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THE ORIGINS AND EVOLUTION OF JAPANESE DIRECT INVESTMENT IN EAST ASIA

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Introduction*

Japanese foreign direct investment (FDI) in East Asia has increased substantially in recent years.[1] Japan's FDI outflows to the region have exceeded $5 billion annually since 1987, for example, and totalled almost $10 billion during the 1994 fiscal year.[2] (See Figure 1). Indeed, official Japanese figures suggest that in 1994 Japan's FDI flows to Asia as a whole exceeded such flows to Europe for the first time in more than a decade. As a result, after North America, Asia has once again become the second largest recipient of Japanese direct investment flows of any region in the world.

This rise of Japanese FDI in East Asia has led to considerable speculation about its character and ultimate consequences. When Japanese FDI beginning in the late 1980s surged into North American and European markets--regions never before recipients of substantial Japanese direct investment inflows--a number of observers voiced concerns about the implications of a future increasingly influenced by companies headquartered in Japan. As Japanese FDI has increased in East Asia, in partial contrast, some have focused rather on a past in which Japan gained significant control over a number of East Asian economies through foreign direct investment and other means.[3] Other observers have asked related questions about

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whether the development of Japanese FDI in East Asia is distinctive or even unique as compared to its development in other recipient regions.

Expanding Japanese FDI in East Asia also has raised concerns about its impact on American economic interests in that region. In recent years, of course, there has been widespread debate about the nature and consequences for extra-regional economies of integration in East Asia through trade and technology as well as investment flows. One critical aspect of this larger debate centers on the effects of growing Japanese and other intra-regional FDI for external economies such as that of the United States. A number of observers have wondered in particular whether rising Japanese FDI in the region is correspondingly diminishing foreign investment and other economic opportunities for American firms.[4]

Although numerous scholars have examined the nature of Japanese FDI in East Asia to explore these and related questions, few have systematically done so through comparative historical perspectives.[5] How, indeed, does Japanese FDI in East Asia today compare with such investment in the past? What, specifically, are the chief characteristics of such investment in each period, and how have they changed over time? How does this investment record compare with the development of Japanese FDI in the West? In what ways does the development of Japanese FDI in East Asia contrast with the development of US FDI in the region?

To address these issues, this paper will explore the origins and evolution of Japanese FDI in East Asia in comparative perspective. First, this study will trace the historical development of such investment in the region in terms of amount, sector, location, motivation and the role of the Japanese government. Second, the paper will compare and contrast these various features of Japanese FDI in East Asia over time in order to identify major continuities and discontinuities in their respective evolutions. Third, the study will conclude with a comparison of this record in broader international perspective.

The Development of Japanese Direct Investment in East Asia

Origins

Japanese FDI first entered East Asia well over a century ago. As a late developer eager to industrialize yet lacking requisite technologies and endowed with only limited natural resources, beginning in the late 1800s Japan strove to develop export markets for its goods to purchase needed imports of capital equipment, raw materials and other items.[6] In pursuit of this national strategy, a substantial proportion of Japanese FDI in East Asia (and elsewhere) was concentrated in those service sectors which could directly facilitate such trade.[7]

Japanese trading firms (nascent *sogo shosha*) were among the very first enterprises to establish operations in East Asia during the late nineteenth and early twentieth centuries to achieve this critical goal.[8] Most of this investment was concentrated in China. Just one year after its founding, for example, Mitsui & Co. in 1877 set up its first overseas office in Shanghai to exploit the government-granted export monopoly on coal from the state-run Miike mines. Before the turn of the century, however, a burgeoning export business in cotton textiles had assumed a far greater position in Mitsui & Co.'s Chinese export business, together with growing imports from China of raw cotton, soybeans and other basic items. This rising trade led to the establishment of a whole network of Mitsui & Co. branch offices in China in the late 1890s and early 1900s. (See Table 1). Indeed, between 1877 and 1914 the trading company had set up some 46 branches in Asia--mostly in China--but just five in Europe, two in the United States and one in Australia.

Nor was Mitsui & Co. the only Japanese trading firm which operated in East Asia during these early years. Mitsubishi Ltd., Nihon Menka and Takashimaya Iida, for example, also directly invested in Chinese trading operations well before the First World War, exporting such commodities as glass, paper, beer and matches in addition to cotton textiles, and importing agricultural products and natural resources. C. Itoh and Kanematsu Shoten opened branches in Korea, and others set up offices in Taiwan, Indonesia, the Philippines and elsewhere in the region.

Major proportions of Japanese FDI initially entered the transportation sector in East Asia also largely to support the physical movement of goods between Japan and elsewhere in the region. By far the largest Japanese direct investments in this sector were in railways, and by far the largest such investment was in the South Manchuria Railway Company (SMRC). This firm, founded in 1906 and partially owned by the Japanese government, stood at the heart of the transportation system linking the then Japanese-controlled port of Dalien with outlying Manchurian markets. According to one estimate, more than half of all Japanese FDI in China in 1914 was invested in this one firm alone.[9] Japanese direct investments likewise financed the establishment of railroad lines in Korea both to facilitate Japanese export penetration of Korean markets as well as to boost imports of Korean rice and other agricultural products back into Japan.[10]

A significant share of Japanese FDI in regional transportation networks also was concentrated in the shipping industry. As early as 1875, for example, Mitsubishi Goshi set up a Shanghai branch to operate its newly-established shipping business between Japan and China.[11] Other Japanese firms, such as Nippon Yusen Kaisha (NYK), Osaka Shosen Kaisha (OSK) and even the SMRC, also directly invested in facilities located at many of the principal shipping ports of China and elsewhere in East Asia to foster the flow of goods via this critical mode of transportation.[12] These investments helped pay for the establishment of branch offices, port facilities, warehouses and other items.

In addition to FDI in the overseas operations of trading companies and in the regional transportation infrastructure, to facilitate trade substantial shares of Japanese direct investment also entered the financial services sector in East Asia during these years. Japanese banks, for example, set up branches or subsidiaries in Chinese and other East Asian economic centers to provide foreign exchange and other banking services to Japanese traders in the area. For example, the government-controlled Yokohama Specie Bank (YSB)--"the bank of banks in the sphere of foreign trade financing," as one scholar has characterized it--provided such services through a network of offices in China and elsewhere, including branches established in Shanghai (1893) and Hong Kong (1896).[13] Indeed, according to one account, "every time Mitsui & Co. opened a new branch overseas a new [YSB] branch opened in the same city."[14] No fewer than ten new YSB Asian branches were opened--all in East Asia--between 1898 and 1907.[15]

Other Japanese-controlled banks in East Asia which directly or indirectly supported Japan's trade with the region included the colonial First National Bank of Korea and Bank of Taiwan.[16] Among private firms, Yasuda Bank apparently operated its own offices in China more than a decade before the start of World War One.[17] Insurance companies also set up offices in a number of the main capitals of East Asia in part to protect against losses from the movement of goods between Japan and elsewhere in East Asia via the maritime trade.[18]

Very little Japanese FDI, however, entered East Asia's manufacturing sector during these years.[19] It is true that a few Japanese firms directly invested in cotton spinning factories in China shortly after the turn of the century. Japanese trading firms such as Mitsui & Co. and Nihon Menka operated spinning factories in Shanghai in the early 1900s, for example, as did the Japanese-based manufacturer Naigaiwata.[20] Yet these investments were the exception rather than the rule. In 1914, for example, it is estimated that just 5.5% of Japanese FDI in the critically important Chinese economy was in the manufacturing sector, and, more generally, Japanese FDI in East Asian manufacturing prior to 1914 was very limited.[21]

Through various means the Japanese government played a critical role in shaping the flow of FDI from Japan to East Asia during these years. First, the authorities often encouraged selected investments through subsidized loans and guarantees for specified FDI projects as well as through export financing and other trade assistance which helped shape the overseas investment strategies of many leading sogo shosha. Second, through commitments of its own capital in the SMRC and other major projects in East Asia, the Government itself directly participated in a number of key investments in this period.[22]

And third, the authorities supported and otherwise influenced the outflow of Japanese FDI through its broader political activities in a number of key East Asian markets. During the years preceding the First World War, of course, a number of neighboring East Asian economies came under direct or indirect political control by Japan. Following its military success during the Sino-Japanese War of 1894-1895, Japan gained control of Taiwan, expanded its already considerable influence in Korea and acquired greater commercial privileges in China. After winning the Russo-Japanese War ten years later, Japan took over the Russian lease on the Kwantung Peninsula, the southern half of Sakhalin and other assets. And in 1910, Japan annexed Korea.[23] These events motivated large numbers of Japanese entrepreneurs to channel investment funds into these overseas markets in particular. Indeed, "Japan probably would not have exported capital in any considerable amounts" to East Asia (or elsewhere) prior to the First World War, one leading analyst therefore declared, "had it not been for State protection and encouragement in areas under heavy Japanese influence or control."[24]

Nonetheless, absolute quantities of Japanese FDI flows to East Asia were quite limited prior to World War One. China, by far the largest host to Japanese direct investment during this period in the East Asian or any other region, had received only negligible amounts of such investment by 1897, a mere $1 million by 1900 and a larger but still very modest $190 million by 1914.[25] (See Table 2). Indeed, despite the rapid economic gains Japan had achieved by 1914, the best estimates suggest that total Japanese portfolio as well as direct investment in foreign countries totalled just $260 million by that year. These data do not, however, include the substantial Japanese direct investments in its Taiwanese and Korean colonial possessions.[26]

Expansion

A number of major international political events largely shaped the contours of Japanese FDI in East Asia during the ensuing three decades. The advent of the First World War in 1914 marked the beginning of rapidly intensifying Japanese economic involvement with neighboring countries and regions which came to an abrupt halt at the end of the Second World War. In the interim, Japan expanded its influence in China in particular following the (1931) Manchurian Incident and the (1937) onset of the Sino-Japanese War. Japan projected its power still further afield in East Asia following the outbreak of the Pacific War in 1941. This growing regional influence coincided with Japan's efforts to construct a so-called Greater East Asia Co-Prosperity Sphere designed to more tightly integrate the economies at the periphery with markets in Japan Proper.

Levels of Japanese FDI grew considerably in East Asia during the three decades following the start of World War One. For example, the data set out in Table 2 suggest that such investment in the critically important Chinese market alone more than doubled from $190 million to $377 million between 1914 and 1919, and roughly doubled again, to $763 million, by 1930.[27] A similar estimate of Japan's "direct business investments" in China reported a roughly four-fold increase between 1914 and 1930, rising from $192.5 million at the start of World War One to $874.1 million some 16 years later.[28] And anecdotal evidence suggests that this FDI expanded still further as Japan worked to solidify its regional sphere of influence prior to surrender in August, 1945.[29]

Despite this rapid increase, however, as compared to more recent years levels of Japanese FDI in East Asia generally remained modest throughout the period. Although Japan had concentrated the vast majority of its FDI in China by 1930, for example, its stock of FDI in that country still ranked second to that of the United Kingdom--yet only a tiny fraction of total UK FDI was located in China at that time.[30] And, according to Lockwood, at least through the late 1930s Japan's "overseas business enterprise," though "significant in relation to Japanese trade and imperialism," was not terribly significant in comparison to overall national rates of savings and investment.[31] On the other hand, Japanese direct investment in its colonial possessions grew considerably during this period.[32] Indeed, one scholar, apparently including Japanese direct investments in its colonial possessions as well as in foreign countries, calculated that the ratio of Japanese FDI to gross national income was greater in 1930 than in 1986.[33]

Building on earlier trends, that investment remained highly concentrated in those East Asian economies in which Japan wielded major political influence. As suggested in Table 2, for example, between 1914 and 1936 Japanese FDI was overwhelmingly located in the East Asian region in general and in China in particular.[34] Anecdotal evidence suggests that this concentration bias continued (and may well have become still more pronounced) as Japan worked to further solidify its regional base and simultaneously became increasingly cut off from many Western markets. Moreover, a comprehensive Allied Occupation survey of Japanese "external assets"--of which reportedly 76% were in the form of business investments owned by Japanese corporations--points to a similarly high concentration of Japanese foreign direct (and other) investments in its regional sphere of influence at the end of World War Two (see Figure 2). Indeed, according to this survey, no less than 93.69% of Japan's total external assets were located in Manchuria, Korea, China and Formosa in August, 1945![35]

In sectoral terms, non-manufacturing industries continued to predominate. As suggested in Table 3, for example, in the key Chinese market Japanese FDI in the transportation, import & export and banking & finance sectors alone constituted a majority of all such investment in that market in 1932. Still more pronounced was the Japanese preference for non-manufacturing FDI in Manchuria in particular.[36] Other studies point to the same general sectoral pattern of Japanese FDI in East Asia during this period.[37] Indeed, at least in terms of paid-in capital this pattern apparently held in the Dutch East Indies as well. (See Table 4).

Similar to the years prior to World War One, Japanese general trading companies accounted for a major share of this non-manufacturing investment. As intra-Asian trade grew (see Figures 3 and 4 on the growth of such trade in comparison to other key regions), virtually all of Japan's major trading companies expanded their direct presence in China and elsewhere in the region. Among key Japanese imports were not only agricultural goods but also raw materials needed to satisfy the demands of a rapidly industrializing (yet resource-poor) nation, together with growing exports of manufactured goods. It is reported that Mitsubishi Corporation alone made some 100 separate investments in Asia during the three decades from World War One.[38] Although not nearly as great as their investments in Northeast Asia, as the period progressed a considerable number of these and other Japanese trading firms invested in key Southeast Asian markets as well. Ataka opened some 25 offices in the Southeast Asian sub-region after 1941, for example, following closely the progressive conquests of the Japanese Imperial Army.[39] Many other trading firms pursued similar strategies. (Table 4 lists the extensive 1937 investments of Japanese trading firms in the Dutch East Indies).

In addition to the direct investments of the trading companies and again building on earlier trends, large shares of fresh Japanese FDI inflows to East Asia entered the trade-facilitating transportation sector. Remer reports, for example, that Japanese FDI in the Manchurian transportation sector more than tripled between 1914 and 1930. Much of this increase, of course, was accounted for by the government's growing investment in the SMRC together with that company's own extensive direct investments in regional transportation projects.[40] Greater amounts of Japanese FDI also entered the railroad and other transportation sectors in other parts of China, in Korea, Formosa and elsewhere.[41]

Finally, FDI in the trade-related financial services sector continued to expand greatly during these years. The Yokohama Specie Bank, for example, progressively shifted a greater share of its resources away from other regions and towards East Asia as the period progressed. Indeed, between 1932 and 1945 the Bank set up some 32 offices in China alone together with many other such facilities in the Straits countries.[42] Tokyo Marine and other insurance companies likewise expanded their earlier direct investments in the region.[43]

Japanese FDI in East Asian manufacturing also grew considerably as compared to earlier years, although in relative terms this growth remained fairly modest. Much of this new investment entered the Chinese cotton spinning industry. At first enjoying huge increases in cotton textile exports to China following the outbreak of World War One and the consequent rupture of British and other Western sources of textile supplies to that large Asian market, Japanese firms rushed to invest in Chinese manufacturing in that sector following the imposition in 1919 of higher Chinese textile import tariffs. As a result, no less than seven of Japan's ten leading cotton spinning companies had established factories in China by the early 1920s to defend their local market shares.[44] Yet cotton spinners were not the only Japanese enterprises to establish direct manufacturing investments in East Asia during these years. In the motor vehicle industry, for example, Nissan moved its headquarters to Manchuria in 1937 and Toyota set up plants in Tientsin and Shanghai shortly thereafter.[45] Manufacturing investments in China entered a number of other fields as well. (See Table 5).

Complex motives beyond the purely economic became increasingly important determinants of Japanese FDI in the region. In addition to trade facilitation across a variety of sectors and efforts to defend overseas market shares in limited cases, increasing numbers of direct investments were undertaken to support wider Japanese political and military goals in the region. These goals included the growing transportation needs of Japan's colonial army and closer economic integration of the expanding Japanese Empire. (Table 6, for example, illustrates the enormous trade dependence of colonies such as Taiwan on the markets of Japan Proper.)

To support these goals, the Japanese government played a leading role in the development of its country's direct investment in the region through World War Two. As in earlier years, the authorities influenced such investment in multifarious ways. Colonial officials enticed Japanese firms to invest in their locales through a host of tax, infrastructural and other incentives.[46] The home government, also as in previous years, offered protection and encouragement through its influence and control over many regional economies. And similar to the pre-1914 period, the public sector itself participated in a number of key direct investments in the region. (In addition to the SMRC see, for example, Table 5). Finally, during this period some leading Japanese enterprises may have been simply ordered by the authorities to directly invest in a particular project.[47]

Resumption

As in the period of expansion, major political events also ushered in the ensuing era of Japanese FDI resumption in East Asia. The end of World War Two, of course, brought about a temporary hiatus in the development of such investment in the region. Surrender brought not only the termination of hostilities but also the termination of Japanese control over virtually all its external assets. As Japan regained its independence and the Occupation drew to a close, however, the government embarked on new economic policies which once again decisively determined the development of its country's FDI in East Asia.

The Allied Occupation's Supreme Commander for the Allied Powers (SCAP), froze and, as alluded to above, then systematically inventoried Japanese foreign direct investments and virtually all other external assets shortly after taking power in 1945.[48] That September SCAP explicitly prohibited persons in Japan from engaging in transactions involving these overseas assets in order to maintain them intact until a definitive policy could be adopted. In the interim, the Allied authorities compiled an exhaustive, 3-volume inventory of all such assets, intangible as well as tangible, owned by both public and private interests. In that inventory, SCAP found that, although these assets were located in some 80 different geographical areas and denominated in 90 different national currencies, the vast majority, as noted above, were concentrated in Northeast Asia.[49]

Towards the close of the Occupation, a new policy was adopted to dispose of these external assets. After a period of almost five years during which SCAP allowed the authorities of the territory in which they had been found to control them, it was decided to handle these possessions in one of two ways. Countries which had been at war with Japan and who signed the Peace Treaty were given authority to confiscate and liquidate these assets and dispose of the proceeds as they saw fit. On the other hand, assets located in former Axis and wartime neutral countries were transferred to and later sold by the International Committee of the Red Cross, which distributed the proceeds as indemnification to former Allied prisoners of war. By the time the Occupation ended in 1952, the entire stock of Japanese FDI in East Asia had therefore been completely eliminated.

The Japanese government fashioned a new policy towards outward FDI as the nation moved to regain its independence. This new policy, which operated throughout the 1950s and 1960s, severely restricted fresh outflows of virtually all Japanese direct investments. Behind this policy lay the government's fierce determination to conserve scarce quantities of foreign exchange and to prevent "reverse imports" of manufactured and other goods produced by Japanese companies abroad which might then be shipped back to home markets. Reflecting this latter motivation, in general the government authorized only those direct investments in East Asia which facilitated exports of Japanese goods and imports of critical natural resources.

To control the movement of Japanese direct investment abroad, the government scrutinized each individual investment application through a rigorous, inter-agency screening process. A company whose request was denied simply could not gain access to requisite foreign exchange. On the other hand, the small number of firms whose applications were approved found that the government not only granted them the necessary foreign exchange permits but also generally supported their overseas investments with generous tax breaks and other financial incentives. Yet even in many of these cases the government obliged the investing firm to pledge that it would not engage in so-called reverse importing.[50]

Responding to this new government policy, a modest number of Japanese firms--many of which had invested in the region during the prewar and wartime periods--managed to gain requisite permissions and directly invest in postwar East Asia. Trading companies and limited numbers of banks were permitted to directly invest in the region to help recreate in the postwar period aspects of the trade-facilitating infrastructure they had once owned and operated before and during World War Two. Mitsui & Co., Mitsubishi Corporation and other major Japanese trading firms, for example, systematically re-established import-export operations in a number of leading East Asian markets beginning in the 1950s. A small number of private banks likewise were permitted to set up facilities largely to provide trade financing in support of these trading operations.

Some trading and other Japanese firms also directly invested in East Asian natural resource projects to help satisfy the nation's growing appetite for such resources as the postwar economic miracle developed. In the 1960s, for example, increasing quantities of Japanese FDI participated in projects such as iron ore and copper mining in Malaysia and the Philippines, and in natural gas extraction in Brunei.[51] Also during that decade the government participated in at least one major "national project" to directly invest in the Indonesian oil sector.[52] Other Japanese FDI during the 1950s and 1960s entered regional projects in the agricultural, forestry and fisheries industries.[53]

A limited number of Japanese direct manufacturing investments also entered East Asia during this period. Before 1960, for example, Yoshihara reports that the Japanese government approved a total of nine such investment projects in East Asia, of which four were bound for Thailand.[54] A far greater number of Japanese overseas manufacturing investments received approval beginning in the 1960s, however, and most of it apparently entered this same region.[55] Motivated by rising import restrictions in Southeast Asia and other factors, increasing numbers of Japanese manufacturers opted to establish small-scale local production facilities in the region. Japanese FDI in Southeast Asian industries such as synthetic fiber and consumer electronics (the latter principally to assemble intermediate goods shipped from Japan) are two major cases in point.[56] Similar to previous periods, many of these investments were carried out in concert with leading trading firms.[57]

Despite the early resumption of Japanese FDI in postwar East Asia, however, overall quantities of such investment remained extremely limited. Between 1951 and 1960, for example, approved FDI outflows to all regions combined averaged a minuscule $28 million annually between 1951 and 1960, and only $329 million annually between 1961 and 1970.[58] Of these totals, an annual average of just $13 million was approved for FDI in manufacturing to all external destinations during the 1950s and a mere $81 million during the following decade. Asia attracted roughly one-fifth of cumulative Japanese FDI outflows during the 1950s and 1960s, according to the Ministry of Finance, placing the region second behind North America among global recipients.[59]

As in earlier periods, this investment was concentrated in a small number of regional markets. The specific markets Japanese FDI entered, however, changed as compared to earlier periods. The postwar communist rulers of China and North Korea blocked virtually all FDI inflows after they assumed power, for example, and anti-Japanese feeling contributed to the continuation of an effective South Korean ban on Japanese FDI until formal diplomatic relations were re-established in 1965.[60] Rather than re-entering contiguous markets of the old Greater East Asia Co-Prosperity Sphere, in the postwar period the Japanese instead focused their regional direct investments in Indonesia, the Philippines, Malaysia and elsewhere in Southeast Asia.[61] In short, Japanese FDI remained geographically concentrated in a limited number of East Asian markets, though the specific markets they entered differed after war (and occupation).

Growth and Diversification

Again punctuated by important political events, Japanese FDI in East Asia entered a new era beginning in the early 1970s. In concert with its larger initiatives to deregulate the nation's international economic controls, in 1969 the Government embarked on a five-stage process to liberalize FDI outflows.[62] Although the entire deregulation process took some nine years to complete, following the mid-1971 implementation of phase three MOF, with few exceptions, automatically validated greenfield direct investments abroad by Japanese companies without financial limit. Rising domestic business pressure as well as increasing balance of payments surpluses motivated the government to take this critical policy initiative.

Changed Japanese government policies together with many other political and economic developments encouraged Japan's multinationals to directly invest in East Asia far more aggressively beginning in the 1970s. Following the collapse of the Bretton Woods regime, the value of the yen appreciated sharply and thereby escalated production costs in Japan as compared to other regional economies. A coincident increase in real wage rates in Japan encouraged the migration of labor-intensive manufacturing industries in particular to neighboring markets such as South Korea, Taiwan, Hong Kong and the countries of the Association of Southeast Asian Nations (ASEAN).[63] In addition, rising trade protectionism in the key US market encouraged still greater Japanese manufacturing [illegible] in numerous East Asian countries as a means to circumvent the threat of further American import restrictions on goods produced in and directly exported from Japan.[64] More recent motivations include the desire to supply through local production the rapidly expanding domestic markets of East Asia together with new and far more liberal foreign investment laws in countries such as China, Indonesia and Vietnam.[65]

These factors contributed to a dramatic rise in Japanese manufacturing FDI in East Asia during this period.[66] In the early 1970s much of that investment entered the region's textile industry, in which Japanese firms such as Toray and Teijin (often with sogo shosha partners) directly invested considerable sums to produce a variety of synthetic fibers.[67] Joined in this early, post-liberalization "investment rush" were a host of Japanese electronics firms such as Matsushita and Sanyo, which set up regional plants to assemble home appliances such as radios, televisions, refrigerators, fans and so forth.[68] Japan's automobile firms likewise directly invested in local assembly operations. (See Table 7.) Yet in later years still greater sums would be invested in these and many other Asian manufacturing industries. As a result, by 1995 approved Japanese manufacturing FDI in the region amounted to more than $33.5 billion, or roughly 43% of all approved Japanese FDI in Asia. The electrical machinery, chemical and metal industries had by then attracted the largest shares of such investment in the manufacturing sector. (See Figure 5).

In addition, Japanese firms operating in a whole host of service sectors greatly increased their direct presence in East Asia during these years. By 1995, for example, approved stocks of Japanese FDI in regional banking, insurance and other financial services amounted to more than $7.5 billion or roughly

10% of all approved Japanese FDI in the region. Trading and sales exceeded $6.5 billion or about 9% of the overall regional total that same year. And, as calculated by the Ministry of Finance, the service sector as a whole accounted for roughly 30% of all approved Japanese FDI stocks in Asia by early 1995. In addition to manufacturing and services, roughly 27% of accumulated Japanese FDI approvals in Asia entered other non-manufacturing sectors such as mining, real estate and transportation.

Absolute amounts of Japanese FDI in East Asia expanded prodigiously beginning in the 1970s as compared to earlier decades. Between 1971 and 1980, for example, approved outflows of Japanese FDI to Asia (of which the great majority went to East Asia) exceeded $9 billion, whereas total approved outflows of such investment to that region amounted to less than $800 million throughout the previous two decades.[69] Moreover, between 1981 and 1990 stocks of approved Japanese direct investment in Asia increased to more than $37 billion, and by 1995 such stocks in Asia amounted to roughly $76 billion. (See Figure 6). This rapid increase was fueled in particular by large, sustained Japanese outflows beginning in the mid-1980s. (See Figure 1).

Also in contrast to earlier periods, within East Asia Japanese FDI in geographical terms had become far more dispersed. Prior to 1950, as we have seen, the great majority of Japanese FDI entered the economies of Northeast Asia. During the early decades of the postwar period, that investment in the region was mainly situated in Southeast Asia. Yet during the quarter century beginning in 1970, fresh outflows of Japanese FDI to the region created a pattern of much wider geographical dispersion of these investment stocks. As suggested in Figure 6, for example, by 1995 substantial proportions of regional stocks were located not only in Southeast Asia but also in China, South Korea, Taiwan and elsewhere in the region.

Finally, and again largely in contrast to earlier periods, since the 1970s the government has played a less significant role in influencing its country's FDI in the region. There are, to be sure, a number of notable exceptions. These include low-interest loans provided by the Export-Import Bank of Japan and other public agencies, investment guarantees backed by the Ministry of International Trade and Industry (MITI), the use of overseas development assistance to support the external activities of Japanese firms and periodic MITI "vision" statements which can have important signalling effects for Japanese management decisionmaking.[70] These and other instances of Japanese public-sector activity affecting the overseas direct investments of its private-sector firms suggest that the role of government in this domain remains more important in the case of Japan as compared to that of most other major industrialized countries. At the same time, however, these and other examples of official Japanese involvement do not compare to either the depth or the range of Japanese government actions in previous periods of that country's modern history to encourage, discourage or otherwise shape the nation's direct investments in East Asia.

Continuities and Discontinuities

How does Japanese FDI in East Asia in recent years compare with such investment in earlier times? An examination of the past versus current character of five key features of this investment suggests at least one broad generalization.

Investment Levels

Quantities of Japanese FDI in East Asia across time stands as an important case in point. Historically, of course, overall levels of such investment in general were quite modest. Although there are recorded instances of Japanese FDI entering the region at least as early as 1875, for example, total amounts of such investment remained very limited throughout the nineteenth and early twentieth centuries. Rising Japanese FDI in China and elsewhere in Northeast Asia beginning in the 1930s constitute the only important exception to this larger historical pattern. Yet even these investments were eliminated after World War Two, and during the first two postwar decades following the Occupation total amounts of Japanese FDI again were extremely limited. By contrast, of course, beginning in the 1970s and particularly from the mid-1980s quantities of such investment have increased enormously.

Sectoral Composition

The sectoral composition of Japanese FDI in the region likewise points to a more general pattern. Beginning in the late nineteenth century and for many decades thereafter, the vast majority of Japanese direct investment in East Asia entered the service and other non-manufacturing sectors. Although the proportion of such investments which entered manufacturing increased as World War Two approached, available evidence suggests that this proportion reached only moderate levels as compared to the most recent period. It is also true that this proportion was probably even more substantial during the first two postwar decades, yet the absolute quantities of such investment remained extremely small throughout the 1950s and 1960s. Far greater sums entered East Asian manufacturing beginning in the 1970s, however, and by 1995 well over 40% of the estimated $76 billion in approved Japanese FDI in the region was located in this sector.

Location

In addition to level and sector, the location of Japanese FDI in East Asia points to a similar historical trajectory.

Although there are scattered cases of such investment entering diverse regional economies from the late 1800s, at least as early as the turn of the century this investment was highly concentrated in China and elsewhere in Northeast Asia. Such geographical concentration became still more pronounced as Japan both developed its Greater East Asia Co-Prosperity Sphere and was increasingly cut off from most Western markets. A similar pattern of geographic concentration occurred during the early postwar period, although in those years the emphasis was on Southeast rather than Northeast Asia. Yet here again the most recent period contrasts with this century-old historical pattern, for Japanese FDI in East Asia has become far more geographically diffuse throughout the region.

Motivation

The economic factors motivating Japanese FDI recently as opposed to earlier periods also contrast. As noted above, for decades the primary economic motivation for such investment was to facilitate the flow of goods between Japan and various East Asian markets. The rapidly growing but resource-poor prewar economy required large supplies of natural resources and other primary products scarce in Japan but often plentiful in neighboring economies. To pay for the import of these goods and consume the output of its own increasingly industrialized economy, Japan sought growing regional markets for its own products. A very substantial proportion of all Japanese FDI in East Asia then and during much of the postwar period therefore was used to create a trade-facilitating infrastructure of trading companies, transportation firms, and financial services organizations.[71] (Added to this critical economic motive were a series of political and military factors important principally during the 1930s and early 1940s.) In recent years, however, the economic motives for such investment have become far more complex. Although trade facilitation remains an important factor, additional motives such as sourcing cheaper labor, defending regional markets and deflecting trade tension with the United States also have become increasingly important.

The Role of the Japanese Government

Finally, the role of the Japanese government has changed in recent as opposed to earlier periods. Throughout the first century of Japanese FDI in East Asia, the government played an enormously influential role in shaping its development. Specific government actions until the end of World War Two included major financial incentives and creation of politically secure investment environments as well as direct public participation in selected overseas investment projects. And during the postwar period, the government heavily influenced the development and character of Japanese FDI in East Asia through application of both strict controls over all outward investment flows and provision of financial inducements in many approved cases.

Yet here again the period of growth and diversification contrasts with the established pattern. Clearly the Japanese government has continued to play an important role in the overseas development of its country's firms--particularly in comparison with the analogous roles of the governments of the United States and most other advanced economies. At the same time, however, in contrast to earlier periods the Japanese government became far less instrumental in shaping the development of Japanese FDI in the region after capital liberalization.

In sum, as compared to earlier historical periods the recent development of Japanese FDI in East Asia along a number of important dimensions generally is characterized by discontinuity. There are, to be sure, certain limited exceptions. As in recent years, during the prewar and wartime period levels of such investment rose substantially as Japan solidified its control over neighboring territories, and, again similar to current trends, during the postwar period as well a relatively high proportion (but in absolute terms small quantity) of this investment entered the region's manufacturing sector.

More striking, however, are the many and highly significant discontinuities. First, the geographical distribution of Japanese FDI in East Asia has become far more diffuse in recent times as compared to earlier periods. Second, economic motivations other than trade facilitation have become far more important factors in encouraging the spread of Japanese investment to the region. Third, the role of the Japanese government is less significant today than it was in earlier periods. Fourth, absolute levels of Japanese FDI in East Asia today far surpass levels registered in earlier years. And fifth, with the limited exception noted above, a far greater proportion of such investment has entered the region's manufacturing industries in recent years.

This investment record hardly suggests that Japanese FDI in East Asia today is recreating a modern version of the Greater East Asia Co-Prosperity Sphere. Although current levels of such investment exceed those of the 1930s and early 1940s, the Japanese government, as noted above, does not today shape its country's direct investments in the region with either the same degree of influence or with similar regional designs as in the late 1930s and early 1940s. In addition, that investment is now far less concentrated in neighboring Northeast Asia than it was during this previous era, and the overriding motivations are economic rather than political and military as well.[72]

International Perspectives

In contrast to the many discontinuities between contemporary as opposed to earlier Japanese FDI in East Asia, the historical record points to a number of striking similarities between the historical development of Japanese FDI in Europe and the United States as compared to East Asia.[73] Indeed, a cross-regional comparison of such investment along the five dimensions analyzed above points to a remarkable resemblance in the nature of Japanese FDI in East and West during earlier years as opposed to the current era. Consider, for example, investment levels. With the partial exception of the latter expansionary phase in Northeast Asia, in East and West quantities of Japanese FDI remained exceptionally small throughout (the roughly parallel) first century of its development in both regions. Yet in East and West those levels have expanded enormously since the 1970s and, in particular, beginning in the late 1980s.

This same general pattern holds for each of the other four characteristics of Japanese FDI across these regions. With respect to sectoral composition, for instance, such investment in East Asia as well as the United States and Europe was largely focused in services and other non-manufacturing sectors throughout its first century of development, but the proportion entering manufacturing has increased greatly in both areas during the last 25 years. So, too, in locational terms a similar pattern holds. Historically, Japanese FDI in the United States and Europe, as in East Asia, was geographically concentrated in a small number of locales. Beginning in the 1970s, however, Japanese firms have dispersed their direct investments far more widely in the West as in the East.

In addition, throughout most of its first century of development Japanese FDI in the United States and Europe as well as in East Asia was based largely on the economic motive of facilitating trade flows between Japan and economies receiving such investment, yet in both areas those economic motives have become far more complex in recent times. And finally, the Japanese government was enormously influential in shaping the development of its country's FDI in East and West from the origins of such investment through the 1960s, yet in the last 25 years that influence has declined substantially. In short, when comparing current versus past Japanese FDI in East Asia as opposed to the development of Japanese FDI in East versus West, the major similarities or continuities are apparently spatial (ie, geographic) rather than temporal.[74]

A second broad comparison, juxtaposing the historical development of US and Japanese FDI in East Asia, provides some insight into current debates over America's evolving economic presence in the region. With respect to the prewar era, the US Department of Commerce estimates that total US FDI in all of Asia amounted to a meager $175 million in 1919 and just $446 million ten years later.[75] (See Table 8). By contrast, estimates place Japanese FDI at $377 million in China alone in 1919, and at roughly $763 million just in China and Manchuria in 1930. (See Table 2). Moreover, in 1929/1930 the vast majority of Japanese FDI was located in the East Asian region, whereas the proportion of US FDI in this region as a share of total US FDI abroad then reached barely 6%. Commerce Department data for 1929 also point to a far greater geographical dispersion of US FDI in Asia--to key Southeast Asian recipients such as the Philippines and the Dutch East Indies as well as Northeast Asian recipients such as China--than is the case for Japanese FDI in the region at this time.[76]

The relative position and location of US and Japanese FDI in East Asia alternated twice in later years. Following some two decades of rapid postwar US FDI growth abroad together with simultaneously strict enforcement of Japanese controls on capital outflows, by 1970 stocks of US direct investment in East Asia far exceeded those of Japan--even though just 3% of all US FDI stocks (versus 21% for Japan) were located in the region at that time.[77] In fact, by 1970 the United States had directly invested almost as much in the Philippines ($640 million) as Japan had directly invested in the entire region.

By 1995, however, the Japanese FDI presence in East Asia once again exceeded that of the United States. In stock terms, for example, in 1995 Japanese FDI in East Asia amounted to roughly $76 billion, whereas the corresponding US total stood at roughly $46 billion (see Figures 6 and 7). On the other hand, the share of US FDI stocks in the region as a proportion of its global direct investment levels had risen substantially--from roughly 3% to about 7.5%--during the latest quarter century. (Indeed, as suggested in Figure 8, at the end of 1994 US FDI in the Asia/Pacific region as a whole accounted for roughly 18% of total US FDI stocks abroad.) By contrast, the corresponding Japanese share in East Asia had somewhat declined, from 21% to 16%, during this same period (see Figure 9 for the global breakdown of Japanese FDI at the end of the 1994 fiscal year). Therefore, both in absolute terms throughout most of the twentieth century and as a percentage of its worldwide stocks during the last quarter century, US FDI in East Asia has expanded prodigiously, yet in absolute terms the rapid growth of Japanese FDI in the region in recent years has been still more dramatic.

Endnotes

1.Unless otherwise noted, in this paper East Asia excludes South Asia, Australia and New Zealand, but includes Southeast Asia and Japan's colonial territories through World War Two.

2.Data from Ministry of Finance; approvals basis.

3.See, for example, "The New East Asia Co-Prosperity Sphere" in Fortune, July 1, 1991, p. 12 and "Sphere Fears" in Far Eastern Economic Review, October 17, 1991, p. 55.

4.See, for example, "Japan Builds a New Power Base: Its Emerging Clout in East Asia Could Come at America's Expense" in Business Week, April 10, 1989, p. 42ff.

5.Among many other studies focusing on recent trends, see Richard Doner "Japanese Foreign Investment and the Creation of a Pacific Asian Region" in Jeffrey Frankel and Miles Kahler, eds. Regionalism and Rivalry: Japan and the United States in Pacific Asia (Chicago: University of Chicago Press, 1993), Chapter 5; and Edward Graham and Naoko Anzai "Is Japanese Direct Investment Creating an Asian Economic Bloc?" in Columbia Journal of World Business, Autumn 1994. Important exceptions to this contemporary focus are the historical accounts in Dennis Encarnation Rivals Beyond Trade: America versus Japan in Global Competition (Ithaca: Cornell University Press, 1992), Chapter 4 and Peter Petri "The East Asian Trading Bloc: An Analytic History" in Frankel and Kahler, eds. Regionalism and Rivalry, Chapter 1.

6.Also important were technology imports, which came primarily from the West.

7.In the case of then underdeveloped East Asia, of course, Japanese trade-facilitating FDI mostly sought to boost imports of raw materials rather than capital goods.

8.The following account is based on Kawabe Nobuo "Development of Overseas Operations of General Trading Companies, 1868-1945" in Yonekawa Shinichi and Yoshihara Hideki Business History of General Trading Companies (Tokyo: University of Tokyo Press, 1987), pp. 74-79; Mira Wilkins "Japanese Multinational Enterprise before 1914" in Business History Review (Summer 1986), pp. 199-231; Nagasawa Yasuaki "The Overseas Branches of Mitsubishi Limited during the First World War" in Japanese Yearbook on Business History (1989), p. 117; Mitsui & Co. The 100-Year History of Mitsui & Co., Ltd. (Tokyo: Mitsui & Co., Ltd., 1977), chapters 1 and 2; and Yasumuro Kenichi "The Contribution of Sogo Shosha to the Multinationalization of Japanese Industrial

Enterprises in Historical Perspective" in Okochi Akio and Inoue Tadakatsu, eds. Overseas Business Activities (Tokyo: University of Tokyo Press, 1984), pp. 67-68.

9.C.F. Remer Foreign Investments in China (New York: Howard Fertig, 1968), pp. 427-428.

10.See Peter Duus "Economic Dimensions of Meiji Imperialism: The Case of Korea, 1895-1910" in Ramon Myers and Mark Peattie, eds. The Japanese Colonial Empire, 1895-1945 (Princeton: Princeton University Press, 1984), p. 155-158.

11.Yasumuro Kenichi "The Contribution of Sogo Shosha," p. 66.

12.William Wray Mitsubishi and the N.Y.K., 1879-1914: Business Strategy in the Japanese Shipping Industry (Cambridge: Harvard University Press, 1984), pp. 61, 97, 349, 414. NYK replaced the Mitsubishi operation after NYK's 1885 founding. Mira Wilkins "Japanese Multinational Enterprise before 1914," p. 216.

13.Tamaki Norio "The Yokohama Specie Bank: A Multinational in the Japanese Interest 1879-1931" in Geoffrey Jones, ed. Banks as Multinationals (London: Routledge, 1990), pp. 197, 199. See, also, Ishii Kanji "Japan" in Rondo Cameron and V.I. Bovykin International Banking, 1870-1914 (New York: Oxford University Press, 1991), p. 219.

14.Mitsui & Co. The 100-Year History, p. 55.

15.Tamaki Norio "The Yokohama Specie Bank," p. 202.

16.Kanji Ishii "Japan," pp. 227-228 and Harold Moulton Japan: An Economic and Financial Appraisal (Washington, D.C.: The Brookings Institution, 1931), Chapter IX.

17.Mira Wilkins "Japanese Multinational Enterprise before 1914," p. 216.

18.See, for example, The 100-Year History of Nippon Life (Tokyo: Nippon Life Insurance Company, 1991), pp. 33 and 66; and Nihon keieishi kenkyujo, ed. Tokyo Kaijo no Hyakunen (The 100-year history of Tokyo Marine), Tables section.

19.In addition, during this period little Japanese FDI entered the natural resource sector. Political as well as economic factors apparently explain this pattern. Exceptional, therefore, was the entry of such FDI into the rubber industries of, for example, the Dutch East Indies. (See Table 4). Comments of Hugh Patrick.

20.Kawabe Nobuo "Development of Overseas Operations," p. 77; Kuwahara Tetsuya "The Business Strategy of Japanese Cotton Spinners: Overseas Operations 1890 to 1931" in Okochi Akio and Yonekawa Shinichi, eds. The Textile Industry and its Business Climate (Tokyo: University of Tokyo Press, 1982), p. 141.

21.C.F. Remer Foreign Investments in China, p. 429; Numaguchi Gen Nihon no kaigai jigyo katsudo: sono rekishiteki katei to keieiteki sho yoin" (The overseas activities of Japanese enterprise: The historical process and various managerial factors) in Chiba shodai ronso, 13-B (June 1970), p. 245; Inoue Tadakatsu "A Comparison of the Emergence of Multinational Manufacturing by U.S., European and Japanese Firms" in Okochi Akio et. al. eds. Overseas Business Activities, p. 12.

22.For example, the Japanese government owned half of the capital stock in the SMRC. C.F. Remer Foreign Investments in China, p. 427. Moreover, during these years the government helped finance the nation's FDI in Northeast Asia by applying funds obtained through the Industrial Bank of Japan's foreign portfolio borrowings. See Hugh Patrick "Japan, 1868-1914" in Rondo Cameron, ed. Banking in the Early Stages of Industrialization: A Study in Comparative Economic History (New York: Oxford University Press, 1967), pp. 270-271.

23.See Peter Petri "The East Asian Trading Bloc," pp. 30-31 and Edwin Reischauer and Albert Craig Japan: Tradition and Transformation (Tokyo: Charles Tuttle, 1978), pp. 184-186.

24.William Lockwood The Economic Development of Japan: Growth and Structural Change, 1868-1945 (Princeton: Princeton University Press, 1954), p. 531.

25.C.F. Remer Foreign Investments in China, p. 426.

26.On Japanese direct investments in those prewar colonies, see, for example, Mizoguchi To[illegible] and Yamamoto Yuzo "Capital Formation in Taiwan and Korea" in Ramon Myers and Mark Peattie, eds. The Japanese Colonial Empire, 1895-1945, Chapter 10.

27.The data in Table 2, however, do not provide a breakdown of direct versus portfolio investment for the year 1936.

28.C.F. Remer Foreign Investments in China, p. 549.

29.Although the author was unable to locate reliable estimates of Japanese FDI in East Asia during the wartime years, the literature on Japanese business history suggests that such investment continued to increase substantially throughout the late 1930s and early 1940s. See, for example, Okochi Akio et. al. eds. Overseas Business Activities and Mitsui & Co. The 100-Year History of Mitsui & Co..

30.C.F. Remer Foreign Investments in China, p. 75ff.

31.William Lockwood The Economic Development of Japan, p. 262.

32.See, for example, Mizoguchi Toshiyuki and Yamamoto Yuzo "Capital Formation in Taiwan and Korea."

33.Kuwahara Tetsuya "Trends in Research on Overseas Expansion by Japanese Enterprises Prior to World War II" in Japanese Yearbook on Business History (7) 1990, p. 61.

34.As Wilkins has rightly pointed out, Western spheres of influence in pre-World War Two Asia--for example, French Indochina, the Dutch East Indies and British Southeast Asia--further shaped the geographical distribution of Japanese FDI in the East Asian region during this period.

35.Supreme Commander for the Allied Powers (SCAP) History of the Non-Military Activities of the Occupation of Japan, ii: Reparations and Property Administration, Part C (unpublished).

36.C.F. Remer Foreign Investments in China, p. 506. On Japanese FDI in Manchurian manufacturing and other sectors during this period, see Ann R. Kinney Japanese Investment in Manchurian Manufacturing, Mining, Transportation and Communications, 1931-1945 (New York: Garland Publishing, 1982).

37.See, for example, The Hou Chi-ming data cited in W.G. Beasley Japanese Imperialism 1894-1945 (Oxford: Clarendon Press, 1991), p. 140.

38.Kawabe Nobuo "Development of Overseas Operations by General Trading Companies," p. 86.

39.Ibid. p. 93.

40.C.F. Remer Foreign Investments in China.

41.See, for example, the several contributions in Ramon Myers and Mark Peattie, eds. The Japanese Colonial Empire.

42.Tamaki Norio "The Yokohama Specie Bank," p. 212.

43.Nihon keieishi kenkyujo, ed. Tokyo Kaijo no Hyakunen, p. 354ff.

44.See Kuwahara Tetsuya "The Business Strategy of Japanese Cotton Spinners" and idem. "The Japanese Cotton Spinners' Direct Investments into China before the Second World War" in Alice Teichova et. al. eds. Historical studies in international corporate business (New York: Cambridge University Press, 1989), Chapter 14.

45.Toyota Motor Corporation Toyota: A History of the First 50 Years (Toyota City: Toyota Motor Corporation, 1988), p. 75. See, also, Michael Cusumano The Japanese Automobile Industry: Technology and Management at Nissan and Toyota (Cambridge: Harvard University Press, 1985), p. 32.

46.Samuel Pao-San Ho "Colonialism and Development: Korea, Taiwan and Kwantung" in Ramon Myers and Mark Peattie, eds. The Japanese Colonial Empire, p. 356.

47.See, for instance, the account in Toyota Motor Corporation Toyota, p. 75.

48.The following account is drawn from SCAP History of the Non-Military Activities.

49.These SCAP calculations include all assets outside the four main Japanese islands.

50.Michael Yoshino "The Multinational Spread of Japanese Manufacturing Investment since World War II" in Business History Review (Autumn 1974).

51.Dennis Encarnation Rivals Beyond Trade, p. 168.

52.Komiya Ryutaro The Japanese Economy: Trade, Industry and Government (Tokyo: University of Tokyo Press, 1990), p. 118.

53.Sekiguchi Sueo Japanese Direct Foreign Investment, pp. 26-7.

54.Yoshihara Hideki Japanese Investment in Southeast Asia, pp. 18, 65. The remaining investments were approved to enter Taiwan (3 projects), Hong Kong (1) and Singapore (1).

55.See Michael Yoshino "The Multinational Spread," p. 358 (for the MITI survey) and idem. Japan's Multinational Enterprises (Cambridge: Harvard University Press, 1976), p. 91; Yoshihara Hideki "Multinational Growth of Japanese Manufacturing Enterprises" in Okochi Akio et. al. eds. Overseas Business Activities, p. 103 (for Yoshihara's own survey data); and Hamada Koichi "Japanese Investment Abroad" in Peter Drysdale, ed. Direct Foreign Investment in Asia and the Pacific (Canberra: Australian National University Press, 1972), Chapter 7 (for MOF data).

56.Michael Yoshino, "The Multinational Spread."

57.Indeed, between 1950 and 1970 Mitsui & Co. alone had directly invested in roughly 50 manufacturing operations just in Southeast Asia. Mitsui & Co. The One Hundred Year History, Appendix. On the spread of "sogo shosha-participated joint ventures" in the postwar period, see Yasumuro in Okochi and Inoue, eds., p. 77ff.

58.MOF data as cited in Komiya Ryutaro The Japanese Economy, p. 114.

59.MOF data as cited in Hamada Koichi "Japanese Investment Abroad," p. 176.

60.Dennis Encarnation Rivals Beyond Trade, p. 168. In addition, Mira Wilkins reports that fears of antagonizing the United States discouraged Japanese companies even from considering major direct investments in China during this period.

61.Ibid. p. 168.

62.See Mark Mason "The Origins and Evolution of Japanese Direct Investment in Europe" in Business History Review 66 (Summer 1992), pp. 435-474.

63.Komiya Ryutaro The Japanese Economy, p. 120.

64.Dennis Encarnation Rivals Beyond Trade, p. 172.

65.Although the years beginning in the early 1970s are treated here as a single period, the sharply increased levels of Japanese FDI abroad following the (1985) Plaza Accord and other events provide the basis for a division of the past quarter-century into the years early 1970s-1985 and 1986 to the present.

66.Although the following sectoral FDI data pertain to the entire Asian region, the vast majority of such investment was located in East Asia. For further discussion on rising Japanese FDI in the region's manufacturing industries during this period, see Ozawa Terutomo Multinationalism, Japanese Style: The Political Economy of Outward Dependency (Princeton: Princeton University Press, 1979), especially Chapter 3.

67.Yoshihara Hideki "Multinational Growth of Japanese Manufacturing Enterprises," p. 105.

68.Ibid. p. 105.

69.MOF data as cited by Komiya Ryutaro The Japanese Economy, p, 123.

70.See, for example, Richard F. Doner "Japan in East Asia: Institutions and Regional Leadership" in Peter Katzenstein and Takashi Shiraishi, eds. Japan in Asia (forthcoming).

71.Exceptions include the prewar cotton spinning investments noted above.

72.In addition, as pointed out by Graham and Anzai "Is Japanese Direct Investment Creating an Asian Economic Bloc?," Japanese FDI in East Asia as a percentage of total FDI in the region remains limited in recent years due to the rapid influx of large amounts of FDI from numerous sources to that rapidly growing region.

73.Mark Mason "The Origins and Evolution" and Mira Wilkins "Japanese Multinationals in the United States: Continuity and Change, 1879-1990" in Business History Review 64 (Winter 1990), pp. 585-629.

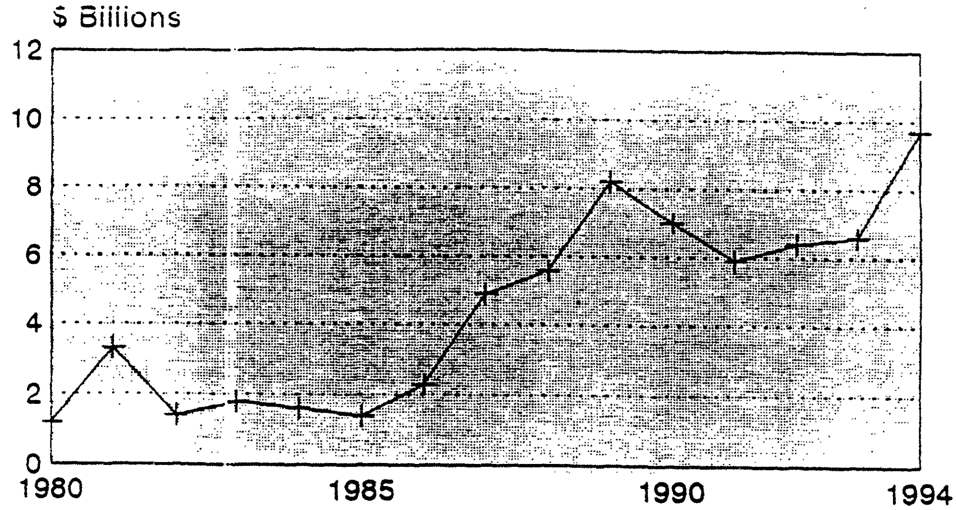
74.In addition, there are equally striking contrasts between the development of Japanese FDI in East Asia and the reciprocal development of East Asian FDI in Japan: there has been an almost complete absence of East Asian FDI in Japan throughout the years analyzed in this study.

75.Prewar (and subsequent postwar) Commerce FDI data cited here are calculated on an historical basis and cover estimates for the entire Asia/Pacific region excluding Japan. Prewar Japanese data are calculated using a variety of different measurement techniques whereas postwar data are based on official approvals. For both pre- and postwar periods, the Japanese FDI statistics cover all of Asia.

76.In 1929, for example, the Commerce Department reports that, of a total of $446 million of US FDI in Asia, just $114 million was located in China, but $80 million was in the Philippines, $66 million was in the Dutch East Indies, and much of the rest was scattered throughout the region.

77.In 1970, US FDI stocks in Asia and the Pacific (excluding Japan) totalled $2.3 billion on an historical cost basis, whereas approved Japanese FDI flows to the rest of Asia that year amounted to just $750 million. Commerce and MOF data. Measurement techniques differ, of course, so figures are not strictly comparable.

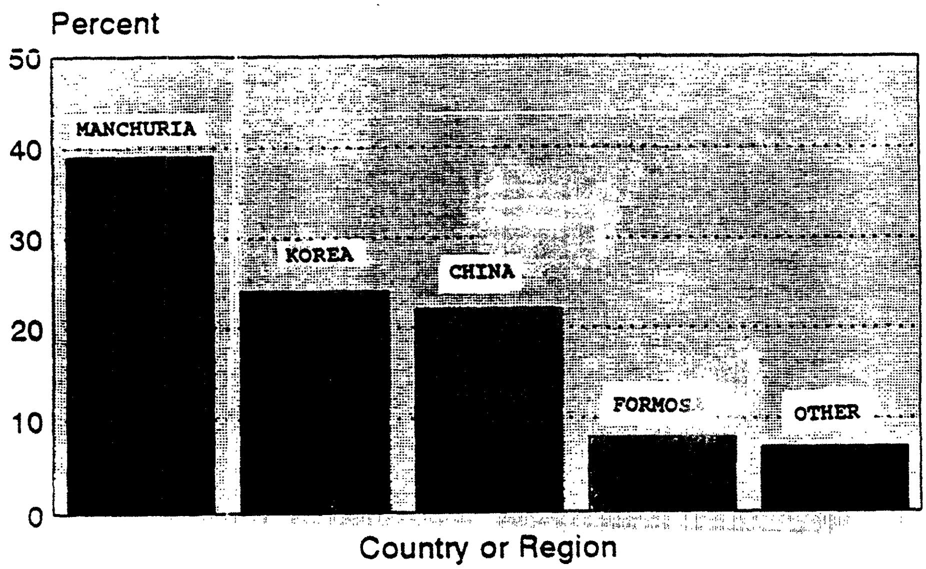
Japanese FDI Outflows to Asia,
1980-1994 Fiscal Years



Note: Approvals basis.
Source: Ministry of Finance.

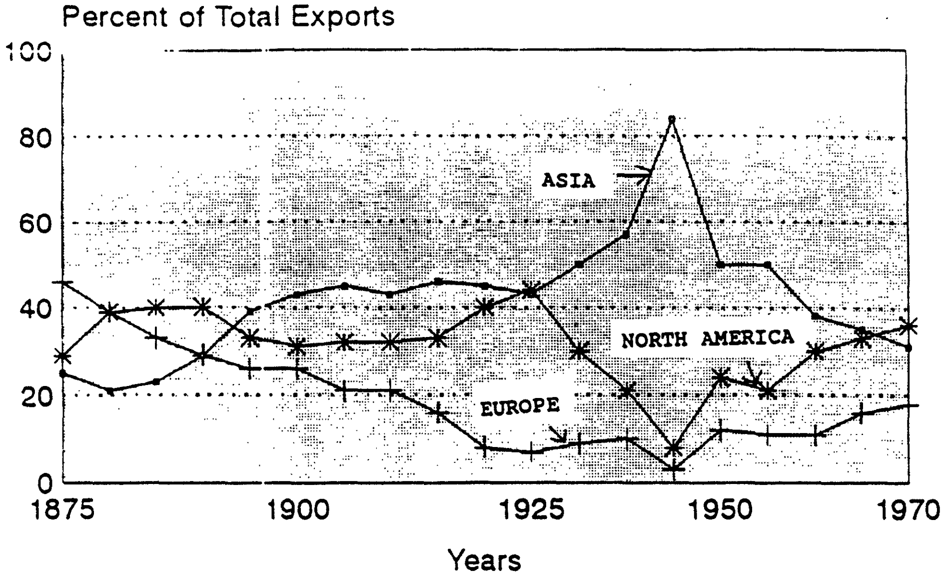
FIGURE 2

Location of Japanese External Assets
as of August 1945



Note: Excludes Military and Naval Materiel.
Source: Supreme Commander for the Allied Powers.

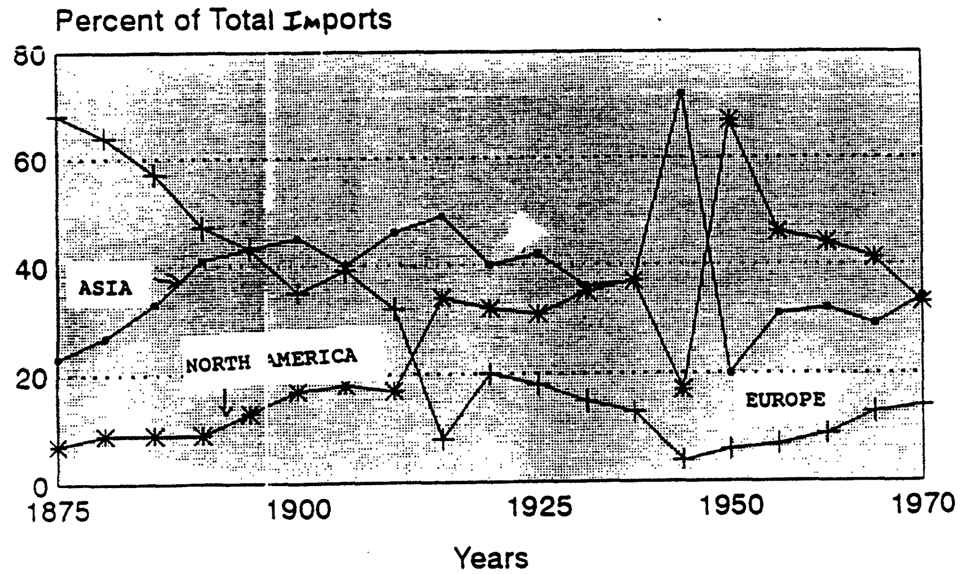
Japanese Export Shares
to Three Principal Regional Destinations, 1875-1970



Source: Ministry of International Trade and Industry.

FIGURE 4

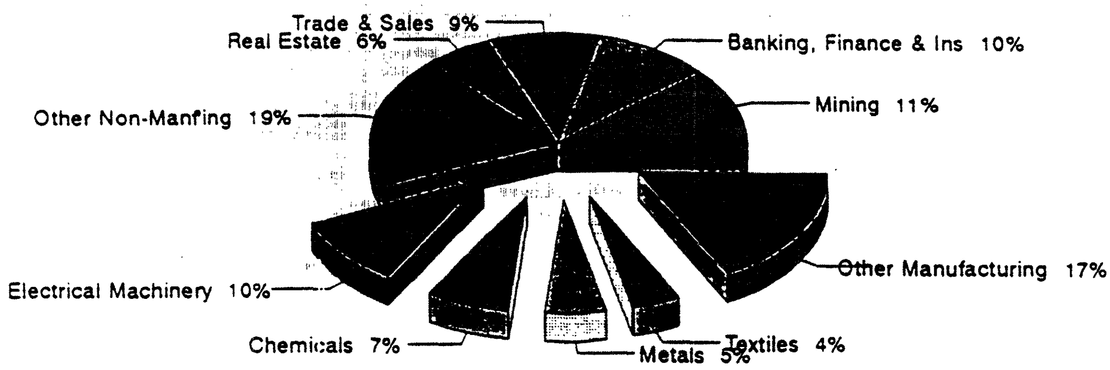
Japanese Import Shares
from Three Principal Regional Sources, 1875-1970



Source: Ministry of International Trade and Industry.

FIGURE 5

Japanese FDI Position in Asia by Sector as of March 31, 1995 (Percent)

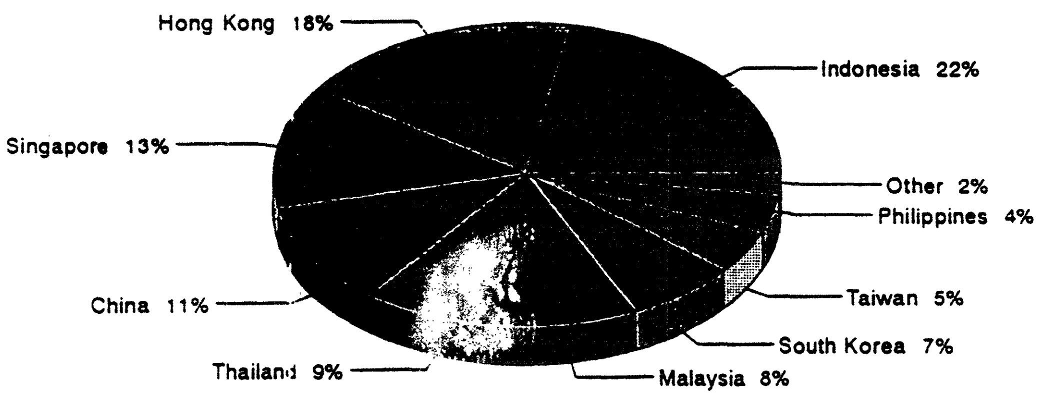


Total: $76 Billion.

Notes: Percentages do not equal due to rounding. Approvals basis.
Source: Ministry of Finance (Japan).

FIGURE 6

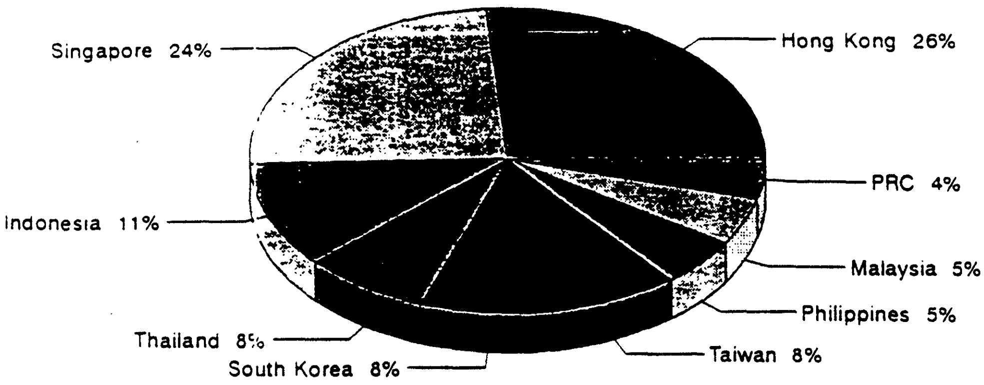
Japanese FDI Position in Asia by Country as of March 31, 1995 (Percent)



Total: $76 Billion

Notes: Percentages do not equal 100 due to rounding. Approvals basis.
Source: Ministry of Finance (Japan).

US FDI Position in East Asia Excluding Japan as of December 31, 1994 (Percent)

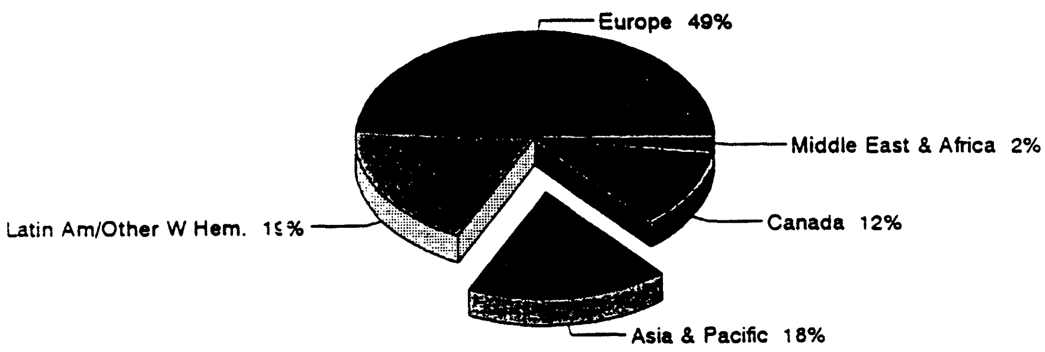


Total: $46 Billion.

Note: Percentages do not total 100 due to rounding. Historical cost basis.
Source: US Department of Commerce.

FIGURE 8

US FDI Position by Region as of December 31, 1994 (Percent)

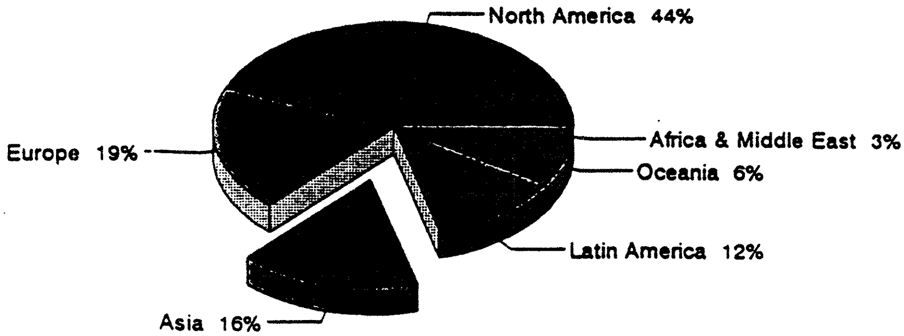


Total: $612 Billion.

Notes: Historical Cost Basis; percentage for East Asia, excluding Japan, is roughly 7.5 %
Source: US Department of Commerce.

FIGURE 9

Japanese FDI Position by Region as of March 31, 1995 (Percent)



Total: $464 Billion.

Notes: Percentages do not equal 100 due to rounding. Approvals basis.
Source: Ministry of Finance (Japan).

Table 1

THE OPENING OF MITSUI & CO. BRANCH OFFICES ABROAD, 1893-1910

Year	Asia	Europe, the U.S., and others
1893	Bombay	
1896	Yingkou (Niuzhuang), Taipei	New York (reopened)
1898		San Francisco
1899	Jinsen, Xiamen (Amoy), Zhifu	Hamburg
1900	Hankow, Seoul, Guandongzhou, Manila	
1901	Java	Sydney
1902	Beijing, Guangdong	
1903	Tainan	
1904	Dalny (Dairen)	
1905	Fuzhou	
1906	Shantou, Dagou (Gaoxiong), Andong Xian, Tieling, Calcutta, Shenyang, Bangkok, Qingdao	Oklahoma City
1907	Rangoon, Jilin, Kuanchengzi (Changchun), Saigon, Harbin	Portland, Vladivostok
1908	Pusan, Zhanghua (Taizhong)	Lyons (Reopened)
1910	Akou	

Source: Kawabe Nobuo, "Development of Overseas Trading Operations by General Trading Companies, 1868-1945" in Yonekawa Shinichi and Yoshihara Hideki, eds., Business History of General Trading Companies (Tokyo: University of Tokyo Press, 1987), p. 76.

Table 2

Japan's Foreign Investment before World War II (millions of dollars)

1914		1919		1930		1936	
China	216.2	China	588.8	China	1,283.1	China	463.2
Loans to government	9.4	Loans to government	105.3	Chinese Mainland	556.4	Manchuria	868.5
Loans to private enterprises	17.2	Loans to local governments	30.4	Loans	405.8	South Sea Islands and other regions	86.9
Direct investment	189.6	Loans to private enterprises	75.9	Direct investment	150.6	Hawaii, North and South America	29.0
The Philippines and South Sea Islands	19.7	Direct investment	377.2	Manchuria	726.7	Miscellaneous investment (esp. expatriates)	86.9
Hawaii and the U.S.	24.6	South Sea Islands and other regions	40.5	Loans	114.5		
		Hawaii, North and South America	25.3	Direct investment	612.2		
		Loans to allied power countries	312.9	South Sea Islands an other regions	64.2		
				Hawaii, North and South America	24.9		
Total	260.5		967.5		1,372		1,534.5
(¥ 100 = $49.25)		(¥ 100 = $50.625)		(¥ 100 = $49.367)		(¥ 100 = $28.951)	

Source: Yasumuro Kenichi, "The Contribution of Sogo Shosha to the Multinationalization of Japanese Industrial Enterprises in Historical Perspective" in Okochi Akio and Inoue Tadakatsu, eds., Overseas Business Activities (Tokyo: University of Tokyo Press, 1984), p. 84.

Table 3

JAPANESE DIRECT BUSINESS INVESTMENTS IN CHINA BY SECTOR
(as of 1932)

	Thousands of Yen	*Per Cent of Total*
1. Transportation	408,649	23.4
2. Public Utilities	31,300	1.8
3. Mining	174,930	10.0
4. Manufacturing	331,299	18.9
5. Banking and Finance	147,614	8.4
6. Real Estate	145,990	8.4
7. Import and Export	365,927	20.9
8. Miscellaneous	142,550	8.2
	1,748,259	100.0

Source: C. F. Remer, Foreign Investments in China (New York, 1933), p. 505

Table 4
LEADING JAPANESE ENTERPRISES IN THE DUTCH EAST INDIES (1937)

	Company Name	Paid In Capital (¥ millions)	Location	Industry
I. Agriculture	1) Borneo Rubber	20	Sumatra	Rubber
	2) Nanyo Rubber	20	Sumatar, Johore	Rubber
	3) Sumatra Industries Development	19	Sumatra	Rubber, Cocoa
	4) Sumatra Products	35	Sumatra	Rubber
	5) Nangoku Rubber	7	Sumatra	Rubber
	6) Nanwa Company	15	Sumatra	Rubber
	7) Nanwa Rubber Plant	7	Borneo	Rubber
	8) Nomura East Indies	50	Borneo, Sumatra	Rubber, Coffee, etc.
	9) Okura Sumatra Agriculture	15	Sumatra	Rubber
	10) Indonesia Development	10	Borneo	Rubber, Cocoa
	11) Nangoku Industries	20	Java	Tea, Coffee, etc.
	12) Nangoku Plantation	10	Java	Rubber, etc.
	13) Dai Nippon Sugar	19	Java	Vegetables
	14) Indonesia Forest Industry	15	Java	Fruit
	15) Furukawa Gomei Development	N/A	Sumatra	Oil
	16) Higashiyama Plantation	20	Sumatra	Oil
	17) Nanyo Trading	15	Celebes	Cocoa
	18) Nanyo Development	11	New Guinea	Cotton,etc.
II. Commerce	1) Mitsu & Co.	1,000	Surabaya	Trading
	2) Mitsubishi Corp.	225	Surabaya	Trading
	3) Toyo Cotton	200	Surabaya	Trading
	4) Daido Trading	20	Surabaya	Trading
	5) Chida Trading	15	Surabaya	Trading
	6) KO Trading	155	Sumaran	Trading
	7) Japan Cotton	68	Surabaya	Trading
	8) Dai Shin Trading	N/A	Surabaya, etc.	Trading, Department Store
	9) Nanyo Warehouse	80	Surabaya, etc.	Storage
III. Finance	1) Yokahama Specie Bank	1,000	Surabaya, etc.	Foreign Exchange
	2) Mitsui Bank	600	Surabaya	Foreign Exchange
	3) Bank of Taiwan	131	Surabaya, etc.	Foreign Exchange, Investment
	4) Bank of South China	18	Sumaran	Foreign Exchange, Investment
IV. Other	1) Nanyo Shipping	85	Surabaya	Shipping
	2) Nichi Ran Petroleum	20	Borneo	Oil Exploration
	3) Nanyo Forestry	1	Borneo	Forestry
	4) Hōton Pearls	1	Bhutan Island	Cultured pearls
	5) Ishizu Fishery	3	Borneo, etc.	Fisheries
	6) Taisho Company	2	Batavia	Fisheries
	7) Nichi Ran Fishery	0.7	Menado	Fisheries

Source: Numaguchi Gen, "Nihon no kaigai jigyo toshi: sono rekishiteki kado to keieiteki yoran" (The Overseas Investments of Japanese Enterprise: The Historical Process and Key Managerial Aspects) in Chiba Shodai Ronso No. 14-18 (December 1970), p. 256.

Table 5

NUMBER OF DIRECT INVESTMENTS AND MILITARY CONTROLLED PLANTS IN CHINA IN 1938

Industry	Direct control (wholly or majority owned)	Joint venture (50%)	Government controlled	Military controlled and management entrusted
Mining	11	10	3	26
Coal	(6)	(7)	(1)	(21)
Iron	(1)	(1)	(1)	(5)
Gold Mine & Others	(4)	(2)	(1)	(0)
Textile	22	2	0	33
Cotton Spinning	(18)	(1)	(0)	(33)
Other Textiles	(4)	(1)	(0)	(0)
Foodstuffs	8	4	0	39
Brewing	2	0	0	0
Tobacco	6	0	0	2
Metals & Machinery	12	5	0	8
Matches	5	3	0	9
Rubber Products	7	1	0	2
Chemicals	20	2	0	15
Stone, Clay & Glass	7	4	0	9
Miscellaneous Products	22	3	0	12
Unknown	400*	2	0	4
Total	522	35	3	159**

Notes: * Small scale, personally managed concerns.

** Chinese plants occupied by the Japanese Army whose management was entrusted to Japanese industrial enterprises.

Source: Yasumuro Kenichi "The Contribution of Sogo Shosha," p. 72.

TABLE 6

EXTERNAL TRADE OF TAIWAN, 1929

Source or Destination	Imports		Exports	
	Thousands of Yen	*Percentage of Total*	Thousands of Yen	*Percentage of Total*
Japan proper[1]	140,369	*68.5*	238,705	*87.8*
China	29,573	*14.4*	17,690	*6.5*
British India	9,422	*4.6*	24	---
Germany	6,643	*3.2*	11	---
Great Britain	3,938	*1.9*	1,026	*0.4*
United States	3,901	*1.9*	4,067	*1.5*
French Indo-China	2,861	*1.4*	---	---
? Kwantung Province	2,240	*1.1*	1,116	*0.4*
Dutch East Indies	1,541	*0.8*	4,296	*1.6*
Siam	1,000	*0.5*	24	---
Hongkong	74	*0.1*	4,116	*1.5*
Other areas	3,348	*1.6*	818	*0.3*
Total	204,910	*100*	271,893	*100*

[1] Includes trade, of negligible importance, with other colonies.

Source: Harold Moulton, Japan: An Economic and Financial Appraisal (Washington, DC: The Brookings Institution, 1931), p. 599.

Table 7

JAPANESE AUTOMOBILE ASSEMBLY PLANTS IN EAST ASIA AS OF 1976

Country or Territory	Nissan	Toyota	Toyo Kogyo	Mitsubishi	Isuzu	Honda	Hino	Fuji Heavy Industries
Hong Kong			X	X	X			
Taiwan	X	X		X	X	X	X	
Philippines	X	X	X	X	X			
Indonesia	X	X	X	X	X	X	X	X
Malaysia	X	X	X	X				
Thailand	X	X	X	X	X		X	X
Singapore	X							

Source: Fujii, M. et al., eds., *Nihon Takokuseki Kigyo no Shiteki Tenkai* (The Historical Development of Japanese Multinational Enterprises), vol. 2, p. 166.

Table 8

US FDI -- ESTIMATES FOR 1919 AND 1929 ($ MILLIONS)

Country or region	Total		Manufacturing		Sales		Petroleum		Mining		Agriculture		Utilities		Railroads	
	1919	1929	1919	1929	1919	1929	1919	1929	1919	1929	1919	1929	1919	1929	1919	1929
Europe	694	1340	280	637	95	133	158	239	—	37	—	—	5	138	—	—
Canada and Newfoundland	814	1657	400	820	30	38	30	55	200	318	50	30	15	245	76	73
Mexico	644	709	8	6	5	9	200	206	222	248	48	58	32	90	123	82
Cuba and other West Indies	567	1026	26	47	10	15	15	62	21	18	382	652	59	105	41	84
Central America	112	251	—	7	1	1	3	4	14	8	44	130	6	33	43	64
South America	665	1720	50	170	55	94	113	512	404	528	29	44	4	348	4	—
Asia	175	446	15	77	25	34	50	151	4	10	32	63	17	65	10	6
Africa	31	117	—	7	10	16	10	32	11	54	—	8	—	2	—	—
Oceania	53	162	16	50	12	22	25	81	—	6	—	—	—	—	—	—
Banking	125	125	—	—	—	—	—	—	—	—	—	—	—	—	—	—
TOTAL	3880	7553	795	1821	243	362	604	1341	876	1227	587	986	138	1025	297	309

Source: Adapted from Mira Wilkins The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970 (Cambridge: Harvard University Press, 1974).