THE MIT JAPAN PROGRAM

日本プログラム

Science, Technology, Management

科学・技術・経営

BRINGING EAST ASIA INTO THE U.S.-JAPAN RIVALRY: THE REGIONAL EVOLUTION OF AMERICAN AND JAPANESE MULTINATIONALS

Dennis J. Encarnation

MITJP 93-09

Center for International Studies
Massachusetts Institute of Technology

BRINGING EAST ASIA INTO THE U.S.-JAPAN RIVALRY: THE REGIONAL EVOLUTION OF AMERICAN AND JAPANESE MULTINATIONALS

Dennis J. Encarnation

MITJP 93-09

BRINGING EAST ASIA INTO THE U.S.-JAPAN RIVALRY: THE REGIONAL EVOLUTION OF AMERICAN AND JAPANESE MULTINATIONALS[1]

The rivalry between American and Japanese multinationals is not confined to bilateral flows of trade and investment only. These rivals have expanded their competition multilaterally, by drawing other geographic areas into the fray, most notably East Asia. The countries in that vast region defy any easy classifications, but they have commonly been divided into three distinct categories:[2] the "Four NIEs," "the ASEAN Four," and the "Big Two." The Four NIEs (or newly-industrializing economies) of East Asia consist of South Korea, Taiwan, Hong Kong, and Singapore--all countries that attained a relatively high standard of living in a rather brief period of time.[3] While the Four NIEs are dispersed widely along Asia's Pacific Rim, the ASEAN Four (all members of the Association of Southeast Asian Nations) are geographically more concentrated, consisting of Thailand, Malaysia, Indonesia, and the Philippines. In common, they have generally achieved a lower level of economic development than have the Four NIEs, although they do possess more of those raw materials essential for industrial growth.[4] Finally, the Big Two--China and India--together contain within their borders over three-fifths of the world's population, living well below the economic standards of the ASEAN Four and (especially) of the Four NIEs.[5] Individually, each of these East Asian countries offers both American and Japanese multinationals a varied set of competitive advantages to be exploited in the larger U.S.-Japan rivalry.

To pursue these competitive advantages, American and Japanese multinationals have implemented remarkably similar strategies in regard to foreign direct investment (FDI) and related trade:[6] For as we shall see, growing numbers of American and Japanese multinationals invest in majority foreign-owned subsidiaries, which they then tightly integrate through international (often intracompany) trade with both overseas buyers and upstream suppliers, back home and elsewhere abroad. To be sure, some differences in multinational strategy do persist: The Americans, for example, first shifted aggressively away from import substitution to export promotion, and they have retained their early leadership with proportionately larger sales back home in the United States. Meanwhile, the Japanese have moved with greater aggressiveness to sell far more in the local and regional markets of East Asia, rather than through exports back home to Japan--where their sales often match exports to America. Yet such strategic differences clearly have diminished over time, as American and Japanese multinationals respond to so many of the same economic and political environments in East Asia.

In fact, East Asia's entry into the larger U.S.-Japan rivalry took place only recently, and it actually required fundamental changes in government policies across the entire region. Beginning in the Four NIEs, East Asian governments have abandoned their exclusive encouragement of local production as a substitute for imports, by agreeing to promote more export-oriented investments.[7] Only after this change in policy had taken place did East Asia begin to attract foreign direct investment from American multinationals at rates that exceeded the growth of such U.S. FDI elsewhere in the world. A single policy change, in short, made the region's richly abundant natural and human resources more enticing than ever before--just at the time when American multinationals needed to find effective responses to a strong dollar and stiff import (especially Japanese) competition back home. Already these same factors had begun to increase U.S. direct investments in Japan;[8] and now, they produced an even larger effect in East Asia (see Table 1), where American multinationals worked to establish inexpensive sources of supply--principally, for export back home. By concentrating on this newly created trade, American multinationals brought East Asia directly into the existing US-Japan rivalry.

-- INSERT TABLE 1 HERE --

Japanese multinationals, by comparison, proved much slower in response to East Asia's competitive challenge, even though they had long felt inclined to trade within a region made so attractive by its geographic proximity, a sizable downstream market, and its abundant promise as an upstream source of raw materials.[9] For Japanese multinationals to accelerate their East Asian investments, however, another substantial change in government policy had to occur--not in the policies of East Asian host governments, but back home in Japan instead. Specifically, the Japanese government needed to liberalize its tight restrictions on capital outflows before Japanese multinationals could act. When they did act, they first matched and then surpassed otherwise modest U.S. investments in East Asia. Meanwhile, that requisite change in Japan's strategic investment occurred at roughly the same time when the Four NIEs were beginning their own transformation from import substitution to export promotion. Simultaneously, across the Pacific, the United States began to move away from free trade toward protectionism, especially restraints on Japanese exports. With the encouragement of these several policy changes at home and abroad, then, the East Asian investments of the late-comer Japanese quickly caught up with, and then surpassed, those of the first-mover Americans (see Table 1).

East Asia's shift from import substitution to export-led growth fostered a much tighter cross-national integration of that region's diverse economies.[10] Initially, of course, export promotion meant that East Asia focused on foreign markets in industrialized countries, aided by the direct investments and related trade of both American and Japanese multinationals. Increasingly, however, powerful forces of national specialization encouraged intraregional shipments of raw materials and intermediate components, with final products destined to sell not only in industrialized countries, but in other markets as well, especially those located

TABLE 1

UNITED STATES AND JAPAN: BILATERAL AND EAST ASIAN FDI, 1950-1992

	U.S. FDI in:		Japanese FDI in:	
($ million)	Japan	Other East Asia	East Asia	United States
1966	$731	$1,308	$500	$103
1977	$4,593	$5,503	$6,357	$1,755
1988	$17,927	$18,515	$32,109	$53,354
1992	$26,213	$32,245	$59,880	$92,896

Note: While data on U.S. FDI outflows and inflows are gathered from comparable surveys of balance-of-payments transactions, data on Japanese FDI in East Asia are not gathered from comparable surveys; instead, they represent the value of FDI outflows formally approved by, or (after 1980) reported to, the Japanese government.

Sources: For data on U.S. FDI outflows and inflows, see the folowing publications of the U.S. Department of Commerce, Bureau of Economic Analysis--Selected Data on U.S. Direct Investment Abroad, 1950-76 (Washington, D.C.: USGPO, February 1982), Table 1, pp. 1-27; U.S. Direct Investment Abroad: Balance of Payments and Direct Investment Position Estimates, 1977-81 (Washington, DC: USGPO, November 1986), Table 1, pp. 1-5; "U.S. Direct Investment Abroad: Detail for Position and Balance of Payments Flows," Survey of Current Business (August, various years); Selected Data on Foreign Direct Investment in the United states, 1950-79 (Washington, DC: USGPO, 1984), Table 9, p. 17; "Foreign Direct Investment Position in the United States: Detail for Position and Balance of Payments Flows," Survey of Current Business (August, various years). For data on Japanese FDI to East Asia, see Japan, Ministry of Finance, Statistics for the Approval/Notification of Overseas Direct Investment [*Taigai chyokusetsu-toshi no kyoka todokede zisseki*] (Tokyo: Ministry of Finance Printing Bureau, selected years).

elsewhere in East Asia. Here, sharp differences in natural endowments, human resources, government policies, market sizes, and relative prices--all contributed to a growing differentiation among the Four NIEs, ASEAN Four, and Big Two as possible sites for foreign investment and related trade. Once again, American and Japanese multinationals played prominent roles, now by using their several subsidiaries as integrated buyers and suppliers spread across the region. A strong yen and U.S. protectionism, plus the pressures of oligopolistic competition and strong buyers--in short, the same factors which worked so effectively to increase Japanese direct investments in America[11]--operated to accelerate the movement of Japanese multinationals to East Asia. And as they moved there, so too did the Americans--albeit in smaller numbers (see Table 1), and still engaged in finding some effective response to both a strong dollar and the evolving Japanese challenge at home in the U.S. market. As a larger result, nearly every country in the region would eventually discover that the U.S.-Japan rivalry had infiltrated its national borders. East Asia, in short, was subsumed into the global rivalry between the Japanese and the Americans.

The American Challenge

Historically, American multinationals have invested only a small amount of their total capital in East Asia. Prior to the Second World War, in fact, that region hosted barely 5 percent of all U.S. FDI worldwide--less than any other region of the world except Africa.[12] Within East Asia, the principal hosts were: mainland China, the Philippines, and the Netherland East Indies (later, Indonesia). Here, America long harbored colonial ambitions in China's large domestic market, while the Philippines became a virtual U.S. territory, one blessed with plentiful natural resources, many of which also became available in greater abundance in the Netherland East Indies. The temptations seemed clear, and by 1929, each of these three East

Asian economies hosted more U.S. FDI than did Japan, where only a few select multinationals were as yet making market inroads.[13]

After the Second World War, and for the next two decades, East Asia's share of total U.S. FDI actually declined, to less than 3 percent, as American multinationals concentrated their ever growing foreign investment elsewhere in the world.[14] Still, compared to Japan, the rest of East Asia continued to host more U.S. FDI (see Table 1). By 1950, in fact, newly-independent India, still wreathing from the chaos of partition, hosted greater American investment than did war ravaged and U.S.-occupied Japan. And through 1960, the still-developing Philippines could make a similar claim, in comparison with now-resurgent Japan. Indeed, as late as 1966, the Philippines and India together hosted over one-half of all U.S. FDI in East Asia (see Table 2), with a combined value nearly equal to all U.S. FDI in Japan (see Table 1). Thus, within East Asia, American multinationals consistently concentrated their limited investments in a very few countries, where little of this early postwar investment came as a direct response to the U.S.-Japan rivalry. To the contrary: American multinationals invested in East Asia principally to supply local markets hosting their investments. As late as 1966, for example, these host-country markets contributed fully three-quarters of all foreign sales generated by American multinationals in East Asia (see Table 3). The remaining production, all exported, found limited markets back in the United States. American subsidiaries in East Asia simply shipped most of their exports to third countries, principally located elsewhere in the region.[15] Still, when combined, exports during 1966 contributed barely one-quarter of all foreign sales by U.S. affiliates operating in East Asia.

-- INSERT TABLES 2 AND 3 HERE --

TABLE 2

U.S. FDI IN EAST ASIA BY COUNTRY AND INDUSTRY, 1966-1991

BY COUNTRY ($ million)	1966	1977	1988	1992
Four NIEs				
Korea	42	395	1,501	2,779
Taiwan	58	259	1,622	2,870
Hong Kong	126	1,328	5,244	8,544
Singapore	30	516	2,290	6,631
ASEAN Four				
Thailand	51	237	1,132	2,459
Malaysia	57	464	1,135	1,714
Indonesia	106	984	2,925	4,278
Philippines	486	837	1,511	1,565
Big Two				
India	226	318	436	479
China*	126	165	719	927

BY INDUSTRY ($ million)	1966	1977	1988	1992
Manufacturing	405	1,496	5,957	11,840
Chemicals	83	494	1,481	2,175
Electronics	70	345	2,327	5,003
All Other	903	4,007	12,558	20,405
Petroleum	527	2,177	4,709	7,037
Wholesaling	145	677	2,954	5,239
Finance	25	638	2,049	3,875

Note: *Includes all other East Asian countries not listed elsewhere.

Sources: See Table 1.

TABLE 3

THE DESTINATION OF SALES BY MAJORITY U.S. SUBSIDIARIES IN EAST ASIA, 1966-1991

ALL INDUSTRIES

Sales	1966	1977	1988	1991
Local	75.1%	39.1%	43.4%	52.0%
Back to the US	6.4%	34.4%	23.2%	20.6%
3rd Countries	18.5%	26.5%	33.4%	27.4%

PETROLEUM ONLY

Sales:	1966	1977	1988	1991
Local	70.7%	32.5%	57.1%	61.6%
Back to the US	4.1%	44.9%	15.5%	9.0%
3rd Countries	25.2%	22.6%	27.4%	29.4%

MANUFACTURING ONLY

Sales:	1966	1977	1988	1991
Local	76.9%	41.0%	40.3%	37.6%
Back to the US	9.7%	34.4%	40.3%	36.1%
3rd Countries	13.4%	24.6%	19.4%	26.3%

WHOLESALING ONLY

Sales:	1966	1977	1988	1991
Local	64.7%	37.7%	47.5%	50.0%
Back to the US	14.5%	9.4%	17.8%	17.2%
3rd Countries	20.8%	52.9%	34.7%	32.8%

Sources: See the following publications of the U.S. Commerce Department, Bureau of Economic Analysis--U.S. Direct Investment Abroad, 1966: Final Data (Washington: USGPO, 1975), esp. Table L-2, p. 198; U.S. Direct Investment Abroad, 1977 (Washington: USGPO, 1981), Tables III.H.1, p. 318; U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and their Foreign Affiliates, Final 1988 Estimates (Washington: USGPO, July 1990), Table 34, n.p.; U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and their Foreign Affiliates, Preliminary 1991 Estimates (Washington: USGPO, July 1993), Table III.F.2, n.p.

To encourage host-country sales, the Philippines and India--like Japan--erected steep trade barriers, which through the 1960s induced prospective American exporters to invest in foreign production in order to supply protected local markets (see Table 3). These import-substitution policies proved especially potent, in fact, for attracting foreign investment into manufacturing, which accounted for more U.S. FDI in East Asia than did wholesaling and finance combined (see Table 2). And within manufacturing, over three-quarters of this 1966 investment entered the large, protected markets of India and the Philippines, where American multinationals concentrated their investments in chemicals and machinery (especially electronics).[16] As in Japan, so too elsewhere in East Asia, IBM and other U.S. machinery manufacturers more often generated overseas sales through foreign production than through international trade.[17]

In addition, both India and the Philippines--which unlike Japan, could boast of considerable natural resources--took the lead in coaxing those U.S. enterprises contemplating either foreign trade or local sales to invest in search of new supplies. Here, petroleum retained its original position as the primary attraction for American investments in East Asia: In fact, through 1966, the petroleum industry continued to draw over two-fifths of the East Asian investments of American multinationals (see Table 2). During 1966, the Philippines attracted the lion's share of all U.S. FDI in East Asian petroleum, as American multinationals invested heavily in downstream refining, processing, distribution, and marketing.[18] Similar downstream investments had already brought Exxon and other U.S. oil companies to Japan-- but without the added allure of East Asia's upstream exploration and production.

In addition to abundant natural resources and protected local markets, the Philippines and India also offered American multinationals certain advantages unavailable in either Japan or other East Asian countries. In the Philippines, for example, America's colonial legacy continued to provide a comfortable environment for U.S. companies. A markedly different colonial legacy greeted those U.S. multinationals investing in India, however. There, rapid industrialization to supply the world's second largest population attracted large amounts of new money. Elsewhere, however, large populations did not alone provide sufficient incentive for U.S. FDI: A combination of autarchic policies and political upheavals in populous mainland China and (to a lesser extent) Indonesia served to reverse their national attraction as potential hosts to American multinationals (see Table 2). And elsewhere in East Asia, adverse political risk stunted the growth of U.S. FDI, as Vietnam-related insurrections (in Thailand, Malaysia, and Indonesia), territorial secession (in the Malaysian federation, with the loss of Singapore), and thorny questions of constitutional legitimacy (in Taiwan and Korea) all damped the seductive power of import substitution across the region. Here, in curious fashion, the Philippines with its relatively small local market seemed all the more attractive, and continued through the mid-1960s to host the lion's share of U.S. FDI (see Table 2). Only next came populous India where, during the preceding decade, U.S. FDI already had experienced its greatest period of growth. In its own way, then, each of these countries demonstrated the continued--although limited--seduction of East Asia's import-substitution policies to American multinationals.

Over the next decade, however, import-substitution lost most of its earlier appeal, thanks to fundamental changes in the international political economy. Here, the years bounded by 1971 and 1973 provided a watershed: In 1971, America suffered its first global trade deficit in 78 years, at the same time that Japan was enjoying an unprecedented surplus. The resulting "Nixon shock" added new and unexpected volatility to foreign-exchange markets, by bringing the Bretton Woods regime of fixed rates to an end. Subsequently, the Japanese yen (and other major currencies) rapidly appreciated against the U.S. dollar until 1973, when a four-fold increase in crude oil prices reversed the dollar's rapid decline. Of course, a strong dollar not only contributed to America's growing trade deficits (to date, 1975 remains the last year in which America recorded an overall surplus), but it also served to accelerate U.S. FDI in

East Asia. Indeed, between 1966 and 1977, direct investments by American multinationals in East Asia quadrupled (see Table 1), from $1.3 billion to $5.5 billion--a growth rate well ahead of the three-fold increase in all U.S. FDI worldwide, and a total sum greater than that in Japan.[19]

In marked contrast to these American investments in Japan, most new U.S. FDI in East Asia served to boost national exports, as American multinationals acted to link that region directly to the larger U.S.-Japan rivalry. Between 1966 and 1977, exports by American subsidiaries operating in East Asia grew to exceed host-market sales; so that, by 1977, shipments to markets outside of the host country contributed fully three-fifths of all sales by American multinationals investing in East Asia (see Table 3). Of these shipments, exports back home to the United States accounted for the largest share, contributing at least one-third of total sales in 1977, up from less than one-tenth in 1966. Most of this home-bound trade came from U.S. FDI in the petroleum industry and manufacturing (especially electronics), and nearly all (over nine-tenths) of this trade was shipped intracompany, by majority U.S. subsidiaries in East Asia to their American parents.[20] Thus, for American multinationals, foreign investments in majority subsidiaries served to link East Asia directly to their parents' operations back in America--where these new (and presumably less expensive) sources of supply provided at least a partial response to U.S. trade competition with Japan and other countries.

In addition, exports to other foreign markets also increased, albeit less dramatically. Indeed, by 1977, these so-called third-country markets consumed another one-quarter of all sales by majority U.S. subsidiaries in East Asia, up from one-sixth a decade earlier (see Table 3). Over these years, Japan emerged as the largest third-country market, accounting during 1977 for over one-tenth of total sales.[21] In truth, most of this trade with Japan derived from U.S. subsidiaries engaged in East Asian wholesaling, and more narrowly from the petroleum industry. By contrast, those U.S. subsidiaries principally engaged in East

Asian manufacturing exported much less to Japan; in fact, such trade accounted for barely 5 percent of their total sales. Outside of Japan, however, manufacturing subsidiaries typically exported to other U.S. affiliates of the same American multinational;[22] but in Japan, few such U.S. affiliates existed because of the peculiar difficulties faced by American multinationals that tried to gain access to the Japanese market.[23] In the absence of additional investment in Japan, then, U.S. FDI in East Asian manufacturing proved of relatively little value to American multinationals seeking to increase their penetration of the Japanese market through (typically, intracompany) trade. In Japan, again, the Americans found themselves effectively shut out.

Once American multinationals began investing to increase their East Asian exports, the earlier predominance of the Philippines and India disappeared, as American multinationals rapidly diversified their investments in pursuit of the region's several competitive advantages. By 1977, in fact, Hong Kong and Indonesia had emerged preeminent (see Table 2); together they hosted two-fifths of all U.S. FDI (stock) in East Asia. Such a shift in geographic concentration signalled a major change in the principal inducements for foreign direct investment. Hong Kong, now the greatest single host for American multinationals, boasted of no outstanding natural resources other than its welcome harbor; nor did it offer a large, protected market. Rather, Hong Kong traded its abundant skilled labor, modern infrastructure, and open-trade policies for fully one-quarter of all U.S. FDI (stock) in East Asia through 1977.[24] By that date, moreover, Hong Kong certainly did not stand alone in its spirited pursuit of export-led growth; Singapore and (to a lesser extent) Malaysia had also abandoned import substitution following their break-up in 1968; and they both took places among the most important new sites for American direct investments, followed by export-oriented Korea and Taiwan. Such policies had a particular appeal to American manufacturers, who located two-fifths of their East Asian investments in the Four NIEs (see Table 2), led by Hong Kong--which had also established its even greater lead in trade-related services. Through 1977, Hong Kong alone attracted over one-third of all U.S. FDI in East Asian wholesaling, and over one-half of all U.S. FDI in finance.[25] So large were these service investments in Hong Kong and elsewhere that by 1977 they exceeded U.S. investment in East Asian manufacturing (see Table 2). Since these services were essential for trade, their growth signalled a major shift in the foreign-investment strategies of American multinationals--away from import substitution and toward export promotion.

Still, of course, import substitution exercised an appeal, especially for American manufacturers, who continued to channel at least two-fifths of their East Asian investments into the Philippines and India combined (see Table 2). Nor did this geographic shift in U.S. investments mean that East Asia's natural resources were losing their charm. To the contrary: Between 1966 and 1977, the petroleum industry continued to attract the largest share--still over two-fifths--of the East Asian investment of American multinationals (see Table 2). What did change, however, was the placement of that investment, with far larger sums now entering upstream exploration and extraction, especially in Indonesia, where U.S. oil companies concentrated one-third of their total FDI in East Asia.[26] In particular, the oil price shocks of 1972-73 and Indonesia's acceptance as a member in the OPEC cartel explained much of this increased investment in oil exploration and extraction. And these price shocks also generated additional pressures on both oil producing and oil consuming nations in the region to increase their exports.

As a sharp contrast, consider India, where the retention of import-substitution policies did little to increase U.S. FDI; there, by 1977, national strategy also advocated dislodging IBM, Coca-Cola, and other foreign multinationals.[27] Of course, trade restrictions can act to stimulate those foreign direct investments destined to supply large local markets, just as they have done for Japanese multinationals entering the United States.[28] But in India, as in Japan, domestic capital controls actually limited the inflow of such investment, as well as helping to control the level of foreign ownership. In fact, during 1977, majority U.S.-owned subsidiaries contributed barely one-fifth of the total sales recorded by all American multinationals investing in India.[29] By comparison, across East Asia as a whole, majority U.S. subsidiaries accounted for over four-fifths of total 1977 sales recorded by all American multinationals. But unlike India, most other East Asian countries hosting U.S. FDI (with the notable exception of South Korea) imposed less stringent capital controls.[30] In the absence of these controls, moreover, American multinationals clearly preferred to invest in majority U.S. subsidiaries, in order to secure unrivaled managerial control over both the integration and the coordination of their foreign investment and related (often intracompany) trade.

Subsequently, during the 1980s, that U.S. preference for majority ownership remained strong, even as American multinationals continued their rush to East Asia. Between 1977 and 1988, in fact, U.S. FDI tripled (see Table 1), from $5.5 billion to $18.9 billion--a growth rate that remained well ahead of the two-fold increase in American investments worldwide.[31] As a result, by 1988, East Asia hosted nearly 6 percent of all direct investment by American multinationals--far more than Japan could boast, and nearly twice the world share recorded by East Asia just a decade earlier. In Japan, most of that American investment remained locked in minority U.S.-owned affiliates; while in East Asia (and elsewhere in the world), majority subsidiaries still contributed over three-quarters of the total sales recorded by American multinationals.[32] Simply, these Americans avoided investments in countries that restricted majority ownership. Korea, for example, implemented strict capital controls that limited foreign ownership[33]--so much so, in fact, that majority U.S.-owned subsidiaries during 1988 accounted for barely one-fifth of the total sales recorded by all American multinationals in Korea.[34] Meanwhile, in India, that share was even lower; as a result, India attracted virtually no new U.S. FDI between 1977 and 1988 (see Table 2), just as Korea ranked lowest among the Four NIEs (and below most of the ASEAN Four) as a host to American investments. Thus, neither large protected markets (India) nor export-oriented policies (Korea) could effectively overcome the deleterious effects of capital controls on U.S. direct investment.

By contrast, government policies that promoted foreign trade and encouraged capital flows proved especially attractive to U.S. investors. Nowhere was this more apparent than in Hong Kong, where American multinationals still concentrated fully 25 percent of their foreign investment in East Asia (see Table 2). One-third of that total East Asian investment supplied trade-related services: mainly finance, followed by overseas distribution (principally, the purchasing agents of both American manufacturers and retailers). These service investments had grown rapidly over the previous decade, as American trade with East Asia accelerated. In truth, most of that investment growth took place in Hong Kong, where by 1988 American multinationals concentrated one-half of all U.S. FDI in East Asian finance (up from one-third in 1977), and two-thirds of all such investment in distribution (twice its share a decade earlier).[35] In turn, Hong Kong depended on these services to generate most (80 percent) of its U.S. FDI, as the Crown Colony solidified its dominant position as the regional center for a broad range of American multinationals that provided trade-related services.[36]

Similarly, during the 1980s, Indonesia improved its relative standing as the East Asian center for the U.S. petroleum industry, the source of most (over 85 percent) of that country's investment from America. In fact, during 1988, Indonesia accounted for one-half of all U.S. FDI in East Asian petroleum (up from one-third in 1977), mostly in exploration and extraction.[37] Since petroleum continued to attract 25 percent of all U.S. FDI in East Asia, Indonesia's dominant position in that industry meant that the country could continue to boast of its ranking as the second largest host for all American investment in East Asia. But that rank now was threatened (see Table 2): Between 1977 and 1988, manufacturing (with one-third of all U.S. FDI in East Asia) had surpassed petroleum as the principal repository of American investments in East Asia, as human resources finally surpassed natural resources as East Asia's principal attraction to American multinationals (see Table 2). Moreover, within manufacturing, electronics surpassed chemicals; this added further documentation to the major regional shift from raw-materials-intensive industries to labor- and technology-intensive sectors.

With this rise of manufacturing--especially the rapid rise of electronics--Singapore catapulted to the front ranks, to stand just behind Indonesia, by claiming the third largest share of U.S. FDI in East Asia (see Table 2). A decade earlier, Singapore had ranked fourth (alongside Malaysia) among East Asian hosts to U.S. FDI. But by 1988, this island nation had in place a sophisticated economic bureaucracy, an ultra-modern infrastructure, and a highly educated workforce--all of which became the envy of East Asia.[38] These incentives proved to be attractive to American manufacturers, who were further encouraged by both an absence of restrictive capital controls and the presence of lucrative investment incentives. As a result, by 1988, Singapore hosted over one-fourth of all U.S. FDI in East Asian manufacturing (up from 1/14th a decade earlier!), followed by Taiwan with another one-fourth.[39] In Singapore, moreover, over one-third of that manufacturing investment worked to produce electronics; while Malaysia harbored another one-sixth. As a result of these U.S. investments, then, Singapore became the regional center for American electronics companies.[40]

These high-tech companies invested in East Asia principally to export back home to America. In fact, as early as 1977, such exports generated fully three-fifths of all East Asian sales by U.S. electronics subsidiaries, and through 1988 that share remained constant.[41] Much of this trade emerged as a response to Japanese competition in consumer electronics: It began in 1968, for example, when General Electric opened its first offshore TV-parts plant, in Singapore.[42] There, low-cost labor assembled American-made components, an activity that was actually encouraged by U.S. trade policy (Section 807), which called for import duties to be paid only on value added offshore (and not on the U.S. components now being reimported in the assembled product).[43] Once GE had moved, RCA and Zenith (both in 1969) followed in rapid succession by making their own investments in offshore assembly,[44] thus demonstrating the same oligopolistic behavior that would later characterize Japanese electronics companies in America and East Asia (see below). GE's move prompted a quick response from U.S. suppliers, in turn, and they acted in rapid succession:[45] In Singapore and then Malaysia, for example, several U.S. semiconductor producers--Fairchild (in 1968), Texas Instruments (in 1969), National Semiconductor (in 1970), and Motorola (in 1973)--all invested in labor-intensive assembly operations close to their powerful buyers. Thus, the powerful demands of buyers, the special gaming strategies of oligopolistic rivals, intense import competition from the Japanese, liberal U.S. trade policies--all of these factors acted together to push and pull American multinationals to East Asia.[46]

Even so, through 1977, the combined value of U.S. electronics investments in East Asia remained quite small--but it rose rapidly during the 1980s (see Table 2), just as a strong dollar and intense import competition forced American electronics companies to invest aggressively in East Asia, in search for low-cost sources of supply. No longer did these investments simply import and then assemble U.S.-made components into low-technology products for reexport back to America, however. Instead, U.S. subsidiaries in East Asian greatly diversified their sources of supply, by shifting the direction of trade toward other countries in the region. This shift signalled a larger trend: A movement toward greater regional integration, accelerated by foreign investment and related trade.

Nowhere was this movement more apparent than in the semiconductor industry,[47] where Malaysia by 1978 had emerged as the world's second or third largest exporter[48]--thanks mainly to U.S. investments and U.S. trade, both encouraged by Malaysian government policy. Initially, during 1978, America was Malaysia's largest overseas market and largest offshore supplier, as American semiconductor companies tightly linked U.S. parents to their overseas affiliates. A decade later, however, Malaysia's dependence on U.S.-made components had been cut in half (from 60 to 30 percent of semiconductor imports), and its dependence on the U.S. market had been partially reduced (from 62 to 54 percent of semiconductor exports). What did not change, however, was the role played by Singapore--which remained the second largest market and source of supply--thanks again in large part to the cross-investments and bilateral trade of U.S. semiconductor companies operating in both Malaysia and Singapore.[49] By 1988, moreover, Singapore was joined by other countries in the region: Korea rose meteorically to become Malaysia's fourth largest supplier, closely following Japan; while Hong Kong now consumed the third largest share of Malaysian semiconductor exports. Such intraregional trade seemed only likely to increase, as American multinationals continued their rush to East Asia over the next few years.

Indeed, entering the 1990s, American multinationals accelerated their East Asian investments, following the same geographic and industry patterns evidenced the previous decade. Fresh outflows of U.S. FDI to East Asia continued to outpace comparable American investments elsewhere in the world,[50] and especially in Japan (see Table1). As before, much of that new investment entered East Asian manufacturing, particularly the electronics industry, where US FDI more than doubled between 1988 and 1992 (see Table 2). These manufacturing investments continued to produce goods destined for export, either back to the United States or to third countries typically located elsewhere in East Asia (see Table 3). Here, Singapore remained the principal export platform for American investors, who doubled the total value (stock) of their FDI in that island nation between 1988 and 1992. Such recent growth catapulted Singapore well beyond resource-rich Indonesia to rank an undisputed second behind service-oriented Hong Kong among East Asian hosts to American multinationals (see Table 2). So concentrated had that U.S. FDI become, in fact, that Singapore and Hong Kong together by

1992 accounted for well over one-half of all US FDI (stock) in East Asia.

Helping to enhance Hong Kong's continued attractiveness was Chinese liberalization next door, with Hong Kong now serving as a regional hub for American multinationals exploring new opportunities in the rapidly growing Pearl River Basin. Among such opportunities, the sheer size of the local market proved increasingly seductive across East Asia (see Table 3). But market size alone was not enough to lure the Americans, as paltry investments in India and limited movement into China continued to demonstrate (see Table 2). By contrast, a broad mix of domestic and export opportunities--spread rather evenly across manufacturing, petroleum, and services--catapulted Thailand well past Malaysia and the Philippines, as U.S. FDI doubled between 1988 and 1992 . During that same brief period, however, Japanese FDI in Thailand had more than tripled, and was now more than twice the size of American investment there (compare Table 2 and Table 4). Thailand, as we shall see, had become an integral part in Japan's multilateral response to economic rivalry with the United States.

The Japanese Response[51]

> In the American case, early foreign investment went disproportionately to geographically nearby areas--Canada, Mexico, and the Caribbean--and to culturally nearby ones--Great Britain. The earliest Japanese foreign investments were, likewise, in geographically close and relatively familiar regions.[52]

This capsule conclusion, based on remarkably similar national patterns of foreign direct investment well before the Second World War, remained accurate--at least for the Japanese--for four decades after the war. In fact, according to the best available prewar data, East Asia hosted the lion's share of Japanese FDI through 1914, with China (including Manchuria) the principal destination.[53] As noted above, American multinationals also concentrated their East Asian investments in China before the war; but the value of those U.S. investments probably remained well below that of the Japanese.[54] Most such Japanese investment either set-up textile mills, principally to supply the local Chinese market; or it established trade-related services comparable to the trade, finance, insurance, and shipping operations that were also simultaneously established in America.[55]

These industry patterns would reemerge after the war, but on a smaller scale, and not immediately. Indeed, for decades afterward, Japanese direct investment in East Asia remained quiescent and narrowly circumscribed for at least two reasons: First, Japanese capital controls greatly restricted all FDI outflows; and second, powerful postwar anti-Japanese feelings pervaded the entire Asian region--especially Korea--where no Japanese could invest until formal diplomatic relations between that nation and Japan were reestablished in 1965. Across East Asia as a whole, in consequence, annual FDI outflows from Japan between 1950 and 1970 seldom exceeded $300 million.[56] Of this annual sum, the largest share--roughly one-fifth--typically went to East Asia, where natural-resource industries proved especially attractive. During the 1960s, for example, the Japanese invested in oil (Indonesia), iron ore (India, Malaysia, and the Philippines), copper ore (Malaysia and the Philippines), and natural gas (Brunei).[57] Indeed, the Japanese government often encouraged such investment--which it did formally in 1971--with the legislative approval of special tax provisions for foreign investments in strategic resources.[58]

By contrast, few Japanese multinationals entered manufacturing in East Asia--again, in accordance with Japanese government policy. Before 1960, in fact, the Japanese government formally approved only 9 manufacturing investments: four in Thailand, three in Taiwan, and one each in Hong Kong and Singapore.[59] Over the following decade, no Japanese investor sought Japanese government approval for a manufacturing plant in Korea or in the

Philippines until 1967; nor in Indonesia until 1968.[60] Subsequently however, Japanese investments in East Asia took on new importance, as U.S.-Japan trade tensions heightened: Indeed, between 1968 and 1972 American producers in several contested industries felt particularly aggrieved by stepped-up competition from Japanese imports.[61] In the United States, protectionist actions began with the highly visible protests over steel and textiles, and then spread to a wide range of products: from footwear to metal tableware, from specialty steels to fasteners, from individual electronic components to fully-assembled electric machinery, from sheet glass to consumer electronics. Just such U.S.-Japan trade conflicts put increased pressure on Japanese manufacturers of such products; finally, it forced them to invest outside of Japan if they wished to escape American protectionism.

In the overall story of Japanese FDI, the single year 1972 represents the historical watershed. At home, in fact, the Japanese often refer to 1972 as the *gannen* (the very first year) of foreign direct investment.[62] During that symbolic year, the Japanese government fully liberalized most capital controls affecting the outflow of direct investment; and in that same year, annual outflows of Japanese FDI finally exceeded $2 billion. On a macroeconomic level, of course, Japan could easily afford this hefty sum, having recently recorded an unprecedented surplus in its current account. Moreover, such foreign direct investment now seemed essential for Japanese exporters facing higher relative prices; for them, double-digit increases in Japanese wages during the early 1970s were exacerbated in 1971 by the yen's rapid appreciation against the U.S. dollar. And because the values of most Asian currencies remained closely tied to the dollar, labor-intensive Japanese industries suffered a major cost disadvantage relative to their Asian competitors.

To overcome these disadvantages, the Japanese had to become more competitive; so producers moved to establish factories in East Asia, where a strong yen now worked in their favor, by substantially reducing the initial costs of foreign investment. Indeed, between 1972 and 1974, Japanese textile manufacturers and electronics producers staged an investment rush to East Asia. During these three years, they managed to establish (principally in the former Japanese colonies of Korea and Taiwan) more than one-half of all Japanese-approved textile and electronics projects set up in East Asia since the war.[63] Most of these projects were majority Japanese-owned: In textiles, the median foreign equity holding was 51 percent; while in electronics such shareholding reached figures as high as 66 percent--an industry-wide average.[64] Both figures remained lower in countries (e.g., Korea) that maintained strict capital controls. From these subsidiaries during 1974, Japanese textile manufacturers and electronics producers each exported well over one-half of their total East Asia production.[65] These exports, they shipped in roughly equal measure to markets back home and in third-countries (mainly the United States), and then they sold the remainder of their East Asian production in the local host-country market. Thus, by 1974, Japanese textile manufacturers and electronics producers operated in East Asia in much the same way American multinationals did: Both invested, when possible, in majority subsidiaries, principally to secure less expensive foreign sources of supply, much of which they later exported. This procedure, in large part, represented the multinationals' response to growing tensions in the U.S.-Japan rivalry.

At the same time, however, the Japanese have actively pursued foreign investment and related trade strategies unfamiliar to the Americans. Specifically, Japanese manufacturers have sometimes teamed up with Japanese trading companies (sogo shosha), which already could claim extensive experience across the region.[66] In East Asia, this strategy emerged with special clarity in the textile industry: By 1974, at least three such sogo shosha--C. Itoh, Marubeni, and Mitsui--had invested aggressively in East Asian textiles, typically through multi-party joint ventures with Japanese manufacturers.[67] (Indeed, the inclusion of several partners in a single joint venture proved a rather common strategy for the Japanese, one which seemed to insure majority Japanese shareholdings.) Specifically, establishing these subsidiaries, Japanese trading companies showed particular biases: While C. Itoh and Marubeni spread their investments among Japan's three largest textile manufacturers--Toray, Teijin and Toyobo--Mitsui concentrated its investments in Toray alone. Yet in all of these joint ventures, the sogo shosha pursued a single overriding objective, according to Yoshihara Kunio: "If investment was to establish a spinning mill, the participating trading company wanted to be its chief supplier of fiber; if it was to set up a fiber plant, the trading company wanted to be its chief supplier of chemical raw materials; if investment was to build an export base, it wanted to market the goods."[68] In this way, Japanese trading companies considered their East Asian investments as growing markets for trade arbitrage, useful for creating new markets for both Japanese and East Asian exports.

While sogo shosha often proved crucial to Japanese investments in East Asian textiles, they remained notably absent from electronics and most other industries. This fact leads Yoshihara to conclude:[69]

> The trading company is little involved in the marketing of electrical machinery, automobiles, and general machinery, and its overseas investment in these products is small. But in such homogenous products as textiles, iron and steel, and chemicals, whose marketing it handles, overseas investment is large. *Contrary to the widely held view that the trading company is an active investor in most industries, its investment is highly selective*. In the field of products which are differentiated or which require customer service, involvement as either marketer or investor tends to be small (emphasis added).

Largely unaided by Japanese trading companies, Japanese electronics companies flocked to East Asia, led by NEC (beginning as early as 1958), which was followed in rapid succession by Matsushita and Sanyo (both by 1961), Sharp (1962), Hitachi (1967) and finally, Fujitsu and Sony (1973).[70] Typically, these companies imitated their American competitors, by initially investing in East Asia to supply local host-country markets. During 1972, for example, local host-country sales contributed over three-fifths of the total sales reported by all Japanese electronics affiliates manufacturing in East Asia.[71] After that fateful year, when U.S. protectionism suddenly escalated, "the response of the Japanese color television producers is worth noting," according to Komiya and Itoh.[72] "They partially replaced exports of their products by direct investment and production in the United States [just as they also] invested in some NICs [newly-industrializing countries] and exported sets produced there to the United States." Indeed, during 1972-74, when Sony and Matsushita began producing color TVs in the United States, they and other Japanese electronic companies moved to shift all of their monochrome TV production to East Asia.[73] With that shift came a tighter integration of East Asia into the increasingly hostile U.S.-Japan rivalry.

So large was the scale of the Japanese rush to East Asia, in fact, that between 1966 and 1977 the value of Japanese FDI in East Asia finally equalled (historically larger) American investments there (see Table 1). Like the Americans, Japanese multinationals concentrated most of their investments in a very few countries: Indonesia, already the second largest host for U.S. FDI in the region, now became the principal destination for Japanese investors, accounting for over two-fifths of their total East Asian investment (compare Table 2 with Table 4). Another one-fifth of that investment went to Korea, the second largest regional host to Japanese direct investment; while the remaining two-fifths were dispersed broadly across the rest of East Asia. In these few countries, moreover, the Japanese concentrated their East Asian investments in an even smaller number of industries. And once again, they often followed the general pattern adopted earlier by the Americans, at least in natural-resource industries: Mining (for the Japanese) and petroleum (for the Americans) each attracted roughly two-fifths of their East Asian investment, with Indonesia the principal host. But unlike the Americans, the Japanese invested as much in East Asian manufacturing (especially textiles, an industry that attracted little U.S. FDI) as they did in natural-resource industries, with both Indonesia and Korea emerging as chief manufacturing hosts.[74] This meant little Japanese investment in East Asian wholesaling and finance, two trade-related sectors that attracted a rather large share of U.S. FDI. For the Americans, as we have noted, these service investments augmented an aggressive strategy emphasizing East Asian exports--just as they did for the Japanese.

-- INSERT TABLE 4 AND TABLE 5 HERE --

But eventually, the Japanese pursued such an export strategy only with much reluctance--a change from the enthusiasm they had displayed as recently as the early 1970s. When compared to the Americans during 1977 (the first year for which comparable U.S. and Japanese data are available), for example, the Japanese sold much less outside of the local market hosting their East Asian investments. In fact, during 1977, that local host-country market accounted for fully three-fifths of total foreign sales generated by all Japanese multinationals in East Asia (see Table 5). For the Americans, as already noted (in Table 3), that local-sales contribution remained much lower, and it was constant across industries. For the Japanese, however, wider variation could be observed across industries--for example, the petroleum industry remained far more dependent on the local host-country market than did wholesaling, while manufacturing fell between these extremes. And within manufacturing alone, even Japanese textile manufacturers and electronics producers closely followed the larger patterns,[75] thereby reversing (at least in part) earlier trends, as growing host-country markets now consumed an ever-larger share of their total East Asian production.

TABLE 4

JAPANESE FDI IN EAST ASIA BY COUNTRY AND INDUSTRY, 1977-1992

BY COUNTRY ($ million)	1977	1988	1992
Four NIEs			
Korea	785	3,248	4,623
Taiwan	245	1,791	3,427
Hong Kong	557	6,167	11,510
Singapore	367	3,812	7,837
ASEAN Four			
Thailand	277	1,992	5,887
Malaysia	423	1,834	4,815
Indonesia	3,134	9,804	14,409
Philippines	381	1,120	1,943
Big Two			
India	40	134	332
China	158	2,194	4,472

BY INDUSTRY ($ million)	1977	1988	1992
Manufacturing	2,500	11,815	24,691
Textiles	521	1,343	2,312
Electronics	336	2,327	5,587
All Other	3,669	17,953	34,115
Mining	2,064	6,791	7,980
Wholesaling	189	1,866	5,259
Finance	196	2,505	5,711

Sources: See Table 1.

TABLE 5

THE DESTINATION OF SALES BY JAPANESE SUBSIDIARIES IN EAST ASIA, 1977-1991

ALL INDUSTRIES			
Sales:	1977	1988	1991
Local	61.3%	58.3%	57.5%
Back to Japan	17.3%	15.2%	15.2%
3rd Countries	21.4%	26.5%	27.3%

MINING ONLY			
Sales:	1977	1988	1991
Local	79.0%	33.0%	26.3%
Back to Japan	21.0%	67.0%	51.4%
3rd Countries	0%	0%	22.2%

MANUFACTURING ONLY			
Sales:	1977	1988	1991
Local	66.7%	59.8%	54.5%
Back to Japan	10.0%	13.7%	15.5%
3rd Countries	23.3%	26.5%	29.9%

WHOLESALING ONLY			
Sales:	1977	1988	1991
Local	51.4%	59.2%	60.2%
Back to Japan	28.3%	18.5%	15.0%
3rd Countries	20.3%	28.6%	24.8%

Sources: See the following publications of Japan, Ministry of International Trade and Industry, Industrial Policy Bureau, International Business Affairs Division, The 8th Survey of the Overseas Business Activities of Japanese Enterprises [*Dai hachi-kai wagakuni kigyo no kaigai jigyo katsudou*] (Tokyo: MITI, 1979), Table 56, p. 57; The 19th Survey of the Overseas Business Activities of Japanese Enterprises [*Dai jyukyu-kai wagakuni kigyo no kaigai jigyo katsudou*] (Tokyo: Ministry of Finance Printing Bureau, 1990), pp. 74-75; The 22nd Survey of the Overseas Business Activities of Japanese Enterprises [*Dai nijyuni-kai wagakuni kigyo no kaigai jigyo katsudou*] (Tokyo: Ministry of Finance Printing Bureau, 1993), pp. 80-81.

Still, for many Japanese investors, East Asia remained a major source of supply for export elsewhere. In fact, during 1977, exports continued to account for nearly two-fifths of the total East Asian sales of all Japanese multinationals (see Table 5). Much of this sum came from distribution, where Japanese trading companies (sogo shosha) occupied a unique position, one that granted them access to markets back home and in third countries. (This fact is reflected in the rather even distribution, between Japan and third countries, of export sales recorded by Japanese investments in East Asian distribution.) By comparison, in manufacturing, Japanese multinationals sold nearly one-quarter of their East Asian production in third-country markets (principally other East Asian countries, plus the United States)--more than twice as much as they exported back to Japan. Specifically in textiles, third-country trade reached a high of one-third of total East Asian sales, while exports to Japan generated less than 5 percent of total sales.[76] In marked contrast to the Americans, the Japanese seemed less inclined to employ their East Asian investments as a major source of low-cost supply for markets back home; instead, they more often channeled this supply to third-country markets, either in the United States or lying elsewhere in East Asia.

That critical condition changed little over the next decade, even though Japanese multinationals flooded into East Asia, moving well past the Americans in the value of their foreign direct investments (see Table 1). The Japanese had finally caught up with the Americans, just a decade earlier, by 1977, when both recorded roughly $6 billion in East Asian investment. Subsequently, that investment parity disappeared: Between 1977 and 1988, even as American investments in East Asia tripled, Japanese FDI in the region grew nearly twice as fast, exceeding $32 billion. That huge sum entered East Asia in two stages: The first, during the early 1980s, followed the 1979 oil price shock and an acceleration of U.S. protectionism; while the second, after 1985, followed a rapid rise in the exchange-value of the Japanese yen. Yet that currency appreciation had little impact on exports by Japanese subsidiaries back to Japan, which remained a roughly constant share of total sales (see Table 5). Instead, exports to third-countries and (especially) local sales in the host-country market remained the principal attraction for new Japanese investment in East Asia--again, in marked contrast to the nature of U.S. FDI across the region.

To illustrate such differences, consider the electronics industry.[77] While shipments back to America accounted for over three-fifths of the total sales reported by U.S. electronics subsidiaries in East Asia,[78] the Japanese became far more diversified in their marketing.[79] For them, during 1988, as an example, electronics shipments back home represented only 25 percent of their total sales, a figure was well above the East Asian average for Japanese manufacturers as a whole. For these manufacturers, as for Japanese electronics subsidiaries, another 17 percent of total sales came from exports to other countries in East Asia--where (as we have noted) the Americans also remained quite active by pursuing their own intraregional trade. However, the Americans and Japanese differed sharply in their shipments to each other's home market. For Japanese electronics affiliates in East Asia (indeed, for all Japanese manufacturing subsidiaries in the region) the U.S. market during 1988 contributed 12 percent of total sales--well above the East Asian shipments to Japan recorded by U.S. (electronics) subsidiaries in East Asia.[80] Thus, in the larger US-Japan rivalry, the Japanese managed to gain far greater access to the U.S. market than the Americans secured in Japan--and subsidiaries in East Asia offered important sources of competitive advantage.

Nevertheless, despite such persistent differences, both the Americans and the Japanese still preferred to concentrate their ever-growing investments in a very few East Asian countries. What did change, however, were the relative Japanese shares hosted by specific countries. For example, Indonesia remained the principal East Asian host for Japanese FDI, but between 1977 and 1988, its relative share declined from roughly one-half to less than one-third of all Japanese FDI in East Asia (see Table 4). When combined, another one-third went to Hong Kong and Singapore, which had now moved ahead of Korea and (in the case of Singapore) the Philippines, to rank second and third (respectively) among East Asian hosts to Japanese investment. Indeed, between 1977 and 1988, Japanese FDI in both Hong Kong and Singapore grew at twice the rate recorded in East Asia as a whole, leaving Hong Kong with one-fifth and Singapore with one-tenth of all Japanese FDI in East Asia. In total, nearly $3 of every $5 invested through 1988 by the Japanese in East Asia went to Indonesia, Hong Kong, and Singapore--the same three countries which also hosted $3 out of every $5 of all U.S. FDI in East Asia.

In these three countries, moreover, a similar pattern of national specialization emerged. Indonesia, for example, hosted 90 percent of all Japanese FDI in East Asian mining (up from 80 percent in 1977)--which in turn contributed the lion's share of all Japanese FDI in Indonesia.[81] Over time, the proportionate decline of Japanese FDI in the mining industry (from two-fifths to one-fifth of all Japanese FDI in the region) has still served effectively to increase Indonesia's preeminence in this industry. Similarly, Hong Kong hosted three-fifths of all Japanese investment in both East Asian finance and distribution, and these two trade-related services also contributed the lion's share of all Japanese FDI in Hong Kong. Even the rapid growth between 1977 and 1988 of Japanese service investments has done little to dilute Hong Kong's preeminence in these sectors. Thus, for both the Japanese and the Americans, Indonesia has emerged as the East Asian center for extractive industries, while Hong

Kong must be regarded at present as the regional center for trade-related services.

In East Asian manufacturing, however, Japanese multinationals became even more diversified than the Americans, with far more investment spread out across numerous sectors and several countries. Valued at roughly $12 billion in 1988, Japanese manufacturing investments in East Asia grew impressively to be twice as large as comparable U.S. investments, and to contribute a larger share of total Japanese FDI in East Asia (compare Table 2 and Table 4). Moreover, while electronics has surpassed textiles, to account for the greatest share of all Japanese investments in East Asian manufacturing, that sectoral share (one-fifth during 1988) still remained well below electronics' contribution to comparable U.S. investment (two-fifths during 1988). And while Singapore has grown to rank second as an East Asian host to Japanese manufacturers, that national share (one-sixth) remains well below Singapore's relative contribution to comparable U.S. investment (one-third during 1988). As a result, Singapore now represents less of a regional manufacturing center for the Japanese than for the Americans.

Significantly, the geographic spread of Japanese investments in East Asian manufacturing has actually been increasing--moving in a direction opposite that of the Americans.[82] In fact, during 1988, Thailand emerged as the largest recipient of new Japanese investments in East Asian manufacturing, followed far behind by Malaysia. Indeed, that year alone, more Japanese investment entered the manufacturing sector in Thailand than entered the combined manufacturing sectors of all the Four NIEs. Here, Korea has suffered the greatest relative losses: Hosting one-quarter of all Japanese manufacturing investments in East Asia during 1977, Korea's share of that investment was cut nearly in half by 1988. While several factors--the appreciation of the Korean won, growing labor costs, political riots--have undoubtedly played an important role in

Korea's decline as a host to Japanese FDI, strict capital controls in Korea also have figured prominently: For in East Asia as a whole during 1988, 54 percent of all Japanese-owned projects remained majority Japanese-owned.[83] Here, like the Americans, the Japanese retain a strong preference for majority ownership.

These preferences remained largely unaltered as Japanese multinationals --like their American counterparts--continued to increase their East Asian investments. Indeed, even though the growth rate of Japanese FDI in East Asia fell off during the early 1990s, East Asia's share of this new investment actually began to increase. And with that increase came a repetition of the same industry and geographic patterns evidenced the previous decade. Like the Americans, the Japanese still concentrated their East Asian investments in three countries--Indonesia, Hong Kong, and Singapore--albeit in a different rank order. For the Japanese, however, that geographic concentration has continued to experience a steady decline, all the more so with the doubling of Japanese FDI in Singapore and (especially) Thailand between 1988 and 1992 (compare Table 2 and Table 4). By then, as before, much of that new investment entered East Asian manufacturing, particularly the electronics industry, where the Japanese--like the Americans--more than doubled their FDI between 1988 and 1992. But unlike the Americans, Japanese manufacturers continued to produce goods principally for sale in the local market, with much less attention to exports. And among export markets, shipments back to Japan continued to lag exports to third countries typically located either elsewhere in East Asia or in North America (see Table 5). Through such trade, Japanese multinationals effectively contributed to East Asian integration while simultaneously supplying their own North American operations.

From an American perspective, then, Japanese investments in East Asia can be seen as expanding an already intense three-front contest[84]--as import competition now emanates from both Japan and East Asia--with products feeding expanded Japanese investments in U.S. manufacturing and distribution, all integrated and coordinated by the same Japanese multinational. By contrast, limited American investments in Japan (see Table 1), especially in majority subsidiaries, have limited intracompany trade between U.S. subsidiaries in both East Asia and Japan. Instead, that trade comes back to America, but now as a defensive response to Japan's three-front strategy. For the Japanese, then, U.S. direct investment and related trade in East Asia have done little to dull the American challenge--a challenge which, so far, they have effectively blunted back home.

1. For an earlier version of this paper, see Dennis J. Encarnation, Rivals beyond Trade: America vs. Japan in Global Competition (Ithaca, NY: Cornell University Press, 1992), pp. 147-182.

2. A similar classification scheme, for example, is commonly used by the Japanese government in its analysis of regional trends in foreign direct investment; see, Japan, Ministry of International Trade and Industry, Industrial Policy Bureau, International Business Affairs Division, The 22nd Survey of the Overseas Business Activities of Japanese Enterprises [*Dai nijyuni-kai wagakuni kigyo no kaigai jigyo katsudo*] (Tokyo: Ministry of Finance Printing Bureau, 1990), pp. 72-83; hereafter cited as MITI, 22nd Overseas Survey.

3. For recent analyses of both processes and outcomes of economic development in the Four NIEs, see World Bank, The East Asian Miracle: Economic Growth and Public Policy (New York: Oxford University Press for the International Bank for Reconstruction and Development, 1993); Stephan Haggard, Pathways From The Periphery: The Politics of Growth in the Newly Industrializing Countries (Ithaca, NY: Cornell University Press, 1990), esp. pp. 51-161, 191-222; Robert Wade, Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization (Princeton, NJ: Princeton University Press, 1990); Alice H. Amsden, Asia's Next Giant: South Korea and Late Industrialization (New York: Oxford University Press, 1989); Frederic C. Deyo, ed., The Political Economy of New Asian Industrialism (Ithaca, NY: Cornell University Press, 1989); Gary Gereffi and Donald Wyman, eds., Manufactured Miracles: Patterns of Industrialization in Latin America and East Asia (Princeton:

Princeton University Press, 1989).

4. Compared to the Four NIEs, the ASEAN Four have attracted much less academic attention; among the few explicit cross-national comparisons to date, see World Bank, East Asian Miracle; Richard F. Doner, Driving a Bargain: Automobile Industrialization and Japanese Firms in Southeast Asia (Berkeley: University of California Press, 1990).

5. For the political economy of India, see Dennis J. Encarnation, Dislodging Multinationals: India's Strategy in Comparative Perspective (Ithaca, NY: Cornell University Press, 1989); for China, see Benjamin Gomes-Casseres, "Socialism and Modernization in China," Harvard Business School Case no. 9-388-115.

6. This conclusion contradicts a large body of research which employs data from East Asia to argue the "uniqueness" of Japanese multinationals; see, in particular, the ongoing and pioneering work of Kojima Kiyoshi: "Japanese Direct Investment Abroad," Monograph Series 1, Social Science Research Institute, International Christian University, Tokyo, 1990; (with Terutomo Ozawa) "Japanese-Style Direct Foreign Investment," Japanese Economic Studies (Spring 1986): 52-82; "Japanese and American Direct Investment in Asia: A Comparative Analysis," Hitotsubashi Journal of Economics (June 1985): 1-35; Japan's Foreign Direct Investment [*Nihon no kaigai chokusetsu toshi*] (Tokyo: Bunshindo, 1985), esp. pp. 6-14; Foreign Direct Investment [*Kaigai chokusetsu toshi ron*] (Tokyo: Daiyamondo-sha, 1979); Direct Foreign Investment: A Japanese Model of Multinational Business Operations (London: Croon Helm, 1978); "Transfer of Technology to Developing Countries--Japanese Type Versus

American Type," Hitotsubashi Journal of Economics (Feb. 1977): 1-14.

7. For the evolution of trade and industrial policies across the Four NIEs, see Haggard, Pathways from the Periphery, esp. pp. 51-125.

8. Encarnation, Rivals beyond Trade, esp. pp. 36-96.

9. On the early evolution of Japanese FDI in East Asia, the most important detailed analysis remains Yoshihara Kunio, Japanese Investment in Southeast Asia (Honolulu: The University Press of Hawaii, Monographs of the Center for Southeast Asian Studies, Kyoto University, 1978).

10. On regional integration in East Asia, see the several papers collected in Jeffrey A. Frankel and Miles Kahler, eds., Regionalism and Rivalry: Japan and the United States in Pacific Asia (Chicago: University of Chicago Press for the National Bureau of Economic Research, 1993).

11. Encarnation, Rivals beyond Trade, esp. pp. 97-146.

12. US Commerce Department, Office of Business Economics, U.S. Business Investments in Foreign Countries: A Supplement to the Survey of Current Business (Washington: USGPO, 1960), esp. Table 4, p. 92.

13. For a detailed analysis of these investments, see US Commerce Department, Bureau of Foreign and Domestic Commerce, American Direct Investments in Foreign Countries,

1929 (Washington, 1932), pp. 25-28, 38.

14. US Department of Commerce, Bureau of Economic Analysis, Selected Data on US Direct Investment Abroad, 1950-76 (Washington, DC: USGPO, February 1982), Table 1, pp. 1-16.

15. US Commerce Department, Bureau of Economic Analysis, U.S. Direct Investment Abroad, 1966: Final Data (Washington: USGPO, 1975), Table L-6, p. 202; hereafter cited as Commerce Department, 1966 Benchmark.

16. Ibid., p. 17.

17. Specifically, for IBM, see Joseph M. Grieco, Between Dependency and Autonomy: India's Experience with the International Computer Industry (Berkeley: University of California Press, 1984).

18. Commerce Department, 1966 Benchmark, p. 17.

19. For data on US FDI through 1976, see Commerce Department, US Direct Investment Abroad, 1950-76, Table 1, pp. 1-16; for data subsequently, see US Department of Commerce, Bureau of Economic Analysis, US Direct Investment Abroad: Balance of Payments and Direct Investment Position Estimates, 1977-81 (Washington, DC: USGPO, February 1986), Table 1, p. 1.

20. US Commerce Department, Bureau of Economic Analysis, U.S. Direct Investment

Abroad, 1977 (Washington: USGPO, 1981), Table II.A.18, p. 123 and Table III.A.18, p. 242; hereafter cited as Commerce Department, 1977 Benchmark.

21. Ibid.

22. Ibid.; for all industries, exports to Japan during 1977 consumed 11 percent of all sales by American multinationals operating in East Asia, while other countries in the region consumed an additional 7 percent (Europe bought another 4 percent). For manufacturing industries, however, intraregional shipments to other East Asian countries actually led third-country exports, consuming 10 percent of all sales by US MNCs operating in that region (while Japan and Europe each consumed an additional 4 percent of these sales).

23. Encarnation, Rivals beyond Trade, esp. pp. 36-96.

24. For an analysis of Hong Kong's policies see, Haggard, Pathways from the Periphery, pp. 100-26.

25. Commerce Department, 1977 Benchmark, Table II.A.18, p. 123 and Table III.A.18, p. 24.

26. Commerce Department, US Direct Investment Abroad, 1977-81, Table 1, p. 1.

27. Encarnation, Dislodging Multinationals, esp. pp. 25-37; Grieco, Between Dependency and Autonomy.

28. Encarnation, Rivals beyond Trade, esp. pp. 97-146.

29. Commerce Department, 1977 Benchmark, Tables II.F.5 and III.F.5, pp. 138, 282-83.

30. For data on capital controls, see Ibid., Table II.I.3, pp. 139-40.

31. Commerce Department, US Direct Investment Abroad, 1977-81, Table 1, p. 1; ____, "US Direct Investment Abroad: Detail for Position and Balance of Payments Flows, 1989," Survey of Current Business (August 1990): 63.

32. US Commerce Department, Bureau of Economic Analysis, U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and their Foreign Affiliates, Preliminary 1988 Estimates (Washington: USGPO, July 1990), Tables 6 and 29, n.p.; hereafter cited as Commerce Department, US FDI: 1988 Survey.

33. For a comparison of capital controls in both India and Korea, see Encarnation, Dislodging Multinationals, esp. pp. 204-15.

34. Commerce Department, US FDI: 1988 Survey, Tables 6 and 29, n.p.

35. Commerce Department,"US Direct Investment Abroad, 1989," p. 63.

36. For the Hong Kong's dependence on foreign direct investment, see Haggard, Pathways

from the Periphery, pp. 191-222.

37. Commerce Department,"US Direct Investment Abroad, 1989," p. 63.

38. For an analysis of these factors in Singapore's economic development see, Haggard, Pathways From The Periphery, pp. 101-115, 146-151.

39. Commerce Department, "US Direct Investment Abroad, 1989," p. 63.

40. For additional data on the electronics industry in Singapore during the 1980s, see Daniel Todd, The World Electronics Industry (London: Routledge, 1990), esp. pp. 245-63; United Nations, Centre on Transnational Corporations, Transnational Corporations and the Electronics Industries of ASEAN Economies (New York: United Nations, 1987), Tables 9-11, pp. 26-31.

41. U.S. Commerce Department, Bureau of Economic Analysis, U.S. Direct Investment Abroad, 1977 (Washington: USGPO, April 1981), Tables III.I.19, III.I.23, pp. 354, 358.

42. For a benchmark study of such investments, see, Richard W. Moxon, Offshore Production in the Less-Developed Countries By American Electronics Companies (An unpublished DBA thesis, Harvard University, Graduate School of Business Administration, 1973), Appendix 4, pp. 143-48.

43. For the impact of US trade policy on US FDI and related trade in East Asia, see U.S.

Congress, Office of Technology Assessment, International Competitiveness In Electronics (Washington, DC: USGPO, 1983), pp. 116-19, 134-37, 434-35.

44. Ibid., p. 118; Moxon, Offshore Production, Appendix 4, pp. 143-48.

45. Dieter Ernst, The Global Race in Microelectronics: Innovation and Corporate Strategies in a Period of Crisis (Frankfurt: Campus Verlag, 1983), esp. Table 5.3 and 5.4, pp. 158-59; United Nations, The Electronics Industries of ASEAN Economies , Table 8, p. 21-2.

46. For a similar analysis, see Office of Technology Assessment, International Competitiveness In Electronics, pp. 192-93.

47. For surveys of the semiconductor industry in Southeast Asia, see United Nations, Electronics Industries of ASEAN Economies, pp. 16-24; Joseph Grunwald and Kenneth Flamm, The Global Factory: Foreign Assembly in International Trade (Washington, DC: Brookings, 1985).

48. In this paragraph, all national data on the value and direction of semiconductor trade (SITC 7763 and 7764) come from the Organization for Economic Cooperation and Development, OECD Microtables. Series B: Foreign Trade Statistics by Country (Paris: OECD, various years).

49. Ibid; during 1988, Singapore consumed over 15 percent (the same share recorded in 1978) of all Malaysian semiconductor exports, and supplied 13 percent (down from

17 percent in 1978) of Malaysian semiconductor imports.

50. US Department of Commerce, "US Direct Investment Abroad: Detail for Historical-Cost Position and Balance of Payments Flows, 1992," Survey of Current Business (July 1993): 88-124.

51. While US FDI in East Asia has attracted relatively little attention from American scholars, Japanese FDI in East Asia has been central to the research of Japanese scholars. In addition to Kojima and Yoshihara (notes 6 and 9 above), see the following works: Wakasugi Ryuhei, International Trade, Foreign Direct Investment, and Japanese Industrial Organization, [*Boeki-Chokusetsu toshi to nihon no sangyo soshiki*] (Tokyo: Toyo Keizai Shimposha, 1989), pp. 119-27; Komiya Ryutaro, The Contemporary Japanese Economy [*Gendai nihon keizai*], (Tokyo: University of Tokyo Press, 1988), pp. 221-95; Sekiguchi Sueo, ed., ASEAN-Japan Relations: Investment (Singapore: Institute of Southeast Asian Studies, 1983); Sekiguchi Sueo , New Developments in Foreign Investment [*Kaigai toshi no shintenkai*] (Tokyo: Nihon Keizai Shinbun-sha, 1979); Ozawa Terutomo, Multinationalism, Japanese Style: The Political Economy of Outward Dependency (Princeton, NJ: Princeton University Press, 1979), esp. pp. 227-28; Hikoji Katano et al., Japan's Direct Investment to ASEAN Countries (Kobe: Research Institute For Economics and Business Administration, Kobe University, 1978); Michael Yoshino, Japan's Multinational Enterprises (Cambridge, MA: Harvard University Press, 1976), esp. Chapter 5; Tsurumi Yoshihara, The Japanese Are Coming: A Multinational Spread of Japanese Firms (Cambridge, MA: Ballinger, 1976); Sekiguchi Sueo and Matsuba Mitsuji, Japan's Direct Investment [*Nihon no chokusetsu toshi*] (Tokyo: Nihon Keizai Shinbun-sha, 1974).

52. Mira Wilkins, "Japanese Multinational Enterprise before 1914," Business History Review (Summer 1986): 207.

53. Ibid., Tables 1- and 2, p. 209 and note 41, p. 217. By 1914, China probably hosted no less than three-quarters of all Japanese FDI worldwide.

54. Wilkins reports (in ibid.) that Japanese direct investments in China ranged in value between $153 million and $190 million by 1914. Meanwhile, by 1929 (the first year for which comparable data are available), US FDI in China had reached $114 million; see, Commerce Department, American Direct Investments in Foreign Countries, 1929, Table IV, p. 26.

55. Wilkins, "Japanese Multinational Enterprise before 1914," pp. 207-18, 227-31; also see, William D. Wray, Mitsubishi and the N.Y.K., 1870-1914: Business Strategy in the Japanese Shipping Industry (Cambridge, MA: Harvard University Press, 1984).

56. Komiya Ryutaro and Wakasugi Ryuhei, "Japan's Foreign Direct Investment," Annals of the American Academy of Political and Social Sciences (Jan. 1991), Tables 1-2, pp. 52-53.

57. Ibid.

58. Lawrence Krause and Sekiguchi Sueo, "Japan and the World Economy," in Hugh Patrick and Henry Rosovsky, ed., Asia's New Giant: How the Japanese Economy Works

(Washington, DC: Brookings Institution, 1982), pp. 447 and 456.

59. Yoshihara, Japanese Investment in Southeast Asia, Tables 2.2 and 3.1, pp. 18, 65.

60. Ibid.

61. Komiya Ryutaro and Itoh Motoshige, "Japan's International Trade and Trade Policy, 1955-1974," in Takashi Inoguchi and Daniel I. Okimoto, eds., The Political Economy of Japan, Volume 2: The Changing International Context (Stanford: Stanford University Press, 1988), p. 197.

62. Komiya and Wakasugi, "Japan's Foreign Direct Investment," p. 51.

63. Yoshihara, Japanese Investment in Southeast Asia, Table 4.4 and 5.6, pp. From the end of the war until 1974, 275 textile mills and 244 electronics plants had been established by Japanese investors.

64. Ibid., Tables 4.8 and 5.1, pp. 118-166.

65. Japan, Ministry of International Trade and Industry, Industrial Policy Bureau, The 3rd Survey of the Overseas Business Activities of Japanese Enterprises [*Dai san-kai wagakuni kigyo no kaigai jigyo katsudou*] (Tokyo: MITI, 1974), Table 4-1-1, p. 85; hereafter cited as MITI, 3rd Overseas Survey.

66. Indeed, that experience dates back to the turn of the century; see, Wilkins,

"Japanese Multinational Enterprise before 1914," esp. pp. 208-18, 229-31.

67. Yoshihara, Japanese Investment in Southeast Asia, Tables 4.9, 4.10, and 4.11, pp. 122-25.

68. Ibid., pp.124-25.

69. Ibid., pp.169-70.

70. The Oriental Economist, Japanese Overseas Investment: A Complete Listing by Firms and Countries, 1984-85 (Tokyo: The Oriental Economist, 1984).

71. MITI, 3rd Overseas Survey, Table 4-1-11, p. 106.

72. Komiya and Itoh, "Japan's International Trade and Trade Policy," p. 198.

73. Todd, World Electronics Industry, pp. 54-66.

74. Japan, Ministry of International Trade and Industry, Industrial Policy Bureau, The 8th Survey of the Overseas Business Activities of Japanese Enterprises [*Dai hatchi-kai wagakuni kigyo no kaigai jigyo katsudo*] (Tokyo: MITI, 1974), Table 4-1-1, p. 85.

75. Ibid.

76. Ibid.

77. For Japanese strategy in East Asian electronics, see Bundo Yamada, "Internationalization Strategies of Japanese Electronics Companies: Implications for Asian Newly Industrializing Economies" (Paris: OECD Development Centre, Technical Papers No. 28, October 1990); Gee San, "The Status and an Evaluation of the Electronics Industry in Taiwan" (Paris: OECD Development Centre, Technical Papers No. 29, October 1990); Urata Shujiro, "The Rapid Globalization of Japanese Firms in the 1980s: An Analysis of the Activities of Japanese Firms in Asia," a paper prepared for the Research Programme on Globalization and Regionalisation, Organization for Economic Cooperation and Development, Paris, June 20-21, 1990; Dieter Ernst and David O'Connor, Technology and Global Competition: The Challenge for Newly Industrialising Economies (Paris: OECD, 1989); Jung Taik Hyun and Katherine Whitmore, "Japanese Direct Foreign Investment: Patterns and Implications for Developing countries" (Washington, DC: World Bank, 1989); Toru Nakakita, "The Globalization of Japanese Firms and Its Influence on Japan's Trade with Developing Countries, The Developing Economies (December 1988): 306-22.

78. US Commerce Department, Bureau of Economic Analysis, U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and their Foreign Affiliates, Preliminary 1988 Estimates (Washington: USGPO, July 1990), Tables 6 and 29, n.p.

79. For the following data see, Japan, Ministry of International Trade and Industry, Industrial Policy Bureau, International Business Affairs Division, The 19th Survey of the Overseas Business Activities of Japanese Enterprises [*Dai jyukyu-kai wagakuni kigyo no kaigai jigyo katsudo*] (Tokyo: Ministry of Finance Printing Bureau, 1990), pp.

74-75.

80. For the Americans, data here are for 1982; see, U.S. Commerce Department, Bureau of Economic Analysis, U.S. Direct Investment Abroad, 1982 (Washington: USGPO, April 1984).

81. MITI, 19th Overseas Survey, Table 4, pp. 7-8.

82. Ibid.

83. Ibid.

84. For an analysis of this three-front contest, see Yung Chul Park and Won Am Park, "Changing Japanese Trade Patterns and the East Asian NICs," in Paul Krugman, ed., The US and Japan: Trade and Investment (Cambridge, MA: MIT Press for the National Bureau of Economic Research, 1991); in this same volume, also see Peter A. Petri, "Market Structure, Comparative Advantage, and Japanese Trade under the Strong Yen."