanese economic leadership and Japanese economic empire in Asia. Thus one of the significant findings of this research is the divergence between statistical evidence of lack of dependent development and the Southeast Asian elites' perception of economic dependence on Japan.

Finally, as already mentioned, the interviews also explore the question of Japan's regional leadership. Here also, this research finds some interesting differences in the Southeast Asian elites' perception of Japan. While an overwhelming number of the Southeast Asian elites considered Japan to be the undisputed economic leader of Pacific Asia and a potential political leader of the region, a slight majority of the interviewed elites disagreed with the general statement that Japan could emerge as a military leader of the region.

In the narrow context of the interviewed Southeast Asian elites, we see an interesting picture. The elites considered Japan as an undisputed economic leader and a potential political leader for their region, while ignoring Japan's potential to become a military power or military leader in Asia.

The Stages of this Research

In Chapter Two, the phenomenon of Japanese economic expansion in Pacific Asia has been incorporated into the political economy paradigms of development such as the neo-classical/developmentalist paradigm, developmental statist paradigm and dependent development paradigm. A section of this chapter deals with the data and method of the statistical analyses.

Chapter Three, "Japan and Pacific Asia : The Politics and Diplomacy of a Regional Pax Nipponica" provides a descriptive analysis and historical background of the Japan-Pacific Asia relationship and Japanese activism in Pacific Asian groupings.

|

Chapter Four, “The Political Economy of Japanese Development Aid and Japanese Investments in Pacific Asia” gives a detailed picture of the role of Japanese overseas economic assistance in East and Southeast Asia and how it politically paved the way for future Japanese investments, corporate and trade expansion in the region. This chapter also provides a detailed analysis of the rise of Japanese investments and industrial projects in Thailand, Malaysia, Singapore, Indonesia, the Philippines, Taiwan, Korea and Hong Kong as well as of the integration of the Pacific Asian economy under the interlocking network of Japanese corporations. The economic principles, scale and significance of Japanese investments in Asia after the yen appreciation of 1985 has been analyzed in this chapter.

The next chapter, Chapter Five, deals with the statistical analyses of Japanese economic expansion in the region. This is one of the first systematic statistical studies that seeks to capture the impact of Japanese investments and trade on the development indicators for Pacific Asia and at the same time tests the three political economy paradigms. I have used a pooled cross sectional time series design to explore Japanese economic effects in the region and test competing political economy paradigms (Bornschiefer and Chase-Dunn 1985, Bradshaw 1991). This chapter assesses the impact of Japanese trade and investment in the region and at the same time tests the statist, neoclassical, and dependency-oriented arguments in the context of Pacific Asia. The time period examined is the 1980s; the eight market economies included in the analyses are Korea, Taiwan, Hong Kong, Singapore, Thailand, Malaysia, Indonesia, and the Philippines. Because the industrialization status of Asian NIEs (Singapore, Taiwan, Korea and Hong Kong) in this study is higher than that of Thailand, Malaysia, Indonesia, and the Philippines, two separate cross-sectional time series for these two groups were run. This makes possible a comparison of the impact of Japanese economic linkages between two major subregions of Pacific Asia.

Chapter Six focuses on Thailand, Malaysia and Singapore -- the three countries where elite interviews were conducted. Chapter Six briefly examines the role of Japanese

investments, domestic capital and the state in these three countries. A cross sectional time series of Thailand, Malaysia and Singapore examines the same development indicators as used in the main analyses.

Chapter Seven provides a comprehensive description of 98 in-depth elite interviews taken in Thailand, Malaysia and Singapore. Elite reactions are described in detail and appropriate quotations provided. All the nine questions and elite responses to those questions are described and analyzed according to the occupational status of the elites. Thus each question and its responses have been subdivided according to the responses of the bureaucratic elites, academic elites, business leaders and student leaders.

Chapter Eight addresses the central research question of this thesis, i.e., whether elite perception of dependency actually matches the statistical reality of Asian development (or dependent development). This chapter examines another important hypothesis of this research, i.e., whether economic linkages with Japan have resulted in elite perception of Japan as the potential political leader and the emerging military leader for Asia. Chapter Eight thoroughly examines the variations in elite responses to questions of dependency and Japanese leadership across the countries and occupational statuses of elites.

The concluding chapter gives a brief overview of the whole thesis. This chapter examines some of the contributions made by this thesis. Conclusions also focus on the unanswered questions of this research and identify the future areas of research related to the questions examined in the thesis.

Chapter II

Incorporating the Phenomenon of Japan in the Political Economy Paradigms of Development

Section A. Political Economy Paradigms of Development with Special Reference to Pacific Asia

This section incorporates the phenomenon of Japanese economic expansion in Pacific Asia into the discussion of political economy paradigms of development. Section B specifically deals with the dependent development perspective of Pacific Asia vis-a-vis Japanese economic expansion in the region. Section C explains the statistical method and data used to test the competing development paradigms and capture the impact of Japanese investments and trade in Pacific Asia. Section C also describes the theoretical expectations of the statistical models of development indicators.

Before beginning any discussion of the political economy paradigms of development, it is important to note that in their contemporary forms all three paradigms discussed here heavily draw from each other. For example, the statist or "developmental state" paradigm, (the favorite paradigm for East Asia specialists seeking to explain the region's rapid development) draws arguments from both dependent development and neo-classical political economy paradigms. Evans (1992), a major dependent development scholar pointed out that the institutional cohesiveness of the state bureaucratic apparatus in some East Asian countries have increased the ability of the bureaucratic elite to set the policy agenda and set terms with the private sector. It is easy to see that more sophisticated dependent development theorists are willing to grant considerable autonomy to the institution of the state.¹

¹Peter Evans has gone beyond his theory of dependent development to point out that the state and its economic bureaucrats can carve out their own autonomy in formulating and implementing

Similarly, some neoclassical scholars believe that the state should provide "social overhead capital" (Gerschorn 1963) or create public enterprises (Gillis 1980) in late industrializing nations. Due to the significance of statist perspective in the Asia-Pacific, the discussion of development paradigms starts with it.

Statist Paradigm : The Entrepreneurial State, Market, Transnational Capital and Development in Pacific Asia

The statist perspective is quite broad and draws from the work of many important scholars. I intend to discuss mainly those scholars whose work has relevance to Pacific Asia. In recent political economy literature contains an almost obvious emphasis on statist perspective to explain the amazing growth records and developmental success of the East and Southeast Asian countries.

It has been generally recognized that the state in many Pacific Asian nations has played a comprehensive developmental role (Deyo 1987) including an entrepreneurial one (Duvall and Freeman 1983). The export-led growth strategy pursued by these countries has been basically market-oriented but also included various state interventions and institutional support to the private sector. Government market intervention took many forms, with the focus on achieving a multitude of development goals of which economic growth, employment generation and development of human and physical capital are probably the most important (Bautista 1992, Applebaum and Henderson 1992).

In fact, the series of economic success stories in Pacific Asia provided incentives for "bringing the state back" into empirical and theoretical literature's of development. From Japan to Singapore, all the showpieces of Asian dynamism have strong states committed to development policies. While a corporatist state-business partnership is visible in many

developmental strategies as a result of historical changes in the world economy that have fostered "industrial nationalism" in the peripheral and semi-peripheral economies, increased the negotiating ability of semi-peripheral states vis-a-vis the metropolitan core, and granted the semi-peripheral state some autonomy in relation to dominant economic classes within its own society.

other countries, what is important in Pacific Asia, with the possible exception of Hong Kong, is that the state has been in the commanding position. Romeo Bautista (1992) has gone to the extent of arguing that with respect to state policies, there can be little doubt that all the Asia-Pacific states tried to lead and guide the development process.

The central argument in the statist approach is that the state must play a guiding role in the late developing (late-industrializing) societies (e.g. Pacific Asian nations). The “catch up” aspect of development and industrialization demands massive and rapid accumulation of capital for infrastructure and heavy industries that are generally beyond the capacities of private businesses. In historical and sociological theories of revolution and change there has been a long tradition of granting the institution of state an autonomous role. These theories generally presuppose that domestic and international class relations are the main causes of social change. But, at the same time, these theories tend to view the state as an autonomous or quasi-autonomous entity that has considerable impact on social and economic modernization. Historian Tilli (1963), for example, viewed the rise of the centralized nation-state as having its own dynamics that were connected with national security needs. Political sociologists Moore (1966) and Skocpol (1979), conceived of the state as being virtually autonomous despite its link with the social structure. Skocpol argued that the strength of the state determined the failure or success of social transformations in evolving societies. More related to the concern of this thesis, Trumburger (1976) analyzed “revolutions from above” in which states controlled by civilian and military bureaucrats tried to implement overarching industrialization and social reform policies.

As pointed out by Clark (1990) and others, the statist perspective, by emphasizing the state as a major actor in the development process, tries to put “politics” into a more central position in the political economy analysis. (The neoclassical/developmentalist paradigm’s emphasis on free market and open economy led to a view of the state as an

interfering agent that creates hurdles to development. Most classical dependency scholars, on the other hand, regarded state as an instrument of the dominant classes in what they called “the peripheral societies”.)

It is important to recognize though that both developmentalist and dependency scholars have paid attention to the state’s role in development. Some developmentalists certainly believe that the state may promote development by providing infrastructure, developing human capital, and attracting and regulating transnational capital (Stockwell and Laidlaw 1981). State involvement through state enterprises has been viewed favorably by some (Gillis 1980 in Indonesian context).

Some have argued that strong states, even in the already advanced countries are able to achieve better results for their people in the rapidly changing global political economy (Katzenstein 1978, Krasner 1978). The dependent development scholars, on the other hand, with their emphasis on state in the “triple alliance”(of state, domestic capital and multinationals) led to the redefinition of the state as an activist and autonomous actor (Evans 1979, 1991). Duvall and Freeman (1983) have widened the scope of dependency theory by arguing that the entrepreneurial state’s “techno-bureaucratic elite” may form an autonomous class that uses its power to industrialize peripheral economies. Evans(1992) pointed out that the “institutional cohesiveness” of the state bureaucratic apparatus in East Asian nations have increased the ability of the state bureaucracy to define industrialization policy agenda.

The contemporary statist viewpoint goes beyond these perspectives of developmentalist and dependent development paradigms. Cumming’s (1986) argues that the “bureaucratic-authoritarian industrial regime” can use its autonomy from societal pressures to successfully implement “optimum” industrial strategies that have been made possible by the operation of the international product cycle. (A good example may be the case of Japan and the rest of Asia, in the “flying geese” pattern of regional development -

where Japan's industrial and technological leadership is followed by the newly industrializing economies such as Korea, Taiwan etc. who are in turn being followed by the second tier of industrializing nations like Thailand, Malaysia and Indonesia.) Haggard(1990) asserts that state guided industrial policies can be used to promote economic development conforming with global comparative advantage, rather than to distort market forces in a politically desirable direction. Thus the strong and autonomous developmental state in the Asia-Pacific, according to Haggard, is able to maneuver both the dominant and dominated classes of the society that could otherwise lead to the distortion of the development process in such political economies.² It is also assumed in the statist argument (Clark 1989) that in state-led industrialization economic growth will be accompanied by the development of human capital, increasing employment and better physical quality of life for the whole society because of the paternalistic concern and commitment of the developmental state.

Sociologist Dahrendorf (1968) drew a distinction between two types of rationality that define modern industrial society, namely market rationality and plan rationality. Johnson (1983), drawing on Dahrendorf's distinction, had proposed that the concept of plan rationality is more appropriate to an understanding of Japan (the "capitalist developmental state") and other Pacific Rim political economies than it is a characterization of former state socialist societies. Following Johnson and Dahrendorf, Applebaum and Henderson (1992) refined the definition of plan rational political economies as those in which normal state regulation of the economy (as in any modern capitalist state) is complemented by state direction of the economy as a whole. State direction does not necessarily mean direct state ownership of basic industries (though that has been the case in most of the Asia-Pacific nations) or the creation of a mammoth state

² It may be mentioned in this context, that such a concept of state autonomy and state's commitment for development and industrialization have been regarded as problematic for both political and methodological reason by some political economy scholars (Caporaso and Levine 1992).

sector in the economy; it is rather the nature of the state and private sector relationship that has been important. The developmental state operates with various levels of influence to urge corporations to act in accordance with national economic priorities. The economy remains largely in private hands; the state intervenes whenever necessary with its paraphernalia of subsidies, price supports, favorable credit arrangements, export processing zones, repressive labor laws to achieve the national goals.

Harris (1991), another statist scholar, pointed out that in creating strong developmentalist states and large state sectors of the economy newly industrializing economies of Pacific Asia had "conformed to the old prescription for national economic development." What was new to their experience, according to Harris, was that these Asia-Pacific states came to focus on overseas markets for manufactured goods, thus directly connecting their economies to the dynamic forces of the world economic system.

The statist model essentially maintains that the one common factor behind any state-led development is the existence of an efficient and strong developmentalist state. Castells et al (1990) pointed out that the developmental states in Pacific Asia through either state corporations or through supply of credit and financial guarantees through private sector have created industrial sectors that did not previously exist. Examples include steel, ship-building, automobile, petrochemicals and aviation (e.g. South Korea, Malaysia, Singapore, Taiwan and Indonesia). Some Pacific Asian states (e.g. Singapore, Hong Kong) have provided the world's largest public housing systems, which have served to subsidize wages (and perhaps legitimize authoritarian regimes). Some monitored world markets in search of export opportunities. Some others have invested heavily in technology development by setting up government research facilities and then transferring the results to the private sector without transferring the development costs.

Some Asian states have subjected private corporations receiving state-guaranteed credits to high performance standards including export performance, to minimize the

possibility that subsidies are misused. At different point of times in recent history, economic ministries and planning agencies of Pacific Asian states have been engaged in various forms of intervention to promote industrialization and overall development. To many observers and scholars, the role of the state in the Asia-Pacific's growth and development has been vital, decisive and central. As Wade (1990) argued the superior performance of East Asian states in monitoring the markets poses a challenge to the discipline of economics to invent theories that can make the "non-neoclassical facts" of Pacific Asia "analytically tractable".

Neoclassical / Developmentalist Paradigm

As pointed out by Caporaso(1987) the modern neoclassical political economy is really an amalgamation of classical and postclassical thought. The neoclassical international political economy is associated with the notions of free-market economy and cosmopolitan capitalism marked by an "extensive and ever deepening division of labor." Neoclassical international political economy stresses global interdependence in the form of transnational investment and trade. With division of labor and comparative advantages as main tenets, neoclassical theories emphasize the sources of movement in the global capitalist system and the opportunities such movement creates for the developing nations.

The "shifting nature of comparative advantage" provides many possibilities for developing nations (Balassa 1979). As we have already seen, Japanese export-oriented investments initially started flowing to Korea and Taiwan, these countries now being replaced by Malaysia, Thailand and Indonesia which enjoy the comparative advantage of cheaper production costs.

In the developmentalist/ neoclassical perspective the global political economy is viewed as "a complex network of self-correcting forces" (Caporaso 1992). Global interdependence, thus forms another fundamental feature of neoclassical international

political economy (Keohane and Nye 1977). The system of complex interdependence has special significance for the Asia-Pacific region because all the eight nations in this analysis have been fairly open to foreign investment and relied on an export-oriented growth strategy.

Long-term economic growth has been seen to depend on the growth of savings and investment and technological breakthroughs that may increase productivity. Economic development is associated with structural changes in economy—from agrarian to industrial to service economy (or within the industrial sector from light to heavy to high-tech industry). The argument goes that the inflow of foreign resources in the form of foreign investment and foreign aid can augment domestic savings and investment to help finance economic growth in developing nations (Chenery 1979). Economic development also brings increases in the ratio of foreign trade to gross national product and of manufactured to primary products among exports.

Vernon's theory (1966) of the product cycle may be referred in this context, which argues that developing nations can and do upgrade their production structures within world capitalist system. Though most new technological advancements would take place in an advanced industrialized economies, as a product moves from new to “maturing to standardized” form its center of production would be shifted from its country of origin to the developing nations. Perhaps more significantly, developing nations may even start exporting back to the developed world the same product as the product cycle approaches to its end. (This has already taken place in the automobile and electronic sectors of developing Asia). Economic growth, in the developmentalist perspective, is accompanied by direct positive impact on employment generation and income structure. Developmentalists posit that the benefits of industrialization gradually begin to spread throughout society; and the “physical quality of life” for the general populace improves (Adelman and Morris 1973, Clark 1989). Some developmentalists also agree with

Gerschenkron's (1963) "statist" argument that the state must play an expanded role in late-developing nations to provide social overhead capital. But, overall the role of state is viewed as nominal and generally neutral and "instrumental in allowing" the market to function (Caporaso 1992). Friedman asserts that even in East Asia the developmental state has been corrupt, inefficient, and a stumbling block to higher growth and consumer freedom.³

Dependency and the Dependent Development-Oriented Arguments

In the context of developing Asia, some observers have argued that Japan's economic relationship with the region resembles the pattern of dependent development. (Kunio 1988, Robinson 1985, Robison 1985, Steven 1987, 1990 Wilaiwan 1989).⁴ Dependency theory emerged as a reaction to the developmentalist approach. It is also the only major social science paradigm partly emanating from the developing world itself, namely Latin America. (There is a European school of dependency scholars as well.) There are differences within the broad theoretical paradigm of dependency. The roots in Marxist sociology and economics did not prevent differences over such fundamental premises as what degree of autonomy to grant to the state as a political institution that can maneuver massive transnational capital penetration in a developing society. However, all "dependencistas", to use the Spanish nomenclature, share the view that the forces of global capitalism setting up a world division of labor have been responsible for shaping the history of the underdeveloped world.

The central tenets of classical dependency theory focus on the unequal economic relations between the advanced industrialized nations and the "underdeveloped" nations,

³Far Eastern Economic Review, November 11, 1993.

⁴ In interviews with the author several academicians in Thailand and Malaysia have went so far as to argue that Japanese investment in resource extraction in the Southeast Asia in fact resembles classical dependency.

how capitalist economic relations limit the chances of growth in the “periphery” and on the impact of these linkages on class structure and political relations within such “peripheral” societies. It is argued that transnational corporations, the main vehicles of transnational investment, pursue global profit and the logic of such profit does not harmonize with the interest of the developing host nations. Frank (1970) and Santos (1970), two of the earliest and perhaps most doctrinaire dependency theoreticians talked about a worldwide metropolis-satellite structure where capitalist metropolises continually develop at the expense of satellite economies. According to this classical dependency view, internal political-administrative structures of the peripheral dependent state operate mainly to serve the interest of the advanced capitalist metropole.

Despite the inevitable nature of developmental stagnation argued by classical dependency theory, substantial growth and industrialization took place in Brazil, Mexico, Taiwan and South Korea in the 1960s and 1970s. This “anomaly” led Cardoso (1973) and Evans (1979) to create a theory of “dependent development” which argued that this kind of development in the periphery can be explained in terms of the workings of the world capitalist system. Cardoso and Evans tried to emphasize that dependent development still represented dependent and distorted social-economic structures in the peripheral societies. Evans, as already mentioned, conceded that in the current phase of capitalist expansion led by transnational corporations, the peripheral and semi-peripheral states do have considerable bargaining power vis-a-vis transnational capital and domestic interests. Cardoso and Evans argued that a dependent state may play a powerful mediating role to create an alliance between domestic and transnational capital.

The causes of dependent development were attributed to the evolution of the capitalist world economy. Expanding organizational capabilities within TNCs allowed them to move production overseas and take advantage of the logic of the product cycle. The periphery also benefited from fierce competition among the TNCs themselves (that

forced them to relocate their production bases to cheaper peripheral economies like the Asian NIEs in the 1960s and 1970s and the ASEAN nations in the 1980s); and a growing divergence of interest between the TNCs and the home governments resulting in less political-military support to prop up TNC interest in the periphery. Secondly, dependent development was conditioned by the expanding power of the peripheral state.

The peripheral state was seen in Evans et al. works as playing an essential role in bargaining with foreign capital, in creating an interlocking “triple alliance” between transnational capital, domestic capital, and state enterprises, and in applying coercion to control the large segments of the population excluded from the fruits of rapid industrialization. The peripheral state is committed to industrialization but not to poverty alleviation or development of human capital. Dependent development thus arguably leads to economic growth but still produces economic distortions, unemployment, impoverishment and degradation of physical quality of life for most of the people in an apparently growing economy. The developing Pacific Asia is certainly an interesting testing ground for the dependent development paradigm.

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Section B. Japanese Economic Expansion and the Perspective of Developing Asia

Japanese Perspective: A "Flying Goose Pattern" of Asian Development ?

A vital feature of Pacific Asian political economy is the well-known "flying goose pattern" of development in the region (Okita 1990, Hara 1992). Japanese scholar Akamatsu (1979) invented the term "flying goose pattern" in which Japan spearheads, followed by the Asian newly industrializing economies of South Korea, Hong Kong, Taiwan, and Singapore. The NIEs in turn are now being followed by the next tier of industrializing economies of the ASEAN region.

Thus, dynamism, according to this neoclassical and developmentalist view, diffuses from Japan to South Korea, Hong Kong, Taiwan, and Singapore, and further to Malaysia, Thailand and Indonesia, the Philippines, and gradually to China and Indochina as well. The basic mechanism of the "flying goose pattern" is that the success of early starters in certain sectors of the economy enable the latecomers to catch up because of the former's shift of production bases to the latter. For example, some Japanese electronics firms used to produce goods in Taiwan and Korea when Japanese wages started rising in the 1960s, but as wages rose in these newly industrializing economies, they began to relocate their production sites to even lower wage countries such as Thailand and Malaysia.

As Pacific Asian dynamism has pervaded the entire region, the intraregional interaction has risen dramatically in the form of trade and investment. Inoguchi (1990) points out that another distinct dimension of Pacific dynamism is the reliance of newly industrializing Asia on Japan for the import of capital goods. This is true about every country in East and Southeast Asia. Even Korea, the most technologically advanced Pacific Asian country after Japan, must rely on Japanese capital goods for the expansion of its own industrial base. In the case of countries like Indonesia, Thailand and Malaysia this sort of dependence is certainly more acute.

Japan-led Pacific Dynamism and Pacific Asia's Dependent Development Perspective

Studies are available about the motives, processes, and outcomes of this kind of reliance on Japan for capital and technology as well as Japan's use of "hegemonic instruments" in the form investment or aid. (Rix 1980; Hollerman 1988; Taira 1988; Orr 1990.) Some Japanese practices can be faulted on the ground of suspicious motives, such as using aid for export promotion or for the relocation of polluting or labor-intensive industries (elite interviews with the author). On the other hand, most of the Pacific Asian recipients of Japanese investment and aid have performed outstandingly in so far as economic achievements are concerned.

The global expansion of Japanese corporations inevitably globalizes Japanese government and corporate policy. This is more manifest and controversial in the case of developing countries, especially in developing Asia where the Japanese government as well as major Japanese investors' groups cannot avoid being involved in planning, or analyzing host country development.⁵ As already mentioned, the fact that a vast stretch of Pacific Asia came under Japanese occupation during the World War II also complicates matters in contemporary Japan --Pacific Asia relations.

By the late 1980s, it became commonplace to talk about Japanese dominance in the Asia- Pacific region (which in an extended sense includes Australia, New Zealand, China and Indochina).⁶ Some consider Japanese multinational enterprises as the most important vehicle of growth in the developing Asia (Arif 1992), while others stress the tension and controversy about the growing role of Japanese capital in the region's development.⁷

⁵ For example, in December 1993 Keidanren (Organization of Japanese Industries) has dispatched financial study teams to Vietnam. In January 1994 Japanese government has sent similar expert teams to the Philippines.

⁶ Several elites interviewed by the author commented that what Japan could not achieve by military power during the Pacific War, has achieved by creating an economic empire in Asia in the 1980s.

⁷ Mohammed Arif, the Dean of Economics and Administration, University of Malay, Kuala Lumpur and economic adviser to the Prime Minister of Malaysia to the author in an interview in November 1992.

Steven (1989, 1991), one scholarly critic of Japanese dominance in the region, went to the extent of arguing that "Japanese investment is the single most important concrete form assumed by modern Imperialism" in Southeast Asia. There has been criticism of Japanese investment for creating "false front of prosperity" and fostering corruption in the Asian political systems (Manglapaus 1976).

Robinson (1985) in his case study of Indonesia showed how the Indonesian national bureaucracy became dependent on Japanese financing of large resource extraction projects (mainly oil and gas for use in Japan). Robinson argued that Indonesia's natural gas sector, as a result, has been incorporated as an "integral sphere of Japan's own productive structure." Steven pointed out that even in Korea more than 80 percent of sophisticated manufacturing is sourced in Japan. Thai economist Wiliawan (1989) showed the dependence on Japanese capital for the growth of Thai manufacturing sector even before the new wave of Japanese investments poured in beginning in 1985.

An elite survey by the author indicated that a section of the opinion leaders in the region has started to view the current strategy and expansion of the Japanese capital in developing Asia as a late twentieth-century version of the pre-war Japanese dream of a "Greater East Asia Co-Prosperity Sphere." There is huge concern about technology transfer and environmental degradation in developing Asia. A majority of the interviewed elites perceive their region as dependent on Japan.

The importance of transnational investment in technology transfer is a theme that is persistent in developmentalist literature. But Fong (1990) in his case studies of Japanese corporations has shown how little technology transfer has taken place in Malaysia, Thailand, and Indonesia-three major host countries for Japanese corporations in Pacific Asia. It has been argued that ASEAN(Association of Southeast Asian Nations) has evolved into "the JASEAN" (Steven 1989) due to Southeast Asia's reliance on Japanese capital for its industrialization. Kunio(1988) has described Southeast Asia's

industrialization as "industrialization without development" and "dependent" and "ersatz capitalism". Deyo (1987) tried to argue that international political links of the East Asian regimes helped them to exclude labor from the political process- thus denying the fruits of industrialization and development to the majority of the populace.

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Section C. Method and Data for Testing the Political Economy Paradigms

Cross-Sectional Time Series

Following other quantitative cross-national studies of development I have used a pooled cross sectional time series design to explore Japanese economic effects in the region and test competing political economy paradigms, especially dependent development -oriented arguments in the Asian context (Bornschieer and Chase-Dunn 1985, Bradshaw 1991).

Though most data are available dating back to the late 1960s, Japanese investment in the East and Southeast Asia had not become predominant until the early 1980s. The time series analysis had to be restricted accordingly.

Some preliminary comments about the dependent and independent variables should help to clarify the analysis. Economic Growth is not the only indicator of development. To understand the different dimensions of development according to different perspectives of development paradigms, two other indicators, Unemployment Rate and Human Capital Development were included.

Economic Growth (rate) is measured from gross domestic product data (from ESCAP Statistical Year Books for the Asia-Pacific) rather than gross national product because of its lesser vulnerability to distorting exchange rate fluctuations. Unemployment figures are important for Pacific Asia (in contrast with, for example, infant mortality rate). One prime reason for Pacific Asia nations relaxed their foreign investment laws and courted Japanese (and other foreign) investors was to address the problem of high unemployment (Pongpaichit 1991, Arif 1992, Tan 1992). Annual unemployment rate figures were also collected from ESCAP Statistical Year Books for the Asia Pacific. My third development indicator is called Human Capital Development. Instead of creating a standard physical quality of life index, I have created a Human Capital Development variable that is

calculated from the central government budget allocation for education, health and human services expenditure. The variable measures the government's human capital development programs in each Pacific Asian state. The data for this were collected from ESCAP Statistical Year Books for the Asia Pacific. Data for Taiwan was collected separately from Taiwan (Province of China) Central Bank Reports and the Europa World Year Books. Data on Japanese investment were mainly collected from the Investment Handbook of the Pacific Economic Cooperation Council and the United Nations Commission for Transnational Corporations Investment Directory.

In this analysis I have in effect used three sets of explanatory variables, namely the "Japan variables" (Japanese Investment and Trade with Japan), "the other transnational variable" (Trade Dependency), "the state variables" (State Consumption and State Economic Activities).

The two "Japan" variables attempt to capture the significance of Pacific Asia's economic relationship with Japan, or in other words, the effect of Japanese investment and trade in the economic growth and overall development performance in the region.

The "other transnational" variables are designed to capture the impact of non-Japanese transnational economic effects and the globalization of Pacific Asia's political economy on the region's development process.

The "state" variables account for the impact of state consumption and state economic activity on the economic expansion, employment generation and human capital development programs in the Asia Pacific. (State economic activity is as defined in the statistical yearbook of the Economic and Social Commission for the Asia-Pacific, implying mining, manufacturing, banking, and other industrial and economic activities of the state.)

The Subregions: The Asian NIEs and the ASEAN-Four

The eight countries of this study can be broadly classified in the two subgroups, namely the Asian newly industrializing economies (NIE) and the so-called ASEAN-Four. The members of the Asian newly industrializing economies group are Singapore, Hong Kong, Taiwan and Korea. The ASEAN-Four countries are Thailand, Malaysia, Indonesia, the Philippines -- the four developing nations of the Association of Southeast Asian Nations. Singapore is a founding member of the Association of Southeast Asian Nations. However, because of its advanced industrial status it is grouped with the three East Asian NIEs.

The main reason for two separate analyses is the different development status of the two groups. Singapore, Hong Kong, Taiwan and Korea are already regarded as upper middle income countries and have achieved considerable industrial competitiveness and maturity in the world market. Thailand, Malaysia, Indonesia, and the Philippines, on the other hand, are fast developing but still middle income countries. In many regional analyses (Pongpaichit 1991, Tan 1992, as well as Japanese Ministry of Finance documents) these eight countries are grouped in the above manner for methodological clarity and statistical purposes.

Variable Measurement

Dependent Variables

1. Economic Growth Rate

Following other quantitative cross national studies, the GDP growth rate is used as a measure of economic expansion. GDP is measured in terms of growth rate for each year between 1980 and 1990. 1980-1981 as t(1), 1981-1982 as t(2) 1982-1983 as t (3). 1983-

1984 as t(4), 1984-1985, as t(5), 1985- -1986 as t(6),1986- 1987 as t(7), 1987-1988, as t(8), 1988- - 1989 as t(9) and1989- -1990as t(10).

2. Unemployment.

Unemployment is measured as the change in the percentage of unemployment figures in eight Asian states over the ten year period from 1980--1989. Arguably, economic growth may occur without employment expansion (especially in the dependent development perspective). Thus it is an important dependent variable to understand the real impact of economic expansion in the Asia-Pacific.

3. Human Capital Development.

The change in the percentage of human capital development expenditure in the central government budget of each of the eight Asian states over the same 1980-1989 period. This variable measures government sponsored human capital development programs and provides an analytical measure of the commitment of East and Southeast Asian states to develop human resources by providing social overhead capital in the form of education and health and human services expenditure.

Human capital development budget is calculated by adding up health and education expenditure in the yearly budget of Asian states. Though education is generally regarded as more directly related to the development of human capital, government health-care expenditure is also a good indicator of a government's effort and commitment to provide its citizenry with a better quality of life.

|

Explanatory Variables

Japan Variables

1. Japanese Direct Investment. This variable measures the ratio of Japanese direct investment and total foreign direct investment in each Pacific Asian state over the ten year period from 1980 to 1989.

2. Trade with Japan. This variable is measured as the trade (both export and import) with Japan/total foreign trade. This variable measures the average change in percentage of trade with Japan versus total foreign trade for each Asian state between 1980-1989.

Other Transnational Variable

3. Trade Dependency: Total foreign trade /total GDP. This variable measures the average change in percentage of foreign trade as part of the total economy of each Pacific Asian state, 1980-1989. The definition of trade dependency provided by Edward J. Lincoln in his book "Japan's Economic Role in Northeast Asia"(1984) was adopted in this analysis. Trade dependency is a statistical and analytical measure of the openness of East and Southeast Asian nations. Trade statistics of each Pacific Asian state includes trade with Japan as well.

State Variables

5. State Consumption. This variable is measured as the change in general government consumption as percentage of the GDP in each Asian state between 1980 and 1989.

6. State Economic Activity. This variable is measured as the change in state economic activity as percentage of the GDP in each Asian state between 1980 and 1989. State economic activity is as defined in the Statistical Yearbook of the Economic and Social Commission for the Asia-Pacific, implying mining, manufacturing, banking, and other

industrial and economic activities of the state as reported in the central government budgets.

SPECIFICATION

The general specification of my model is as follows:

$$Y = a + B(1) \text{ Japanese Investment} + B(2) \text{ Trade With Japan} + B(3) \text{ Trade Dependency} + B(4) \text{ State Consumption} + B(5) \text{ State Economic Activity} + e$$

Y in the three models are Economic Growth Rate, Unemployment Rate, Human Capital Development.

ESTIMATION

Despite the pooling of time points (T=10) and cross sections (N= 4 nations) for the subregions Asian NIEs (Korea, Taiwan, Hong Kong and Singapore) and the ASEAN-Four this is a small sample. Equation errors would be typically heteroscedastic and auto correlated across units as well as within units, thus creating problems in estimator precision (Stimson 1985, Sayrs 1989). To rectify this problem analyses were performed using Park's generalized least squares model with corrections for (AR I) autoregressive, heteroscedastic, and contemporaneously / cross-sectionally correlated errors (Kmenta 1988, Sayrs 1989). This model utilizes random error in cross-section and time, and random error not unique to time and space but still random to the regression model to derive efficient and unbiased estimates. Error systematic to cross-section, error systematic to time and error systematic to both are the components of total error in this model.

The main advantage of this model is that it does not require any assumptions about where the variance should be fixed, thus, in the case of weak or nonexistent theoretical justification, no incorrect assumptions need be made (Sayrs 1989).

The GLS estimator is as follow :

$$\beta = (X_{\psi}^{-1} X)^{-1} X_{\psi}^{-1} Y.$$

$$\text{Given } Y = X_{nt} \beta_k + u_{nt}$$

where

$$u_{nt} = \lambda_t + \mu_n + \zeta_{nt}$$

and

λ_t are random over time and distributed $N(0, O^2_{\lambda\psi})$

μ_n are random over cross sections and distributed $N(0, O^2_{\mu\psi})$

ζ_{nt} are random over space space and time distributed $N(0, O^2_{\lambda} O^2_{\nu\psi})$

Explanatory Variables and Theoretical Expectations with the Models of Economic Growth, Unemployment and Human Capital Development

Tables 1, 2, 3 provide the theoretical expectations associated with each paradigm. According to the dependent development perspective Japanese investments, trade with Japan, foreign trade, state economic activity and state consumption should enhance economic growth, but such economic growth may occur without much benefit for the larger society resulting in stagnant or declining employment and lack of human capital development programs undertaken by the state.

Table 1
Theoretical Expectations with the Model of Economic Growth Rate

| Independent Variables | Develop -mentalist | Dependent Development | Statist |
|------------------------------|---------------------------|------------------------------|----------------|
| Japanese Investment | Positive | Positive | Positive |
| Trade With Japan | Positive | Positive | Positive |
| Trade Dependency | Positive | Positive | Positive |
| State Consumption | Negative | Positive | Positive |
| State Economic Activities | Negative | Positive | Positive |
| | | | |

Transnational capital (in this scenario, mainly Japanese capital) and the developmental state would forge an elite alliance (Pongpaichit 1991) that stimulates economic growth, but this growth-oriented alliance is not interested in formulating socio-economic programs that improve the quality of life of ordinary citizens. In the context of Pacific Asia, some scholars (Robison 1985, Wilaiwan 1991, Stevens 1990) have argued that Japanese capital, domestic capital and the states of the East and Southeast Asia have forged an alliance that effectively keeps the fruits of development away from the mass society. The state has expanded itself into the economy with a paraphernalia of state enterprises. However, the state is not either successful or interested in employment generation or creating human capital development programs. Thus according to dependent development perspective “Japan variables,” “state variables” and “other transnational variables” should lead to economic growth but no employment generation and human capital development for the masses in Asian countries.

To summarize some basic assumptions of the statist (or developmental state) perspective in the context of Pacific Asia of 1980s, Japanese investment, trade with Japan and foreign trade (all monitored under the watchful eyes of the economic bureaucrats) as well as the entrepreneurial institutions of the state should result in enhanced economic growth and employment generation.

Equally important, the activist developmental state would not only manage the economy well and generate employment, it would be committed to developing human capital by creating programs through increased allocation for education, health and human services. Under the statist assumption the “state variables,” the “Japan variables” and the “other transnational variables” should lead to better economic growth as well as higher employment generation and human capital development in developing Asian countries.

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Table 2
Theoretical Expectations with the Model of Unemployment Rate

| Independent Variables | Develop-mentalist | Dependent Development | Statist |
|------------------------------|--------------------------|------------------------------|----------------|
| Japanese Investment | Negative | Positive | Negative |
| Trade With Japan | Negative | Positive | Negative |
| Trade Dependency | Negative | Positive | Negative |
| State Consumption | Positive | Positive | Negative |
| State Economic Activities | Positive | Positive | Negative |
| | | | |

In the Asian context, neoclassical-developmental arguments could be summarized as follows: Japanese investment, trade with Japan, foreign trade, as well as domestic investment and private consumption should result in enhanced economic growth, increasing employment and development of human capital programs in the Asia-Pacific nations.

Table 3
Theoretical Expectations with the Model of Human Capital Development

| Independent Variables | Develop-mentalist | Dependent Development | Statist |
|------------------------------|--------------------------|------------------------------|----------------|
| Japanese Investment | Positive | Negative | Positive |
| Trade With Japan | Positive | Negative | Positive |
| Trade Dependency | Positive | Negative | Positive |
| State Consumption | Negative | Negative | Positive |
| State Economic Activities | Negative | Negative | Positive |
| | | | |

On the other hand, the neoclassical perspective would assume that state economic enterprises and state consumption could have a negative impact on economic growth, employment generation and development of human capital. Under the neoclassical-

developmentalist paradigm the “Japan variables” and “other transnational variable” should result in better growth, employment generation and human capital development; but the “state variables” should result in negative growth, employment generation and human capital development.

The purpose of the statistical analysis that follows will be to determine which model of development correspond most clearly with recent economic pattern in Pacific Asia. The statistical analyses are not discussed until Chapter Five, however. In the next two chapters, Japan’s political and economic relationship with Pacific Asia has been discussed in order to understand the comprehensive nature of Japan’s involvement in the region.

Chapter III

Politics and Diplomacy of a Regional Pax Nipponica

The Natural Leader of the Region

Pax Nipponica as a concept and as an image of the future was first propagated by Harvard sociologist Ezra Vogel in his book *Japan as Number One* (1979). It is a world where Japan is a hegemon, not because of its military muscle, but because of its unmatched economic and technological strength. The political dimension of Japan in an era of Pax Nipponica is, perhaps, best compared to that of Britain in the nineteenth century when it played the role of a balancer among the continental powers, its global economic interests presumably helping it to fulfill this role. It is important to note that Japan might be playing the role of a balancer without the requisite military commitments. According to Taira's (1991) argument Japan has become a hegemonic candidate at a time when an important hegemonic function, production of peace, is no longer needed and the hegemonic functions are mainly related to leadership for the maintenance of international institutions embodying principles, norms, and values consistent with global market forces. In this scenario of the world, Japan's regional role would coincide with its global position as its paramount economic strength would allow it to play the leading role in Pacific Asia as well (Inoguchi 1991).

As Taira (1991) pointed out, what is phenomenal about Japan's hegemonic impact on the world and on the Pacific Asian economy is how effortlessly Japan has attained it. The current status of Japan as the largest aid donor has been attained by devoting a minuscule three-tenths of one percent of its GNP to overseas development assistance. The status as the largest net creditor has been attained by devoting two or three percent of GNP every year to foreign investments (Taira 1991).

Because the multinationalization of Japanese corporations is still at a low level by the standards of other advanced industrial nations, Japan's impact on the Pacific Asian and global economy can be expected to increase dramatically in the near future with the increasing globalization of Japanese corporations and Japanese direct investment. With the recent revaluation of the yen (1994) more Japanese manufacturers are moving into cheaper production bases all over Pacific Asia.

Table 4
Home Base of Pacific Asia's
Largest (in total assets)
One Thousand Corporations.

| | |
|-----------------|-----|
| Japan | 736 |
| South Korea | 49 |
| Singapore | 21 |
| Taiwan | 20 |
| Hong Kong | 15 |
| Thailand | 13 |
| Malaysia | 12 |
| The Philippines | 7 |
| Indonesia | 4 |

Source: Asia Week, November 18, 1993

Japanese Investments and the Growth in Pacific Asia

Japanese direct investment in Asia and worldwide has been rising steadily since the late 1970s. At the start of the 1980s, however, US direct investment in Asia almost matched Japan's. Between 1984 and 1989, the annual flow of Japan's direct investment leapt five fold. It was the yen appreciation of August 1985 that caused a tremendous increase in the outflow of Japanese capital. From 1985 to 1987, Japanese investment worldwide increased 2.7 times, from US\$ 12.2 billion to US\$ 33.6 billion. In most of Pacific Asia and especially in the Southeast Asian region Japan became the single largest investor by the middle of the 1980s.

Pacific Asia, from Singapore to Thailand to South Korea, is a vast and vibrant region that has witnessed an economic explosion and the resultant highest economic growth rate in the world since the mid-1980s. But this Pacific Asian dynamism has corresponded with an era of unprecedented Japanese economic expansion in the whole region that includes China, Indochina and the Australasia as well. Arguably, it is impossible to analyze the dynamics of growth and development in the rest of the Pacific Asia without taking into account the expanding role of Japan in the region's political economy.⁸

The Economic Powerhouse

The economic powerhouse, the "crown jewel" of this rapidly developing Pacific Asia, is Japan --the country with the world's second largest economy, largest balance of payments surplus, the largest net credit, the largest aid donations, and the second largest defense budget. Of the top one thousand corporations in Asia, 736 are headquartered in Japan.⁹ On an average 20 to 25 percent of the total foreign trade of any Pacific Asian nation is conducted with Japan.¹⁰ Though no single country in Asia is Japan's major trading partner, Japan is the single largest investor and aid donor in almost all Pacific Asian countries. The fact that Japan's GNP is more than three times as large as the combined GNP of all Pacific Asian nations indicates the degree of economic leverage Japan has over any single country in the region including China. Moreover, after its recession of 1991-92, Japan again grew at a 3.1 percent rate from 1993-1994. Japan's balance of payments surplus reached a record high once again for the year 1993-94.

⁸ Joseph Tan, Editor, ASEAN Economic Bulletin to the author in an interview in Singapore in October, 1992.

⁹ Far Eastern Economic Review December 16, 1993.
Business Weekly December 16, 1993.

¹⁰ IMF trade statistics of the 1980s.

The figures clearly demonstrate that Japan, while not being too much of an interventionist, can still link its enormous resources to a wide range of diplomatic, economic and security issues, without risking a strategic reversal in the Pacific Asian theater. The author's elite survey (1992-1993) also shows that a vast majority of the elites view Japan as the undisputed economic leader of Pacific Asia. The same survey shows that a substantial section of the elite in Pacific Asia believe that the emergence of Pax Nipponica really depends on Japan's own willingness to play a greater political and military role in the region.

Japan's immense economic strength certainly allows it to pursue a new Pacific Asian agenda, and has provided it with a natural leadership role in the process of Pacific Asian regionalization. However, a real question remains as to how Japan has been confronting this challenge.¹¹

In the summer of 1993, in Japan's most direct diplomatic offensive yet on any American administration in the post-war period, Japanese officials swept through Pacific Asia to rally opposition against Clinton's trade policies.¹² To the chagrin of many US diplomats, the Japanese side portrayed itself as a free-trading nation and the United States as a meddler in the global trading system. Many Pacific-Asian nations, including Australia, Indonesia and Malaysia, joined Japan in denouncing the Clinton administration's trade policies. As one senior US trade official in Southeast Asia was quoted in New York Times of June 6, 1993, "The Japanese are calling in their chips; they are going to countries where they have invested billions of dollars in recent years, far more than we have invested" and rallying them against US trade initiatives.

¹¹ Richard Cronin, the Asia specialist for the US Congressional Research reiterated this view in a Asia Society speech in Houston, in October 1993.

¹²New York Times, June 6 1993; and Far Eastern Economic Review, June 15 and 22 1993.

The demise of the Soviet Union altered the prevailing logic for the “Cold War” alliances and alignments in the Pacific Asia. It also makes more salient the fact that Japan has grown between 1960 and 1992 from a mere 10 percent of US GNP to more than 60 percent of the US GNP. Compared with the United States, Japan has a higher per capita income, a better trade performance and, quite possibly, a more technologically competitive economy. Undoubtedly, a structural change of this magnitude has automatically propelled Japan to a greater leadership role in Pacific Asia (Arase 1992, Anderson 1993).

Japan As A Pro-Active State ?

Change is already evident in Japan’s relations with the United States, as demonstrated by Japanese activism in Asia against Clinton’s trade policies. Japan has been steadily evolving from a “reactive” client state (Calder 1986) to a meaningful, equal, activist partner (Anderson 1993) with important implications for Asia. From a theoretical standpoint of international relations, one might characterize the changing US-Japan relationship as a shift from bandwagoning to balancing behavior, or, alternatively, a shift from free-riding to burden-sharing. (“Balancing behavior” indicates the possible rise of great power rivalry, whereas burden-sharing implies a continued sense of partnership and the absence of any basic antagonism.)

The bilateral problems caused by the Gulf War (1990-91) showed how difficult it has been to find a new basis for close diplomatic collaboration between the United States and Japan. Disagreements about trade between the United States and Japan have already created a harmful effect on mutual perceptions. The impact on Japan of troubled bilateral relations and a declining US security role in the Pacific basin is undeniable. For Japan, the end of the Cold War meant that it had to build up its own military capabilities and seek a more active regional security role, as exemplified by Japan’s involvement in the

UN Transitional Authority in Cambodia and the North Korean nuclear issue. It has been already mentioned that Japan is not only the world's second largest economy, but, since 1991, has been the second largest military spender in the world.

An Asia-centric Approach

The new Japanese Asian diplomacy has three cornerstones (Arase 1993). The first is providing leadership in organizing the world's most economically dynamic region. This urge for institutional leadership is demonstrated by huge disbursement of Japanese ODA to Pacific-Asian nations and Japan's ardent support for institutions promoting intra-Pacific cooperation such as the Asian Development Bank, Pacific Economic Cooperation Council and Asian Pacific Economic Cooperation forum. The second cornerstone is increasing Japanese involvement and contribution to peace and security in Pacific Asia, despite substantial resistance from certain segments of domestic politics, especially the socialists. Japan's foreign policy establishment certainly desires a role in the resolution of conflicts in the Korean peninsula and in Cambodia. This probably underlies Japan's effort to get a permanent seat in the UN Security Council (Arase 1993) and, certainly, to widen the role of Self-Defense Forces to include peacekeeping operations. This desire for a greater role in Pacific Asian security also explains the continued gradual build-up of the Self Defense Forces and Japan's proposal at the 1991 ASEAN Post-Ministerial Conference to turn the annual event into a forum for security deliberations. The third cornerstone is to carve out Japan's independent leadership role in the Pacific Asian region. This is commensurate with the vision of Japan's role in a post-Cold War, post-hegemonic, tri-polar (along with the United States and the European Community) world order, as expressed by prime minister Kaifu at the European Parliament in Strasbourg in 1991.

It is noteworthy that the first two overseas trips by the new emperor Akihito were to Southeast Asia in 1991 and to China in 1992. The apologies for Japan's wartime atrocities in the Pacific-Asian countries by the new prime minister Morihiro Hosokawa (September 1993) show a more serious and determined effort to inaugurate a new era of positive and pro-active Pacific-Asian diplomacy. Former Vice Foreign Minister Kuriyama explained this new Japanese stance in a policy paper (1992) laying out Japan's latest diplomatic strategy by identifying the Asia and Pacific region as "the main theater of Japan's foreign policy."

The Post-War Japanese -Asian Relationship:

The period from the late 1960s to the late 1970s witnessed some definitive rearrangement in large power relationship in Pacific Asia (Morrison 1987). In the 1950s and 1960s Japan's economic relations with Pacific Asia grew steadily and rapidly, but there were hardly any reinforcing political connections. The United States remained the main source of ideological support and tangible military backing for the conservative regimes of ASEAN and the other market political economies of Pacific Asia.

The withdrawal of the United States from Vietnam and the original US plan to withdraw ground forces from South Korea in 1977-78, as well as the Sino-US rapprochement and concern in the United States about the human rights record of authoritarian Asian regimes, led to some adjustment of foreign policies in ASEAN and other East Asian governments. The conservative ASEAN governments, unsure of their domestic political support and external relations, sought in different ways to strengthen their positions. Their main diplomatic efforts were aimed at consolidating regional relationship and diversifying their foreign relations. They started to view Japan, which was already a global economic player with enormously expanding commercial interests

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and interaction in the Pacific Asia as a potentially greater source of diplomatic and political strength.

Several events in the 1970s forced Japan to reevaluate its own policy towards Pacific Asia. The first major post-War US-Japan trade conflict occurred in the early 1970s, as did the "Nixon shocks" -- the opening up of China and the floating of the US dollar. The massive student demonstrations in 1974 during Japanese prime minister Tanaka's tour of Southeast Asian capitals followed closely on the heels of 1973 Arab oil embargo, an embargo that left Japan's energy intensive pattern of industrialization facing severe problems. The huge protests and demonstrations against Tanaka's visit in Indonesia and Thailand showed that Japan was alienated from some of its Asian neighbors, whose importance as a source of vital raw materials (including oil in the case of Indonesia) had just been reinforced by the oil crisis. These events forced the Japanese foreign policy establishment to rethink ways of strengthening its Pacific Asian relationship and of contributing to the stability of the region, especially in the ASEAN area.

In February 1976 at the first ASEAN summit conference, political cooperation among the member countries was formally initiated. Immediately afterwards, Southeast Asia specialists of the Japanese Ministry of Foreign Affairs met in Hong Kong and agreed that Japan should assist ASEAN in developing its own "resiliency." MFA also urged peaceful coexistence between free-market ASEAN and the socialist Vietnam. In October 1976, Japanese foreign minister Zentaro Kosaka spoke of Japan's interest in promoting an ASEAN-Vietnam dialogue. Elaborate plans for a trip of prime minister Fukuda to the region were already under way. There were reports that Japan was ready to increase its development assistance in the context of diminished assistance provided by the United States and the Soviet Union. In March 1977, the joint communiqué issued by President Carter and Prime Minister Fukuda in Washington reaffirmed the two countries' policies in providing support for the ASEAN.

The Fukuda Doctrine, Cambodia and the “Look East Policy:”

Japan's ASEAN policy, or rather Southeast Asia policy was formally declared in August 1977 when prime minister Fukuda visited the ASEAN countries and Myanmar and attended the second ASEAN summit in Kuala Lumpur. In an epoch-making speech in Manila, Fukuda declared that while Japan would retain its non-military posture, it would work with the Southeast Asian countries in developing cooperation in political, economic, social and cultural spheres based on a "heart to heart" understanding. He also declared that Japan would assist in creating the solidarity and resilience of the ASEAN countries while promoting peace between ASEAN and pro-Soviet regimes of Indochina.

The "Fukuda Doctrine" was certainly a turning point in the post-War Japan-Pacific Asia relationship. Japan's new political interest in Southeast Asia was compatible with Fukuda's "omnidirectional" foreign policy approach. And it certainly assumed a sense of Japanese leadership in the region based on economic and political initiative rather than on providing a military umbrella for non-socialist Asian governments.

In international forums and summits, Japan's Pacific Asian diplomacy has been cited as Japan's contribution to maintaining world order. As Japanese foreign minister Sonoda claimed “it is the duty of Japan as an advanced country in Asia to stabilize the area and establish a constructive order” (1979) and Fukuda himself noted that “we would seek even stronger ties with the Asian nations since they are closer to Japan racially, culturally, and economically.”

Japan continued to define a more active role for itself in the Pacific Asia, but some other complex political developments in the region (e.g. the Vietnamese invasion of Cambodia and the resultant refugee problems) seemed to lessen the demand for Japanese diplomatic initiatives in Southeast Asia, at least in the early 1980s. In fact, by the

beginning of 1980 Japan was coordinating its diplomatic position on Indochina with the ASEAN states rather than leading them.¹³

By the beginning of the current decade, however, the scenario had virtually reversed. Japan became a leading diplomatic player in Cambodian agreements and the most important organizer and the largest financial contributor for the reconstruction of that devastated country.

On a slightly different plane, prime minister Mahathir Mohammed of Malaysia, who was probably the most articulate leader of developing Asia, had long been advocating the so-called "look east policy" to promote an intimate Japan-ASEAN economic relationship.

Mahathir's "look east policy" started becoming a reality immediately after the Plaza Accord of 1985. The yen appreciation forced Japanese manufacturers to "look south" for relocating their labor-intensive industries. A "new unprecedented wave" (Pongpaichit 1991) of Japanese economic expansion began in Pacific Asia.

The Regional and Domestic Parameters of Japanese Involvement in Pacific Asian Regionalization

Japan has encountered different domestic and international parameters in its drive for activism in Pacific Asia. Inoguchi (1991) has mentioned the "debt of history" from the wartime that Japanese diplomats experience not only in their schemes of institution building, but even in bilateral relations with many Pacific Asian nations. It is noteworthy that most of East and Southeast Asia, including a vast stretch of China, came under Japanese occupation in the 1930s and during the Pacific War. This certainly complicates Japan's relationship with any country in the region. It may be mentioned here that the

¹³After the Vietnamese invasion of Cambodia Japan froze all development assistance offered to Vietnam.

original Japanese plans for regional groupings were hindered by the collective Pacific Asian memory of Japanese aggression in the 1930s and 1940s.

There has been serious bureaucratic rivalry in Japanese foreign policy making concerning Pacific Asian region. There has been differences over the Asian agenda defined by the “economic bureaucrats” of the Ministry of International Trade and Industry (MITI) and the Economic Planning Agency (EPA) on the one hand, and the career diplomats of the Ministry of Foreign Affairs (MFA) on the other. Some have gone to the extent of considering the first Asian Pacific Economic Cooperation meeting in Canberra as a "Two Japan Conference"(Cronin 1992) because of policy differences between MITI and MFA.

Bureaucrats belonging to economic ministries like EPA and MITI have preferred to strengthen economic institutions and to apply models of bilateral US relations between Japan and other APEC members. The career diplomats of MFA, on the other hand, would prefer to create a series of organizations, in addition to APEC, that would generate a range of options for Japanese foreign policy in the Pacific Basin (Anderson 1993). In very recent years, senior leaders of the Liberal Democratic Party, which ruled Japan continuously until August 1993, and are again part of the ruling coalition, have shown similar differences in opinion and approaches to a common policy towards Pacific Asia.

Bureaucrats belonging to the Ministry of International Trade and Industry emphasize the economic aspect of Japanese regional diplomacy; the so-called “New Aid” plans for the developing Asia and a perspective on regional growth in Pacific Asia which incorporates a shared concern across the region regarding economic blocs in Europe and North America.¹⁴ Officials of the Ministry of Foreign Affairs, on the other hand, believe that regional organizations have to be compliant to Japan’s security ally and main export

¹⁴Anderson (1993) believes that shared interests with the other countries in the region led to Japanese support for PECC and APEC that guard against regional economic blocs in Europe and North America.

market, the United States. MFA diplomats are also cautious about relations with developing Asia, fearful of Japanese remilitarization and the reemergence of Japanese hegemony in the region.

Japanese Activism in the Pacific Basin Grouping:

Since the early 1960s, academia and foreign policy establishments of various Pacific basin nations have explored the idea of a Pacific Basin grouping, mainly to counter the west European regional economic organization. As Anderson (1993) had pointed out, President John F. Kennedy initiated the earliest proposal to create a “New Pacific Community” in 1961. However, the negative response from the Pacific Asian nations resulted in abandonment of that initiative.

The 1967 creation of the ASEAN (Association of Southeast Asian Nations) and the 1968 inauguration of the ADB (Asian Development Bank) marked the beginning of the most successful of the institution-building efforts in Pacific Asia, despite the fact that ASEAN is limited to Southeast Asia and ADB is limited to institutional financing. Yasutomo (1983) argued that the ADB is the foremost example of Japanese leadership in a regional organization. During the 1960s, the other Japanese proposal for creating a Pacific Free Trade Area (PAFTA) did not generate much enthusiasm. In 1965, economist Kojima proposed to create a bloc of five industrialized Pacific nations, Japan, the United States, Canada, Australia and New Zealand, as a response to the European Economic Community. Under Kojima’s proposal, developing nations of Pacific Asia would be associate members of such an organization. However, the developing Asian countries halted the creation of PAFTA because of the fear of domination by the advanced nations and particularly by Japan.

From the very beginning, the lingering distrust among Pacific Asian states, arising from Japanese wartime designs for a Greater East Asia Co-Prosperity Sphere, hampered

efforts to consolidate the influence emanating from Japan's rise as an economic power. This was despite the fact that various chambers of commerce, business leaders and other private groups in the region enthusiastically supported the Pacific Basin Economic Council.¹⁵ In 1980, a Japanese and Australian initiative led to the first meeting of the Pacific Economic Cooperation Conference (PECC), with a proposal from prime minister Ohira Masayoshi of Japan and prime minister Malcolm Fraser of Australia. In the Canberra Conference the Japanese delegation was led by Saburo Okita, the foreign minister of Japan at the time and a vocal and eloquent advocate of intra-Pacific cooperation.

In that same conference some Southeast Asian delegates expressed concern that Pacific cooperation would undermine the emerging solidarity of ASEAN as a bloc and that they would be dominated by developed nations, especially Japan. Japanese foreign ministry officials have generally moved cautiously to balance their ASEAN relations with their goal of Pacific cooperation. In January 1989, Australian prime minister Robert Hawke initiated the first gathering of the Asian Pacific Economic Cooperation (APEC) forum. Some have observed that Australia was acting as a surrogate for Japan in initiating the idea of APEC.

Since 1987, both Japan and the United States have endorsed the basic goals of APEC which include supporting the Uruguay Round of GATT, discussing alternatives for Pacific Asian trade liberalization on a nondiscriminatory basis, and developing strategies for cooperation in data collection. Japan and the United States have also negotiated to resolve the critical membership issue of "three Chinas" between Taiwan, Hong Kong and the People's Republic of China. Under dual pressure from Japan and the United States, officials from the People's Republic of China accepted the idea of membership of the

¹⁵ In 1992 and 1993 business leaders from 16 member nations attended the Council meetings. Seminars of economists and other academicians also addressed the common issues of the region in the Pacific Trade and Development Conference.

three separate economies among the 15 delegations at the third APEC meeting in Seoul in November 1991.

The Trans-Pacific Parameters: Japan Against Exclusive Asian Grouping

Japan, however, stands against any exclusive Pacific Asian grouping, as proposed by Malaysian Prime Minister Dr. Mahathir Mohammed. Prime minister Mahathir's idea of an East Asian Economic Group (EAEG) as a virtual confrontational response to the European Community and North American Free Trade Agreement is strongly opposed by the United States, and by the Japanese foreign policy establishment, which obviously wants to retain wide access to the US market and cordial security relations with the United States. In October 1991 at the Kuala Lumpur conference, the ASEAN states decided instead to form an East Asian Economic Caucus (EAEC) that would meet as a subgroup of APEC, a more acceptable idea to most Japanese policy makers. Some Japanese officials, however, certainly do enjoy the prospect of a caucus of Pacific Asian nations at APEC, GATT and at other international economic and political forums (Anderson 1993).

In Japan's Ministry of Foreign Affairs, Sato Yukio (1991), a key figure in Asian policy has urged a "multiplex" approach to different groups and organizations. Sato, in fact, intends to address issues both inside and outside of APEC and envisions possibilities for the deliberation of security issues that would include the countries of Pacific Asia. The Japanese Ministry of Foreign Affairs has also shown an interest in an Asian equivalent of the European Conference on Security and Cooperation. Former prime minister Yasuhiro Nakasone has taken the lead in creating a new Asian-Pacific Parliamentarians Forum. Its first meeting was chaired by Nakasone in December 1991 and included representatives from all APEC member states.

Japan's Policy Priorities in Pacific Asia

As pointed out by Anderson (1993), Cronin (1992) and others, Japan's ever-growing policy priorities in the Pacific Asia, as adopted by its government, politicians and multinational corporations, and Japan's vital national interests in the Pacific Basin have found an expression in regional organizations such as APEC. Japanese foreign policy officials can easily build on their past initiatives in development assistance and direct investment in Pacific Asia. There is hardly any doubt that in order to counter protectionist regional trade groupings in Europe and North America, Japan will continue to support Pacific Asian cooperation. On the other hand, it is equally important to note that Japan and the ASEAN countries retain a certain amount of caution despite growing accommodations since the US withdrawal from Vietnam. ASEAN's internal and external reactions to Japanese involvement in Cambodia (e.g., Thai military's refusal to allow Japanese peacekeepers on Thai soil) evidence continued fear that the organization could be threatened by Japanese dominance in Asia.

Some Japanese policymakers opine that Japanese activism and leadership have already been proven in the last few years. Examples include Japanese initiatives in the Cambodian settlements, formulation of schemes to relieve Third World debt, participation in refugee assistance programs in the United Nations (the current UN High Commissioner for Refugees being a Japanese diplomat), independent overtures to China after the Tienanmen Square incident to discuss trade issues and arm exports, and support for environmental summits as a basis for global cooperation. Japan's involvement in the continuing process of economic and political cooperation in Pacific Asia and Japan's role as the pre-eminent capital-exporting nation are direct reflections of such activism.

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Chapter IV

Political Economy of Japanese Development Aid and Investments in Pacific Asia

Section A. Political Economy of Japanese Development Aid

The Donor Extraordinaire: A Donor for Asia

Japan is the largest aid donor and the main trading partner for most of the Pacific Asian nations (including socialist Vietnam and the People's Republic of China). Japan's emphasis on the Pacific Asia is an important feature of Japan's official development assistance (ODA). Even during the 1980s the Japanese ODA extended to Pacific Asia was around 65 to 70 percent of its total aid disbursement. Japanese ODA for ASEAN countries is larger than the Japanese ODA given to the Middle East, Africa and Latin America combined. Throughout the 1980s all ASEAN countries continued to receive about one-third of Japan's overseas development assistance, despite their attainment of "middle income"(per capita GNP) status. There is a discernible pattern of Japanese investment and trade following development assistance in Pacific Asia. Scholars have observed that the "most impressive indication" of Japanese interest in developing Asia lies in its overseas economic assistance programs (Morrison 1991).

Table 5
The Growth of Japan's Bilateral Official Development Assistance in Pacific Asia in the 1980s (in million US dollars)

| | 1980 | 1988 |
|---------------------------|-------------|-------------|
| Northeast Asia | 82 | 724.64 |
| Southeast Asia | 861 | 2196.59 |
| Pacific Asia Total | 943 | 2929.23 |

Japanese development assistance policy which is officially known as “economic cooperation” has gone through a number of stages. As Okita (1991) pointed out, these stages can be broadly identified as 1) payment of reparation, 2) lending and investing as economic cooperation, 3) economic cooperation consistent with its Pacific Asian foreign policy, and 4) the current responsibilities as an economic power.

Reparation and the Political Economy of Japanese Aid in Asia

Following an international agreement in 1954, Japan started paying reparations to Indonesia, the Philippines, Burma and Vietnam. Economic assistance was offered to South Korea, Thailand, Laos and Cambodia as well as a form of quasi-reparation. Because this early development aid was mainly in the form of reparations, there was a policy decision not to inquire whether or not the Japanese aid was actually contributing to recipient countries’ development. It has been argued by numerous scholars that through these reparation payments, Japan reentered the Pacific Asian economies in the 1950s and secured a foothold for future investment and trade in the region.

Starting with a yen loan to India in 1958, Japan extended lending and investment as economic cooperation. This kind of economic cooperation covered two-way trading, including financing for both deferred payments for plant and machinery imports from Japan and for developing natural resources for export to Japan. However, the dynamics of such arrangements definitely favored the Japanese side. There was harsh East and Southeast Asian criticism that these development assistance policies heavily favored Japanese industry's own expansion needs over developing Pacific Asia's requirements. However, it is pertinent to mention that, at the time Japan's per capita GNP was only \$280 (which would have qualified Japan to receive assistance at current standards) and that Japan itself was an emerging industrial nation.

The next stage started around the mid-'60s, when the Japanese ODA program was integrated into Japan's Pacific Asian foreign policy. Economic cooperation arrangements were made with Taiwan and South Korea, two eventual tiger economies of the 1970s. Japan also played a leading role in creating the Asian Development Bank, hosted the Ministerial Conference for the Economic Development of Southeast Asia and tried to emphasize assistance policies which were more responsive to developing Pacific Asia.

In the 1970s as Japan started emerging as the second largest economic power among the industrialized democracies, it also formulated its first medium term target for ODA. Between 1977 and 1980 Japanese ODA disbursement doubled. Following that, the second consecutive medium-term target was fixed at \$21.35 billion for 1981-1985, twice the amount disbursed between 1976 and 1980. Interestingly, while most other industrial nations were reducing their financial assistance to the developing world due to their internal economic problems (e.g., budget deficit) Japan started this ambitious expansion of its own ODA program. As many political scientists have noted, Japan being constitutionally barred from any military role in participating in any international peace plan, opted to make overseas assistance programs as its main contribution to the international and Asian community.

World's Biggest Donor

Since 1987, Japan has become the largest aid donor to the world. In 1986 Japan had a \$85.8 billion current account surplus, followed next year by a current account surplus of \$86.7 billion.¹⁶ As a consequence it became a political necessity for Japan to go beyond normal responsibilities of the second largest economy and further enhance its development assistance program. Even beyond the normal ODA budget private and

¹⁶ Japan's current account surplus in the year 1994 had been US \$ 130 billion.

public sectors in Japan contributed more than \$20 billion in worldwide development assistance between 1987 and 1990.

As already mentioned, Japan's emphasis on Pacific Asia is an important feature of Japan's official development assistance. Reparation payments constituted the main bulk of Japan's initial ODA to most Pacific Asian countries and these payments provided a bridge back to participation in Pacific Asian markets. As pointed out by Robert M. Orr, Japan's regional preference for aid distribution is not uncommon considering the fact that 70% of British aid goes to the Commonwealth countries, while 90% of French aid flows to former French colonies and dependencies.

There is no question, however, that Japanese development assistance has strengthened political ties with the recipient Pacific Asian nations and has helped to create a favorable investment climate for Japanese ventures.¹⁷ Approximately 70% of Japan's development aid in the late '80s went to Asia including India and China. The bulk of the assistance went to the ASEAN countries. Japanese government spokesmen continue to justify such a tilt toward rapidly developing and already "middle income" Pacific Asia by pointing out historical and cultural ties. Pacific Asia constitutes a crucial emerging market and low-cost production base for Japan's industries.

The following discussion examines Japan's development aid in different Pacific Asian nations including China and Indochina. This discussion of Japanese development aid policy in Asia provides a picture of Japan's independent gestures to different Asian countries as well as its motive of gaining markets, raw materials and cheaper overseas production bases for Japanese industry.

¹⁷ Joseph Tan , in an Interview with the author, October 1992 in Singapore.

Japanese Aid to the People's Republic of China

Japan's emergence as a major aid donor coincided with the re-establishment of diplomatic ties with Beijing. Since the end of World War II, Japan-China relations were virtually frozen. In 1979, China's acceptance of Japanese economic assistance created diplomatic history. Since 1960 China had refused all pledges of economic assistance. Apart from cultural and historical factors commercial and strategic reasons also played a major role in foreign policy leadership stance taken by Japan. In deciding to offer aid to Beijing, Japanese aid indirectly supported the reformist economic program of Deng Xiaoping. From 1982 to 1986, China was Japan's single largest recipient of ODA and practically all of the aid to China was in concessional yen loans. In a deliberate effort to allay Western apprehension that Japan wanted to control what was potentially the world's largest market through its ODA program, procurement had been mostly untied, which was quite uncommon for Japanese aid.

Despite this aid program Japan-China ties were occasionally strained in the 1980s. China launched diplomatic protests against changes in Japanese history textbooks diluting Japanese culpability in World War II and also against the visit of Japanese Prime Minister Nakasone to the Yasukuni Shrine, dedicated to Japanese soldiers of the Pacific War. However, both the countries tried to keep political disputes out of their economic relationship even after the Tienanmen Square incident in June of 1989. In fact, Japan was squarely criticized by the western media and politicians for acting too cautiously after that tragic event.

Japanese Aid to the Republic of Korea:

Japan's first aid package for South Korea was announced immediately after the 1965 restoration of the diplomatic relationship between the two countries. In 1981 the government of South Korea requested a huge \$6 billion aid package from Japan and

conflict between the two countries resulted. As Nakasone became Prime Minister of Japan, his first diplomatic priority was to solve the Korea aid question. Korea was extended \$4.3 billion in soft and hard loans from Japan. In the 1980s Korea steadily converted itself into a rapidly industrializing nation but still continued to receive concessional Japanese loans.

Japanese Aid to Vietnam and Cambodia

Defying US diplomatic animosity towards Vietnam, Japan started providing aid to the socialist nation in 1987. In 1990 Japan replaced the former Soviet Union as Vietnam's largest trading partner and donor. Between 1987 and 1993 Japan provided nearly \$2 billion in concessional loan and direct technical aid to Vietnam. In Cambodia, Japan provided \$1.5 billion for reconstruction projects since 1991. Also, for the first time since the Pacific War Japanese peacekeepers went abroad to serve on the Cambodian soil under the UN Transnational Authority on Cambodia.

Japanese Aid to the ASEAN

ASEAN countries as a bloc continue to receive the largest allotment of Japanese official development assistance despite their attainment of "middle income status." The countries belonging to the ASEAN are regarded by bureaucrats, politicians and Japanese corporations as vital to Japanese political and economic interest. Almost all major Japanese private corporate foundations have extensive assistance programs in Southeast Asia. The ASEAN region is a major source of raw materials (including petroleum from Indonesia) for Japan and is increasingly a major market for Japanese goods. In fact, ASEAN receives half of its bilateral ODA from Japan. In the 1980s Japan extended aid to some Southeast Asian countries that border "areas of conflict" thus applying a strategic rationalization. It is important to remember that Malaysia, Indonesia, and Singapore

straddle two sea lanes that are essential for Japan's economy. One is the so-called "petroleum lane" which originates in the Middle East and weaves its way through the straits of Malacca. The other is the "iron ore lane" which originates in western Australia and proceeds northward to Japan.

As argued by Orr (1991) and others, US withdrawal from Vietnam pushed Japan to assume a stabilizing role in Southeast Asia. Apparently there is a consensus among Japanese ministries about providing official aid to ASEAN countries: they automatically qualify for Japanese aid because Japanese national interest is at stake. Every Japanese prime minister since Tanaka has argued for a close and cordial relationship with ASEAN countries.

This Japanese attention to the region was certainly linked to the massive anti-Japanese protests that Tanaka faced during his tour of some Southeast Asian capital cities in 1974. Prime Minister Miki attempted to create an "Asian Marshall Plan," an idea which ended with his tenure. Prime Minister Fukuda initiated the first ODA doubling plan for the ASEAN region. Prime Minister Suzuki placed emphasis on increasing the basic human needs content of Japanese ODA as well as strengthening the ASEAN technical training program in various ways. Since Nakasone, successive prime ministers have focused on consolidating the promises of past administrations as well as widening the technical and human capital development cooperation programs for the ASEAN countries, especially for Indonesia, the Philippines, Thailand and Malaysia.

Section B. Political Economy of Japanese Investments in Pacific Asia

The Economic Principles

There was also a demand side of the story behind the recent wave of Japanese investment in Pacific Asia. The recession of 1980-82 resulted in massive economic problems, especially in the form of rising unemployment in most Southeast Asian countries. For the Southeast Asian governments, foreign investments were a possible way to counter these economic problems and they started relaxing restrictions on these laws. Japanese investment became attractive because of its availability. It is important to remember that this was precisely the period when the United States started facing its own deficit problems and became a lesser economic player in Pacific Asia. The economic principle behind the relocation of Japanese industries in the region (e.g. rising labor cost and land prices for industrial sites in Japan proper) had been operating in the Japanese economy for quite a few years. Moreover, environmental regulations in Japan forced some Japanese industries (e.g. chemical, textile and metal) to relocate in less developed Asian Countries.¹⁸ At the same time, the Japanese government increasingly saw the importance of Japanese investment as a way of securing a stable supply of raw materials (Charles Morrison 1990).

The Immediate Impact of Yen Appreciation

As the yen gradually appreciated between 1970 and 1984, Japanese exporters managed to remain competitive by improving productivity. The sharp yen appreciation after 1985, however, changed the picture dramatically. It became very difficult for Japan to compete against the four Asian NIEs, the emerging new set of economic players. As the Japanese yen appreciated sharply against the US dollar, the currencies of the Asian

¹⁸ Interviews with Joseph Tan, Sreekumar, Jomo Sundaram; October and November 1992

NIEs remained undervalued in relation to US dollar. In consumer and industrial electronics, and in the case of Korea in automobile manufacturing, Asian NIEs became Japan's closest competitor in the world market.¹⁹

Table 6
Japanese Direct Investment (in US Dollars) in the Eight Market Economies of Pacific Asia Between 1980 and 1989

| Year | Thailand | Malaysia | Indonesia | Philippines | Singapore | Hong Kong | Taiwan | Korea |
|------|----------|----------|-----------|-------------|-----------|-----------|--------|-------|
| 1980 | 33 | 146 | 529 | 78 | 140 | 156 | 86 | 35 |
| 1981 | 31 | 31 | 2434 | 72 | 266 | 329 | 65 | 73 |
| 1982 | 94 | 83 | 410 | 34 | 180 | 400 | 152 | 103 |
| 1983 | 72 | 140 | 374 | 65 | 322 | 563 | 198 | 129 |
| 1984 | 119 | 142 | 374 | 46 | 410 | 412 | 116 | 107 |
| 1985 | 51 | 79 | 408 | 61 | 318 | 131 | 146 | 134 |
| 1986 | 124 | 158 | 250 | 21 | 314 | 502 | 291 | 436 |
| 1987 | 250 | 163 | 545 | 72 | 494 | 1072 | 432 | 647 |
| 1988 | 859 | 387 | 586 | 134 | 747 | 1662 | 445 | 483 |
| 1989 | 579 | 286 | 338 | 101 | 810 | 940 | 512 | 286 |

Whereas prior to 1985, Japanese foreign investment had largely functioned as a means of capturing markets for goods made mainly with components manufactured in Japan, after the yen appreciation, foreign investment functioned as a way of restructuring production in the face of increased global competition. The ASEAN region rather than Korea or Taiwan became the preferred destination of Japanese capital. Japanese

¹⁹ The Japan Economic White Paper (1986-87) noted that Korea and Taiwan had also benefited from the reduction in crude oil prices after 1985. In a MITI white paper (1986), it was noted that Korea and Taiwan were 'catching up' with Japan because of "yen appreciation" and the technological innovation in the 'Asian NICs'

corporations needed to relocate production to low-cost sites in order to compete in the world market against low-cost producers, especially the Asian NIEs. As a result, the number of Japanese export-oriented investment projects rose sharply after 1985.

Some scholars (Tan 1992) have also pointed out that Japan started moving production sites to developing Asia to avoid trade friction with the United States and the European Community. Some Japanese corporations have invested in ASEAN countries in order to make use of these countries' unfilled Generalized System of Preferences (GSP) quotas, thereby getting around trade barriers (e.g. import tariffs) in United States and the European Community.

Japanese Investments in Pacific Asia Before the Yen Appreciation of 1985

In the 1960s and 1970s Japanese export-oriented projects were established mainly in Korea, Taiwan, Hong Kong and Singapore because the industrial bases of these countries were more mature than those of the ASEAN area. Korea, Taiwan, Hong Kong and Singapore had already been export - oriented economies. In the ASEAN region (except Singapore), Japanese investments in the 1960s and 1970s were concentrated in the primary sector and resource extraction, (especially in Indonesia), in import substitution manufactures for the host market, and in the production of parts and components required by final manufacturers in Japan. Most of the manufacturing projects were joint ventures between Japanese conglomerates and local partners.

The flow of Japanese investments into Pacific Asia increased steadily from the late 1950s onwards. The relocation of manufacturing processes occurred mainly in labor-intensive industries, such as textiles, in which Japan was losing comparative advantage by the early 1960s. By the late 1970s, the focus shifted to steel, non-ferrous metals, and chemicals. Since the beginning of the 1980s the focus of relocation shifted to more sophisticated industries such as electronics and transport equipment.

In the 1960s two-thirds of all Japanese projects (by number) in Asia went to Korea, Taiwan, Hong Kong. In the 1970s the proportion going to that subregion of Pacific Asia declined to nearly half, and declined further to about a quarter in the early 1980s. Many of the Japanese investors in this period (i.e., before 1985), were subcontractors and small to medium-scale enterprises. As already mentioned, within the ASEAN region Japanese investments were concentrated in resource extraction. Between 1973 and 1985, Indonesia was the second largest destination of Japanese capital (after the United States) in the entire world. Japanese also began investing capital in import substitution projects in some ASEAN countries beginning in the 1960s. The Philippines was an early destination for such investments, but gradually the focus switched to Thailand and Malaysia.

Japanese export-oriented projects in ASEAN first came to Singapore in the mid-60s, focusing on shipbuilding and repair, electrical machinery and components. Before the yen appreciation of 1985, export-oriented Japanese investments elsewhere in the ASEAN were rare. The United States continued to be the largest foreign investor in Indonesia, Singapore and Thailand until the late 1970s, but from then onwards Japan played that role in every ASEAN state.

Japanese Investments in the Eight Countries of this Study : NIEs and the ASEAN-4

South Korea

Japanese capital started entering South Korea after diplomatic relations were reestablished in 1965. Japanese direct investment played a nominal role in Korea until the early 1980s, but by the late 1980s 51% of all direct foreign investment approved in Korea was from Japan. Unlike most US multinationals in Korea, many Japanese corporations went into joint ventures. Japanese investments occurred mainly in export-oriented electronics, textile and light manufacturing sectors.

Korea went through a liberalization period in the 1980s. The Foreign Capital Inducement Act (1984) created an automatic approval system for all projects not specifically prohibited and in 1985 the “Negative List” was slashed to make 97.5 percent of the manufacturing industries open to foreign investment. A 40 percent fall in the value of the Korean won against yen following the Plaza Accord helped to revive the boom of the 1970s, with Japanese investments leading the way. In 1986 the number of projects by Japanese corporations reached a record high. Il Hwan Kim (1987) noted that Japanese investors were increasingly oriented toward small and medium- sized joint ventures with Korean firms, mainly centered on the parts and components industry. In 1987 the value of Japanese investment in South Korea soared to \$647 million. The inflow of Japanese direct investment as well as technical tie-ups between Korean and Japanese firms resulted in greater import of Japanese machinery and high technology products. In 1980, 1,094 Japanese affiliated projects were approved in South Korea; in 1989 that number rose to 1,777.

Taiwan

In the 1960s, Taiwan, along with Hong Kong was one of the early Asian recipients of Japanese investment. From textiles to light manufacturing, Japanese investments went into various sectors of the economy. In the 1960s Taiwan steadily opened up its economy to foreign investment by the promulgation of the Statute for Encouragement of Investment (1960), the Statute for Technical Cooperation (1962) and the Statute for Establishment and Management of Export Processing Zones(1965).

The so-called strong developmental state in Taiwan started courting Japanese and other foreign investments in the mid-1960s. As Taiwan entered into the newly industrializing economy status, Japanese investment started flowing into more sophisticated sectors of the Taiwanese economy, including electronics, information and

biotechnology. In 1980 the number of Japanese ventures approved in Taiwan was 924, in 1989 that number reached 1604. The number of US ventures in Taiwan rose from 412 to 882 in the same time period.²⁰

Hong Kong

Hong Kong was an early favorite destination for Japanese investments. From the late 1950s on, Japanese textile manufacturers started relocating some of the labor intensive production in the British colony. Hong Kong was also one of the first Pacific Asian countries to open up its economy and to pursue an export-led industrialization strategy.

Japanese interest in Hong Kong continued throughout the next three decades. Many Hong Kong electronic firms started out as Japanese subsidiaries in the 1960s and 1970s. In the post-1985 period Japan continued to invest heavily in Hong Kong. Between 1986 and 1989 Japanese investment in Hong Kong quadrupled as measured in local currency. Interestingly, during the same time period US investment in Hong Kong declined dramatically. Between 1981 and 1989 the number of Japanese affiliates in Hong Kong rose from 170 to 286.²¹

Singapore

In recent years Singapore, with its solid infrastructure and newly industrialized status, has been able to attract operational headquarters of major Japanese corporations. In 1987, Sony became the first Japanese corporation to select Singapore as the site of its headquarter. The Matsuhita group, which operates six wholly owned factories in Singapore, investing \$250 million in the country between 1986 and 1988, opened its operational headquarters there in 1990.

²⁰ Source: United Nations Commissions for Transnational Corporations Annual Report 1993

²¹ Source: United Nations Commissions for Transnational Corporations Annual Report 1993.

Many other Japanese corporations-- including NEC, Fujitsu, Mitsumi, Mitsubishi Electric, Hitachi, Victor, TDK, and Tamura --have wholly owned subsidiaries in the island nation. Along with Korea, Taiwan and Hong Kong, Singapore was an early favorite destination for Japanese manufacturing industries looking for cheaper off-shore production sites. Japanese textiles and other labor intensive industries started moving to Singapore in the mid-60s. Gradually even high-technology and service sector industries began shifting to Singapore in the late 1970s. After the 1985 yen appreciation, Japanese investments in Singapore reached a new high. In 1982, 183 Japanese subsidiaries were approved in Singapore; that figure rose to 268 in 1990. During the same time period US subsidiaries in Singapore rose from 118 to 168.²² As pointed out by Tan (1992), in the strategic electronics and software sectors most large projects in Singapore are either wholly Japanese owned or are joint ventures with a Japanese corporation.

Indonesia

The rush of Japanese investments into Indonesia in the early 1970s was a result of rising Japanese wages and a growing oil crisis which reached its peak in 1973. Of 316 Japanese projects undertaken in Indonesia by the end of 1989, 156 took place between 1970 and 1974. Sukarno's regime had delayed the influx into Indonesia of textile and other manufacturing investment from Japan for almost a decade. When Suharto's conservative administration revised the investment laws in 1970, the lure of Indonesian wages and oil immediately started attracting Japanese interest.

By 1974 only South Korea was still preferred to Indonesia by large Japanese textile companies (Thailand being the third favorite destination). The 1974 anti-Japanese rioting in Indonesia and the "oil shock" of 1973 forced the Japanese investors as well as the Indonesian government to change the investment laws (which went through a second

²²Source: United Nations Commissions for Transnational Corporations Annual Report 1993.

phase of openness in the mid 1980s). Oil revenues provided some bargaining power to the Indonesian state. Joint ventures with Japan started being set up regularly, mainly in resource development, chemicals, construction and machinery, as well as in loans for major projects in petrochemicals and natural gas. Pertamina, the state-owned oil monopoly, borrowed heavily from both public and private sources in Japan. Throughout the 1980s oil and liquid natural gas attracted most of the Japanese investment in the country. Today Indonesia is the world's largest producer of liquid natural gas and provides of 52 percent of Japan's LNG imports.

The Philippines

The so-called "rush" into the Philippines began in 1973, rose to a new height in 1974 and then fluctuated, until the assassination of Benigno Aquino in 1983 caused a period of instability for Japanese and other foreign investments. As Rob Steven (1991) observed, Japanese direct investment in the island nation was mainly from problems faced by Japanese industries obtaining raw material. The largest productive investments from Japan were in basic metals, transport machinery and textiles. However, borrowing rather than equity has been the main source of finance from Japan for large-scale investments in mining and resource extraction. Even in the early 1990s the priorities of Japanese investments were mainly in resource extraction and processing. Japanese direct investment however went on growing throughout the 1980s. Between 1986 and 1989 Japanese investments in the Philippines rose almost five times as measured in local currencies.

Thailand

Foreign capital from different countries is concentrated in different sectors in Thailand. However, Japanese investment since the early 1980s has been strong in almost

all industries. Iron and steel were dominated by three Japanese joint ventures; motor vehicles by half a dozen; and household electrical appliances by five other Japanese joint ventures. The high unemployment rate in the early 1980s, coupled with the fall of commodity prices in the global market forced Thailand to open its economy to foreign investors. The rapid rise of the yen after 1985 made Thailand extremely lucrative for many labor intensive Japanese manufactures. The Far Eastern Economic Review (25 June, 1987) pointed out that the interest on Japanese capital alone "could be worth at least one percentage point on the growth rate for the next three years or so."

Japanese joint ventures in Thailand have been formed with the largest Thai conglomerates. Toyota, one of Japan's top corporations has linked up with Bangkok Bank, the largest Thai conglomerate since 1962. A new venture, Siam Toyota Manufacturing, was set up in the mid-1980s in collaboration with Siam Cement, Thailand's largest manufacturing corporation. By the late 1980s all the major Japanese corporations had made Thailand a prime parts production and assembly site in the Southeast Asia. The Saha group, another major Thai industrial conglomerate, owes its origin and rise to links with Japanese capital dating back to 1943. Since 1985 Japanese medium investors also started pouring into Thailand, mainly in export processing sectors. In 1985, only 20 Japanese affiliated companies started operation in Thailand. Within three years, that number rose to 266.²³ Between 1980 and 1989 Japanese investments in Thailand increased seven-fold, 1988 being the high tide year of Japanese capital movement in Thailand.

²³Source: United Nations Commissions for Transnational Corporations Annual Report 1993.

Malaysia

Major Japanese investments started flowing into the country in the early 1970s, mainly in textiles and low-technology electronics. By the late 1970s 10 out of 21 foreign-controlled electronics firms were Japanese; as were 15 out of 22 foreign-controlled textile firms. By the early 1980s, Japanese companies were investing in a wide range of projects from steel plants and car assembly (such as Proton, the all-Japanese car assembled in Malaysia by a state owned Malaysian company) to timber, food, rubber and palm oil. It has been argued by some (e.g. Rob Stevens 1991) that as a major indirect consequence of the New Economic Policy (initiated by the ruling coalition of Malaysia in 1969), Japanese capital superseded British capital in Malaysia.

After the Plaza Accord, Japanese investments flowed into relatively high-technology sectors as Japan started “shifting its emphasis on Malaysia.”²⁴ Between 1981 and 1988 Japanese investments in Malaysia rose twelve times. In 1982, only 35 Japanese subsidiary projects were approved in Malaysia, in 1990 that number rose to 134.²⁵

The Development of Japanese Corporations in Pacific Asia

In the 1960s Japanese investments in East and Southeast Asia were done mainly by large Japanese trading conglomerates, the post-war versions of zaibatsus. These trading conglomerates became involved in overseas investment projects as part of their original export-import business role. By the end of the next decade, the role and influence of large trading companies gradually diminished. Individual Japanese manufacturing companies started establishing their own independent networks and subsidiaries in Pacific Asia.

In the beginning, such overseas operations of Japanese manufacturing companies were limited mainly to sale and sourcing operations. Since the beginning of the 1980s the

²⁴ The Japan Economic Journal, October 1, 1988.

²⁵Source: United Nations Commissions for Transnational Corporations Annual Report 1993.

operational scope of Asian subsidiaries of the Japanese corporations has vastly expanded. Many of them have evolved into major production bases. However, the parent corporations, in most cases, have retained research and development, finance, and marketing control at their headquarters in Japan. This became the typical pattern of the emergent Japanese multinationals in the 1980s and a resultant source of criticism on the part of developing Asia's elite, who view technology transfer as a vital issue in Japan-Pacific Asia relations.

Many Japanese corporations have been developing in Pacific Asia beyond this phase. Some Japanese corporations have developed interlocking networks linking Pacific Asia, especially forming the Southeast Asian subsidiaries into one integrated production complex. Some other Japanese multinationals are following the standard pattern of giving more operational independence at the regional or local level. Sony and Matsuhita, two top Japanese multinationals have already established their regional headquarters in Singapore. Several other medium-sized corporations are also moving their regional headquarters to the city state.

Nakakita (1988) focused on unconventional forms of recent Japanese investments in developing Asia, including technology contracts and management contracts, turnkey projects, franchise arrangements and production sharing. Nakakita classified these novel forms of Japanese investments into three major types: business tie-ups, which mainly require sales arrangements for Japanese brand name goods; technology tie-ups, which largely involve licensing of technology or cooperation arrangements for research and development; and production cooperation, or commission and licensing arrangements. Nakakita (1988), Allen (1979), and Chee and Lee(1979) have pointed out that these new forms of Japanese investment have been more common in North America, Europe and Asian NIEs. However, Pongpaichit (1991) argued that even in Thailand, Malaysia, Indonesia and the Philippines, the new forms of Japanese investments have risen

dramatically. More importantly, perhaps, such forms of investment are not properly monitored by the central banks of the recipient countries, though they may involve as much as one third of all Japanese investments in Pacific Asia.

According to Pongpaichit (1991), the growing significance of the unconventional or new form of Japanese investments in Pacific Asia points to the overall maturity of the Japanese economy. To remain competitive in a globally integrated economy, Japanese corporations are innovating and using various methods of investment. They are seeking out diversified ways of exploiting their developed human capital, technological innovations, management, informational and marketing advantage other than by conventional direct foreign investment.

Japanese Investment and the Emerging Interlocking Corporate Networks in Pacific Asia

The nature of Japanese investments definitely varies from country to country in Pacific Asia. However, there is an increasing trend of greater industrial integration across Pacific Asia under the aegis of Japanese investment. Japanese corporations are creating pan-Asian networks through their overseas investment in collaboration with their affiliates, and through marketing links with local companies. The main reason for creating such networks is to provide a supply of low-cost components outside Japan.

Pongpaichit (1988) studied the network of AIWA, a 100% subsidiary of Sony, and its relationship with affiliates across Pacific Asia. In its Singapore plant AIWA now assembles 50% of its global output, sourcing 75 percent of its parts from other Japanese subsidiaries in Malaysia and Singapore, and the remaining 25 percent high-technology equipment from Japan, or from Japanese subsidiaries in South Korea and Taiwan.

Sharp has constructed a similarly complex and integrated network of subsidiaries and affiliates across Pacific Asia (Tori 1989). Sharp set up three joint ventures in Malaysia—

the first producing television receivers for domestic sale and for export, the second producing only for domestic sale, and the third, a totally export-oriented project producing electronic components. Sharp has subsidiaries in Thailand, Singapore and Taiwan as well. The Sharp subsidiaries in Malaysia produce most of the parts they require, but also import some of the high-technology components from Sharp in Japan, Taiwan and Singapore.

The export-oriented ventures of Japanese corporations in Southeast Asia were established relatively recently, but many Japanese subsidiaries producing parts and components were established in the Asian NIEs and ASEAN countries beginning in the late 1970s. Until the yen appreciation of 1985, most of these subsidiaries manufactured parts and components for export to final assembly plants in Japan. After the yen appreciation, most of these subsidiaries began undertaking final assembly and exporting the manufactured product to Japan and other countries.

All five major Japanese automobile producers have formed their own pan-Pacific Asian networks of affiliates and subsidiaries. Because of increased competition from Korean and Taiwanese corporations adopting similar strategies, some Japanese automobile firms have been forced to relocate specifically in the ASEAN region. For example, the Mitsubishi group sources automobile parts and components from a network of affiliates and subsidiaries in Thailand, Malaysia, the Philippines and Indonesia. And as Japanese corporations started to network their production process throughout the ASEAN region, they became more comfortable with the idea of ASEAN as a common market.

As Dr. Mahathir Mohammed, the prime minister of Malaysia pointed out (1989), foreign investors have shown more interest than member countries in the concept of ASEAN as an economic unit comparable to the European Community. In fact, since the 1970s the Japanese government and corporations have pushed for several industrial cooperation programs and schemes involving Japanese investment or technological tie-

ups. The schemes generally included a provision of reducing tariff barriers across the ASEAN region. Two of the early schemes, the ASEAN Industrial Projects (AIP) and the ASEAN Industrial Complementation scheme (AIC) were funded by a US\$ 1 billion soft loan from Japan during the Fukuda administration. In 1980, these schemes were superseded by the ASEAN Industrial Joint Ventures (AIJV) scheme, which can be described as a private sector equivalent of AIPs (Cheng 1985). To qualify as an AIJV, a project had to have at least 40 percent ASEAN ownership. The main advantage of an AIJV project is the “halving of tariffs on intra-regional trade in components between units of the same manufacturer.” This clause certainly benefits Japanese-ASEAN joint ventures all over the region. Most of the AIJV projects have foreign investment components, with Japanese investors in the electronics, automobile and machinery industries playing a pivotal role.

The Scale and Significance of the Wave of Japanese Investments After the Yen Appreciation of 1985

There has been a definite Asian orientation of the Japanese economy centered on the ASEAN countries (Tokunaga 1992). Japanese corporations have set up operational headquarters and international procurement centers and distribution centers throughout the region, linking Japan and Pacific Asia. While Japan's total new foreign direct investment is shrinking due to its recession, the share going to Asia has risen from 12.2 percent in 1990 to 14.3 percent in 1992. East and Southeast Asia have also become the most profitable regions for the Japanese ventures.²⁶

Japanese corporations invested mainly in assembly of products to be sold within the domestic markets of each of the developing Asian countries. A good proportion of the components used in the assembly used to be imported from Japan. In the late 1970s, the

²⁶ Economist April, 7 1993.

manufacturing of some components was relocated in the NIEs of East Asia to be imported to the Southeast Asian countries for the domestic market. Since the yen appreciation, it has become economically unfeasible to keep most of the assembly process in Japan, even for those supplying the Japanese domestic market. Large Japanese corporations, medium and small sized export enterprises and their subcontractors had to move their operations to cheaper overseas locations to remain competitive especially vis-a-vis, the emerging Asian NIEs.

As pointed out by Pongpaichit (1990), the real significance of Japanese investments in the process of recent industrialization in developing Pacific Asia is even more important than the data on Japanese investment alone may illustrate. In 1984, Japanese corporations abroad produced goods equivalent to 4.2 percent of Japan's GDP (US\$152 billion). In a 1987 report, the Japanese Ministry of International Trade and Industry forecast that this will rise to 8.3 percent by 1993 and that the volume of products produced by Japanese corporations should rise to close to US \$380 billion by 1993.

It is estimated by the Japan Economic Research Center that about one-third of this US\$ 228 billion increase would be located in Asia. That means Japanese corporations have added around US\$ 70-75 billion to Asia's total industrial output in the last seven years. This amount is slightly more than the total industrial output of Thailand, Malaysia, Singapore, Indonesia, and the Philippines in 1987.

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Chapter V

Statistical Analyses

Analysis I: The Newly Industrializing Asia; Singapore, Hong Kong, Taiwan and Korea

Model 1: Economic Growth Rate

Results reported in Table 7 show the impact of different variables on Economic Growth Rate. Japanese Direct Investment was not significant but is positively associated with the Economic Growth Rate in Newly Industrializing Asian countries of Singapore, Hong Kong, Taiwan and Korea.

Table 7
GLS Estimates for Development
Indicators in Newly Industrializing Asia

| <u>Independent Variables</u> | Economic Growth Rate | Unemploy-ment Rate | Human Capital Development |
|------------------------------|-----------------------------|---------------------------|----------------------------------|
| Japanese Direct Investment | 0.008 (.0062) | -0.008 (.0005) | -0.001 (.03) |
| Japanese Trade | 0.05 (.27) | -0.01 (.03) | -0.23 (.12) |
| Trade Dependency | 0.04 (.028) | -0.006 (.005) | 0.04 (.01)*** |
| State Consumption | -0.59 (.25)*** | -0.03 (.005) | 0.43 (.18)** |
| State Economic Activity | -1.22 (.33) | 0.66 (.25)** | -1.46 (.78)** |
| | | | |
| Constant | 21.61 (6.34) | 1.24 (1.05) | 41.71 (6.36) |
| n | 40 | 40 | 40 |
| R ² | .1617 | .2063 | .3119 |

Notes: Standard errors in the parentheses.

*** Implies statistical significance of p at <.01 level.

** Implies statistical significance of p at <.05 level.

*implies statistical significance of p at <.10 level.

Estimates are of unstandardized coefficients.

The only significant independent variable, State Consumption (significant at $<.05$ level), was negatively associated with Economic Growth Rate in Newly Industrializing Asian states in the time period examined. Every percentage point increase in State Consumption /GDP ratio was related to a .59 percent negative growth in the economies of the Asian NIEs.

The findings related to Japanese investments show mild if any impact of Japanese direct investment in Newly Industrializing Asia. The findings related to State Consumption in this model does not support either the dependent development perspective nor the statist perspective though they provide credence for the neoclassical/developmentalist paradigm which espouses that almost any state involvement in economy is detrimental to growth and development.

Model 2: Unemployment

Japanese Direct Investment and Trade with Japan are negatively related to Unemployment but are not statistically significant. Trade Dependency also is negatively related to Unemployment but is not statistically significant.

In fact, State Economic Activity is the only statistically significant variable in this model. Every percentage point increase in State Economic Activity was associated with a .66 point increase in Unemployment in the Newly Industrializing Asian states. State Consumption, the other state variable (not statistically significant) was associated with decrease in unemployment rate in the region. The findings regarding State Economic Activity illustrate the rather strong negative effect of state economic enterprises on employment generation in Newly Industrializing Asia.

The findings regarding State Economic Activities support both the neoclassical/developmentalist paradigm and the dependent development arguments but raise questions regarding the statist perspective in the context of Newly Industrializing Asia.

The positive association of the transnational variables with employment generation support neoclassical/developmentalist paradigm.

Model 3: Human Capital Development

Japanese Direct Investment and Trade with Japan are not significant in the Human Capital Development model.

Trade Dependency (significant at the $<.01$ level) has a mildly positive association with Human Capital Development. Every percentage point increase in foreign trade / GDP ratio in the Newly Industrializing Asian states was associated with a .04 percent increase in human capital development programs.

State Consumption, (significant at the .05 level) was positively associated with an increase in human capital development expenditures in Newly Industrializing Asia. Every percentage point increase in state consumption/ GDP ratio was associated with a .43 percent increase in allocation of government expenditure for education and health in the Asian NIEs. State Economic Activity (significant at the $<.10$ level) however was negatively related to Human Capital Development : every percentage point increase in State Economic Activity / GDP ratio was negatively associated with a 1.46 percent decrease in human capital development programs in the Asian NIEs.

The findings regarding trade dependency support both neo-classical/developmentalist and statist paradigms though the findings related to state economic enterprises support only the neo-classical/developmentalist paradigm while discrediting statist viewpoints that espouses state involvement in developing nations' economic strategy including owning and managing enterprises.

The Analysis II: The ASEAN-Four; Thailand, Malaysia, Indonesia, and the Philippines

Model 1: Economic Growth

Results reported in Table 8 show the impact of different variables on Economic Growth Rate in the developing ASEAN. Japanese Direct Investment was not significant but is positively associated with the Economic Growth Rate in the region. Trade with Japan is significant at the $<.01$ level and is positively associated with the Economic Growth Rate. Every percentage point increase in Japanese trade ratio was related to a .22 percentage point growth in the economy of ASEAN-Four.

Table 8
GLS Estimates for Development
Indicators in the ASEAN-Four

| <u>Independent Variables</u> | Economic Growth Rate | Unemployment Rate | Human Capital Development |
|------------------------------|-----------------------------|--------------------------|----------------------------------|
| Japanese Direct Investment | .02 (.01) | -0.004 (.0001) | .003 (.001) |
| Japanese Trade | 0.22 (.08)*** | -0.2 (.04)*** | -0.64 (.05)*** |
| Trade Dependency | 0.15 (.04)*** | -0.03 (.02) | 0.04 (.03) |
| State Consumption | 0.8 (.02) | -0.2 (.11)*** | 0.20 (.14) |
| State Economic Activity | -1.04 (.33)*** | 0.45 (.16)** | -.21 (.02) |
| | | | |
| Constant | .72 (12) | 8.52 (1.5) | 34.34 (2.00) |
| n | 40 | 40 | 40 |
| R ² | .4467 | .5246 | .8751 |

Notes: Standard errors in the parentheses.

*** Implies statistical significance of p at $<.01$ level.

** Implies statistical significance of p at $<.05$ level.

*implies statistical significance of p at $<.10$ level.

Estimates are of unstandardized coefficients.

Trade Dependency is also significant at the $<.01$ level and is positively associated with the Economic Growth Rate. Every percentage point increase in trade was associated to a .15 point growth in the economy of Thailand, Malaysia, Indonesia, and the Philippines.

Among the state variables, State Economic Activity (significant at the $<.01$ level), was negatively associated with Economic Growth Rate in the ASEAN-Four in the examined time period. Every percentage point increase in State Economic Activity /GDP ratio was related to a 1.04 percent negative growth in the ASEAN-Four economies.

The findings related to Japanese investments show mild positive impact of Japanese direct investment in Thailand, Malaysia, Indonesia, and the Philippines. The results of the Japanese trade however, show quite strong positive impact on this growing region.

The findings regarding the two Japan variables and Trade Dependency provide support for neoclassical/developmentalist paradigm. The findings regarding State Economic Activity raise questions about the role of the state enterprises in the developing ASEAN nations and support both neoclassical/developmentalist paradigm and dependent development perspective.

Model 2: Unemployment

Both Japanese Direct Investment and Trade with Japan are negatively related to Unemployment in the developing ASEAN region. Japanese Direct Investment is not statistically significant but Trade with Japan is significant at the $<.01$ level. Every percentage point increase in Trade with Japan is negatively related to .2 percent decrease in Unemployment in the four developing Southeast Asian countries.

Every percentage point increase in State Economic Activity (significant at the $<.05$ level) is associated with .45 percent increase in Unemployment in the developing ASEAN states. State Consumption, the other state variable (significant at the $<.01$ level) was associated with decrease in unemployment rate in the region. The findings regarding State Economic Activity illustrate negative effect of state economic enterprises on employment generation in the developing Southeast Asia.

The findings regarding State Economic Activities support both the neoclassical/

developmentalist paradigm and the dependent development arguments but pose questions regarding the statist paradigm in the context of the four developing ASEAN nations.

The positive association of all the transnational variables with employment generation support neoclassical/developmentalist paradigm while the findings regarding the State Consumption support the statist perspective.

Model 3: Human Capital Development

Japanese Direct Investment is positively associated but not significant in the Human Capital Development model. Trade with Japan (significant at the $<.01$ level) on the other hand, has a strong negative impact on Human Capital Development model. Trade Dependency (not significant) has a mildly positive association with human capital development programs in emerging Southeast Asia.

State Consumption and State Economic Activity are not statistically significant in this model. State Consumption is positively associated with human capital development programs and State Economic Activity is negatively associated with human capital development programs in the region.

The findings regarding Trade with Japan provide credence to dependent development perspective in the context of ASEAN-Four's human capital development expansion programs in the last decade.

The F-Test for the Transnational Variables

To understand the impact of the transnational variables f-tests were conducted for all the three models for both subregions of Pacific Asia. It is again apparent from the f-tests that the Japan variables have more impact on the developing Southeast Asia than on the newly industrialized economies of the region.

An f test of the transnational variables in the NIE models show that neither Japan variables nor Trade Dependency is significant with any of the development indicators. The p value of the f-test of the joint distribution of the three transnational variables for Economic Growth Rate was .85, for Unemployment .74 and for Human Capital Development .24. Thus none of the models were at statistically significant level.

Table 9
GLS Estimates for Development
Indicators in Newly Industrializing Asia

| <u>Independent Variables</u> | Economic Growth Rate | Unemploy-ment Rate | Human Capital Development |
|------------------------------|-----------------------------|---------------------------|----------------------------------|
| Japanese Direct Investment | 0.009 (.004) | 0.01 (.01) | -0.03 (.03) |
| Japanese Trade | -0.09 (.07) | 0.001 (.04) | -0.17 (.13) |
| Trade Dependency | 0.03 (.15) | 0.002 (.005) | 0.01 (.01) |
| | | | |
| | | | |
| | | | |
| | | | |
| n | 40 | 40 | 40 |
| P value for F test | .85 | .74 | .24 |

Notes: Standard errors in the parentheses.
 *** Implies statistical significance of p at <.01 level.
 ** Implies statistical significance of p at <.05 level.
 *implies statistical significance of p at <.10 level.
 Estimates are of unstandardized coefficients.

An f test of the transnational variables in the ASEAN-Four models show that Japan variables do have significant impact on the development indicators of the developing Southeast Asian nations. All three of the models were statistically significant. The p value of the f-test of the joint distribution of the three transnational variables for Economic Growth Rate was .005, for Unemployment .0004 and for Human Capital Development .0001.

Table 10
GLS Estimates for Development
Indicators in ASEAN-Four

| <u>Independent Variables</u> | Economic Growth Rate | Unemployment Rate | Human Capital Development |
|------------------------------|-----------------------------|--------------------------|----------------------------------|
| Japanese Direct Investment | 0.07 (.02)** | -0.01 (.01) | 0.01 (.01) |
| Japanese Trade | 0.08 (.07) | -0.14 (.0006)*** | -0.67 (.04)*** |
| Trade Dependency | 0.09 (.03)** | 0.03 (.01) | 0.05 (.02) |
| | | | |
| | | | |
| | | | |
| | | | |
| n | 40 | 40 | 40 |
| P value for F test | .005 | .0004 | .0001 |

Notes: Standard errors in the parentheses.

*** Implies statistical significance of p at <.01 level.

** Implies statistical significance of p at <.05 level.

*implies statistical significance of p at <.10 level.

Estimates are of unstandardized coefficients.

The Development Paradigms and the Development Indicators

The findings from the models of three development indicators across the two subregions of Pacific Asia show that the theoretical expectations of the neo-classical/developmentalist paradigm have been more often validated than those of the dependent development and statist paradigms. The generally positive impact of “Japan variables” and Trade Dependency as well as the negative impact of the state variables on the three development indicators provide support for the neo-classical/developmentalist paradigm in Pacific Asia’s development experience of the last decade. The finding hardly matched with the theoretical expectations of the dependent development paradigm. The performance of the transnational variables consistently nullified dependent development-oriented arguments. The findings did not support statist arguments either, at least in their crude sense. The negative impact of state economic activities on economic growth and

employment generation poses some questions about the role of the entrepreneurial Asian state in the 1980s.

Concluding Remarks About the Regression Analyses

Japanese economic expansion (in the form of investment and trade) exhibited positive impact on the development pattern of Pacific Asia in the 1980s. Japan variables were positively associated with both economic growth and employment generation in the Asian NIEs and ASEAN-Four analyses. The strong positive and statistically significant impact of Trade with Japan in the ASEAN-Four models show the impact of developing Southeast Asia's trade relations with Japan. However, in the Asian NIE models the Japan variables did not exhibit any statistically significant result. The results of the f-tests with the transnational variables confirm that Japanese investment and trade have more impact on the emerging Southeast Asian countries of Thailand, Malaysia, Indonesia and the Philippines than on the newly industrialized states of Korea, Taiwan, Hong Kong and Singapore.

The findings regarding Trade with Japan, and Trade Dependency signal support for the neoclassical-free-market perspective in an Asian context. The same findings pose questions about the dependency-oriented arguments of a section of the Asian elite and the North American academia. The findings related to the state variables provide further backing for a neoclassical position in the context of the Pacific Asian development experience of the 1980s.

As we have seen in the discussion above, the state variable State Economic Activities is consistently negatively associated with development indicators in both subregions of Pacific Asia. The other state variable, State Consumption, however correlates positively with Human Capital Development models in both subregions and thus provides some

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support for the role and commitment of the Pacific Asian states in allocating more state resources to develop human capital.

It may be concluded that the transnational factors rather than the state variables have been related positively to the development experience of Pacific Asia in the high growth decade of the 1980s. The findings do not challenge the core statist arguments regarding the guiding role of the developmental state -- a role that a strong beaurucratic state can play without being heavily engaged in economic enterprises. But given the fact that almost all Pacific Asian nations (with the possible exception of Hong Kong) have considerable state involvement in the economy, the findings do point to some problems associated with performance of the public sector in the "strong" states of the East and Southeast Asia. Any overtly statist explanation for East and Southeast Asia's remarkable economic success needs to be judged in the light of these results. Such a topic could be the object of study of an entirely different thesis. The scope of this thesis does not allow delving into all the complex issues of the developmental role of the entrepreneurial state.

The other picture that emerges from the regression results indicates that the 1980s was also a decade when Japanese economic linkages in the form of trade and direct investment played a role in the developing ASEAN countries' growth and employment generation. Japanese investment was positively associated (though not statistically significant) with the economic expansion and employment generation in both the Asian NIEs and the ASEAN region. Trade with Japan had been statistically significant and positively correlated with Unemployment (which means positively associated with employment generation) in the ASEAN-Four model. The findings regarding Japan variables in the developing Southeast Asia's context validate the concern of many Asian scholars and opinion leaders that their region has become "too reliant" on a single country for its development finance.

Findings from a short time series analyses like this should not be overemphasized. Japanese economic leadership and Japan's importance as a capital exporter and trading partner to developing Asia, however, are not in question. Japan's economic links with East and Southeast Asia -- as illustrated throughout the descriptive chapters of this thesis, -- have already provided Japan with a natural leadership role in the process of regionalization of the most economically vibrant region in the world.

Chapter VI

The State, Japanese Investments and Development in Thailand, Malaysia and Singapore

Southeast Asia's Perspective on Japanese Investment

As mentioned earlier, the field research for this thesis was conducted in Singapore, Malaysia and Thailand. This chapter focuses on the Southeast Asian perspective of Japanese investments and the recent wave of Japanese investments and relocation in Singapore, Malaysia and Thailand. Taken together, these three countries constituted one of the highest growth rate areas in Pacific Asia of the 1980s. However, their industrialized or development status differ from each other. While Singapore can be regarded as an advanced economy of the region, Malaysia is a rapidly industrializing middle-income nation. Thailand, which has the highest growth rate of the three countries, ironically has the lowest per capita income. This chapter analyses the demand for foreign capital in these three Southeast Asian countries. Also it focuses on recent development experience of each of the three nations. Table 9 shows the extent of Japanese bilateral official development assistance to Singapore, Malaysia and Thailand in 1989.

Table 11
Japanese and US share in Percentage in All Bilateral Development Assistance to Thailand, Malaysia and Singapore in 1989

| | Japan | United States |
|-----------|-------|---------------|
| Thailand | 69.4% | 8% |
| Malaysia | 78.5% | 11% |
| Singapore | 50.6% | Negligible |

From the 1960s to the early 1980s, the governments of Singapore, Malaysia and Thailand were not overtly hospitable toward foreign investment. In this period, state

capital was expanding its scale and influence in most of the countries and national governments displayed no eagerness to allow foreign capital to enter into their own spheres of interest. However, Southeast Asian governments, especially that of Singapore recognized that foreign capital could help in acquiring new technology and alleviating unemployment problems. Thus foreign capital was allowed in this period, but with restrictions.

Singapore

In Singapore, state capital was dominant but it co-existed with foreign capital. Singapore's receptivity to foreign capital was due to the limited range of options open to a small island nation. Despite the extensive network of state enterprises in the Singaporean economy, the government took a positive stance towards foreign investment. From the early 1960s, long before any of its ASEAN neighbors, Singapore actively promoted foreign investment in almost all sectors of the economy (except in banking, newspapers, and residential properties). In a hurry to industrialize, and without a sizable domestic industrial capitalist class, Singapore had to heavily depend on multinational corporations. Singapore also wanted to lessen its dependence on its two large neighbors, by inviting, US, European and Japanese multinational corporations to its soil.

As pointed out by Kunio (1989) and Pongpaichit (1990) domestic private capital was weak in all sectors and in vital manufacturing sector was confined to only small and medium enterprises. The Singapore government followed a two-pronged strategy of industrialization -- developing state enterprises to an exceptional degree, and at the same time encouraging foreign investors to use Singapore as an overseas base. In the 1980s, as already noted several Japanese corporations relocated their regional headquarters in Singapore.

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Malaysia

The newly independent Malaysian government used the strong state structure inherited from the British to expand the state sector in the economy and to limit the role of ethnic Chinese business. In Malaysia, the Chinese represented more than a third of the total population, and their business interests were extensive. The Malaysian government's policies to develop the country on behalf of the indigenous Malay interests were forceful and controversial. In this context, attitudes towards foreign investment developed some complex aspects. The Malaysian government could appeal to Malay resentment against economic domination by foreign capital and against the economic prominence of the ethnic Chinese. There was no immediate large scale nationalization, but the government inherited the powerful colonial structure of state control, which included state operation of public utilities, and expanded the activities to include telecommunications, electricity and water works for the public at large.

From the mid-1960s onwards, the role of state capital was substantially expanded. The Companies Act of 1965 permitted state enterprises to participate directly in trade, commerce, industry and finance. Under the New Economic Policy (NEP) introduced in 1970, the government extended the scope of state enterprises to increase the participation of Bumiputras (indigenous Malay) in business and to reduce the ethnic Chinese domination in most economic activities.

As far as the government and Bumiputra interests were concerned foreign investment was judged as good or bad depending on the extent to which it promoted the policy goals represented by the NEP. When the NEP was introduced in 1970, about 60 percent of the Malaysian corporate sector was held by foreign capital. Many British firms were bought out by the government or by the business groups associated with Malay political parties. This buying out offered a quick, painless way of increasing the equity participation of Bumiputras in corporate capital, but discouraged investments from the West.

By the early 1980s the Malaysian economy was in bad shape. The government achieved its aim of increasing Bumiputra share of corporate capital, but discouraged investment among its Chinese entrepreneurs. The rate of growth of domestic investment declined and some Chinese capital started fleeing Malaysia. The state economic enterprises started proving themselves inefficient and with the decline of oil prices Malaysia entered a brief period of recession.

The government tried to actively promote foreign investment in ways which would support the NEP goals, and at the same time promote the overall development of the economy. Against this background Prime Minister Mahathir launched his Look East policy of the early 1980s. The Look East policy encouraged the inflow of Japanese investments (and Korean and Taiwanese), but the government structured incentives and imposed conditions to ensure that the new capital inflow would ally itself with domestic Chinese capital. The policy channelled much of the investment into free trade zones which were relatively isolated from the rest of the economy but the Chinese continued to benefit from joint ventures with the Japanese and other East Asian corporations. The government also created joint ventures between Japanese capital and state capital in such massive enterprises as the Proton car.

Thailand

The foundations for the expansion of state capital (e.g. a colonially planted state structure) were weaker in Thailand than in its neighboring Southeast Asian states. Thailand's business activity was dominated by ethnic Chinese which was resented by many Thai people, still engaged in rice farming in the early 1930s. From the 1930s to the 1950s, military-dominated governments tried to foster economic nationalism and transfer many Chinese-run businesses to state control. Thailand began the 1950s with commitments to expand state capital and limit Chinese economic activities. However, the

relatively weak Thai state structure proved incapable of managing state capital on a large scale. In the 1960s and 1970s, most of the state enterprises with the exception of petroleum and tobacco, created in the economic-nationalist era were privatized.

In the absence of the strong religious and other barriers which exist in Malaysia, the ethnic Chinese in Thailand were able to achieve relatively successful social integration. From the 1950s the Thai government and the ethnic Chinese business interests gradually worked out a way to coexist and co-operate. From the late 1950s onwards, with the help of limited government protection, Thai domestic capital grew in strength in service industries, in distribution, and also into manufacturing and export production.

By the mid-1960s several Thai-owned industrial and trading conglomerates emerged, and they were generally antithetical to foreign investment. However, in some manufacturing subsectors Thai industrial elites saw that the only opportunity to gain access to the best technology lay through collaboration with foreign capital. The Thai government's attitude to foreign investment was not influenced by the need to protect or extend the interest of state enterprises, as in the case of Singapore or Malaysia. Its attitude was shaped by lobbying from domestic capital interests, and also by its own estimation of foreign capital's contribution to state goals. Overall, the Thai government had no strong objections to foreign investment, and from the 1960s onwards provided a general framework for it to operate. Still the government was hardly enthusiastic until the 1980s about encouraging foreign investment, and tended to favor domestic capital interest by obliging foreign investors to enter into joint ventures.

The Changed Scenarios of the 1980s

The fiscal and debt crises of the early 1980s resulted in policy changes regarding foreign investment in most Southeast Asian countries. Malaysia and Thailand along with their other ASEAN neighbors adopted some form of "privatization" and "deregulation" of

the economy in favor of private capital, both foreign and domestic. In Malaysia, in the year 1986 alone several amendments to regulations affecting foreign investment were made. Malaysia provided exemptions from income and development tax for companies engaged in manufacturing new products or going through modernization. Malaysia also completely exempted foreign owned firms from the requirements for Bumiputra shareholding and employment if they were medium-sized, or if they exported at least 80 percent of their output. It also gave until 1990 for firms to apply for permission for 100 percent foreign ownership as long as they exported at least 50 percent of their output, employed at least 350 Malaysian workers, had a reasonable proportion of ethnic Malay workers, and did not compete against existing locally produced goods in the local market. In 1985-86 period the Thai government took renewed interest in foreign capital, which coincided with the rise of yen and Japan's desperate search for cheaper production bases. Measures were taken to speed up the procedure for granting promotion. The restriction for foreign equity share were interpreted more flexibly. Firms which exported 100 per cent of their products could now have 100 per cent foreign ownership. Firms which exported just 20 per cent of the total output could automatically apply for export promotion incentives such as exemption from business and export taxes on export sales. Thus, both in Malaysia and Thailand governments reacted to the economic crisis of early 1980s by encouraging foreign capital inflow, rather than promoting domestic capital directly

Japanese Investments and Development Indicators

Plots of Japanese Direct Investment and Economic Growth Rate, Unemployment and Human Capital Development in Singapore, Malaysia and Thailand clearly show that as Japanese investment rose in these countries, economic growth, employment generation and human capital development also accelerated.

Table 12
Japanese Direct Investments, Economic Growth Rate, and
Unemployment Rate in Thailand in the 1980s

| Year | Japanese Direct Investments (in million US dollar) | Economic Growth Rate (percentage) | Unemployment Rate (percentage) |
|------|--|------------------------------------|---------------------------------|
| 1980 | 33 | 5.6 | 0.9 |
| 1981 | 31 | 5.0 | 1.3 |
| 1982 | 94 | 4.0 | 2.8 |
| 1983 | 72 | 8.5 | 4.8 |
| 1984 | 119 | 6.5 | 5.1 |
| 1985 | 51 | 2.6 | 5.2 |
| 1986 | 124 | 4.1 | 3.5 |
| 1987 | 250 | 8.8 | 5.9 |
| 1988 | 859 | 15.0 | 3.1 |
| 1989 | 579 | 13.0 | 2.5 |

Plots show that as Japanese Direct Investment in Thailand picked up, Economic Growth Rate rose from around 3 percent to 14 percent, and unemployment rate fell from 6 percent to 3 percent. Also the growth of Human Capital Development in Thailand coincided with the growth of Japanese Direct Investments.

Plots shows that as Japanese Direct Investment in Malaysia started rising, Economic Growth Rate rose from around -1 percent to 11 percent and 9.5 percent at its peak, and Unemployment fell from the high of around 8.5 percent to 5 percent. The growth of Human Capital Development in Malaysia rose with the growth of Japanese investments.

Even in advanced Singapore, plots shows that as Japanese Direct Investment started rising, Economic Growth Rate rose from around 1 percent to 12 percent at its peak, and Unemployment fell from the high of around 6.5 percent to just 2 percent. The growth of Human Capital Development in Singapore however, did not have any visible association with the growth of Japanese capital.

Table 13
Japanese Direct Investments, Economic Growth Rate, and
Unemployment Rate in Malaysia in the 1980s

| Year | Japanese Direct Investments (in million US dollar) | Economic Growth Rate (percentage) | Unemployment Rate (percentage) |
|------|--|------------------------------------|---------------------------------|
| 1980 | 146 | 4.0 | 7.1 |
| 1981 | 31 | 4.5 | 5.6 |
| 1982 | 83 | -1.0 | 8.3 |
| 1983 | 140 | 3.0 | 8.2 |
| 1984 | 142 | 5.5 | 6.3 |
| 1985 | 79 | 7.0 | 6.9 |
| 1986 | 158 | 7.0 | 6.9 |
| 1987 | 163 | 8.0 | 6.0 |
| 1988 | 387 | 9.6 | 5.6 |
| 1989 | 286 | 11.0 | 5.1 |

Table 14
Japanese Direct Investments, Economic Growth Rate, and
Unemployment Rate in Singapore in the 1980s.

| Year | Japanese Direct Investments (in million US dollar) | Economic Growth Rate (percentage) | Unemployment Rate (percentage) |
|------|--|------------------------------------|---------------------------------|
| 1980 | 140 | 6.0 | 3.0 |
| 1981 | 266 | 9.0 | 2.9 |
| 1982 | 180 | 8.0 | 2.6 |
| 1983 | 322 | 11 | 3.2 |
| 1984 | 410 | 11 | 2.7 |
| 1985 | 318 | -.1 | 4.1 |
| 1986 | 314 | 0.6 | 6.5 |
| 1987 | 494 | 8.0 | 4.7 |
| 1988 | 747 | 12.0 | 3.3 |
| 1989 | 810 | 9.0 | 2.2 |

Cross sectional Time Series for Thailand, Malaysia and Singapore.

Japanese Direct Investment and Trade with Japan are not statistically significant with the Economic Growth Rate. However, both the Japan variables are positively associated with the Economic Growth Rate in Thailand, Malaysia and Singapore. None of the other independent variables are statistically significant in this model.

Japanese Direct Investment is statistically significant (at the $<.05$ level) relative to Unemployment. Every percentage point increase in Japanese Direct Investment/Foreign Direct Investment ratio there is .03 percent decrease in Unemployment in the three countries where elite interviews were undertaken. On the other hand, every percentage point increase in State Economic Activity (statistically significant at the $<.05$ level) was associated with .72 percent increase in Unemployment in Thailand, Malaysia and Singapore. This finding supports both neo-classical and dependent development-oriented arguments.

None of the independent variables was significant relative to Human Capital Development model. It may be noted that Japanese Direct Investment is positively associated in this model.

Table 15
Multiple Regressions (GLS) Estimates for the Development Indicators in Thailand, Malaysia and Singapore

| <u>Independent Variables</u> | <u>Economic Growth Rate</u> | <u>Unemployment Rate</u> | <u>Human Capital Development</u> |
|------------------------------|-----------------------------|--------------------------|----------------------------------|
| Japanese Investment | 0.03 (.001) | -0.03 (.01)** | 0.03 (.02) |
| Japanese Trade | 0.04 (.02) | -0.01 (.005) | -.06 (.10) |
| Trade Dependency | -.0002 (.0001) | 0.05 (.007) | -0.002 (.001) |
| State Consumption | -0.16 (.14) | 0.01 (.02) | -0.003 (.21) |
| State Economic Activity | -0.48 (.36) | 0.72*** (.14) | -0.37 (.25) |

| | | | |
|----------------|----------------|---------------|-----------------|
| Constant | 9.82 (6.33) | -.96 (.16) | 27.25 (3.73) |
| n | 30 | 30 | 30 |
| R ² | .2506 | .6630 | .3327 |

Notes: Standard errors in the parentheses.

*** implies statistical significance of p at $<.01$ level.

** implies statistical significance of p at $<.05$ level.

*implies statistical significance of p at $<.10$ level.

Estimates are of unstandardized coefficients.

It is apparent from the above discussion that Japanese investments played a special role in the employment generation in this vibrant subregion of Pacific Asia. Though, no statistically significant relationships were found with the two other models -- employment generation and human capital development, Japan variables have been positively associated to both of them. The findings generally supported neo-classical/developmentalist paradigm while nullifying dependent development-oriented arguments and statist perspective.

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Chapter VII The Interview Analyses

The Prologue to the Interview Analyses

Japan-Pacific Asian economic relations have become increasingly asymmetrical since the early 1970s. Every Pacific Asian country is now dependent on Japan as a trading partner for about 25 percent of its total trade. In contrast, Pacific Asian markets and products remain relatively peripheral to Japan's total trade. As described in previous chapters, over the last decade Pacific Asia has certainly become reliant on Japanese direct and portfolio investments for its industrialization. Countries such as the Philippines, Thailand, Malaysia and Indonesia (as well as People's Republic of China and even a Newly Industrialized Economy such as the Republic of Korea) are heavy recipients of Japanese government and private economic assistance. Some scholars (Nester, 1990) have argued that this asymmetrical relationship with Asia has become a significant part of Tokyo's comprehensive security policy.

Table 16
The Profile of the Interviewed Southeast Asian Elites

| The Countries | Bureaucrats | Academics | Business Leaders | Student Leaders etc. | Total |
|---------------|-------------|-----------|------------------|----------------------|-------|
| Singapore | 6 | 10 | 5 | 1 | 22 |
| Malaysia | 12 | 7 | 6 | 2 | 27 |
| Thailand | 15 | 12 | 11 | 11 | 49 |
| Total | 33 | 29 | 22 | 14 | 98 |

The Elite Response Varies

Japanese economic expansion in Pacific Asia, as already mentioned, has been criticized for historical and cultural reasons. Over twenty million Asians, mainly civilians were killed by the Japanese during the Pacific War. Such wartime memories are often

inflamed by the insensitivity of Japanese businessmen and corporate leaders in the region. Japanese investments have been criticized on many grounds, ranging from lack of technology transfer to degradation of natural and cultural environment^t

Reactions obviously vary from country to country, as indicated in this survey of elites in Singapore, Malaysia and Thailand. Equally significant, elite perception also varies according to occupation. As already mentioned, though the three countries belong to the same region, they are quite different in their industrialization status in the Asian economic hierarchy.

The survey of the elites made an attempt to uncover whether Japanese economic expansion in the area has resulted in a region-wide *elite* concern about Pacific Asia's dependence on Japan. Concerns noted reflect perceptions of the elite's country and the Southeast Asian region as dependent on Japanese investments and corporate expansion; that the elite's government is too eager to please Japanese investors and other commercial interests over other foreign investors and domestic capital, that Japan's economic expansion is basically exploitative; that Japanese multinationals and the Japanese government are taking far more out of the region than they are contributing, that Japanese higher management is not open to Asians and that Japanese corporations are destroying the natural environment of Southeast Asia.

An attempt was also made to understand whether the Asian elites regarded Japan as an emerging military power and the political leader of the region.

Ninety-eight elites from high government positions, research centers and academia, chambers of commerce and student political organizations were interviewed in Singapore, Malaysia and Thailand. There are four extra interviews, two from Indonesia and two from the Philippines. The two Indonesians were top business leaders of their country, while the Filipinos were academics working as political consultants for their

president Fidel Ramos. These four interviews were not used in the main part of the analyses.

The First Question

The first question set the overall tone of the face to face interview. It was carefully worded to avoid any presumption of dependency. The question asked the elites whether they thought that Pacific Asia's overall well-being and development were increasingly getting tied to Japanese economic involvement in the region. The question did not specify the kind of economic involvement, but implicitly meant Japanese investments.

Table 17 A

| | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|----------------------|--|---|
| Bureaucratic Elites | 11 (33%) | 22(66%) |
| Academic Elites | 20 (62%) | 9 (38%) |
| Business Elites | 15(66%) | 7(34%) |
| Student Leaders etc. | 12 (85%) | 2(15%) |
| All | 56 (57%) | 42 (43%) |

Question One: Do you think that Pacific Asia's overall well-being and development are increasingly getting tied to Japanese economic involvement in the region ?

Table 17 B

| | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|---------------------|--|---|
| Elites in Singapore | 12 (55%) | 10(45%) |
| Elites in Malaysia | 19 (70%) | 8 (30%) |
| Elites in Thailand | 27 (55%) | 22(45%) |
| All Elites | 56 (57%) | 42(43%) |

Question One: Do you think that Pacific Asia's overall well-being and development are increasingly getting tied to Japanese economic involvement in the region ?

The Response of the Bureaucratic Elite:

Bureaucratic elites as a group dismissed this question. Of the thirty-three bureaucrats, a vast majority of whom worked in economic ministries and economic agencies such as

Board of Investment (Thailand), Economic Development Board (Singapore), Malaysian Industrial Development Authority , only eleven agreed with the general statement. Of these eleven policymakers, six were from Malaysia and five were from Thailand.

None of the bureaucrats in Singapore including former economic advisers to the prime minister, agreed that Pacific Asia's overall well-being were increasingly tied to Japanese investment, trade and aid in the region. At least four of the six Singaporean government officials mentioned that Japan was "not the only investor" in the region. One senior investment official pointed out that the United States and the European Community are major investors in the ASEAN area. Two Singaporean bureaucrats also pointed out the importance of North America as market for Singaporean goods. One of these two bureaucrats went on to stress the role of the United States as the most important destination of Asian exports.

Six of the twelve Malaysian bureaucrats agreed with the general statement. A senior investment officer pointed out the massive level of Japanese investment in Malaysia since 1985-86 and Japan's growing economic role in the rest of Asia including China.

In Thailand, five of the twelve bureaucrats agreed with the general statement. Two senior policymakers in the prime minister's office did not agree with the general statement. However, one of the Thai bureaucrats who agreed was a very senior officer in the Board of Investment.

Despite the small sample of the bureaucratic elites, it can be said that this group did not consider the first question as a serious one. However, Malaysia was an exception, where half of the interviewed bureaucrats agreed with this question.

The Response of the Academic Elite:

A total of 29 major academics were interviewed for this survey. They included economists, political scientists, Japan specialists in Southeast Asia, and three cultural

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scholars. It is remarkable that 20 out of 29 academic elites agreed with the question. Eight out of nine academics who did not agree were professional economists and all of them had their Ph.Ds from the universities in the United States. The only non-economist academic to totally disagree with the question was a major Japanese studies scholar in Singapore.²⁷

In Singapore, four of the 10 academics disagreed with the question; in Malaysia all seven academics, including one current and one former adviser to prime minister, agreed with the question; in Thailand five of the twelve academics disagreed with the question. Overall, it is clear that academics in my sample were more prone to believe that Pacific Asia's overall well-being was increasingly getting tied to Japan.

The Response of the Business Elite:

Fifteen of the 22 business and corporate leaders interviewed across the three emerging Southeast Asian nations agreed with the general statement. Interestingly, all five business leaders (including the president of one of the chambers of commerce) in Singapore said that they believe that Pacific Asia's overall well-being was increasingly getting tied to Japan. This response can be contrasted with the general pattern of response of Singaporean bureaucratic and academic elite to this question.

In Malaysia four of the six business elites concurred with the general statement. Two Malaysian business leaders in their interviews pointed out Japan's global economic dominance. The two Malaysian business leaders who did not agree with general statement were ethnic Chinese. Both of them mentioned the emergence of Taiwan and South Korea as major economic players in Asia in recent times.

In Thailand, six of the 11 business leaders agreed with the general statement. One of the non-agreeing businessmen was actually in a joint venture with a Japanese firm.

²⁷ He actually said that Japan would decline as a nation while Southeast Asia, Korea and Taiwan would continue to rise and catch up with Japan.

Response of the Student Leaders and Others:

Twelve of the 14 student activists somewhat or generally agreed with the general statement. The only Singaporean student activist, the leader of the umbrella organization of university student associations, was a sharp critic of his government and Japanese corporate expansion and management style in Asia. He agreed with the general statement.

In Malaysia, both the student activists interviewed, belonged to minority communities of Chinese and Indians. Both were concerned of Japanese expansion in Asia and agreed with the general statement.

Except the literary figure and one female student activist (born in Manila, not in Thailand) everybody in Thailand agreed with the general statement. Later on, however, we can see the difference in attitude in Thai student leaders.

The Second Question

The second question in the survey was more direct and asked the elites whether they thought the policymakers in their countries were eager to please Japanese investors and Japanese government in preference to other foreign investors. As mentioned earlier, certain conditions had been attached to Japanese aid. In that context, this question had some special relevance to the recipient Asian countries.

Table 18 A

| | Mostly or somewhat agreed with the content of the question | Mostly or somewhat disagreed with the content of the question |
|------------------------|--|---|
| Bureaucratic Elites | 6 (18%) | 27 (82%) |
| Academic Elites | 15 (51%) | 14 (49%) |
| Business Elites | 20 (90%) | 2(10%) |
| Student Activists etc. | 10 (71%) | 4(29%) |
| All | 51(52%) | 47(48%) |

Question Two: Do you think that the policymakers in your country have been eager to please Japanese investors and Japanese government in preference to other foreign investors ?

Table18 B

| | Mostly or somewhat agreed with the content of the question | Mostly or somewhat disagreed with the content of the question |
|---------------------|--|---|
| Elites in Singapore | 8(36%) | 14 (64%) |
| Elites in Malaysia | 17 (63%) | 10 (37%) |
| Elites in Thailand | 24 (48%) | 25 (52%) |
| All Elites | 49 (50%) | 49(50%) |

Question Two: Do you think that the policymakers in your country have been eager to please Japanese investors and Japanese government in preference to other foreign investors ?

Response of the Bureaucratic Elites

As one can possibly foresee, a vast number of bureaucrats (many of whom were actually in foreign investment approval boards) did not agree with the question. Twenty-seven of 33 bureaucratic elites across the three countries disagreed with the question. In Singapore, one former government bureaucrat, currently, the executive director of an intra-regional economic organizations, agreed with the question but clarified his position.

He mentioned that policymakers being eager to please Japanese investors and government in preference to other investors was more true in the other countries of developing Asia (e.g. Indonesia, Malaysia and Thailand).

In Malaysia, three mid-level finance ministry and MIDA bureaucrats agreed with the general statement. One of the Malaysian bureaucrats (ethnic Malay Muslim) mentioned that Japanese are far more capable and patient in negotiations with government bureaucrats and local partners than their American or European counterparts. Another Malaysian investment bureaucrat (an ethnic Indian woman) hinted that Japanese bribed senior policymakers to get preferential treatment.

In Thailand, only two bureaucrats agreed with the general statement. One of them was a former adviser to Thai prime minister Choonavan and a Yale Law School classmate of the US president Bill Clinton. These two Thai bureaucrats opined that there is a more pro-Japanese climate or feeling among Thailand's senior economic policymakers than at lower levels. It is important to mention at this point that other Thai bureaucrats denied the assertion that Thai economic bureaucrats are more sympathetic to Japanese investment proposals than to those of other foreign interests.

The Response of the Academic Elite

Slightly more than half of the academic elite (15 of the 29) agreed with the general statement. Two major academic economists and specialists on Japanese investments in Asia did not agree with the question. Of the 10 academics interviewed in Singapore, only one agreed with the question.²⁸

Interestingly, all seven academics in Malaysia agreed with the general statement. Even an openly pro-Japan academic economist and adviser to the government of Malaysia

²⁸. He was not an economist; but an internationally renowned security specialist.

evidenced low opinion about the level of integrity and honesty among government bureaucrats. Several others also noted that the Malaysian bureaucracy is corrupt and said they believed that Japanese could get almost anything they wanted.

In Thailand five of the 12 academics agreed with the general statement. Interestingly enough, none of these five academicians was an economist. In Thailand, one economist tried to point out that Japanese had learnt quickly to play by the Thai rules and took advantage of the economic liberalization of the early 1980s, which American and European businesses failed to do.

The Response of the Business Elite

The most interesting response, actually, came from the business leadership of Southeast Asia. In fact, 20 of 22 business leaders thought that their respective governments gave preferential treatment to Japanese businesses, not only above other foreign investors but also above domestic business interests.

In Singapore, all five business leaders whole-heartedly agreed with the general statement. Two of them mentioned that it was more easy to start joint ventures with Japanese than with American or European firms.

In Malaysia, five of the six business leaders agreed with the general statement. Three business leaders indirectly said that the national interest took a backseat to wooing Japanese investors.

In Thailand also, 10 of the 11 business leaders agreed with the tone of the question. The only dissenting business elite noted that Japanese knew better than any foreigners how to do business in Southeast Asia and had shown long-term interest in the region by creating numerous corporate and government-level educational and cultural exchange programs.

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The Response of the Student Activists and Others

Ten of the 14 elites of this group agreed with the content of the question. Interestingly, all four dissenting student activists were from Thailand.²⁹ In Thailand, both the literary figure and the post-colonial cultural critic were indignant about Thai economic bureaucrats. Compared to them student leaders showed a fairly broad-minded attitude toward the economic policymaking.

Both the Malaysian student leaders, however, had no trust in their governmental bureaucracy and indeed believed that even the highest level of politicians or bureaucrats could be bribed. They mentioned several times over the course of the interview that the Malaysian government is too eager to entertain Japanese interests in Malaysia. They also mentioned that the Malaysian government was the most faithful diplomatic ally of Japan in Southeast Asia.

The Singaporean student leader only partly agreed with the content of the question. He mentioned that preferential government attitude towards Japanese businesses was more prevalent in the 1960s and 1970s, when Singapore had a serious unemployment problem. As Singapore moved into NIE status, the government became more protective of its showcase industries such as software and the electronics sector.

The Third Question:

The third question was even more direct. Elites were asked whether or not they thought their individual countries (not the whole region) were over-reliant (a not-too-subtle code word for dependence) on Japanese investment for economic expansion and industrialization.³⁰

²⁹ Two from Chulalongkorn University and two from Thamassat University.

³⁰ For example, a Singaporean elite was asked whether Singapore was over-reliant Japanese investment; so in Malaysia and Thailand.

Table17 A

| | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|------------------------|--|---|
| Bureaucratic Elites | 12 (36%) | 21(64%) |
| Academic Elites | 18(62%) | 11(38%) |
| Business Elites | 10(45%) | 12(55%) |
| Student Activists etc. | 9(64%) | 5(36%) |
| All | 49 | 49 |

Question Three: Do you think that your country has been over-reliant on Japanese investment for recent economic growth and industrialization?

Table17 B

| | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|---------------------|--|---|
| Elites in Singapore | 8(36%) | 14(64%) |
| Elites in Malaysia | 20(74%) | 7(26%) |
| Elites in Thailand | 21(42%) | 28(62%) |
| All Elites | 49(50%) | 49 (50%) |

Question Three: Do you think that your country has been over-reliant on Japanese investment for recent economic growth and industrialization?

Response of the Bureaucratic Elite:

As with the first question, most of the bureaucrats flatly dismissed this question. Only 12 of the 33 bureaucrats agreed with the general statement. Six of them were Malaysian bureaucrats, and the other six Thai bureaucrats. In Singapore, none of the six bureaucrats agreed with the question. One very senior Singaporean policymaker commented that Singapore was “dependent” on Japan for its early survival (He himself was a member of many delegations to Japan to court Japanese investors). This bureaucrat, however, went out of his way to emphasize the current status and strength of Singapore’s economy. Another Singaporean economic bureaucrat said that Singapore was actually more developed than Japan.

In Malaysia, the bureaucrats who did not agree with the general statement did mention that they tried to attract as much as European and American investment as possible in order to balance Japanese presence in their economy. This is a quite interesting confession on the part of senior economic bureaucrats, especially considering Prime Minister Mahathir's pronounced "Look East Policy." One mid-level Malay Muslim bureaucrat in the Malaysia Industrial Development Authority commented that he felt surrounded by Japan. An ethnic Chinese bureaucrat, in charge of Japanese investment division of Malaysia Industrial Development Authority lightheartedly said, "if academics insist I would say Malaysia is dependent on Japanese investment but they are dependent on us too: there is no way most of these goods can be produced in Japan any more."

In Thailand, the bureaucratic response to this question was rather strange. In fact, it was at the highest level that bureaucrats concurred with the idea of investment-dependence on Japan. A very senior investment adviser at the prime minister's office frankly stated that if Japanese investors start diverting their interest to Vietnam or India, there would be an "economic crisis" in Thailand. Other senior economic bureaucrats (including members of the Board of Investment) agreed that Thai prosperity and industrial growth had coincided with the surge of Japanese investment in their country.

The Response of the Academic Elite

This group generated the most interesting observations about Southeast Asia's investment dependence on Japan. Even in Singapore, five of the 10 academics agreed that their country was *somewhat* investment-dependent on Japan. A famous economist (and former advisor to former Prime Minister Lee Kuan Yew) pointed out that there were some Japanese corporations that produce more than Singapore's annual GNP. An editor of a major academic economic journal commented that Japan has created an "economic

empire” in Singapore and the rest of Pacific Asia since the 1970s. Even the academics who disagreed with the general statement agreed that Japanese investment played a major role in the recent industrialization of Southeast Asian countries.

Eighteen out of 29 academic elites agreed with the general statement. Even in Singapore, half of the 10 academics agreed that Singapore was and had been dependent on Japanese investment for its industrial and economic expansion.

In Malaysia, all seven academics including a politically influential economist agreed with the general statement. The economist initially commented that the Japan-Southeast Asia relationship was inter-dependent. He went on to explain that “Japan needs us less than we do them, but still Japan has many more choices than we do -- in this sense, in this crude sense, we are of course dependent on Japan”. Two other major academic figures in Malaysia refused to buy “the inter-dependent argument” at all. One of them, a princess of one of the western Malay states, pointed out that superior Japanese technology together with the overwhelming advantage of Japanese capital over domestic capital in any Southeast Asian country clearly indicates the dependent nature of the region’s industrialization.

The Malaysian academic who spoke out most strongly against Japanese economic expansion in Asia and the eagerness of Mahathir’s government to court Japanese investors argued that Malaysia’s industrial expansion had become vulnerable to Japanese whims. When confronted with the fact that in the year 1992 France was the largest investor in Malaysia, this celebrated Harvard-trained economist responded that “the prime minister’s son works for Bank of Tokyo not for French-Malaysian Bank. Malaysia has a pronounced pro-Japan economic policy.”

In Thailand, six of the 12 academics (including the leading expert on Japan-Thailand relations) agreed with the general statement. The most famous scholar on Japanese investments in the ASEAN region did not think Thailand was over-dependent on Japan,

|

but did note Japan's huge advantage over all other Asian countries. She also mentioned the changing nature of Pacific Asia's political economy that was bringing Japanese investment to Thailand and elsewhere in Southeast Asia.

The Response of the Business Elite

The response of the business elite was, again, without any specific pattern. Ten out of the 22 business leaders in emerging Southeast Asia agreed with the general statement. Two of the five business elites interviewed in Singapore agreed with general statement. In Malaysia, three out of six business elites agreed with the general statement. In Thailand, five business elites out of 11 agreed with the general statement.

Although the business leaders seemed less familiar with the concept of "dependence" than did their academic counterparts, they were much more eloquent about the previous question that referred to preferential treatment shown by their governments to Japanese and other foreign investors. It is interesting how Asian business leaders characterized Japan as the predominant economic player in not only Pacific Asia but the whole world. In all three countries, business leaders mentioned the gradually diminishing role of American corporations in Asia and the steady rise of Japanese and other East Asian (Korean and Taiwanese) multinationals.

The Response of the Student Activists and Others

The student leaders in Malaysia and Thailand readily agreed that their countries were over-dependent on Japanese corporations for their current phase of industrialization. However, they also believed that with policy changes their countries could become less reliant on Japanese investments.

On the other hand, only four of the nine Thai student activists agreed totally with the general statement. It seems that Thailand, being a larger (medium-sized) country,

experiencing its own booming economy, had a less dependent mentality among its younger generation. The Thai literary figure did not agree with the general statement, while the postmodernist cultural critic did. The cultural critic mentioned the land grab of Japanese near important historical and tourist sites in Thailand as another proof of the selling out of Thailand to Japanese interests.

The Fourth Question

The nature of the fourth question was different from the first three. This question asked the elites to identify in order of importance the biggest problems associated with Japanese investments. The problems listed were 1) environmental degradation, 2) lack of openness in Japanese management and 3) lack of technology transfer. It is obvious that the last two problems are interrelated.

Table 18A

| | Technology Transfer by Japanese Ventures | Opening Up of Japanese Higher Management | Environmental Degradation by Japanese Ventures |
|---------------------|--|--|--|
| Bureaucratic Elites | 33 (100%) | 0 | 0 |
| Academic Elites | 20 (69%) | 0 | 9 (31%) |
| Business Leaders | 12(54%) | 10(46%) | 0 |
| Student Activists | 6(42%) | 3(21%) | 5(37%) |
| All Elites | 71(72%) | 13 (13%) | 14 (15%) |

Question Four: Regarding the Main Concerns According to the Order of Importance About Japanese Ventures In Southeast Asia.

Table 18B

| | Technology Transfer by Japanese Ventures | Opening Up of Japanese Higher Management | Environmental Degradation by Japanese Ventures |
|--------------------|--|--|--|
| Singaporean Elites | 18 (81%) | 2(9.5%) | 2(9.5%) |
| Malaysian Elites | 20(74%) | 5(18.5%) | 2(7.5%) |
| Thai Elites | 33 (67%) | 6(12%) | 10(23%) |
| All Elites | 71(72%) | 13(13%) | 14(15%) |

Question Four : Regarding the Main Concerns According to the Order of Importance About Japanese Ventures In Southeast Asia.

The Response of the Bureaucratic Elites:

All 33 bureaucrats across the three countries listed the lack of technology transfer as the main problem associated with Japanese investments in their countries and in the region in general.

In Singapore, two senior bureaucrats mentioned that in order to counter Japanese and other multinationals' unwillingness to transfer technology, their country had started investing heavily in scientific and technological development. One Singaporean bureaucrat said that in certain high technology sectors Singapore could now compete with Japanese scientific knowledge.

In Malaysia, there was a sense of near-hopelessness among the country's leading economic bureaucrats about technology transfer by Japanese firms. Most of them were ready to admit that in the mid 1980s Japanese investments in Malaysia went to labor-intensive industries. They also pointed out that even in electronic sectors, the main jobs done in Malaysia were assembling of parts. Despite some requirements to open up management positions, Japanese firms generally filled up local senior management positions with Japanese managers.³¹ It was also here in Malaysia that all bureaucrats placed lack of opening up of management position as the second major problem associated with Japanese firms. (In Singapore, for example, two of the six bureaucrats referred to environmental degradation as the second biggest problem associated with Japanese corporations in the region.)

In Thailand, the bureaucrats again readily acknowledged the lack of technology transfer in Japanese ventures. Three senior bureaucrats talked about master plans made by the Board of Investments and the Prime Minister's Office to create a base of Thai

³¹ A Malay Muslim bureaucrat in Malaysian Industrial Development Authority, for example, mentioned that there are only two Japanese firms in Malaysia with a research and development division.

technological manpower by the turn of the Twenty-first century.³² It was also the Thai bureaucrats who pointed out that European and American corporations were more willing than their Japanese counterparts to open up management positions and to transfer technology to Thai partners in joint ventures. In Thailand, only one top policymaker viewed environmental degradation as the second largest problem associated with Japanese investments in his country.

Overall, it was clear that among the bureaucratic elites, especially the economic bureaucrats in the three fastest developing nations in Asia, technology transfer was the most critical issue concerning Japanese investments and ventures in their respective countries.

The Response of the Academic Elites

At least nine academics of the 29 interviewed pointed out environmental degradation as the top problem associated with Japanese investments. This result is significant because it is generally acknowledged throughout Southeast Asia that Japanese are reluctant to transfer technology and to open up senior management positions to local technocrats and managers. Thus, it was not that these academic leaders were uninformed about the other two problems, but that these pro-environment academics were eager to stress their concern about degradation of nature in industrializing Asia.

In Singapore, even conservative economists (including a Japanese investment specialist) readily conceded that the relocation of certain Japanese industries in the region has created environmental problems.³³

³² It is important to note that Thai academics ridiculed that master plan to develop Thai scientific and technological manpower and their government's failure to create more engineering graduates.

³³ In Singapore, the other academic who said that environment is a major problem was the director of the Japanese studies program at National University of Singapore.

In Malaysia, the controversial Harvard-educated economist was as usual the most vociferous critic of environmental problems caused by Japanese enterprises in his country and in other developing Southeast Asian nations. He pointed out that Japanese had a clean record in keeping their own country environmentally safe.³⁴ Practice, what he termed as “environmental hypocrisy,” Japan had relocated most of its polluting industries (e.g. rayon, metals) to Southeast Asia, specifically to Indonesia, Malaysia, and Thailand. Two other prominent academics in Malaysia concurred with this economist. It should be noted, however, that the most influential academic economist of Malaysia did not agree. He instead pinpointed the lack of technology transfer as the foremost problem associated with Japanese enterprises in developing Asia. This politically well-connected economist also talked about creating Malaysia’s own technology base, but was ready to acknowledge Japan’s vast lead over other Asian nations in scientific knowledge and technological advances.

In Thailand, four of the 12 academics put environment before technology transfer. (Of these four, two were female academics.) In Thailand, the most important academic scholar on Japanese investments concurred with the most politically influential Malaysian economist. Furthermore, she talked at length about the uselessness of Japanese governmental and corporate-sponsored educational and technological-training programs. According to one of the Japan specialists, these same technical cooperation programs were superficial and did not provide reasonable access to high technology. She along with several other Thai academics also blamed her own government for being unable to create technologically superior engineers such as those in Taiwan, India and or Korea. The rector of one of the Thai Universities (this university has extensive grants, exchange programs and contacts with Japanese government and Japanese universities), opined that opening up of higher management positions to Thai technocrats would solve the

³⁴ Japan experienced one of the earliest environmental movements amongst the advanced industrial nations, in 1967.

perception problem of Japanese dominance in key sectors of the economy. He mentioned that IBM, Thailand and Coca-Cola, Thailand had Thai chairmen, while he deemed impossible such a scenario in a comparable Japanese corporation. Two prominent economists blamed the Thai government for not creating high-technology institutes in the country and asserted that many Thai technocrats were unable to gain much knowledge from their Japanese or other foreign supervisors.

The Response of the Business Elite

It is interesting that 10 out of 22 business leaders thought that opening up of higher management positions in Japanese corporations was more important than technology transfer. It is equally interesting that, like their bureaucratic counterparts, none of the business leaders considered environment as the most important problem associated with Japanese ventures in Southeast Asia.

In Singapore, four of the five business leaders rated opening up higher management as more important than technology transfer. In Malaysia three out of six business leaders rated opening up higher management as more important than technology transfer. In Thailand, three out of eleven business elites judged opening up higher management as more important than technology transfer. It is quite apparent that the concern for technology transfer in Japanese corporations was greater in Thailand than anywhere else.

The Response of Student Activists and Others

The three student leaders from Singapore and Malaysia ranked opening up of higher management position as the most important problem related to Japanese economic presence in the region. They also argued that the critical issue of technology transfer was embedded in the question of opening up of higher management positions in larger Japanese corporations.

In Thailand, the literary figure and the cultural critic both perceived environment as the main issue. In their interviews they did not necessarily limit their concerns to only the natural environment, but also concern about the cultural and social environment of Thailand. For example, they mentioned the “spoiling of Southeast Asia” due to Japanese mass tourism, and all-Japanese golf clubs and housing complexes (as in Authyiaya, the ancient capital of Thailand).

Only three of the nine student activists saw environmental problems as the most important. One student leader clarified that environmental concerns were his personal, but that most educated Thai youth viewed technology transfer and the opening up of higher management positions as far more important questions.

The two other pro-environment Thai student activists were genuinely concerned about the deteriorating environment in the Bangkok region, their answers might have been prompted by their overall concern for environmental degradation in Thailand, rather than by specific relocation of polluting Japanese industries. Five of the six other students said that technology transfer was the most critical issue in Japan-Thailand relations.

The Fifth Question

The fifth question in the interview was quite straight forward. It asked the elites whether they considered Japan to be the undisputed economic leader of Pacific Asia.

Table 19 A

| | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|------------------------|--|---|
| Bureaucratic Elites | 28(85%) | 5(15%) |
| Academic Elites | 20(69%) | 9(31%) |
| Business Elites | 15(69%) | 7(31%) |
| Student Activists etc. | 12(86%) | 2(14%) |
| All | 75 (76.5%) | 23 (23.5%) |

Question Five : Do you consider Japan to be the undisputed economic leader of Pacific Asia ?

Table 19 B

| | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|---------------------|--|---|
| Elites in Singapore | 15(69%) | 7(31%) |
| Elites in Malaysia | 25(92%) | 2(8%) |
| Elites in Thailand | 35(71%) | 14(29%) |
| All Elites | 75 (76.5%) | 23 (23.5%) |

Question Five: Do you consider Japan to be the undisputed economic leader of Pacific Asia ?

The Response of the Bureaucratic Elite:

In Singapore four of the six bureaucratic elites agreed with the general statement contending that Japan is certainly the regional economic leader. One bureaucrat went on to say that Japan was the global leader in trade and investment. Two bureaucrats mentioned that the Japanese would be facing strong competition from newly industrializing nations such as Korea, Taiwan and Singapore. One of the two also mentioned that China had every potential to become the undisputed economic leader of Asia by the end of the century.

In Malaysia, quite remarkably, all 12 bureaucrats interviewed agreed that Japan was the supreme economic leader of Asia. When asked about the competition from Asian NIEs and China, at least three of them mentioned that other Asian countries would take wait a long time to catch up with Japanese economic prowess. Two senior investment bureaucrats mentioned the number of dominant Japanese corporations in the region and compared them with a handful of Korean or Taiwanese multinationals. Another senior economic bureaucrat asserted that with its mass poverty and lack of infra-structure China would never become an economic superpower or the economic leader of the region. Ten of the 12 Malaysian bureaucrats also mentioned the technological edge that Japan has over the rest of Asia. Five of the 12 Malaysian bureaucrats referred to Japan's global leadership in technology, trade and investment.

In Thailand, 12 of the 15 bureaucrats agreed with the general statement. Interestingly, the three others who did not agree mentioned the United States, not China or the Asian NIEs, as Japan's main economic competitor in the region. One of these three bureaucrats mentioned China as a potential competitor "twenty or thirty years later;" but all 15 bureaucrats directly or indirectly mentioned Japan as being far ahead of the rest of Asia as a technologically developed nation. One senior Thai economic bureaucrat from the Prime Minister's Office mentioned, that as an Asian, he felt proud of Japan's economic achievement in the global arena. Five of the 15 Thai bureaucrats named Japan as the global leader in trade and investment.

The Response of the Academic Elite:

In Singapore, five of the 10 academics thought that Japan was the supreme economic leader of Asia. One prominent economist mentioned that it was impractical to think that the Asian NIEs would ever be successful competitors of Japan. He and one other academic pointed out that even Korea or Taiwan had to rely on Japanese technology and

heavy machinery imports to sustain their industrial expansion. Another major economist (and former adviser to the prime minister) pointed out that some Japanese corporations are bigger economic units than the entire countries of Singapore, Malaysia or Thailand. However, five other Singaporean scholars disagreed with the general statement. All of them mentioned that Japan would not continue as the dominant player in the region. These academics, most of whom are researchers at the Institute of Southeast Asian Studies, Singapore, had a vision of ASEAN as an emerging, integrated economic and political bloc that could counter Japanese or any other hegemony in Asia. Two of these dissenting academics mentioned China and the NIEs as major economic players in the region. One renowned Japan specialist mentioned that Singapore has a higher standard of living and a better industrial infrastructure than Japan.

In Malaysia on the other hand, six of the seven academics thought that Japan was the undisputed economic leader of the region. When told about the opinion of dissenting Singaporean academics, some Malaysian academics hinted that ethnic Chinese economists might have failed to realize the real impact of Japan in Asia. Five of the seven Malaysian academics discussed Japan's global economic power. Two Malaysian economists talked about Japan's investment in the United States and the European Community, contrasting that with the limited global economic role that China or Asian NIEs played on this scale. One top academic (an adviser to the prime minister) mentioned that Japan's dominance of Asian economy and Japanese leadership in global trade and technology were "hard facts, not debatable."

In Thailand, nine of the twelve academics agreed with the general statement. All repeatedly mentioning Japan's technological advantage over the rest of Asia. They also generally mentioned that Japan is a global economic player, which also has a clear economic lead over rest of Asia. Interestingly, none of the dissenting academics were economists. One of them, a prominent strategic studies scholar said, "Japanese economic

leadership does not mean anything”, strongly implying that Japanese economic power had not been translated into strategic power over the region.³⁵ Two other dissenting academics followed the standard pattern of argument by pointing out the growing importance of Asian NIEs and the emergence of China as the economic growth leader in Asia. Unlike those in Singapore, the Thai academics did not have a vision of the ASEAN as an emerging economic area, however, they did mention the “catching up” of other Asian nations, particularly Taiwan and Korea.

The Response of the Business Leaders:

In Singapore, business leaders, unlike their bureaucratic and academic counterparts readily agreed that Japan is the undisputed economic leader of Asia. All five business leaders pointed out the financial assets of behemoth Japanese corporations and their global economic reach. Business leaders also said that some other Asian countries may catch up with Japan in certain sectors of economy but Japan would remain as the predominant economic player in Asia for the foreseeable future.

In Malaysia, five out of six business leaders agreed with the question. The only dissenting business leader said that Asian NIEs and ASEAN countries together would play a co-equal role in Asia.³⁶ The agreeing business leaders also pointed out Japanese economic presence in the region and Japan’s global trade and technological power. One Malaysian business leader mentioned that “ Japanese are ahead of even Americans.”

In Thailand, the response pattern of the business leaders was the same as in Singapore and Malaysia. Ten out of 11 business leaders said that Japan was the undisputed economic leader of Asia. All of them stressed the superior technology of Japanese firms

³⁵. This view was actually contested by another security affairs specialist in Thailand.

³⁶. He is the chairman of a Malaysian company that has joint venture with a Korean electronics firm.

as well as Japan's global economic presence. Some also regarded Japanese management as superior. One Thai business leader mentioned that Japan had been a developed nation for more than twenty years while the rest of Asia was still catching up. The only dissenting business leader in Thailand mentioned China as the other major economic player in Asia. He was an ethnic Chinese businessman.

The Response of Student Activists and Others:

The only Singaporean student leader was quite eloquent about Japan's dominance of the Asian and global economy. He also talked about Japan's technological edge over the United States. Both the Malaysian student leaders agreed with the question. One added that Japan may surpass US GDP in the next century. None of the student leaders from Singapore and Malaysia thought that Asian NIEs or China would ever become a serious economic rival for Japan.

In Thailand, however, five out of 11 student leaders talked about emerging Southeast Asia, Asian NIEs and China as different poles of Asian economic power. All five dissenting Thai student leaders eagerly pointed out the growth rate of the ASEAN countries. However, two of the six agreeing student leaders talked about Japan's "economic empire" in Asia. One student leader, who has a job offer at a large Japanese automobile corporation mentioned the "yen bloc." Two student leaders talked about Japan's "technological superiority over the rest of the world."³⁷

³⁷ This was a joint interview.

The Sixth Question

The sixth question asked the elites what they thought about Southeast Asia's importance to Japan. In other words, Southeast Asian elites were asked about Japanese attitude towards Southeast Asia.

Table 20 A

| | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|-------------------------|--|---|
| Bureaucratic Elites | 27 (84%) | 6(16%) |
| Academic Elites | 20(69%) | 9(31%) |
| Business Elites | 15(69%) | 7(31%) |
| Student Activists, etc. | 12(86%) | 2(14%) |
| All | 76 (77.5%) | 22 (22.5%) |

Question Six: Do you think that Southeast Asia is important to Japanese government officials and corporations ?

Table 20 B

| | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|---------------------|--|---|
| Elites in Singapore | 15 (69%) | 7(31%) |
| Elites in Malaysia | 21(77%) | 6(23%) |
| Elites in Thailand | 40(82%) | 9(18%) |
| All Elites | 76 (77.5%) | 22 (22.5%) |

Question Six: Do you think that Southeast Asia is important to Japanese government officials and corporations ?

The Response of the Bureaucratic Elites:

Overall 24 out of 33 bureaucrats in three countries thought that Southeast Asia was relevant and important to Japanese government and Japanese investors. They talked about Southeast Asia's importance as a source of raw material, low production costs and growing markets. The dissenting bureaucrats were mainly from Singapore and Thailand. The dissenting bureaucrats pointed out the existence of other low-cost production bases nearer to the North American market, the foremost destination of Japanese exports. Some

dissenting bureaucrats also mentioned that Southeast Asia was less relevant to Japan than Japanese investments were to Southeast Asian countries.

In Singapore, four out of six bureaucrats mentioned that Southeast Asia or more particularly the ASEAN countries have become vital overseas production bases for Japanese corporations. Three of the six bureaucrats mentioned Indonesia as a major source of energy for Japanese industries. Two of these three bureaucrats also mentioned the whole region's importance to Japan as a source of raw materials. Two other senior bureaucrats, however, remained a little skeptical. They pointed out that from the Japanese economic and political standpoint, North America and Europe were much more vital. But even these two mentioned the growing importance of Asia to Japan as market and overseas production base. Interestingly, these two officials did not consider Southeast Asia as source of raw material for Japanese industries.

In Malaysia, 10 out of 12 bureaucrats thought that Southeast Asia is important to Japan for economic and political reasons. Eight bureaucrats pointed out "cultural similarities" and "geographical proximity" as major reasons for Japanese investors to be attracted to the region. Five out of 12 bureaucrats opined that Southeast Asia would continue to grow in importance in Japanese eyes. One senior investment officer in the Malaysian Industrial Development Authority stressed the importance of cheaper production bases to the competitiveness of Japanese industries.³⁸ The two dissenting bureaucrats followed the pattern of Singaporean officials and said that Southeast Asia needed Japan much more than Japan needed Southeast Asia. One of them also pointed out that the United States is still the prime destination for Japanese investments.

In Thailand, 10 of the 15 bureaucratic elites thought that to Japanese government and investors Southeast Asia was important. A senior bureaucrat in the Prime Minister's

³⁸. He immediately pointed out that his country was losing the comparative advantage of cheaper labor and thus cheaper production cost for labor-intensive Japanese export-oriented ventures.

Office stressed Japanese involvement in United Nations Transitional Authority in Cambodia as a clear indication of Japanese interest in the region. Two senior investment officers tried to point out that Thailand or rest of Southeast Asia were important not only because of lower production costs but also because of emerging markets. Five out of these 10 bureaucrats also mentioned Japan's "historic ties" with Thailand.³⁹ Two of them talked about long-term Japanese interest in Southeast Asia. The dissenting Thai bureaucrats took the general pattern of Singaporean and Malaysian officials. One of them pointed out that Japan could actually divert its production bases to somewhere near the United States such as Mexico or Central America. One senior investment adviser in the Prime Minister's Office said that she was "quite scared" about the economic fallout of NAFTA. One other investment adviser thought that Southeast Asia's time of importance to Japanese investors was over and that Japan would direct its investments to China and India.

The Response of the Academic Elite:

In Singapore, five out of 10 academics said that they thought Southeast Asia was important to Japan. Remarkably, the foremost Japan specialist⁴⁰ in the city-state talked very negatively about Japanese interest in Southeast Asia. This renowned scholar argued that Southeast Asia means very little to Japan as exemplified by the fact that Japan has very few Southeast Asia specialists in the academic circle (compared to few hundred academic specialists and business consultants that Japan has for North America). This scholar, throughout the interview went on stressing Japan's unwillingness to apologize for its war crimes.⁴¹ The editor of the most highly respected academic journal and a

³⁹. Thailand was formally a Japanese ally in the World War II.

⁴⁰. A cultural scholar.

⁴¹. Some apologies have since been made by Japanese prime ministers Hosokawa and Murayama.

celebrated economist mentioned that Japan has very little regard for cultural sensitivities of the Southeast Asians. The scholars who said that Southeast Asia was important to Japan were all economists. All of them mentioned the importance of the region as production base and as an emerging market of 350 million people. An energy specialist in this group of economists also talked about Indonesia and Vietnam as Japan's source of petroleum and natural gas.

In Malaysia, five out of seven academics thought that Southeast Asia was important to Japanese investors and government. One of the two dissenting academics was a princess who mentioned her own experience in Japan. She also said that Japan's real interest in Southeast Asia was "essentially commercial" and had "nothing to do with cultural links or East Asian brotherhood." The other dissenting academic, an ethnic Chinese economist, mentioned Japan's wartime crimes in Asia. Interestingly, the foremost critic of Japanese investment in the region thought that Japanese believed in some cultural proximity to Southeast Asia. He also mentioned that "Japanese definitely feel more comfortable" doing business in the region. Other academics generally thought that Southeast Asia was increasingly more relevant to Japan, not only as a production base but also as a market.

In Thailand, nine out of 12 academics thought that Southeast Asia was important and relevant to Japan. The three dissenting academics included the post-colonial cultural critic, who mentioned Japan's "crude financial and business interests" in the region. He again said that Japanese are only interested in exploiting the natural resources and the docile population of the region. The main Japanese investment specialist in Thailand mentioned Japan's ever-expanding programs in providing scholarships and technical education to Southeast Asian students as a proof of its long term stake and interest in Southeast Asia. Two other economists clearly stressed the economic performance of the ASEAN countries as an enticement for Japanese producers searching for global market.

Three of the nine agreeing Thai academics also talked about “cultural ties” between Thailand and Japan.⁴²

The Response of the Business Leaders:

All five Singaporean business leaders thought that although Singapore by itself might not be important, Southeast Asia as a region was very important to Japan. One of the Singaporean business leaders, owner of a trading company that deals with Indonesian bauxite, talked about Japan’s reliance on Indonesia for raw materials. Two of the Singaporean business leaders also mentioned the interest shown by Japanese retail chains in booming Southeast Asian cities. However, it was the overall impression of these business leaders that Southeast Asia mattered much less to Japanese investors than did the United States or Europe, for example.

In Malaysia four of the six business leaders perceived Southeast Asia as important to the Japanese government and private Japanese investors. They vaguely talked about the continuous flow of investment from Japan despite its own recession. Like the Singaporeans, Malaysian business leaders also pointed out the sudden growth of Japanese retail chains in the region as a sure sign of growing Japanese interest in tapping the emerging middle class market. The two dissenting Malaysian business leaders mentioned Japan’s overwhelming interest in the North American market and added that other Asian countries were also interested “in that market.”

In Thailand, 10 of the 11 business leaders considered Southeast Asia was important to Japanese government and investors. More or less, Thai businessmen’s response pattern was same as their Singaporean and Malaysian counterparts. Three of these 10 Thai businessmen were in joint ventures with Japanese corporations. Five of the ten businessmen who agreed mentioned Southeast Asia’s growing relevance to Japan as a

⁴² Both Japan and Thailand are constitutional monarchies with Buddhist traditions.

market rather than as a production base alone. The only dissenting Thai business leader was an ethnic Chinese with a graduate business degree from Harvard University. He said that “Thailand or, for that matter, the whole of Southeast Asia will remain a peripheral market for Japan for the foreseeable future.”

The Response of the Student Leaders:

The Singaporean student leader thought that Japan had plenty of interest “ in its own backyard.” He stressed the emergence of the ASEAN and the possibility of Vietnam becoming the next economic tiger as Japan’s reasons for taking a serious look at Southeast Asia, as a potential market.

The two Malaysian student leaders also thought that Japan was self-serving enough to be interested in the region. One of them mentioned Southeast Asia’s growing importance as a market for Japanese goods. The other one mentioned oil and other natural resources as Japan’s main attraction to the region.

In Thailand as well, all 11 student leaders and cultural and literary figures thought that Southeast Asia was important to Japan. Even the critics of Japanese investment in the region mentioned that this area was very relevant in Japan’s global scheme of things. At least three of the student leaders thought that Japan had strong long-term interest in Southeast Asia. One student leader argued that the Japanese student scholarships and exchange programs in Thailand (and in other countries of the region) were meant to exert a “certain control over the young generation’s mind” which proved that Japanese government officials and corporations thought that the ASEAN would be “a very important region in the future.”

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The Seventh Question

The seventh question approached another sensitive topic, that is, Japan's remilitarization and the role that Japan played in the United Nations Transitional Authority in Cambodia. Each elite was asked whether or not he or she saw Japan as an emerging major military player in the Pacific. Each elite was also reminded that Japan had the second largest defense budget in that year (1991-92) after the United States. A considerable number of elites actually expressed shock at learning that Japan was the second largest military spender.

Table 21 A

| | Mostly or somewhat agreed with the content of the question | Mostly or somewhat disagreed with the content of the question |
|------------------------|--|---|
| Bureaucratic Elites | 12(36%) | 21(64%) |
| Academic Elites | 15(51%) | 14(49%) |
| Business Elites | 10(45%) | 12(55%) |
| Student Activists etc. | 10(71%) | 4(29%) |
| All | 47(48%) | 51(52%) |

Question seven: Do you consider Japan as a military power and an emerging military leader in the Pacific Asia?

Table 21 B

| | Mostly or somewhat agreed with the content of the question | Mostly or somewhat disagreed with the content of the question |
|---------------------|--|---|
| Elites in Singapore | 7(31%) | 15(69%) |
| Elites in Malaysia | 17(63%) | 10(37%) |
| Elites in Thailand | 23(47%) | 26(53%) |
| All Elites | 47 (48%) | 51(52%) |

Question seven: Do you consider Japan as a military power and an emerging military leader in the Pacific Asia?

The Response of the Bureaucratic Elites:

In Singapore all six bureaucrats argued that they did not seriously believe that Japan could emerge as a military threat to Pacific Asia. One advisor to the prime minister hinted at Singapore's close security relationship with the United States and then specifically

offered that in case of an emerging Japanese threat ASEAN countries could rely on the US naval presence in the region. Another senior Singaporean bureaucrat mentioned China as the most important emerging military power in East Asia. Five out of six Singaporean bureaucrats described Japan's role in UNTAC as having a "limited nature" and "impressive but not decisive."

In Malaysia, however, seven of the 12 officials considered Japan to be a major military player in the region. In fact, one senior policymaker went out of his way to say that he would welcome a bigger Japanese military presence in the Pacific. This Malay Muslim bureaucrat also felt that Japan should emerge as a countervailing military power against China. Three other Malaysian bureaucrats mentioned China as a major destabilizing factor in Asia. At least four out of 12 Malaysian bureaucrats hinted that they viewed Japanese remilitarization quite favorably. Interestingly enough, 11 out of 12 Malaysian officials thought Japanese role in UNTAC was a proof of Japan's growing diplomatic presence in the region.

In Thailand, five of the 15 bureaucratic leaders considered Japan as a growing military power in Asia. One senior policymaker in Prime Minister's Office frankly stated "we have nothing to fear about Japan." Two other senior policymakers the existence of a Japan-Thailand special relationship. However, one senior bureaucrat mentioned Thai military's nervousness in let Japanese SDF personnel use Thai military airfields for the UNTAC operations.

The Response of the Academic Elites:

In Singapore six out of 10 academics expressed clear concern about Japanese remilitarization. Three Singaporean academics also pointed out that they would have preferred a more pronounced US involvement in Cambodia. Five Singaporean academics noted that Japan actually followed ASEAN's diplomatic initiatives in the Cambodian

settlement. Several ethnic Chinese Singaporean academics clearly expressed their distrust of Japan. The editor of a major economic journal talked about Japan's lack of repentance about crimes committed during the Pacific War. Overall, seven out of ten Singaporean academics considered Japan to be an emerging military player in Asia. Two Singaporean scholars stressed Japan's technological edge as major advantage for its military ambitions. The three academic elites who did not consider Japan as a major military player pointed out the counter balancing impact of China and the United States in Pacific Asia. One of the Singaporean scholars dismissed Japan outright as a military player by commenting that even South Korea had a better military than Japan.

In Malaysia, the view was more diverse. Four academics considered Japan to be a major military player in Asia. The top critic of Japanese investments in Asia, pointed out that Japan's military role in Asia would ultimately depend on its own domestic political factors. He said that "if Japan wants it can become a military superpower overnight." Another senior Malaysian academic (Malay Muslim) pointed out that Japan's technological efficiency (especially in electronics and computers) is easily convertible to military capability. Interestingly, all the three Malaysian academics who did not view Japan as major military power were ethnic Chinese. It should be noted here that unlike the Malaysian bureaucrats, none of the Malaysian academics welcomed Japan's growing military role. However, five of them thought that Japanese involvement in Cambodia was commendable.

In Thailand, five out of 12 academics considered Japan to be an emerging and potential military player in Asia. However, 10 out of 12 Thai academics thought that Japan had played a substantial role in the Cambodian settlement. It is possible that since Thailand is a neighboring country of Cambodia, Thai academics were more aware about Japan's involvement in the settlement. The seven Thai academics who thought Japan was not a major or potential military player referred to China as the most important military

power in East Asia. One senior economist and former economic adviser to the prime minister commented that “the only remaining military power in Asia is the United States.”

The Response of the Business Elite:

All five Singaporean business leaders said that they did not view Japan as a major military power in Asia. Two of them, however, mentioned that they believed, with its technological and economic prowess, could easily build up a sophisticated military force. All five Singaporean business elites showed mild surprise when they came to know that Japan was the second largest military spender in the world. Four out of five business leaders thought that Japan had played a significant role in the Cambodian settlement.

In Malaysia, four out of six business leaders thought that Japan was a potential military power in Asia. One of them mentioned that “Japan is already a big military power.”. The two Malaysian business leaders who thought Japan was not a major or potential military player also thought that Japan did not play a substantial role in the Cambodian settlement. The president of one of the ethnic chambers of commerce commented “ A Japanese remilitarization program would further complicate the Asian military scenario.”

In Thailand, the opinion of the business community was quite divided on this issue. Six out of 11 Thai business leaders thought that Japan was a major and potential military player in Asia. Four of these six businessmen also mentioned that Japan’s involvement in the thorny Cambodian crisis illustrated Japan’s new status and willingness to be involved in security-related matters. Five Thai business leaders did not consider Japan to be a major or potential military leader of Asia. However, four of these five viewed Japan’s role in the Cambodian settlement as substantial.

|

The Response of the Student Leaders:

The only Singaporean student leader thought that Japan has long-term plan to reemerge as the leading military power in Asia-Pacific. He also thought Japan should already be considered as a major military power. Surprisingly, he did not think that Japan played any significant role in the Cambodian settlement.

The two student leaders of Malaysia virtually echoed the opinion of the Singaporean student leader about Japan's military potential and military planning. However, they differed on Japan's role in the Cambodian settlement. They thought Japan planned a role commensurate to its economic status. They also commented that ASEAN countries should have contributed more for the reconstruction of Cambodia.

In Thailand, seven out of 11 student leaders ranked Japan as a major power and a potential military leader in Asia. In this context, five out of these seven leaders also commented on Japan's economic and technological superiority over the rest of Asia. It should be noted, however, that four out of these seven student politicians thought that Japan "did not do enough" for the Cambodian settlement. Three of the five non-agreeing Thai student leaders (who did not consider Japan a major power and a potential military leader in Asia) also thought that Japanese involvement in the Cambodian settlement was not significant enough.

|

The Eighth Question

The eighth question dealt directly with the concept of a Japanese “economic empire” in Pacific Asia. Elites were specifically asked whether they thought Japan had created an economic empire in Asia through its investments, trade, and developmental aid.

Table 22 A

| | Mostly or somewhat agreed with the content of the question | Mostly or somewhat disagreed with the content of the question |
|------------------------|--|---|
| Bureaucratic Elites | 20(60%) | 13(40%) |
| Academic Elites | 18(62%) | 11(38%) |
| Business Elites | 17(77%) | 5(23%) |
| Student Activists etc. | 9(64%) | 5(36%) |
| All | 64(65%) | 34(35%) |

Question Eight: Do you think that Japan has created an economic empire in Asia through its investments, trade, and developmental aid ?

Table 22 B

| | Mostly or somewhat agreed with the content of the question | Mostly or somewhat disagreed with the content of the question |
|---------------------|--|---|
| Elites in Singapore | 14(63%) | 8(37%) |
| Elites in Malaysia | 18(66%) | 9(34%) |
| Elites in Thailand | 32(65%) | 17(35%) |
| All Elites | 64(65%) | 34(35%) |

Question Eight: Do you think that Japan has created an economic empire in Asia through its investments, trade, and developmental aid?

The Response of the Bureaucratic Elites:

In Singapore, three of the six bureaucratic leaders said that Japan had been able to create some form of economic empire in Asia. Two other bureaucrats commented that the notion of empire was “old-fashioned,” with the contemporary world comprised of no empires, either economic or political.”

In Malaysia, seven of the 12 bureaucrats agreed with the general statement. Though they acknowledged Japan’s involvement in Asian economy, the dissenting Malaysian bureaucrats pointed out that Japan was not the only economic player in Asia and secondly, that Japan was not a major military power. One senior Malaysian policymaker

comparing the situation in Central and South America commented that “Southeast Asia is not Japanese South; Japan does not have any formal or informal empire in Asia.”

In Thailand, on the other hand, 10 of the 15 bureaucrats thought that Japan had created an economic empire in Asia through its investment, trade, and developmental aid. A senior economic policymaker commented that Japan’s economic involvement in Asia has “no historical parallel.” Another bureaucrat from the Prime Minister’s Office talked about “Japan’s commercial empire” in Asia. However, those who agreed, added that Japan did not have the political and military instruments to form an empire. When reminded that they were asked about an “informal economic empire,” these bureaucrats generally agreed that Japan had developed one in Pacific Asia. The dissenting bureaucrats talked about the growing power of the emerging Asian NIEs and the ASEAN countries. They also mentioned the United States as a key economic and political player in Asia. One investment bureaucrat commented, “Japan does not have any economic hegemony in this part of the world.”

The Response of the Academic Elites:

In Singapore, five of the 10 academics thought that Japan indeed had established an economic empire in Asia. A celebrated economist and editor of a highly prestigious academic journal stated that, “What Japan could not do by military means, it has now achieved by investment and trade: this part of Asia is now a yen bloc.” Of the academics who disagreed the most eloquent was a foreign investment specialist who thought that the high tide of Japanese economic expansion was already over and that the ASEAN itself would become a major integrated economic powerhouse by the turn of the century.

In Malaysia, five of the seven academics agreed with the general statement. Two of the most serious critics of Japanese investments actually agreed with the general statement. One, a politically influential economist stated that “Japan had a Pacific empire

even a few decades ago; now the nature of the empire is of course different.” Both of the disagreeing Malaysian academics were ethnic Chinese.

In Thailand, eight of the 12 academics agreed with the general statement. A famous economist among them pointed out that the new generation of Southeast Asian technobureaucratic elites would be trained in Japanese universities using Japanese scholarship money. Another scholar argued that, “In the post-cold war period, an economic empire is a real empire; economic power is real power.” Even the four disagreeing Thai academics believed that Japan had more economic involvement in the rest of Asia than did any other nation.

The Response of the Business Leaders:

In Singapore, all five business leaders agreed with the general statement. The president of one of the city-state’s ethnic chambers of commerce stressed that “Japan had a corporate empire in Asia even before World War II.”

In Malaysia, four of the six business elites agreed with the general statement. The two dissenting business elites perceived the United States and the European Community as coequal economic players in the ASEAN region. One of them mentioned that ASEAN policymakers and businessmen increasingly view European investments as together rather than separately as French, German, or British.

In Thailand, eight of the 11 business leaders thought that Japan had created an economic empire in Asia. One of the Thai business leaders commented on the global marketing power and research and development activities of Japanese corporations in Asia. Likewise, another Thai business leader stated “Without Japanese joint ventures we would never have gotten a market share in Europe or in the United States.” The other three Thai business leaders basically agreed that the United States constitute a major economic player in Asia and worldwide.

|

The Response of the Student Leaders:

In Singapore and Malaysia all three student leaders agreed with the general statement that Japan had created an economic empire in Asia through its investments, trade, and developmental aid. The Singaporean student leader also mentioned Japan's technological edge over the rest of the world.

In Thailand, six of the 11 student leaders agreed with the general statement. Two of these six also mentioned Japan's interest in Southeast Asia's cheaper manpower and raw materials. The literary figure, among the opposing five, did not think that Japan had created a new empire in Asia. The cultural critic, however, described these developments as "a Japanese empire taking shape" -- and indicative of "a desire to control and exploit Southeast Asia's resources."

|

The Ninth Question

The ninth and the final question in the survey asked the Southeast Asian elites whether or not they thought Japan could potentially become a political leader in Asia.

Table 23 A

| | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|------------------------|--|---|
| Bureaucratic Elites | 24 (73%) | 9(27%) |
| Academic Elites | 17(59%) | 12(41%) |
| Business Elites | 18(82%) | 4(18%) |
| Student Activists etc. | 8(57%) | 6(43%) |
| All | 67(68%) | 31(32%) |

Question Nine: Do you think that Japan could potentially be a political leader for Pacific Asia?

Table 23 B

| | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|---------------------|--|---|
| Elites in Singapore | 13(59%) | 9(41%) |
| Elites in Malaysia | 19(70%) | 8(30%) |
| Elites in Thailand | 35(71%) | 14(29%) |
| All Elites | 67(68%) | 31(32%) |

Question Nine: Do you think that Japan could potentially be a political leader for Pacific Asia?

The Response of the Bureaucratic Elites:

In Singapore, four of the six bureaucrats thought that Japan, if willing, was in a position to lead Pacific Asia. One bureaucrat said that Japan's contribution to international aid and its status as a global investor and trading nation made it a "natural candidate for permanent membership in the UN Security Council." The two dissenting Singaporean bureaucrats talked about rivalry with China and domestic division in Japan as being the main obstacles to Japanese leadership in Asia.

In Malaysia, nine of the 12 bureaucrats thought Japan could become the leader of Pacific Asia. A senior investment bureaucrat added that "Japan is already Asia's leader." Another one went on to say that "Japan is global leader in technology, investment, and

trade.” The opposing Malaysian policymakers thought that Japan itself was unwilling to take the responsibility of such leadership. One of them added that “Japan is happy to be a commercial nation, it does not want the burden of political leadership.”

In Thailand, 11 of the 15 bureaucrats thought that Japan had the potential to become the political leader of Asia. Two of these 11 mentioned Japan’s role in the Cambodian settlement as an example of Japan’s growing leadership role in Asia. The disagreeing bureaucrats discussed the competition with China. One bureaucrat in the Prime Minister’s Office also emphasized the division among Japanese political elites regarding their country’s involvement in overseas affairs.

The Response of the Academic Elites:

In Singapore, only half of the academics agreed with the general statement. A well-known scholar of strategic studies described Japan’s internal dilemma as a “total confusion” among the political leadership over the nation’s global and regional political roles. Another noted economist pointed out Japan’s “shyness” in approaching the Cambodian issue at the onset of the crisis.

In Malaysia, four of the seven academics thought that Japan could lead Asia. One of them said, “Japan has already been leading Asia in every respect.” Another senior economist talked about the “Japanization of Asia including the coastal provinces of China.” The main critic of Japanese investments in Malaysia, however, pointed out Japan’s unwillingness to lead either global or even strictly Asian forums. Another academic elite pointed out China as a serious political rival to Japan, while yet another academic laughed roundly at the mere suggestion of Japanese political leadership in Asia.

In Thailand, however, eight of the 12 academics thought that Japan could never lead Asia. Two senior academics pointed out the vast naval presence of the United States in Asia. They also talked about US leadership on most global issues. Three academics

stressed Japan's own "political dependence" on the United States and Japan's willingness to be "guided" by the US foreign policy establishment. The four Thai academics, in agreement, mainly talked about Japan's economic prowess, developmental aid and general involvement in Cambodia.

The Response of the Business Leaders:

Three of the five Singaporean business leaders believed that Japan could potentially lead Asia. The two disagreeing business leaders pointed out Japan's preoccupation with being a financial power as being its only detriment to become the political (and military) leader of Asia.

In Malaysia, five of the six business leaders agreed with the general statement. The dissenting businessman, who was ethnic Chinese, pointed out China as a possible leader of Asia.

Likewise in Thailand, 10 of the 11 business leaders agreed that Japan could lead Asia politically. Seven of these 10 believed that Japan's economic power would automatically translate into political dominance over the region. The only opposing Thai businessman pointed out Japan's "lack of patience with Asian issues" and its focus, instead, on global market as main reasons for not considering Japan as the future political leader of Asia.

The Response of the Student Leaders:

The Singaporean student leader agreed that Japan could politically lead Asia. But he added that Japan needed domestic consensus to become the political-military leader of Asia.

In Malaysia, one of the student leaders disagreed with the general statement. He (ethnic Chinese) mentioned Japan's own unwillingness as the main reason for his disagreement. The other student leader (ethnic Indian) saw a gradual leadership role for Japan in Asia.

|

In Thailand, the cultural critic thought that it was impossible for Japan to lead Asia because of the rest of Asia's discomfort at the idea of being led by Japan. He argued that ethnic Chinese business and intellectual elites in Southeast Asia would resist any Japanese attempt at political dominance of the region. He mentioned India and China as real leaders of Asia. The literary figure, on the other hand, thought that Japan could easily take a center stage in global and Asian politics. Two other disagreeing student leaders talked about "Japan itself following United States." In Thailand six of the eleven elites in this category agreed with the general statement. Two student leaders pointed out Japan's financial power as the instrument of political control of Asian governments.

|

The questions as asked in order

1. The question : Do you think that Pacific Asia's overall well-being and development is increasingly getting tied to Japanese economic involvement in the region ?
2. The question : Do you that the policymakers in your country have been eager to please Japanese investors and Japanese government in preference to other foreign investors ?
3. The question: Do you think that your country has been over-reliant on Japanese investment for recent economic growth and industrialization?
4. The nature of the fourth question was different from the first three. This question asked the elites to identify the biggest problems associated with the Japanese investments in the order of importance. The problems listed were 1) environmental degradation, 2) lack of openness in Japanese management and 3) lack of technology transfer. It is obvious that the last two problems are interrelated.
5. The question: Do you consider Japan to be the undisputed economic leader of Pacific Asia?
- 6.The question : Do you think that Southeast Asia is important to Japanese government officials and corporations ?
- 7.The question: Do you consider Japan as a military power and an emerging military leader in Pacific Asia?
8. The question: Do you think that Japan has created an economic empire in Asia through its investments, trade, and developmental aid?
9. The question: Do you think that Japan could potentially be a political leader for Pacific Asia?

Chapter VIII

Elite Perception and Empirical Evidence

Section A. Southeast Asia, Dependent Development, and Japan's Economic Expansion : Empirical Evidence and Elite Perception

Japan's economic involvement in the form of investment and trade exhibited statistically significant and positive association with the development indicators in Pacific Asia. As mentioned before, Japanese Direct Investments had been the only statistically significant explanatory variable that was positively related to the Economic Growth Rate in the main cross sectional time series analysis that included eight market economies of the region. Japanese Direct Investment and Trade with Japan were two explanatory variables associated with employment generation in the same main analysis.

In the cross sectional time series analyses focusing on Thailand, Malaysia and Singapore Japanese Direct Investments was positively associated with Economic Growth Rate. The plots showed positive association between Japanese Direct Investments and economic growth, employment generation, and human capital development in Malaysia and Thailand. Singapore plots showed Japanese Direct Investments had a positive association with economic growth and employment generation.

It is important to remember that at least one-third of all Japanese investments take place in unconventional forms like production cooperation, licensing, technology tie-ups, turnkey projects and management contracts-- the data of which are not monitored by central banks of the recipient Asian nations. Furthermore, Japanese portfolio investments and mutual fund investments in Pacific Asia have not been factored into these analyses.

From the above statistical picture it may be concluded that economic linkages between investor Japan and recipient developing Asia in the 1980s support the neo-classical /developmentalist model rather than statist or dependent development models. However,

in Malaysia and Thailand a majority of the interviewed elites perceive dependency on Japan. In Malaysia two-thirds of the interviewed elites and in Thailand 53 percent of the interviewed elites perceive dependency on Japan and believe that Japan has created an economic empire in the region. Almost half (48 percent) of the interviewed Singaporean elites perceive dependency on Japan and believe that Japan has created an economic empire in Asia.

Table 24
The Research Questions and Resaecrh Findings

| The Research Questions | The Research Findings |
|--|--|
| 1. Do Japanese economic linkages have a statistically significant impact on Pacific Asian development in the 1980s? | Yes. Statistically significant impact, especially in Southeast Asian region. |
| 2. Do Japanese economic linkages result in dependent development in Pacific Asia in the 1980s? | No. The statistical tests support the neo-classical model of development. Japanese economic linkages have positive impact on Pacific Asian development in the 1980s. Statistical tests reject both dependent development and statist perspectives. |
| 3. Do the Southeast Asian elites perceive their region as "dependent" or reliant on Japan and consider Japan to be establishing an economic empire in the region? Are elites concerned about technology transfer in Japanese ventures? | Yes. The Southeast Asian elites perceive their region as "dependent" or reliant on Japan and consider Japan to be establishing an economic empire in the region. They are concerned about technology transfer by the Japanese corporations. |
| 4. Do elite perception and statistical reality match? | No. The elites certainly perceive their region as dependent on Japan and show concern about dependent development. The statistical evidence, on the other hand supports the neo-classical model of development. |
| 5. Does economic linkage lead to elite perception of Japan as the political and military leader of Pacific Asia? | Yes and no. The elites perceive Japan as a potential political leader, but they do not consider Japan as an emerging military leader, thus posing questions for hegemonic theories of international relations. |

It is also pertinent to note that 84 of the 98 interviewed elites across Malaysia, Thailand and Singapore voiced serious concern about technology transfer and opening of higher management positions for Southeast Asian managers and technocrats in the

Japanese ventures in their region. There is quite a high sense of dependency on Japan among business leaders and student activists in Southeast Asia. Seventy-one percent of the interviewed student leaders in Malaysia, Thailand and Singapore perceive dependency on Japan.

The level is virtually the same as that of the business leaders of Southeast Asia: 70 percent of the business leaders in Malaysia, Thailand and Singapore perceive dependency on Japan. A lesser percentage of academic elites of Southeast Asia perceive such a dependency. However, even among this group 61 percent agree with the dependency-oriented general statements in the questionnaire and believe that Japan has created an economic empire in Asia through its investments, trade and economic assistance in the region. The only elite group that does not perceive dependency on Japan is the bureaucracy. Only 36 percent of the bureaucratic elites of Malaysia, Thailand and Singapore perceive dependency on Japan.

One should remember, however, that a vast majority of the interviewed bureaucrats are economic bureaucrats working in finance ministries, central banks, investment approval boards and the economic advisory positions for their respective prime ministers. It is unlikely that these economic bureaucrats, many of whom themselves make economic policies of their governments, would agree to directly dependency-oriented questions.

Quite interestingly, all 33 interviewed bureaucratic elites showed strong concern about technology transfer in Japanese ventures and identified this issue as the main problem associated with Japanese investments.

It is interesting to observe that slightly less than half or 48 of the 98 Southeast Asian elites agreed with the general statement that his or her country was over reliant on Japanese investments for growth and industrialization. This was obviously the most direct dependency-oriented question asked in the survey. Only in Malaysia did a majority of the interviewed elites agree with the notion of over-reliance on Japanese capital. In Thailand

and Singapore a majority of the interviewed elites disagreed with the notion of over reliance on Japanese economic linkages. When we go through the occupational status of elites, the majority of academics and the majority of the student leaders agreed with the notion of over-reliance.

Table 25
Country-wide Variations in Southeast Asian
Elite Perception of Dependency on Japan

| <u>Country -wide variation</u> | <u>Perception of</u> <u>Dependence on</u> <u>Japan</u> |
|---------------------------------------|---|
| Malaysia | 66% |
| Thailand | 53% |
| Singapore | 48% |

Table 26
Occupation-wide Variations in Southeast Asian
Elite Perception of Dependency on Japan

| <u>Elite Type</u> | <u>Perception of</u> <u>Dependence on</u> <u>Japan</u> |
|--------------------------|---|
| Business Leaders | 70% |
| Academic Elites | 61% |
| Student Leaders | 71% |
| Bureaucratic Elites | 36% |

In two other dependency-oriented questions, the majority of interviewed elites agreed with the general statements. Fifty-six of the 98 Southeast Asian elites agreed with the general statement that Pacific Asia's overall development was increasingly getting tied to Japan's involvement in the regional economy. Again in Malaysia 19 of the 27 interviewed elites agreed with this general statement.

Table 27. Dependency and Elite Perception in Malaysia

| Response of the Malaysian elites | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|---|--|---|
| Pacific Asia's development increasingly getting tied to Japan | 19 | 8 |
| The policymakers in your country have been eager to please Japanese investors and Japanese government | 17 | 10 |
| Your country has been over-reliant on Japanese investment for recent growth | 18 | 9 |
| Japan has created an economic empire through its investments, trade and developmental aid | 18 | 9 |
| Total number of responses to four dependency-oriented questions 108 | 72 (66%) | 36 |

Among the different type of elites only in the case of bureaucrats did a vast majority (22 of the 33) disagree with the notion of regional development becoming economically linked with Japan. In the next dependency-oriented question virtually two-thirds of the interviewed Southeast Asian elites agreed with the general statement that Japan had created an economic empire in Asia through its investments, trade, corporate expansion and developmental aid.

In each of the three countries large a majority of the interviewed elites agreed with the general statement. In Malaysia, 25 of the 27 interviewed elites thought that Japan had created an economic empire in Pacific Asia through its investments, trade, and economic assistance programs in the region. Among the different types of elites, the Southeast Asian business leaders had the most acute sense of a Japanese economic empire in the region. The perception of the business leaders may reflect their day-to-day encounter with behemoth Japanese corporations and trading agencies. The business leaders of the three emerging Southeast Asian nations perceived their countries as exhibiting an

extraordinarily high level of dependency on economic linkages with Japan and Japan's economic might. Bureaucratic elites, on the other hand, showed the least dependent perspective, disagreeing with the dependency-oriented general statements of the questionnaire. Among the countries the Malaysian elites held the most dependent perception of their country's and region's economic linkages with Japan. The Singaporean elites, on the other hand, were less likely to agree with the dependency-oriented general statements during the interviews. The Thai elites fell somewhere between Singapore's self-confidence and Malaysia's dependent perspective.

The next set of questions probed Southeast Asian elites' concern about Japanese ventures in their region and the Japanese attitude toward their region. These questions somewhat indirectly address the question of dependency. Exactly half of the interviewed Southeast Asian elites agreed with the general statement that their respective governments would be eager to please Japanese investors over other foreign investors.

Table 28
Dependency and the Elite Perception in Thailand

| Response of the Thai elites | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|---|--|---|
| Pacific Asia's overall development are increasingly getting tied to Japan | 25 | 24 |
| The policymakers in your country have been eager to please Japanese investors and Japanese government | 24 | 25 |
| Your country has been over-reliant on Japanese investment for recent growth | 23 | 26 |
| Japan has created an economic empire through its investments, trade and developmental aid? | 32 | 17 |
| Total number of responses to four dependency-oriented questions 196 | 104 (53%) | 92 |

Table 29
Dependency and Elite Perception in Singapore

| Response of the Singaporean elites | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|---|--|---|
| Pacific Asia's overall development increasingly getting tied to Japan | 12 | 10 |
| The policymakers in your country have been eager to please Japanese investors and Japanese government | 8 | 14 |
| Your country has been over-reliant on Japanese investment for recent growth | 8 | 14 |
| Japan has created an economic empire through its investments, trade and developmental aid? | 14 | 8 |
| Total number of responses to four dependency-oriented questions 88 | 42 (48%) | 46 |

Table 30
Dependency and the Business Leaders in Southeast Asia

| Response of the Business leaders | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|---|--|---|
| Pacific Asia's overall development increasingly getting tied to Japan | 15 | 7 |
| The policymakers in your country have been eager to please Japanese investors and Japanese government | 20 | 2 |
| Your country has been over-reliant on Japanese investment for recent growth | 10 | 12 |
| Japan has created an economic empire through its investments, trade and developmental aid? | 17 | 5 |
| Total number of responses to four dependency-oriented questions 88 | 62 (70%) | 26 |

Here again only in Malaysia did a majority of the interviewed elites (17 of the 27) agree with the general statement. Elites in Thailand were almost equally divided while in Singapore two-thirds of the interviewed elites disagreed with the general statement. Among the different types of elites once again the business leaders (20 of the 22) had the most acute perception of their respective governments preferring Japanese ventures over other foreign ventures or even domestic capital. On the other hand, a vast majority of the interviewed Southeast Asian governmental elites (27 of the 33) and a majority of the interviewed Southeast Asian academic elites (16 of the 29) disagreed with the general statement.

If we consider the total number of responses from the three directly dependency-oriented questions, 168 responses agreed with the dependency-oriented statements while 126 responses disagreed. It is apparent that, though statistically speaking Japanese linkages have been positive for the region, a majority of the interviewed elites view their region's relations with Japan as at least economic dependency.

Table 31
Dependency and the Bureaucratic Elites in Southeast Asia

| Response of the Bureaucratic Elites | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|--|--|---|
| Pacific Asia's development increasingly getting tied to Japan | 11 | 22 |
| The policymakers are eager to please Japanese investors and Japanese government | 6 | 27 |
| Your country over-reliant on Japanese investment for growth | 11 | 22 |
| Japan has created an economic empire through its investments, trade and developmental assistance | 20 | 13 |
| Total number of responses to four dependency-oriented questions 132 | 48 (36%) | 84 |

Table 32
Dependency and the Academic Elites in Southeast Asia

| Response of the academic elites | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|--|--|---|
| Pacific Asia's development increasingly tied to Japan | 20 | 9 |
| The policymakers have been eager to please Japanese investors and Japanese government | 15 | 14 |
| Your country has been over-reliant on Japanese investment for recent growth | 18 | 11 |
| Japan has created an economic empire through its investments, trade and developmental aid? | 18 | 11 |
| Total number of responses to four dependency-oriented questions 116 | 71 (61%) | 45 |

In the same set of questions 76 of the 98 interviewed Southeast Asian elites thought that Southeast Asia was important to Japanese government and Japanese investors. In every country and in every category of elites a vast majority agreed to the general statement that Southeast Asia is important to Japanese government officials and corporations. This shows that in Southeast Asia the elites perceive their region as important to Japan. This implies a belief among the vast majority of the interviewed elites that Japanese government and corporations do have to take notice of Southeast Asian countries and that Japan's own economic competitiveness and prosperity in turn are somewhat linked to access to the emerging markets, raw materials and production centers of Southeast Asia.

However, in another concern-oriented question the overwhelming number of interviewed Southeast Asian elites thought that Japanese are unwilling to transfer technology to their Southeast Asian counterparts. In fact, 71 of the 98 interviewed elites identified technology transfer as the main problem associated with Japanese investments

and Japanese ventures in their region. Thirteen other elites identified opening up of Japanese higher management as the main problem related to Japanese ventures.

Table 33
Dependency and the Student Leaders in Southeast Asia

| Response of the Student Leaders | Mostly or somewhat agreed with the general statement | Mostly or somewhat disagreed with the general statement |
|--|--|---|
| Pacific Asia's development increasingly tied to Japan | 12 | 2 |
| The policymakers have been eager to please Japanese investors and Japanese government | 10 | 4 |
| Your country over-reliant on Japanese investment for recent growth | 9 | 5 |
| Japan has created an economic empire through its investments, trade and developmental assistance | 9 | 5 |
| Total number of responses to four dependency-oriented questions 56 | 40 (71%) | 16 |

Thus we find here 84 of the 98 (or six of seven) responses were concerned either with transfer of technology or opening up of higher management positions in Japanese corporations as the main problem related to Japanese ventures in Southeast Asia. This concern illustrates a wide-spread and quite high level sense of dependent development among the interviewed Southeast Asian elites. It is also noteworthy that all 33 bureaucratic elites interviewed across the three countries thought that technology transfer was the main problem associated with the Japanese corporations in the region. Bureaucrats as a group were otherwise quite dismissive of any other dependency-oriented questions. ⁴³

⁴³Only 14 of the interviewed elites (nine of them academic elites and five student leaders) considered environmental degradation caused by Japanese corporations (such as textile and metal

One may argue that responses to this indirectly dependency-oriented question best illuminate Southeast Asian elites' attitudes and concern about Japanese corporate expansion and investments in their region. There is a serious mistrust and concern about Japanese economic linkages. This overall elite concern across every country and every occupation illustrates a huge mistrust and sense of helplessness among the interviewed Southeast Asian elites about Japanese willingness to transfer technology to local ventures. This also illustrates a perception that higher management in Japanese corporations (especially in contrast to US corporations like Coca-Cola or IBM) is virtually closed to local technologists and managers.

Explaining the Variation

Malaysia, unlike Singapore has not yet achieved advanced industrial status. In fact, Malaysia's per capita income is only one-eighth that of its former member state. And unlike Thailand, which was always an independent monarchy, Malaysia was a British colony until 1957. Population of Malaysia is only one-third that of Thailand. Unlike Thailand where 95 percent of the people are ethnic Thai and profess Buddhism, Malaysia is ethnically divided society (Malay Muslims 51 percent, Chinese 35 percent and Indian 13 percent)

In addition, the Malaysian government has a pronounced pro-Japanese economic policy that may have some impact in developing a dependent perception among Malaysia's elites, including its bureaucrats. The strength of nationhood and national identity is not high in Malaysia. Ethnic Chinese and ethnic Indian businessmen and academics were openly critical and disdainful of the Malaysian government and the long term viability of the current industrial expansion. On the other hand, ethnic Malay elites constantly hinted in their interviews that local Chinese have been the main beneficiaries

ventures) as the most important problem associated with Japanese economic expansion in Southeast Asia.

|

of Malaysian government's tilt towards Japan and the resultant Japanese economic involvement in the economy. Malay elites also talked about the long term sustainability of their country's industrial growth -- which they viewed as dependent on Japanese and other foreign capital.

The reason one finds dependent perception among student leaders might be that they grew up in a period of unprecedented Japanese global economic prowess and economic expansion in their region. At an impressionable age they were showered with the news and news analyses of Japan's global economic might. Student leaders also expressed awareness of the vast number of Japanese scholarships and exchange programs available to them.⁴⁴

A very possible reason for the dependent perspective of the Southeast Asian business leaders could be their day-to-day encounters with large Japanese corporations like Mitsubishi, Toyota, Mazda, Sumitomo. Business leaders, unlike many bureaucrats and academics were acutely aware of the smallness of their operations and the underdevelopment of their countries' economic and technological base. Several business leaders mentioned the fact that the annual output of some Japanese corporations was bigger than the GDP of certain nations in the region.

⁴⁴As mentioned by Thai economist Pongpaichit, United States offered far more number of scholarships to Southeast Asian students just a generation ago.

Table 32
Southeast Asia, Dependent Development,
and Japan's Economic Expansion :
Empirical Evidence and Elite Perception

| Empirical Evidence | Elite Perception |
|--|--|
| <p>1. Supports neo-classical /developmentalist model in relation to Japanese economic expansion and Asian development experience.</p> <p>2. Supports neo-classical /developmentalist model in relation to Japanese economic expansion and development experience in Thailand, Malaysia and Singapore--the three countries surveyed for elite interviews.</p> | <p>1. The majority of responses support dependency-oriented general statements such as A) Japan has created an economic empire in Asia B) Pacific Asia's development is increasingly getting tied to Japan and C) Elite's country is over-reliant on Japan for development and industrialization.*</p> <p>2. A very vast majority of the respondents are concerned about technology transfer and opening of higher management positions in Japanese ventures in the region.</p> <p>3. Exactly half of the respondents perceive that their respective governments are too eager to please Japanese investors over others.</p> <p>4. A vast majority of the respondents perceive Japan as the undisputed economic leader of Pacific Asia</p> |

* With this particular statement actually a slight majority of the interviewed elites disagreed

Section B.

Economic Linkage, Japanese Leadership and Elite Perception in Southeast Asia

The third set of questions was related to Japanese leadership in economy, politics and regional security. In all three countries, a majority of elites interviewed expressed agreement with general statements suggesting Japan's leadership or potential leadership in economy, politics and security affairs in Pacific Asia. In Malaysia, 75 percent of the interviewed elite responses mostly or somewhat agreed with Japanese leadership in economy, regional politics and security affairs. In Thailand the percentage response went down to 62 percent and in Singapore to 53 percent.

Table 33
The Southeast Asian Elites and Overall
Japanese Leadership: Country-wide Variations

| Country | Percentage of elites who mostly or somewhat agreed with <i>all</i> Japanese leadership-oriented general statements |
|-----------|--|
| Malaysia | 75% |
| Thailand | 62% |
| Singapore | 53% |

When elite responses regarding Japan's status only as an economic leader and a potential political leader were counted, a much higher percentage of elite responses agreed with the general statements. In fact, in all three countries more than 60 percent of the interviewed elites perceived Japan as the undisputed economic leader and a potential political leader for Pacific Asia. In Malaysia, 81 percent of the interviewed elites, in Thailand, 69 percent of the interviewed elites, and even in Singapore 64 percent of the interviewed elites perceived Japan as the undisputed economic leader and a potential political leader for Pacific Asia.⁴⁵

Across all occupations, majorities from each elite group perceived Japan as the undisputed economic leader and a potential political and military leader for Pacific Asia. Among student leaders the perception of Japanese leadership in all fields was more definitive. Seventy-one percent of student leaders in Malaysia, Thailand and Singapore mostly or somewhat agreed with Japanese leadership in economy, regional politics and security affairs. Sixty-five percent of the bureaucrats and 65% of the business leaders in these three countries mostly or somewhat agreed with Japanese leadership in economy, regional politics and security affairs. It seems that among the academic elites there is a resistance to perceiving Japan as a leader in every field. 60 percent of the academic elites in Malaysia, Thailand and Singapore perceived Japan as the economic and political leader and an emerging military leader in the region.

If the question on military leadership is taken out, the Southeast Asian elite perception of Japanese leadership becomes even more overwhelming. Seventy-nine percent of the interviewed bureaucratic elites viewed Japan as the undisputed economic leader and a potential political leader for Pacific Asia. It may be noted that bureaucrats as a group generally dismissed most dependency-oriented questions except technology transfer in

⁴⁵When these interviews took place, Japan was in recession. In last two years the Japanese economy has made a comeback. According to a survey of 10,000 Japanese corporate leaders, gloom is dissipating in Japanese business establishments. In 1994 Japanese economy has registered an impressive 3.1% GDP growth rate; Japan's large manufacturers saw their current profit rising to 26.9% higher than any year since 1989; and Japan created a historic trade surplus of \$131 billion. In Pacific Asian context, Japanese are looking beyond direct investments. In just one month, in December 1994, Japanese mutual funds raised around \$4 billion to buy stocks in the Asian markets. Seiyu Nakao, head of global strategy at Nomura Securities Ltd., one of the Big Four security firms in Japan, was quoted in the Bloomberg news on December 11, 1994 as "Japanese money will have a very important role from now on in Asian markets." Figures from Japan's Investment Trust Association show that the amount of trust fund money in Asia was 1.07 trillion yen (US \$11 billion) in November 1994, up from 557.3 billion yen (US \$6.6 billion) a year earlier. It is frequently mentioned by Japanese mutual fund managers that losses from Europe and North American markets convinced Japanese investors to invest in East and Southeast Asia. Most analysts also believe that Southeast Asian markets will be preferred over Hong Kong, China and other Northeast Asian markets. Earning growths for companies in high growth countries such as Indonesia, Malaysia, Thailand and Singapore is expected to average around 20% in the coming years and these countries seem politically more stable to Japanese fund managers. Japanese are not retreating from Asia. While the large corporations are continuously moving their production bases to Southeast Asia to remain competitive in a high yen economy, Japanese mutual funds are becoming the biggest institutional players in Pacific Asian markets. Source: Bloomberg News Service; Various editions of December 1994 and January 1995.

Japanese ventures. However, here we have a picture where virtually four of five interviewed bureaucratic elites in Malaysia, Thailand and Singapore perceived Japan as the economic and political leader in East and Southeast Asia. Among the business leaders in Malaysia, Thailand and Singapore, 75 percent perceived Japan as the economic and political leader in the region, while 71 percent of the student leaders in the three countries did the same. Even among academic elites the percentage who agreed about Japan's economic and political leadership slightly increased to 64 percent when the question of military leadership was disregarded.

Table 34
The Southeast Asian Elites and Overall
Japanese Leadership: Occupation-wide Variations

| The Occupation of Elites | Percentage of elites who mostly or somewhat agreed with <i>all</i> Japanese leadership-oriented general statements |
|--------------------------|--|
| Student Leaders | 71% |
| Business Leaders | 65% |
| Academic Elites | 60% |
| Bureaucratic Elites | 65% |

Table 35
The Southeast Asian Elites and Japanese Economic
and Political Leadership: Country-wide Variations

| Country | Percentage of elites who mostly or somewhat agreed with Japanese <i>political and economic</i> leadership-oriented general statements |
|-----------|---|
| Malaysia | 81% |
| Thailand | 69% |
| Singapore | 64% |

|

Table 36
The Southeast Asian Elites and Japanese Economic and Political Leadership: Occupation-wide Variations

| The Occupation of Elites | Percentage of elites who mostly or somewhat agreed with Japanese <i>political and economic</i> leadership-oriented general statements |
|--------------------------|---|
| Student Leaders | 71% |
| Business Leaders | 75% |
| Academic Elites | 64% |
| Bureaucratic Elites | 79% |

Seventy-six of the 98 interviewed Southeast Asian elites agreed with the general statement that Japan is the undisputed economic leader of Pacific Asia. In Malaysia, there was the most definitive sense of Japanese economic leadership -- 25 of the 27 interviewed Malaysian elites agreed with the general statement. Among the types of elites, again among the business leaders perception of undisputed Japanese economic leadership was high: 20 of the 22 business leaders agreed with the general statement.

Table 37
Japanese Leadership and Elite Perception in Malaysia

| | Mostly or somewhat agreed | Mostly or somewhat disagreed |
|--|---------------------------|------------------------------|
| Japan as the undisputed economic leader | 25 | 2 |
| Japan as the emerging military leader | 17 | 10 |
| Japan as a potential political leader | 19 | 8 |
| Total 81 Responses | 61 (75%) | 20 |
| Economic and Political Leadership | 44 (81%) | 10 |

Table 38
Japanese Leadership and Elite Perception in Thailand

| | Mostly or somewhat agreed | Mostly or somewhat disagreed |
|--|---------------------------|------------------------------|
| Japan as the undisputed economic leader | 33 | 16 |
| Japan as the emerging military leader | 23 | 26 |
| Japan as a potential political leader | 35 | 14 |
| Total 147 Responses | 91 (62%) | 56 |
| Economic and Political Leadership | 68 (69%) | 30 |

Interestingly, despite Japan's rather low key approach to regional policymaking, 67 of the 98 interviewed Southeast Asian elites agreed with the general statement that Japan could potentially be a political leader for Pacific Asia. In fact, in each of the three countries a substantial majority of elites agreed with the general statement.

Table 39
Japanese Leadership and the Elite Perception in Singapore

| | Mostly or somewhat agreed | Mostly or somewhat disagreed |
|--|---------------------------|------------------------------|
| Japan as the undisputed economic leader | 15 | 7 |
| Japan as the emerging military leader | 7 | 15 |
| Japan as a potential political leader | 13 | 9 |
| Total 66 Responses | 35 (53%) | 31 |
| Economic and Political Leadership | 28 (64%) | 16 |

Again, among the different types of elites a vast majority of business leaders (18 of the 22) agreed with the general statement. However, a majority of the interviewed Southeast Asian elites disagreed with the general statement that Japan is already a military power and an emerging military leader in Pacific Asia. Forty-seven of the 98 interviewed Southeast Asian elites agreed with the general statement. Here one can find some irony, though that is consistent with Japan's overall image as non-military player in the global and Asian stage. Once again, only in Malaysia did a majority of the interviewed elites (17

of the 27) agree with the general statement that Japan is already a military power and an emerging military leader in East and Southeast Asia. Among the different types of elites a slight majority of the academics (15 of the 29) and a vast majority of the student leaders (10 of the 14) agreed with the general statement.

Thus we have a situation where a vast majority of the interviewed Southeast Asian elites perceive Japan as the undisputed economic leader of the region and a potential political leader for Pacific Asia. At the same time, a majority of these interviewed elites of the region do not consider Japan as a major military power (despite the fact that Japan has been the second largest military spender in the world) or as an emerging military leader in Pacific Asia. Contrasted with the positive response of two-thirds of the interviewed elites about Japan's potential political leadership, elite perception of Japan's military prowess is noteworthy. This perception supports Koji Taira's (1991) assertion that in the post-Cold War period an economic hegemon could be a political hegemon. The interview analyses point to a state of affairs where the Southeast elites are ready to accept Japanese political leadership in East and Southeast Asia, while at the same time a majority of them does not consider Japan as an emerging military leader in the region.

A substantial number of interviewed elites considered the United States as the main military player in the western Pacific. Quite a few also referred to China as the major military power in the region. This perception of the interviewed elites points to a new set of roles expected from the economic hegemon, a role that excludes production of peace. We should note, however, that Japan did send peacekeepers to Cambodia, its first involvement in overseas military affairs since the Second World War. Also, the extensive Japanese development aid in Pacific Asia may be counted as Japan's contribution to regional economic growth and peacekeeping.

Table 40
Japanese Leadership and the Bureaucratic
Elite Perception in Southeast Asia

| | Mostly or somewhat agreed | Mostly or somewhat disagreed |
|--|------------------------------|---------------------------------|
| Japan as the undisputed economic leader | 28 | 5 |
| Japan as the emerging military leader | 12 | 21 |
| Japan as a potential political leader | 24 | 9 |
| Total 99 Responses | 64 (65%) | 35 |
| Economic and Political Leadership | 52 (79%) | 14 |

Table 41
Japanese Leadership and the Perception of the
Academic Elites in Southeast Asia

| | Mostly or somewhat agreed | Mostly or somewhat disagreed |
|--|------------------------------|---------------------------------|
| Japan as the undisputed economic leader | 20 | 9 |
| Japan as the emerging military leader | 15 | 14 |
| Japan as a potential political leader | 17 | 12 |
| Total 87 Responses | 52 (60%) | 35 |
| Economic and Political Leadership | 37 (64%) | 21 |

Table 42
Japanese Leadership and the Perception
of the Business Leaders in Southeast Asia

| | Mostly or somewhat agreed | Mostly or somewhat disagreed |
|--|------------------------------|---------------------------------|
| Japan as the undisputed economic leader | 15 | 7 |
| Japan as the emerging military leader | 10 | 12 |
| Japan as a potential political leader | 18 | 4 |
| Total 66 Responses | 43 (65%) | 23 |
| Economic and Political Leadership | 33 (75%) | 11 |

|

Table 43
Japanese Leadership and the Perception
of the Student Leaders in Southeast Asia

| | Mostly or somewhat agreed | Mostly or somewhat disagreed |
|--|------------------------------|---------------------------------|
| Japan as the undisputed economic leader | 12 | 2 |
| Japan as the emerging military leader | 10 | 4 |
| Japan as a potential political leader | 8 | 6 |
| Total 42 Responses | 30 (71%) | 12 |
| Economic and Political Leadership | 20 (71%) | 8 |

Table 44
The Summary of Economic Linkage and Japanese
Leadership: Elite Perception in Southeast Asia

| The Nature of Japanese Leadership in Asia | Elite Perception |
|--|-------------------------|
| Japan' Undisputed Economic Leadership | Yes |
| Japan's Potential Political Leadership | Yes |
| Japan's Emerging Military Leadership | No |

The reasons for variation in elite perception of Japanese leadership role in Asia can possibly be traced to the same roots as in the case of dependency. Malaysia being a big recipient of Japanese investments, and Malaysia's prime minister being an open admirer of Japanese success may have influenced Malaysian elites' perception of Japanese superiority. On the other hand, many Singaporeans consider their country as an advanced nation at par with any industrialized society. Seventy-nine percent of the bureaucratic elites across the region considered Japan as Pacific Asia's political and economic leader. This shows that though the vast majority of the bureaucrats do not perceive dependency towards Japan, they do perceive Japan as a leader for Asia. This may be explained in terms of their encounters with Japanese government and corporate officials and in terms of their own positions as administrative authority. Among the student leaders there is no

variation even when the question about military leadership is taken out. Seventy-one percent of the student leaders considered Japan as the military leader of Asia as well. Student leaders were more informed about Japanese military budgets and Japan's long term security goals. Academics, on the other hand were more prone to analyses and seemed unwillingly to consider Japan as the leader of Asia. In interview after interview academics raised the topics of the countervailing military power of China, economic power of the Asian NIEs and the possibility of the ASEAN region becoming an economic pole in the world community.

The Conclusions

This dissertation sought to provide a systematic study of Japan's economic expansion and its political implications in East and Southeast Asia. Both quantitative and qualitative approach were employed to capture the significance of Japan's economic role in the world's most dynamic and productive region. Perhaps more importantly from the methodological point of view, this thesis incorporated the phenomenon of Japan's economic expansion into the political economy paradigms of development. Though numerous scholars have talked about dependent development or "ersatz industrialization" in Asia, no one has attempted to statistically test dependent development-oriented arguments in the Asian context. This dissertation not only tested such dependent development-oriented hypotheses, but also statistically examined competing development paradigms such as the neo-classical/developmentalist paradigm and the developmental statist paradigm. Thus the thesis "Political Economy of Pax Nipponica" became not only one of the first systematic statistical studies of Japan's economic role in Asia, but also one of the first systematic study of three major development paradigms in the Asian context.

The dissertation provided an illustration of Japan's political and economic interaction with Pacific Asia while emphasizing Japan's Asia-centric foreign policy⁴⁶ of recent decades. The work explored the linkage between the economic vibrancy of Pacific Asia and Japan's growing economic role in the region in the form of investment, trade and development aid. The thesis presented one of the most comprehensively detailed current pictures of Japanese direct investments in Pacific Asia and also provided a background of the political economy of Japanese development aid to the region. This thesis successfully

⁴⁶. As early as in 1979 Japanese Prime Minister Fukuda noted "we would seek even stronger ties with the Asian nations since they are closer to Japan racially, culturally and economically."

showed the nature of emerging industrial integration across Pacific Asia under the umbrella of behemoth Japanese corporations and the scale and significance of Japanese investments in the region since the yen appreciation in 1985.

Statistical tests done in this thesis revealed the impact of Japanese direct investments and trade in Southeast Asia's growth and employment generation. The results generally supported the neo-classical/developmentalist paradigm and rejected dependent development and statist perspectives. The interview analyses of the dissertation showed that elite perception of dependency did not match the statistical reality of economic growth, employment generation and human capital development across the whole region and in the three Southeast Asian countries where interviews were taken. It was illustrated that though statistical evidence suggested support for the neo-classical/developmentalist paradigm in relation to Japanese economic expansion and Asian development experience, a substantial majority of the interviewed elites supported dependency oriented general statements, such as that Japan had created an economic empire in Asia. Interview subjects evidenced concern that Japanese were unwilling to transfer technology and open up higher management.

This dissertation also explored the elite perception of Japan's leadership role in Asia. Here we found that across the three countries and all the elite groups a majority of respondents perceived Japan's overall leadership in economy, politics and security affairs in Asia. However, when elite responses regarding Japan's position as an undisputed economic leader and a potential political leader without relevance to military power were counted, more than 64 percent of the interviewed elites across the three countries and all the elite groups perceived Japan as Asia's leader. The thesis showed that in Malaysia, in contrast to Singapore and Thailand a much larger percentage of the interviewed elites perceived overall Japanese leadership (political, economic and military) in the region and dependency on Japan.

|

The interview analyses of this thesis made it clear that the elites did not consider Japan as an emerging military leader or military power in Pacific Asia. However, two-thirds or more of the interviewed elites in every category and every country perceived Japan as Asia's economic and political leader. It is entirely possible that Korean or Indonesian elites felt quite differently about Japanese economic expansion in the region. However, the implications for such an elite perception is profound in Pacific Asian and world politics and for the future role of the United States in the world's most dynamic and steadily integrating region.

Perception and Misperception

There is a definite disjunction between Japan's economic might and Japan's own projection of political and military power in Asia. One could actually argue that Asian elite's perception of Japan as a potential political leader of Asia is a misperception based on Japan's industrial and commercial prowess without taking into account Japan's own deep-seated dilemma in getting politically or militarily involved in international arena. In fact, one of the main criticism of Japan by the world community is that Japan does not want to commit itself politically or militarily.

Even in Southeast Asia, a large section of the elites view Japan as an economic animal, interested in profit making rather than being interested in long term ideological or political influence. It has been mentioned by elites that Japan has "no ideology to offer" to the Asians. Japan is at best, an almost reluctant political actor in Asia. The overwhelming elite perception of Japan being a potential political leader for Asia may very well be a perception far from reality of Japan's own willingness to lead the continent.

In fact, time and again, during the domestic political crises of Southeast Asian nations Japan kept official silence or actually acquiesced to the demands of the new regimes.

Despite international pressure, Japan refused to condemn the military coup in Thailand in 1991 and Japan remained in touch with the military junta of Myanmar after their crackdown of pro-democracy movement in 1989. In both cases, official Japanese line was that these were domestic affairs. Thus, to many Thai pro-democracy activists Japan became a villain because it refused to use its economic leverage on the military dictators to bring back democracy in Thailand. Japan's quick rapprochement with the next civilian government in Thailand showed Japan's own concern and vulnerability about its trade and investment in Thailand rather than exercising political muscle. This is a classic example of Japanese dilemma-- an economic superpower actually abandoning its regional responsibility. It is inconceivable at this point to see Japan actually intervening to change the political behavior of Asian nations.

The Possible Scenarios and the Prospects of the Pax Nipponica in Asia

The emergence of even a regional Pax Nipponica has major problems. Despite Japan's trading, technological and financial power, Japan still does not really possess an effective military force. It is highly unlikely that in the near future Japanese political elite would reach a consensus on radical expansion of the scope of activities of the Japanese Self Defense Forces. More importantly for the time being, perhaps, Japan's current bouts with recession would hinder it from playing a leadership role in the region. This might seriously affect Japan's influence in the transitional economies of Indochina, the next emerging area in Pacific Asia. Already, Singapore and other Newly Industrializing Economies as well as the United States have taken huge interest in the opening up of Vietnam, Laos and Cambodia.

Since the late 1980s, four Newly Industrializing Economies of Pacific Asia, Korea, Taiwan, Hong Kong and Singapore, have become competitors of Japan in the world market. Furthermore, these Newly Industrializing Economies have become major

investors in Thailand, Malaysia, Indonesia, the Philippines and Vietnam. Thus, even within Asia, Japan has started to encounter economic rivalry. The implications of the emergence of China as a major economy should not be discounted either. As China grows rapidly (its average economic growth rate between 1990 and 1993 was 10.2 percent), it may eventually become an economic giant surpassing even Japan. Already, according to the new World Bank methodology of Purchasing Power Parity, China is the third largest economic power in the world, after the United States and Japan. This new found economic strength coupled with China's mammoth conventional military machine and nuclear capability would make it a serious contender for East Asian hegemony.

There is also a possibility that ASEAN countries would become a more integrated economic bloc. In the foreseeable future, Vietnam, Laos and Cambodia may join ASEAN as associate member nations. By the end of the decade, even Myanmar may become a part of the ASEAN grouping. In such a scenario, ASEAN would be an area with almost 500 million people. If ASEAN continues to grow at the current rate (8.1 percent for the whole group in 1994) and can spread its economic success to the potential new members, it would be major economic player on the world stage by its own right.

Despite all these counter scenarios, Japan will continue to play a very important economic and political role in the Pacific Asia. Japan's current account surplus continues to grow despite economic problems at home. The only country in the world that can seriously match Japan's technological edge and economic might is the United States, not Korea or Taiwan. Of the top 1000 corporations in Asia in 1993, 736 were Japanese.⁴⁷ In 1993, of the top 50 global corporations by market value, 19 were Japanese. In 1993, of the top 10 banks in the world eight were Japanese owned.

It is entirely possible, according to many Japan watchers and economists, that Japan is coming out as of its recession with a even stronger economy. Despite Japan's own

⁴⁷ In 1992, the number of Japanese corporations in the top thousand list was 725.

economic problems at home, the economic integration of the region has been taking place mainly through Japanese investments and an interlocking Japanese corporate network. Even during the 1991-92 phase of relative decline of Japanese economic strength, Japan remained the leading investor and trading partner Pacific Asia.

Contributions

As mentioned before, my thesis originated from a dependent development-oriented perspective on Japanese economic expansion in Asia. Extant scholarly literature as well as popular and journalistic articles peripherally address this issue. Plenty of unquestioned assumptions exist about the views of East and Southeast Asian leaders with regard to Japanese economic involvement in the region. However, no one had done either a systematic region-wide statistical study or interview analyses of elite perception of dependency on Japan. The thesis, "Political Economy of Pax Nipponica : Pacific Asia, Japanese Economic Expansion and Elite Perception" is a systematic statistical study as well as a synopsis and analysis of qualitative information on elite perception of dependency on Japan and Japanese leadership in Asia.

My research, for the first time, systematically deals with what some scholars have called the most central issue of contemporary Asian politics. This thesis is a comprehensive research report addressing not only the question of dependent development, but also the question of the Japanese economic, political and military leadership role in Asia.

The main contributions of this thesis may be summarized as follows:

1. This is one of the first systematic and comprehensive studies of Japanese economic expansion in the form of investments, trade and aid in Pacific Asia, especially in the eight market economies of the region, namely: Thailand, Malaysia, Singapore, Indonesia, the Philippines, Taiwan, Korea and Hong Kong.

2. This thesis incorporated the phenomenon of Japan's economic expansion in Asia into the discussion of competing political economy paradigms of development -- thus elevating the whole question of Japan's economic dominance and Asian dependency on Japan to a methodologically tractable level.

3. This thesis statistically tested the dependent development-oriented arguments and showed that such arguments (as well as statist arguments) can be rejected in the context of economic growth, employment generation and human capital development in Pacific Asia of the 1980s.

4. This thesis demonstrated the statistically significant and positive impact of Japanese investments and trade on Southeast Asian economic growth and employment generation. The statistical analyses pointed to some questions about the relevance of the statist paradigm in both the subregions of Pacific Asia. This is a by-product of the statistical analyses. The findings are important considering the widespread scholarly proclivity toward explaining Pacific Asian development from an overtly statist perspective.

5. Thesis findings provided access to the opinions of a powerful core group of current Asian leaders. The research entailed the collection of interview data of elite perception of dependency on Japan and Japanese leadership in Asia. The 98 in-depth interviews reflected the perception of different vital elite groups in three emerging economies of Pacific Asia. Some of the elites interviewed for this thesis were prime ministerial advisers or opinion leaders of their nations. Others were leaders of some of Southeast Asia's largest business conglomerates. Although names have been omitted, at least a dozen of the interviewed elites are regularly quoted in highly respected international newspapers and journals.

6. This thesis revealed that elite perception of dependency did not match the statistical reality of growth, employment generation and human capital development at a time of

Japanese economic expansion in the region. It essentially proved that dependency can be a “state of mind” for the developing country’s elite. Or, in the Southeast Asian context, it meant dependency on one particular country for industrialization and development, in contrast with dependent development per se as understood in the Latin American or African context.

7. This thesis also explored the elite perception of the Japanese leadership role in Asia. The findings are quite fascinating. A majority of the interviewed Southeast Asian elites considered Japan as an undisputed economic leader and potential political leader for Asia. At the same time, a majority of the interviewed Southeast Asian elites did not consider Japan as a military player in the region. This finding, too, has some implications for international relations theories.

Future Areas of Research

One major area of research will be to examine and study the statist arguments in the pan-Pacific Asian context as well as in subregional contexts. The role of state sectors in the so-called dynamic developmental states of Pacific Asia should be reexamined in light of the evidence from Chapter Five. Because most internal data are available, this study can be expanded from 1970 to 1995, providing a longer time series with a larger number of data points. The scope of such a comprehensive research on the public sector of Pacific Asian economies should result in interesting conclusions and controversies in an era of privatization in the region.

Another major study can be done about elite perception of Japanese leadership role that may include all the eight market economies of the region and at least one hundred elites in each country. This study may take more than two years of field research. However, it would be a more comprehensive study of Asian elites’ perception of Japan. It would also be more amenable to rigorous statistical treatment of elite perception. At the

least, any future study of elite perception of Japan should include Indonesia, a major recipient of Japanese investments and development aid, and South Korea, a virtual competitor (in certain export-oriented industries) and a former colony of Japan. Any future elite survey of the region can be compared with the interview analyses of this thesis.

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