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Morris-Suzuki, Teresa I. J.

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JAPANESE MULTINATIONALS IN SOUTHEAST ASIA:
A CASE STUDY OF INDONESIA

Submitted by Teresa I. J. Morris-Suzuki
for the degree of Ph.D.
of the University of Bath
1980

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SUMMARY

The objects of this thesis are to examine the role of Japanese companies in Indonesia from the beginning of the century to the present day; to consider the effects of Japanese companies on political relations between Japan and Indonesia; and to relate these effects to general theories about the impact of the multinational corporation on international relations.

The thesis is structured round a number of variables which, it is suggested, determine the effect of multinational investments on relations between two nations. These variables are: the relative degrees of development of the two countries, the nature of economic relations between them, the nature of the investing companies' interaction with home and host country political elites, and the international political environment.

This study shows that the development of Japanese companies' interests in Indonesia has been a slow and interrupted process going back to the first decades of the century. Since the mid-1960's however, Japanese investment in Indonesia has not only increased greatly in volume but undergone a qualitative change which may be seen as the maturing of a specifically Japanese form of multinational strategy. As far as political relations are concerned, this examination of the case of Japan and Indonesia would seem to contradict theories that the multinational company weakens or supercedes the power of the nation state. Instead, it is possible to trace a changing and developing relationship between Japanese multinational companies and governments both in Japan and in the host country, Indonesia. At the same time, the example of Japanese-Indonesian relations clearly shows that the political impact of multinational companies is strongly influenced by the wider international environment, in this case particularly by relations between Japan and other industrialised countries.

INTRODUCTION

The relationship between two nations cannot be understood merely by examining contacts between their respective governments. In the past ten years there has been a growing recognition that international relations are shaped not only by the activities of governments but also at many other levels, by migration, by cultural contacts, by the activities of international religious and political movements and, perhaps most important of all, by the trade and investment activities of large multinational firms.

In one of the clearest analyses of this approach to international relations, Karl Kaiser(1) introduces the concepts of "transnational society" and "transnational politics". "Transnational society" refers to the interaction of non-governmental groups in different countries. "Transnational society" generates "transnational politics" when these interactions impinge on the functions of national governments in the countries concerned. Kaiser suggests that the traditional analytical distinction between the internal processes of the state and its external relationships acts as a barrier to any attempt to understand the increasingly important forces of "transnational politics". Instead he argues for a more comprehensive approach, which would relate the official, governmental links between nations to the underlying unofficial contacts that exist between their societies at various levels.

The concept of "transnational politics" is particularly useful in trying to understand Japan's relationship with Southeast Asia. Diplomatic relations between Japan and most nations of Southeast Asia have existed since early in the Twentieth Century. In the late 1930's Southeast Asia suddenly became the subject of great official interest in Japan, and in 1942, after the outbreak of the Pacific War, the area came under a brief period of Japanese military rule. Since the 1950's

Japan has sought to avoid political conflicts in the area, while maintaining a friendly official relationship particularly with the non-Communist countries of Southeast Asia.

But a bald description of governmental relations is meaningless without an understanding of the central role which Japanese multinational companies have played in forging contacts between Japan and her Southern neighbours. Large Japanese trading and manufacturing firms were active in Southeast Asia long before the region became a focus of political interest for Japan. At some stages their role has been subordinate to those of government and military, but at others - particularly during the 1960's and early 1970's - they have provided the main point of contact between Japan and some Southeast Asian countries. What kind of relationship have these companies created between Japan and their various host nations? Why have their ventures in Southeast Asia at times become a source of intense political concern? These are some of the questions which we shall attempt to answer as we unravel the dual process by which the activities of Japanese multinationals have shaped relations between Japan and one Southeast Asian nation, while at the same time themselves being moulded and constrained by outside political and economic forces.

During the 1970's there has been a vast outpouring of works on the multinational corporation, and many of these have put forward quite dramatic and sweeping theories about the impact of the multinational firm on the international order. On the one hand writers as diverse as Raymond Vernon, George W. Ball and Stephen Hymer[(2)] have seen the multinational corporation as inexorably eroding the power of the nation state; on the other Robert Gilpin has argued convincingly that "the role of the nation state in economic as well as in political life is increasing and that the multinational corporation is actually a stimulant to the further extension of state power in the economic realm"[3]. On the one hand, liberals have praised the multinational corporation for its influence in weakening the forces of economic nationalism and promoting an international outlook amongst management and employees[4], on the other some Marxist commentators have depicted the multinational spread of capitalism as producing, not only the subjugation of less developed countries to "imperialist metropolises", but also growing rivalry between the metropolises themselves[5].

Clearly the evidence is diverse enough to allow interpretations to suit all shades of political opinion. Individual case studies are, of course, as susceptible to the political preconceptions of their authors as the general theories cited above. Nevertheless, case studies of investment by and in particular countries may help us to understand some of the circumstances which have produced such a diversity of evidence. Michael Hodges[6] for example, in a study of U.S. investment in Britain which draws heavily on Kaiser's theory of transnational politics, has sought to explain why foreign investment in Britain failed to become a major political issue during the late 1960's. Hodges attributes the British policy of "benign neglect" towards foreign investment to several factors, including: Britain's own important role as a foreign investor, the sense of cultural affinity between Britain and the U.S., the decentralised structure of American multinational corporations and the structure and attitudes of the British bureaucracy. Although a number of other studies have assessed the impact of multinational investment on individual national economies, few have provided such a detailed insight into the political effects of foreign investing corporations on the host nation.

The scope of the present study is rather wider than Hodge's, in that it examines the development of bilateral relations over a long historical period (roughly from the First World War to the present day), and considers the effect of the multinational corporation not only on host government policies but on the total relationship between two nations. While Hodges sought to explain why the presence of U.S. multinationals in Britain failed to generate political problems, this study on the contrary will try to suggest some reasons why the presence of Japanese firms in Southeast Asia has become a controversial and politically charged issue.

In order to do this we shall focus attention on five factors which, it may be argued, determine the influence of "non-governmental transnational actors" like the multinational corporation on international relations.

1. Firstly, we must consider the relative wealth and level of development of the two states under consideration. As many theorists of the multinational have suggested, the political effects of multinational firms from one developed country investing in another developed country tend to be different from the consequences which arise when the same firms invest in less developed regions of the world.

   In the case of Japan's relationship with Indonesia we have a situation in which one country (Japan) has consistently been richer, more industrialised and more economically dynamic than the other (Indonesia). Throughout, this has been the central fact in understanding the nature of their relationship. Although Japan is, of course, to some extent dependent on and influenced by Indonesia, the flow of influence in the opposite direction is far stronger. In simple terms we can say that it is Japan whose interests have expanded into

Southeast Asia, not vice versa. Japanese companies have sought out investment and trade opportunities in Indonesia, but there has been very little activity by Indonesian companies in Japan. Aid and private investment have flowed from Japan to Indonesia, not the other way round. Even in the pre-war period, when migration provided another link between the two nations, it was not employment-seeking migration from the poorer country to the richer, but entrepreneurial emigration from Japan to Indonesia rather similar to the migration of Western Europeans to South America or of Russians to Siberia in the early part of this century.

2. Secondly, we must look at the nature and aims of the transnational actors themselves - in this case Japanese multinational companies. Here we must bear in mind the conflicting theories which have been put forward about the impact of the multinational firm on less developed countries. On the one hand there have been those who presented the multinational firm as an "engine of development" channelling capital and technology from richer to poorer nations(7). On the other hand this view has been contradicted by those who saw the multinational rather as sucking wealth out of the less developed countries by means of repatriated profits, transfer pricing etc., thereby perpetuating the poverty of the poorest(8). A further interesting approach has been that of Stephen Hymer(9), who argued that the multinational corporation was creating a dynamic but inherently unequal distribution of economic power throughout the world. According to Hymer's model, under a multinational system central

decision making functions become increasingly controlled from a handful of metropolitan centres in the developed world; middle-level managerial functions are distributed to various regional centres in both North and South; while the majority of urban areas in the less developed countries become centres only for the most routine tasks of day-to-day management. While this study will not attempt a detailed analysis of the impact of the Japanese multinational on Indonesian economic development, some broad assessment of the relevance of these theories to our case study is necessary if we are to reach any conclusions about the impact of the multinational firm on Japanese-Indonesian relations.

A second point of some importance is the extent to which the activities of multinational companies have been accompanied by other forms of economic, political or historical contacts between the two nations. Clearly, a relationship which has been created principally by the trade and investment activities of large firms will be very different from a relationship which is based on military alliance, cultural contacts, or shared political ideals. Here it must again be emphasised that Japanese firms have at some stages provided almost the only link between Japan and Indonesia. In the pre-war years, it is true, the two countries were also connected by a small flow of Japanese migration, and during the Second World War the Japanese invasion of Southeast Asia dramatically reversed the situation to make political and military considerations primary. But since 1945, trade and investment have been the cornerstone of the Japanese-

Indonesian relationship. Going back to our comparison with Hodge's study, it can be argued that one of the reasons why U.S. investment in Britain has not become politically salient is that relations between the U.S. and Britain exist at such a multitude of levels; cultural linguistic, political and military, as well as economic. Conversely, the lack of non-economic links between Japan and Southeast Asia has tended to heighten the political impact of Japanese companies in Indonesia.

3. Next, we must consider the relationship which exists between Japanese companies and the Japanese government. As Kaiser has indicated, the pre-requisites for "transnational politics" are not only a high degree of horizontal social interaction between nations, but also a high degree of vertical interaction between government and society in the various countries concerned(10). Hodges, paraphrasing Kaiser's arguments, expresses the argument as follows:

> "At the same time as technological developments permit a greater degree of transnational interaction the increase in vertical interaction between societies and their various governmental institutions, caused by a growing degree of interventionism on the part of government (and hence a greater sensitivity to environmental disturbances) and by the advent of mass democracy (which obliges government to deal with such disturbances in order to preserve electoral support) renders the nation-state much more sensitive to transnational activity than was hitherto the case"(11).

According to this argument, we should expect the activities of multinational corporations to have relatively few political repercussions in cases where both host and home governments intervene little in the economic life of their countries. In fact it is precisely because economic intervention by governments has tended to increase along with the development of the multinational corporation that these corporations have become the focus of growing political concern. It should therefore not surprise us to learn that Japanese corporations, whose close links with the Japanese governing structure are well known, should be unable to expand abroad without strong internal and external political repercussions.

In the case of Japanese companies, however, Kaiser's model may need some revision. The idea of a "vertical" interaction between governments and private groups is based essentially on Western models, and suggests a situation in which government and society are analytically distinct: private companies, for example act as pressure groups in the formation of policy, but governments decide and implement policy, which in turn controls the activities of private firms. This pattern does not entirely fit the dynamics of the Japanese state-business relationship. It is true that Japanese business groups often act as pressure groups, and also that, conversely, their independent actions often create faits accomplis to which the Japanese government must react. But there is a wide area of Japanese policy formation in which the relationship between government and business is essentially horizontal and co-operative, and the exact locus of decision-making is invisible to outsiders, and perhaps even to the decision makers themselves. In Pempel's words:

> "Though it is traditional in political analysis to distinguish among state, society and the structural linkages between them, it would be a mistake in analysing Japanese politics to presume too sharp a distinction between the three"[12].

One chapter of this study will therefore be devoted to a more detailed examination of this government-business interaction and its consequences for Japan's relationship with Indonesia.

4. The importance of the linkages between state and society applies of course not only to Japan but also to the host country, Indonesia. But on this side of the relationship the situation is rather different.

Here the key factor is the absence of a powerful indigenous business class. Because of certain historical factors (explained in more detail in Chapter IV) economic power in Indonesia, as in some other Southeast Asian countries, has tended to become concentrated in the hands of citizens of Chinese origin, who migrated to Southeast Asia during the 19th and early 20th centuries. As a result of this, the contacts which Japanese companies have established in the host country have been chiefly with the Overseas Chinese business community, whose position as a relatively rich racial minority in a poor country is politically highly sensitive, or directly with members of the Indonesian political and military elite. This again helps to explain the political salience of Japanese investment in Indonesia. An analysis of the effects of these contacts between Japanese multinationals and host nation elites is in turn crucial to our understanding of the impact of Japan on Indonesian development. For as Weinstein has noted:

> "Development . . . is not merely a matter of industrialisation or the acquisition of wealth; it involves as well the creation of institutions capable, on a self-sustaining basis, of channelling resources into more productive uses and distributing the output of that process to the populace in a way that will win sufficiently diffuse support to maintain the system. This means, among other things, the establishment of a bureaucracy which can be relied upon to implement policies with a reasonable degree of consistency; the cultivation of a broad base of entrepreneurial, managerial and technical skill; the development of a capacity to raise capital internally through an effective tax system; and . . . the creation of jobs that will enable the majority of the populace not only to survive but to be productive"(13).

5. Finally, our study of the impact of Japanese corporations on Japan's relations with Indonesia must look beyond the geographical confines of its subject. Japan's economic links with Southeast Asia cannot be understood in isolation from her links with the rest of the world. Nor can we ignore the relationship of Indonesia to outside economic and political forces.

Gilpin argues that the rise of transnational organisations such as the multinational corporation is not merely a consequence of technological change, but reflects the interests of the dominant political power or powers - in this case, the United States:-

> "Whether one is talking about seventeenth-century merchant adventurers, nineteenth-century finance capitalists, or twentieth-century multinational corporations transnational actors have been able to play an important role in world affairs because it has been in the interest of the predominant or hegemonic powers for them to do so"(14).

An examination of Japan's relationship with Indonesia suggests that such outside political forces have often been the decisive factors in shaping that relationship. In the pre-war period, the advance of Japanese business interests into Southeast Asia was checked by the opposition of the dominant Western powers. In the post-war period on the contrary the U.S.A., as the most powerful force in much of East and Southeast Asia, expressly sanctioned and encouraged the expansion of Japanese multinational corporations into Indonesia, at the same time helping to secure the economic and strategic conditions which made such expansion possible. With the decline of U.S. influence in Asia new power patterns are emerging which will have an equally profound effect on the role of Japanese companies in Southeast Asia. In particular, we shall need to consider the impact which the development of Japan's economic relations with China may have on the future of Japanese investment in Indonesia, and of the Japanese-Indonesia relationship as a whole.

It has been normal for works on the multinational spread of Japanese business to take the mid-1960's as their starting point, but here we shall begin by looking at the very earliest ventures of Japanese corporations in Southeast Asia during the first decades of the Twentieth Century. Japanese investment in Indonesia in the pre-war period was, of course, on a very small scale when compared with post-war investments. There are, however, a number of reasons to believe that the pre-war activities of Japanese "multinationals" are relevant to the present study. Some writers on the western multinational corporation have tried to draw up a theoretical framework for restricting their analysis to post-war developments(15). But the contrasts which they make between the "modern" multinational and its pre-war forebears are less applicable in the case of Japanese corporations than they are in the case of American multinationals. For example, while U.S. firms have invested mainly in developed countries since the Second World War, the bulk of Japan's foreign investments are still in less developed countries. Again, the great trading companies, which have long since ceased to be a force in the outward expansion of western business, survive in a unique form in Japan, and have been a major factor behind the post-war expansion of Japanese investment. Whether these differences between the Japanese multinational firm and its western counterparts are just curious anachronisms, or whether they are rather enduring features of Japan's economic structure, is a point which will be discussed later in this study. The important fact to be noted here is that, in spite of great changes in the scope and style of their activities, there is an element of continuity between pre-war and post-war Japanese overseas investments. This continuity is emphasised by the fact that several of the principal companies, and some of the individuals, who influenced Japan's post-war investment in Southeast Asia had already been active in the region before the Second World War.

By extending our historical perspective backwards to the 1920's and 1930's we can see how the role of the Japanese corporation overseas has been shaped by the political changes of the twentieth century: changes in Japan, from nascent democracy to military rule to western-style parliamentary government; in the host country Indonesia, from colonial status to independent nationhood, and (in the post-independence period) from Sukarno's Guided Democracy to the very different political style of the Suharto regime.

An extended historical perspective also enables us to appreciate the preconceptions which mould reactions to the Japanese corporation and its role in Southeast Asia. This is vital because, to quote from Hodges again, "a decision maker will . . . process 'real' events in accordance with the attitudes he has formed on the subject as a result of his past experience"[16]. An understanding of the way in which Japan's relationship with Indonesia has developed in the twentieth century is essential when assessing the reaction of various sectors of Indonesian society to the presence of Japanese corporations, and also the reaction of Japanese business and political leaders to problems created by that presence.

One other departure from normal practice should also be noted here. The concept of the multinational firm, which is derived mainly from the American model, is specifically related to the role of companies as overseas investors. Trade transactions are usually taken into consideration only when they are a direct consequence of investment. In the case of Japanese multinationals, however, it is difficult and sometimes misleading to make such a sharp separation between investment activities and trade. As Gregory Clark[17] has pointed out, the overseas investments of Japanese companies can be characterised as "trade orientated". In other words, while American companies have tended to invest abroad to maximise returns on their technical and managerial skills, Japanese companies have tended, in the past at least, to view their overseas investment as part of an overall trade strategy. The existence in Japan of the powerful general trading companies has accentuated this fusion of trade and investment interests. The influence of Japanese companies in shaping the relationship between Japan and Southeast Asia can therefore only be understood if we consider their position as investors in conjunction with their role in handling Southeast Asia's trade, both with Japan itself and with the rest of the world.

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NOTES

1. Karl Kaiser, "Transnational Politics: Toward a Theory of Multinational Politics", International Organization, Autumn 1971, pp 790-817.
2. See Raymond Vernon: Sovereignty at Bay, New York, Basic Books, 1971; George W. Ball: "The Promise of the Multinational Corporation", Fortune, 1 June 1967; Stephen Hymer: "The Multinational Corporation and the Law of Uneven Development" in J. Bhagwati (ed.): Economics and World Order from the 1970's to the 1990's, New York and London, Collier-Macmillan, 1972.
3. Robert Gilpin: "The Politics of Transnational Economic Relations", International Organization, Summer 1971, p 419.
4. See for example John Kenneth Galbraith: "The Defense of the Multinational Company", Harvard Business Review, March/April 1978, pp 83-93.
5. For example Viktor Dybov: "Japanese Multinationals in the Structure of World Capitalism", International Affairs (Moscow), April 1978, pp 98-105.
6. Michael Hodges: Multinational Corporations and National Governments, Farnborough, England and Lexington, Mass., Saxon House/Lexington Books, 1974.
7. See for example Vernon, op cit, pp 98-106 and pp 170-186; Robert Gilpin: U.S. Power and the Multinational Corporation, New York, Basic Books, 1975, pp 47-59 and pp 247-253.
8. See for example H. Magdoff: Imperialism: From the Colonial Age to the Present, New York, Monthly Review Press, 1978, Ch. 6.
9. Hymer, op cit, pp 122-125.
10. Kaiser, op cit, pp 811-812.

11. Hodges, op cit, pp 3-4.

12. T. J. Pempel: "Japanese Foreign Economic Policy; the Domestic Bases for International Behaviour", International Organisation, Autumn 1977, p 729.

13. Franklin B. Weinstein "Multinational Corporations and the Third World: the Case of Japan and Southeast Asia". International Organisation, Summer 1976, p 396.

14. Robert Gilpin: U.S. Power, p 4.

15. For example Galbraith, op cit, pp 84-86.

16. Hodges: Multinational Corporations and National Governments, p 8.

17. See Gregory Clark: "Pattern of Japanese Investment" in R. J. Ballon and E. H. Lee (eds.) Foreign Investment and Japan. Tokyo and Palo Alto, Kodansha International 1972.

I. THE BEGINNING: JAPANESE COMPANIES IN THE DUTCH EAST INDIES

The introduction outlined five main areas of interest, which it was suggested, would help us to understand the influence of Japanese companies on the economic and political relationship between Japan and Indonesia. In this chapter we shall use this framework in an attempt to explain the way in which the relationship developed up to and during the Second World War.

The Widening Gulf

In the years immediately before the Second World War, those who wished to justify Japan's southward expansion liked to emphasise the ancient ties which bound Japan to Southeast Asia. They spoke of the trade which flourished between Japan and the "Nanban" (Southern Barbarians) in the days of Toyotomi Hideyoshi (1536-98) and Tokugawa Ieyasu (1542-1616); they recalled the adventures of Yamada Nagamasu, a Japanese settler who played an influential part in the politics of 16th century Siam; they even propagated an extraordinary theory that the militantly Muslim Achenese of North Sumatra were descendants of emigre Japanese Samurai(1).

From a modern point of view; however the significant fact is that there was so little contact between Japan and Southeast Asia until the late nineteenth century. It could be argued, of course, that Japan was artificially isolated from the rest of Asia by the policy of seclusion (sakoku) enforced by Japan's rulers from the mid-seventeenth century until the 1860's. Yet in a sense the very fact that it was possible to enforce such a policy at a time when trade routes to the south were well established and easily navigable indicates how little the Japanese economy needed Southeast Asia (and vice versa) until the beginning of the Meiji Era (1868-1912). Japan's isolation from Southeast Asia was cultural as well as economic. It is true that certain aspects of the Japanese social structure appear to resemble those of some Southeast Asian cultures - a consequence perhaps of early anthropological links, or perhaps of the importance of wet-rice cultivation for all these societies. But the fact remains that, while Japanese culture retains the deep imprint of earlier contacts with China and Korea, connections with Southeast Asia were far more tenuous. In the early years of modernisation, when Japan became familiar with Western society and traditions, Southeast Asian culture remained an unknown quantity. Thus when Japan's great trading companies began to send emissaries to Java in the late nineteenth century, it was found necessary to report, not only on economic matters, but also on Javanese society, for, as one of them explained, "the character of the country is quite unusual, and to Japanese eyes it has many extraordinary features"(2).

It should also be emphasised that great differences in the levels of economic development in Japan and the Dutch East Indies already existed <u>before</u> Japan embarked on a path of rapid modernisation and industrialisation from the 1860's onward. In Java, the mid-nineteenth century marked the closing phase of the so-called "Culture System" under which the structure of Javanese agriculture had been reshaped to meet the growing need for tropical produce (sugar, coffee, etc.) in the Mother Country. The Indies' economy was therefore integrated into a colonial system under which all the most dynamic sectors, such as trade and plantation agriculture, were dominated either by the Dutch or by the overseas Chinese. The Japanese economy, on the other hand, had been isolated from the outside world for almost two centuries. The relative peace and stability which the country had enjoyed during that period of isolation had given rise to various social and economic developments, including the growth of a strong and indigenous mercantile class and the spread of education.

These circumstances provided the foundation for the marked divergence in the economic history of the two countries during the late nineteenth and early twentieth centuries. Until the First World War, the Dutch government showed little interest in the industrialisation of the Indies, and directed its attention mainly to fostering the production and export of raw materials required by the West - firstly sugar, coffee, spices etc., and subsequently also rubber, bauxite and crude oil. While some colonial administrators were concerned with the social welfare of the Indonesian population, there was no attempt to train or encourage Indonesians to participate in the development of an independent economy. Thus, while the foreign-owned section of the economy grew and modernised, the indigenous agricultural economy which affected the great majority of the population remained relatively static(3).

By contrast, in Japan, from 1868 onwards all the efforts of government and bureaucracy were directed towards the industrialisation and modernisation of the national economy. In the years from 1910 to 1938 the number of factory workers in Japan more than doubled, and manufacturing output increased six-fold. In some sectors of the economy development was even more dramatic; production of metals and machinery increased more than nine-fold, and production of chemicals and ceramics more than twelve-fold(4).

Perhaps the clearest indication of the economic imbalance between Japan and the Dutch East Indies is given by the trade figures for the 1930's. In 1935, for example, Japanese exports to the Indies amounted to some ¥143 million, but while this represented about 30% of the East Indies total imports, it was less than 6% of the total value of Japan's exports(5). The Indies' dependence on Japan was therefore already far greater than Japan's dependence on the Indies. These simple economic statistics moreover conceal a whole host of structural and qualitative differences between the economies of the two countries; differences in standards of living, in the spread of education, in the level of industrial and managerial skills etc. Above all, while Indonesia remained a colony of the West, Japan had a strong, independent administration with growing experience in international affairs; and while the Indonesian economy remained firmly under Western control, Japan had developed the great industrial conglomerates known as zaibatsu, whose activities are the main subject of this chapter.

Japanese Companies in the Dutch East Indies

Before tracing the development of Japan's economic interest in the Dutch East Indies it is necessary to give a brief description of the companies which helped to shape Japan's early relationship with Southeast Asia. Here we shall concentrate on two institutions which distinguished Japanese business from that of other industrialised nations: the zaibatsu and the sogo shosha (general trading company).

The term zaibatsu (literally "financial clique") is a somewhat imprecise one. In its widest sense it is used to describe a very large, centralised group of enterprises covering a range of economic activities, including banking, insurance, manufacturing industry, trade and transportation. But there are no fixed criteria for deciding which groups were or were not zaibatsu, and differing lists of zaibatsu may be found in the various works on the subject(6). Generally speaking each zaibatsu consisted of a centralised holding company controlling a network of large and small subsidiaries in all sectors of the economy. The subsidiaries, which often but not always bore the zaibatsu name (Mitsui Bank, Mitsubishi Heavy Industry, Sumitomo Chemicals etc.) might in turn control a large number of subsidiaries of their own - in Japanese these are referred to respectively as "child-companies" and "grandchild-companies". The zaibatsu therefore wielded enormous influence throughout the pre-war Japanese economy, and were to play a major part in Japan's trade and investment in South-east Asia. It should be noted however, that not all large Japanese firms active in the Dutch East Indies belonged to zaibatsu groupings. Some (like Dai Nihon Sugar) were simply independent manufacturing companies. Others (like the Ishihara group) were conglomerates in their own right, but were not large or diverse enough to be defined as zaibatsu.

The great family-controlled zaibatsu such as Mitsui, Mitsubishi, Sumitomo, Yasuda etc. were formed during the first two decades of the twentieth century, as family fortunes which had been built up in particular sectors of commerce or industry extended their influence throughout the economy. In the 1930's, with the development of heavy industry, a slightly different type of conglomerate emerged. These are often referred to as the "New Zaibatsu", and they included groups such as Nissan and Nisso. A detailed analysis of the structure and history of the zaibatsu can be found in many works on the subject, both in English and in Japanese. Here it is sufficient simply to note some of the main features which distinguished the zaibatsu from their Western competitors, i.e. their high degree of centralisation, their diversity of interests, their power and influence in the Japanese economy, and the close ties which existed between the zaibatsu and government in pre-war Japan.

A further unique feature of the older zaibatsu was the role of the zaibatsu-related trading company. Each zaibatsu had its own general trading company (sogo shosha), which not only handled the trade of the group's manufacturing and mining companies, but also had a vital role in the control and development of the zaibatsu as a whole(7). Since these trading companies were to play an important part in Southeast Asia both before and after the Second World War, it may be useful to give a brief summary of their origins and functions.

The first general trading companies were established in the late nineteenth century and were to some extent modelled on the great Western mercantile houses which specialised in trade with the Far East - Guthries, Jardine Matheson etc. Like these companies, the Japanese _sogo shosha_ soon became involved in overseas direct investment as well as purely commercial ventures. But the scope and scale of the Japanese companies' interests far outstripped those of their Western counterparts. In the first place, while European trading companies restricted their activities to overseas trade, the Japanese _sogo shosha_ for historical reasons were also involved in the organisation of domestic production and marketing. A second difference reflects the early difficulties which Japan encountered in overseas commercial transactions. Within the Western hemisphere trade was normally handled directly by manufacturing firms, and Western trading companies were only significant in dealings with more distant (and less developed) countries where specialised knowledge was considered necessary. But for Japan, with its historical isolation from the rest of the world, foreign trade was always a specialised occupation requiring particular skills, and trading companies therefore came to play a vital role in handling the external relations of Japan's rapidly growing industries with all parts of the world.

Let us now consider how these companies came to develop first commercial and later investment links with the Dutch East Indies. The growth of Japan's economic relationship with Southeast Asia was not a matter of geographical or historical inevitability. Rather, it was the outcome of specific policy decisions within Japan, particularly of the decision to model Japan's economic, political and social development on the patterns of the West. The economies of Southeast Asia had been developed by the colonial powers specifically to meet the needs of the West. In the case of the Dutch East Indies, as we have seen, this involved firstly the development of tropical agricultural products such as spices, sugar and coffee, and later (with the coming of the internal combustion engine) of industrial raw materials such as rubber and oil. The history of Japan's trade links with the Indies shows clearly how Japan was following in the footsteps of the Western colonial nations.

Roughly speaking, we can divide Japan's pre-war commercial relations with the Indies into four periods:-

(a) Up to 1954 - During this period Japan's main interest in the Indies was as a source of tropical produce - particularly sugar - to meet demand created by the growing westernisation of Japanese life-styles and dietary patterns. The level of trade was fairly low, and the balance of trade was heavily in the Indies favour.

(b) 1914-1920 - During and immediately after the First World War, Japan's trade with the Indies, and indeed with the whole of Southeast Asia - expanded rapidly and greatly. The change was not only a quantitative but also a qualitative one. Exports of manufactured goods increased and diversified to include relatively sophisticated products such as cement, steel, fertiliser and tyres. The increase of imports from the Indies was less dramatic, but it also represented a diversification towards products such as petroleum and tin. There can be no doubt that a major cause of this trade boom was the temporary power vacuum in S.E. Asia created by the First World War. The disruption of trade between Southeast

Asia and the colonial mother countries enabled Japan to assume some of the functions of the Western powers, but the events of the 1920's were to show that Japanese industry was not yet strong enough to hold its own against Western competition when normal trade relations with the region were restored (see Table 1.1).

(c) 1920-29 - After a peak in 1920, Japan's trade with the Indies suffered a sharp slump. Japanese exports were particularly seriously affected, as Europe's reviving industries began to make inroads into the market for manufactured goods. More advanced industrial products were most vulnerable to Western competition, while Japan retained a relatively strong hold on the market for traditional exports such as silk, tea and ceramics (Table 1.2). Despite the severity of the slump it should be noted that the level of trade with the Indies remained considerably higher than in pre-war years, and showed a steady upward trend throughout the 1920's.

(d) 1929-42 - The period of the World economic recession saw what Western observers termed a "Japanese invasion of world markets"(8). This "invasion" was directed particularly at less developed countries in South and Southeast Asia, which had previously been considered the preserve of Western industrialised powers. The term "invasion" however, is a little misleading, at least in as far as the Dutch East Indies were concerned. There was some increase in the volume of imports from Japan during the early 1930's, though because

> of the devaluation of the Yen the value of Japanese goods as expressed in Guilders did not again reach the peak attained in 1920. What alarmed the Indies administration, however, was not the scale of this influx of Japanese goods in itself, but the fact that, in a shrinking market, Japan's expansion was taking place at the expense of the Western powers, and of the Netherlands in particular. Between 1929 and 1935, Japan's share of the Indies imports rose from 11% to 30%, while the Netherlands share fell from 20% to 13%. Equally importantly, as during the First World War, Japan's exports to Southeast Asia consisted increasingly of higher quality manufactured goods: bleached and printed cottons, synthetic textiles, chemicals, cement, tyres etc. Although Japanese goods were for the most part cheaper than their western-produced counterparts, they were no longer necessarily inferior in quality. Indeed, some Japanese textiles sold well even though they were more expensive than similar imports from Holland(9).

At the same time, a shift was taking place in the composition of the Indies exports to Japan. With the development of sugar production within Japan's own empire, imports of sugar from Java slumped from Fl 34,995,000 in 1928 to Fl 2,658,000 in 1932(10). Japanese companies, like their Western counterparts a couple of decades earlier, were increasingly shifting their interest from tropical desert crops to the raw materials of heavy industry; particularly petroleum, rubber and non-ferrous metals. It was during this period, therefore, that a new pattern was established in Japan's relationship with Southeast Asia: a pattern in which Southeast Asia came to be seen as a vital market for Japan's manufactured exports and a vital source of her raw material imports. This image of Southeast Asia was to dominate Japanese thinking well into the 1960's.

The development of trade relations between Japan and the Dutch East Indies during the 1930's resulted in growing political conflict between Japan and the Dutch colonial administration. This conflict will be discussed in more detail later in the chapter, but it should be noted here that it was characterised by the imposition of trade barriers on both sides, and therefore had the effect of distorting and diminishing the flow of trade in the years immediately before the Second World War.

The role of Japan in the Indies foreign trade cannot be understood merely by examining trade between the two countries. We must also look at an often neglected area: the role of Japanese companies in the Indies trade with third countries. It is here that the size and power of Japanese general trading companies came into its own. Like the great European trading houses, Japanese sogo shosha rapidly extended their overseas interests to include third country trade, and this has indeed remained a key to their strength and dynamism to the present day. In the case of the Dutch East Indies, it was the First World War which opened up opportunities that companies such as Mitsui Bussan and Suzuki Shoten were quck to seize. By 1925, of 79,893,000 worth of trade handled by Mitsui Bussan's Java branches, only ¥ 33,209,000 (42%) was trade with Japan. The remaining 56% was third country trade(11).

The importance of third country trade for Japanese firms helps to explain why, even at a period when Japan was not the Indies' main trading partner, Japanese companies played a central role in certain sectors of the Indies economy, particularly in those sectors which attracted little interest from Western multinational enterprises. During the early 1920's for example, Japanese trading companies including Mitsui Bussan, Suzuki Shoten and Mitsubishi Shoji were the leading exporters of Java sugar[12]. This is significant, because sugar, although declining in importance was still the Indies chief export at this time.

Lastly, we must also consider the role of Japanese companies as investors in pre-war Southeast Asia. As noted earlier the concept of the "multinational" focuses attention on the role of companies as overseas investors. Pre-war Japanese zaibatsu were certainly not "multinationals" in the sense of having a global strategy or outlook. Although some invested very heavily in Japan's overseas territorial possessions, investments outside the boundaries of the Japanese Empire were much more limited. But if we accept the commonly-used definition of a "multinational" company as being one which operates a number of productive facilities overseas, then many pre-war Japanese firms clearly qualified for the title. By the 1930's their investments in the Dutch East Indies and other parts of Southeast Asia were large enough, and growing rapidly enough, to cause comment and even alarm. Moreover, because of the high degree of concentration in the pre-war Japanese economy, many of the companies which were active as investors in the pre-war Indies had strong financial connections with the companies which had played a leading role in the trade developments mentioned earlier.

Statistics on pre-war investment are unreliable, and estimates of Japanese investment in the Dutch East Indies in the late 1930's range from about ¥ 45 million to over ¥ 170 million[13]. Most sources agree that Japanese investment accounted for less than 2% of all foreign investment in the Indies. These, however, are cumulative figures which conceal the fact that, at least for a few years in the early 1930's, Japanese investment in the Indies was increasing rapidly enough to alarm the Dutch administration into taking preventive measures.

Overseas investment by Japanese corporations began on a small scale while Japan's industrialisation was still in its infancy. An offshoot of the Mitsubishi _zaibatsu_ invested in Malayan rubber plantations as early as 1906[14]. But it was the 1914-18 War which stimulated the first significant influx of Japanese capital into the Dutch East Indies. By 1921 it was estimated that Japanese agricultural investment in the Indies amounted to some ¥ 12 million[15].

Investment in agriculture, particularly rubber plantations, continued to grow during the 1920's and early 1930's, and remained the cornerstone of Japanese investment in Southeast Asia[16]. Here the _zaibatsu_ were able to make full use of their diversified structure, often setting up new companies specifically for the purpose of investing in Southeast Asian plantations. Among the most notable of these were the Southern Produce Co. (Nangoku Sangyo K.K.), initially created as a subsidiary of the Taiwan Sugar Co., which was itself part of the Mitsui _zaibatsu_, and the Nomura East Indies Development Co., (Nomura Higashi-Indo Takusan K.K.) set up in 1929 to run the Nomura _zaibatsu_'s plantations in Borneo and Sumatra. Table 1.3 (which does not claim to be exhaustive) gives some indication of the scope of the major _zaibatsu_'s interests in the Indies immediately before the Second World War. Another company which should be mentioned in this connection is Dai Nihon Sugar, run by Fujiyama Raita, a dynamic entrepreneur who developed a close personal interest in Southeast Asia. Dai Nihon Sugar was the only Japanese company to acquire its own sugar plantations in the Indies.

As we have already seen, the growth of Japanese heavy industry in the 1930's led Japanese companies to turn their attention more and more to the mineral wealth of Southeast Asia, and particularly to the Indies oil resources[17]. The earliest known Japanese survey of

Indonesian oil fields was undertaken by Mitsui Bussan in 1899, thirteen years before the beginning of American oil investment in the Indies. In 1917 another Japanese company prospected for oil in British North Borneo, but it was only in the late 1920's, that Japan's demand for oil became great enough to warrant the considerable risks of oil investment in Southeast Asia. In 1929 Mitsui Bussan and Nihon Sekiyu (Japan Petroleum Co.) established the Borneo Oil Company, which acquired prospecting rights in South-East Borneo and in Java. Suffering the problems of a latecomer in an unfamiliar field, the company achieved only meager success. In 1940 its output was a mere 59,000 kilos of crude oil, compared to the 4,544 million kilos produced by Royal Dutch Shell(18).

By this stage the Dutch authorities were assuming an increasingly restrictive position on Japanese investment, particularly in strategic sectors of the economy. Furukawa, which had first surveyed bauxite deposits in the Rhiau archipelago in the mid-1920's was refused permission to mine there, and had to be content instead with a long-term export contract. However, the Ishihara conglomerate succeeded in obtaining a copper-mining concession in the Surakarta area of Java, while another Japanese company controlled mica interests in the Indies.

The post-war multinational spread of Japanese business was characterised by a boom in overseas manufacturing investment. In the pre-war period, by contrast, such investment was almost entirely restricted to areas under Japanese political control. But in the 1930's, interestingly enough, the proliferation of trade barriers stimulated the very modest first beginnings of Japanese manufacturing investment in Southeast Asia(19). Mitsui, for example, established breweries in Burma and the Philippines, while Japanese investment in textile production was on a large enough scale to constitute a threat to local producers in the Ilocano region of the Philippines. In the Dutch East Indies, however, the colonial administration was no more welcoming towards Japanese-run factories than towards Japanese-produced imports, and by 1941 there were just fifteen Japanese-owned manufacturing enterprises in the entire Indies (see Table V).

The growth of Japan's economic ties with the Indies inevitably also led to the spread of supporting financial and commercial services[20]. Four Japanese banks (the Bank of Taiwan, the Kwanan Bank, the Yokohama Specie Bank and the Mitsui Bank) established branches in Java before the War. The South Seas Warehousing Co. (Nanyo Soko K.K.) - a part of the business empire of Ishihara Hiroichiro - owned warehouses in most of the major ports of the Indies, while Ishihara's South Seas Steamship Co. (Nanyo Kisen) opened a shipping line from Java to Japan.

By the late 1930's, therefore, although Japan was only the fifth largest investor in the Indies (after the Netherlands, Britain, the U.S.A. and France), some of the scope for future development was beginning to become apparent. In the words of one contemporary observer: "The Japanese interest in the colony, although small in terms of holdings at present, has great potentialities and is highly political"[21].

In the introduction it was suggested that the impact of multinational enterprises upon relations between two countries will depend in part upon the links which exist between the countries at other, non-economic levels. Investment and trade may in general be expected to proceed relatively smoothly where two countries are already bound by close, historical, cultural and political ties. In the case of Japan's early relationship with the Dutch East Indies such ties were, as we have seen, largely absent. There was, however, another aspect to the relationship which, proceeding simultaneously with the growth of commercial links, may have helped to make Japan's economic interests in the Indies more acceptable amongst the mass of Indonesians. This was the growth of migration from Japan to the Indies, and to Southeast Asia as a whole[22].

The earliest Japanese settlers in Southeast Asia were the Karayuki-San, daughters of poor families who, in the latter half of the nineteenth century, were sold as prostitutes in the ports of Asia. They were followed, however, by more prosperous emigrants - small traders and artisans who set up in business as shopkeepers, barbers, photographers etc. These migrants showed considerable resource and initiative, settling even in remote areas of Borneo, Sumatra and the Celebes. By the late 1930's there were some 7,000 Japanese residents in the Dutch East Indies, and almost 40,000 in Southeast Asia as a whole.

The development of the Japanese settler communities in Southeast Asia presents many features of historical and sociological interest, and in recent years has attracted some scholarly attention. As far as the economic links between Japan and Southeast Asia are concerned, however, it must be emphasised that a much more important role was played by large Japanese-based companies. In the 1930's, for example, it was estimated that 90% of the land owned by Japanese rubber plantations was in the hands of 36 large rubber corporations, while private settlers accounted for just 10% of the area cultivated[23]. Similarly, a survey in 1929-30 found that smallholdings, although more numerous than large plantations, accounted for only 3% of Japanese-owned land in the Indies[24].

As Yano has pointed out[25], a wide social gulf existed between the settler communities and the representatives of the major Japanese trading companies, banks, shipping lines, etc. While the former integrated quite well into the local community, often learning local languages and sometimes even marrying Southeast Asian women, the latter's attitudes and aspirations remained firmly oriented towards Japan. Despite the sharp social distinctions, however, certain economic links between large firms and the settler community may be noted here. In a few exceptional instances, companies established by Japanese emigrants in Southeast Asia grew to be local rivals of the major Japanese-based corporations. In the early period, the leading example was the Nanyo Shokai (South Seas Trading Co.) established by Tsutsumibayashi Kazue(26), a former jailor in the Taiwan prison service. Later the outstanding success story was that of Ishihara Hiroichiro(27), who, beginning from a speculative venture in Malayan ironmining, built up a large business with branches throughout Southeast Asia. There are also some recorded examples of large Japanese companies encouraging emigration to Southeast Asia by providing Japanese settlers with small plantations in return for a percentage of their produce.

The Japanese settlers provided a point of contact between ordinary Japanese people and Indonesians even in the remotest areas of the archipelago, and the immigrants appear to have been generally well-regarded by local people, although in the immediate pre-war period they attracted growing suspicion from the Dutch colonial administration. Their presence, together with Japan's status as a relative newcomer in Indonesian economic life, may help to explain the fact that, although Japan's commercial and investment relationship with the Dutch East Indies was in reality very similar to that of the Western powers, Japan retained a large measure of popularity amongst Indonesians and indeed Southeast Asians in general. Modern commentators tend to look back with a certain nostalgia to the days when a leading Indonesian nationalist could write truthfully, if a little cynically,

> "Japan . . . has the sympathy of most of the people, and the Japanese are the most popular foreigners in our country - no doubt because our people have come to know only their good sides".(28)

Japanese Companies and the Politics of "Nanshin"

In one of the foremost works on the subject of Japan's Nanshin (Southwards Advance) in the Pre-War and War periods, Professor Yano distinguishes three phases in the pre-war development of Japan's relationship with Southeast Asia. In the first two periods - up to about 1907 and from 1907 to 1936 links between Japan and Southeast Asia are seen as largely unofficial, spontaneous and divorced from state policy. From 1936 onwards, Yano argues, outside pressures led to a sudden development of official interest in Southeast Asia, and thus produced the policies which led to the invasion of 1942:

> "The Nanshin of 1940-41 was created as a consequence of the failure to bring the "China Affair" to a successful conclusion, and in this sense its origins lay in events unconnected with the previous history of Southern contacts which had taken shape from the beginning of the Meiji period to the mid-1930's. The 1940's policy of Nanshin was conceived almost without taking into consideration the peaceful mercantile contacts with Southeast Asia which had accumulated over past years".(29)

In this chapter it will be argued that such an analysis makes a slightly too sharp distinction between the earlier, private contacts between Japan and Southeast Asia and the increasingly political and conflictual relations of the late 1930's and early 1940's. Although it is true that the reasons for the invasion of Southeast Asia lay largely outside the history of relations between Japan and Southeast Asia, there remains a certain element of continuity from the earlier to the later period, and a closer study of the links between private business and public policy is necessary in understanding the background to the pre-war development of Nanshin.

The unique Japanese government-business relationship has been the subject of much comment and scholarly analysis. A more detailed discussion of this relationship will be provided by a later chapter, but a brief outline of its development is a necessary preface to the points to be made here.

The driving force behind the great wave of modernisation in the early Meiji period came from a relatively small group of politicians, bureaucrats and businessmen. It should be noted that political institutions such as parties and a national parliament (known in Japan as the Diet) were not created until the late 1880's and remained thereafter relatively weak. The early Japanese modernisers, in government and in private industry, not only shared the ideal of building a strong, independent Japan, and the realisation that this must be achieved with Western technology, they also came from a relatively homogenous social background. A very large number of the most prominent reformers came from the lower ranks of the former feudal ruling class - the samurai - and had shared educational experiences such as a visit to the West at a formative stage in their intellectual development. For these reasons - and because of the sheer force of circumstances - businessmen and government officials worked closely together in the creation of a modern Japan. Many of the early industries were established by the state and later sold to private entrepreneurs; the government provided guidance and assistance in importing foreign skills and techniques; and in some cases leaders of Japan's modernisation were successful both as government officials or advisors and as businessmen in their own right[30].

Western observers, seeking to draw a contrast between Western and Japanese experience, have perhaps tended to exaggerate the uniquely Japanese nature of such government-business links. After all, private entrepreneurs and government officials or politicians have worked very closely together in many Western nations, and indeed a very good example of such co-operation between state and private enterprise is provided by the history of the Dutch in the East Indies[31]. It is, however, fair to say that the tradition of hostility towards government intervention in economic life has been much weaker in Japan than in older industrialised nations like Britain and the U.S.A. In Japan, therefore, disagreements over the direction of economic policy tend to occur between rival business interests in alliance with rival political and administrative groupings rather than simply taking the form of "business versus government".

It is instructive to compare the history of Japanese involvement in the Dutch East Indies with that of Japanese interests in Korea. In the case of Korea, political and strategic considerations came first. It was for these reasons that the Japanese government gradually extended its influence over the Korean peninsula and finally, in 1910, annexed it. The growth of Japanese political and military control opened the way to private enterprise, which was quick to make the most of the economic opportunity provided by this new colony. In the case of the Indies, on the contrary, official interest was negligible until the First World War, and indeed it was to some extent the independent initiatives of private enterprise which forced the Japanese government to develop its first official contacts with the Indies.

The growth of trade with, and emigration to, the Indies in the first years of the century made some kind of formal representation in the Indies essential, and in 1909 the first Japanese Consulate was established in Batavia. With the rapid development of economic relations between the two countries during the First World War, diplomatic relations were strengthened: in 1919 the Batavia post became a Consulate

General and a new Consulate was established in Surabaya. As the memories of Mitaka Tetsusaburo, Japanese Consul General in Batavia in the 1930's indicate, the main tasks of these official representatives in the pre-war period were to protect and control the activities of Japanese enterprises in the Indies(32).

From the First World War onwards, the role of government in Japan's economic relations with Southeast Asia began to be active rather than merely reactive. As Yano has pointed out, one of the earliest centres of official interest in Southeast Asia was the Government General of Taiwan(33). Taiwan, which became a Japanese colony in 1896, was in a geographical sense a stepping stone from Japan to Southeast Asia. As early as 1912 the Governor General of Taiwan had set up a special South Seas Trade Promotion Fund to encourage Japanese economic interests in Southeast Asia (The term "South Seas" [Nanyo] was normally used in pre-war Japan to refer to the Southeast Asian region). In 1916 the official twentieth anniversary celebrations of Japanese rule in Taiwan included a tour of Southeast Asia for Japanese businessmen, which inspired representatives of the Nomura group to undertake their first plantation investments in the Dutch East Indies(34). From this period onwards a regular stream of publications on Southeast Asia, produced by the research departments of the Taiwan Government General, further encouraged the growth of Japanese investment in the region. The government-controlled Bank of Taiwan was the first Japanese bank to open a branch in Java, and was also influential in promoting the growth of Japanese economic influence in the Indies.

An even more important force in the early phases of Japanese investment in Southeast Asia was the role of the semi-official National Policy Companies (Kokusaku Kaisha). The structure of the National Policy Company is summed up by Bisson as follows:-

> "Established by law, vested with state capital, and admitting government appointive and other powers over management, these companies appeared as government organs. In fact, however, they were hybrid agencies, in which much zaibatsu capital was invested and managerial personnel was drawn from the combines rather than from the bureaucracy"(35).

By the late 1930's there were some 35 such semi-public semi-private companies, but the prototype, and the company which is most important from the point of view of this study was the Oriental Colonization Co. (Toyo Takushoku K.K.),(36) which was established in 1908 to develop Japanese interests in Korea. As a government sponsored enterprise aimed at promoting the development of a colony, the company bore a slight resemblance to European colonial ventures such as the Nederlandsche Handels Maatschappij in the Dutch East Indies. During the First World War Japan obtained control of the former German-controlled islands of the Western Pacific - the Marshall, Mariana, Caroline and Palau Islands - which, under the terms of the Treaty of Versailles, became Japanese mandated territories. In order to co-ordinate and assist Japanese development in these areas Toyo Takushoku established a subsidiary - the Nanyo Kohatsu K.K. (South Seas Development Co.) which was to be the most active National Policy company in South-east Asia. During the 1920's both parent company and subsidiary began to invest in the Dutch East Indies, and by 1929 it was estimated that rather more than 10% of Japanese investment in the country came from governmental or semi-governmental sources: i.e. the two National Policy companies and the state owned Bank of Taiwan and Kwanan Bank. From then on the activities of the National Policy companies expanded rapidly. Toyo Takushoku and Nanyo Kohatsu established numerous subsidiaries including a South Pacific Trading Company and a Celebes Development Company, both of which developed interests in the Celebes copra trade; N.K.N., which experimented with cotton plantations in

Dutch New Guinea; South Seas Timber Co., which acquired timber concessions in South Borneo; and a pearl fishing company which was active in the Arafura Sea. In 1936 two further National Policy Companies, Nanyo Takushoku K.K. and Taiwan Takushoku K.K., were set up to promote Japanese investment in the Mandated Territories and Taiwan respectively. Both of the new companies developed interests in Southeast Asia, though these were less extensive than the large-scale investments of Toyo Takushoku and its many subsidiaries.

The interaction of government and business in Japan's Southern economic policy was a two-way process. The government, by measures such as the establishment of the various National Policy companies, lent its support to the Southward spread of Japanese investment. At the same time, private enterprise made use of organisations such as the Nanyo Kyokai (South Seas Association) to foster public, and ultimately also governmental, interest in Southeast Asia and its economic potential(37). The Nanyo Kyokai was established in 1915 with the support of several leading industrialists whose companies had interests in Southeast Asia. The association sponsored research, held trade fairs, and produced publications including a monthly magazine on Southeast Asia. Its activities can be seen as one of the factors which promoted the boom in public interest in Southeast Asia during and immediately after the First World War.

The activities of Japanese private enterprises in Southeast Asia were therefore not totally divorced from government policy even during the early decades of the twentieth century. The relationship between government and business in the first phases of Japan's Southward economic expansion can generally be described as co-operative and mutually supportive but low-key. Until the late 1920's Southeast Asia was neither a major area of Japanese investment nor a central issue in

Japan's foreign policy, and Japanese corporations were able to expand their interests in the region without requiring strong economic or political backing from their home government. But with the onset of the world economic recession of the 1930's, the situation changed. On the Japanese side, the military-led strategy for economic recovery involved the rapid development of heavy industry. This, as we have seen, caused Japan to turn her attention to Southeast Asia both as a source of industrial raw materials and as a market for exports which had to expand in order to earn the necessary foreign exchange to pay for raw material imports. At the same time, the Netherlands, faced with similar economic problems, looked with growing suspicion at the rise of Japanese competition in her Southeast Asian colony.

In 1933 the Indies colonial administration introduced an Emergency Import Ordinance. This was quickly followed by a series of other measures further restricting imports, emigration, foreign fishing rights etc. In 1934 the Regulation of Industry Ordinance made the extension or establishment of certain types of enterprise conditional on possession of a licence, and thus effectively could be used to limit unwelcome Japanese investment. The following year an Import Licensing Ordinance imposed similar conditions on the import of various goods. It was against this background that the First Japan-Netherlands Economic Conference was opened in 1934[(38)]. But the roots of the problem lay in the universal economic recession and the accompanying division of the world into exclusive economic blocs, and it is therefore not surprising that attempts to find a bilateral compromise solution failed. In the words of a contemporary observer, these negotiations, and the others which followed during the course of the 1930's, "merely had the result of enabling each country to elucidate its own point of view"[(39)].

The increasing political tension in relations with Southeast Asian colonial governments, together with the growth of military influence on Japan's governmental system, led to a hardening and institutionalisation of relations between business and government. In 1939 the principal exporters to and importers from the Dutch East Indies were organised into two trade associations to strengthen Japan's hand in the trade war with the Indies administration(40). Then from 1940 to mid-1941 a second economic conference took place(41). In this Japan, whose position had been altered by the outbreak of war in Europe and the German invasion of the Netherlands, demanded concessions which would have ensured Japanese economic hegemony in the Indies. However, this conference, like the previous one, ended without substantive agreements. The close association of business with government policy is well illustrated by the composition of the Japanese delegation to the Indies in 1940. In the early stages, the chief Japanese negotiator was the Minister for Commerce and Industry, Kobayashi Ichizo, but the sensitive negotiations on oil were entrusted to Mukai Tadaharu, then head of Mitsui Bussan, which had a major stake in the only Japanese oil project in the Indies. The fusion of public and private roles is emphasised by the fact that, while Mukai in his memoires recalls that he was sent as an official government representative, contemporary Japanese newspaper reports referred to him consistently as the representative of Mitsui Bussan(42).

It may be noted here that it was not only the <u>reality</u> of the Japanese business-government relationship which was significant, but the <u>way in which that reality was perceived</u> by outside observers. There can be no doubt that, if links between the <u>zaibatsu</u> and Japan's overseas economic policy were strong, in the minds of the Indies colonial rulers they assumed truly sinister proportions. A war-time publication by the

Netherlands Information Bureau even went so far as to associate the early growth of Japanese immigration to the Indies with government plans for an invasion of Southeast Asia:

> "Already during the (first) World War, preparations were noticed pointing to a possible occupation of the Netherlands Indies by Japan. . . . It was particularly observed that very large numbers of Japanese photographers attempted to find an existence throughout the islands, including some of the smallest places"(43).

Such misconceptions are important because they help to explain the reaction of western colonial governments to Japan's economic southward advance. In the pre-war and in the post-war periods, an exaggerated concept of "Japan Incorporated" (to borrow a more recently-coined phrase) has been a crucial element in understanding political conflicts between Japan and various western and Southeast Asian regimes.

By the time of the second economic conference, however, an overtly military element had entered Japan's policies towards Southeast Asia. Although Japanese business interests clearly shared the government's resentment at the exclusivist economic policies of the Western colonial powers, we cannot therefore assume that they also inspired or supported official plans for the invasion of Southeast Asia and the creation of a Greater East Asia Co-Prosperity Sphere. As Yano stresses, the principal pressure for a military "Southwards Advance" came from the armed forces themselves: both from sections of the army who wished to redeem their lack of success in China, and, above all, from the Navy, whose long standing interest in Southeast Asia grew as their fear of U.S. military might increased(44). From about 1936 onwards the growth of international tension led to a spate of official military reports emphasising the vital role of Southeast Asia in Japan's strategic plans. These culminated in 1940 in the concept of a "Greater East Asia Co-Prosperity Sphere". (<u>Dai Toa Kyoei Ken</u>) embracing the whole of East and Southeast Asia, and possibly also India, Australasia and beyond. A detailed analysis of the origins and content of the "Co-Prosperity Sphere" ideal is outside the scope of this study, but it should be mentioned that the term was used essentially as a political slogan, and its practical implications were left sufficiently vague for the concept to be able to receive a large measure of support from people of widely differing ideological positions(45).

Some businessmen were quite explicit in their support for a Japanese invasion of Southeast Asia. Ishihara Hiroichiro, for example, wrote in January 1941:

> "Without applying her hand to this (South Seas expansion) it will definitely be impossible for Japan to carry on a protracted war. On the other hand, if only this problem is solved, there will be nothing at all to worry about and the people can be made to entertain large aspirations. This is absolutely necessary for the prosecution of the war. Therefore, I hope that we shall march forward as soon as possible toward this objective"(46).

Ishihara further pointed out that, under a Co-Prosperity Sphere the vast export surplus reported by the European colonies in Southeast Asia in 1935 could be channelled to stimulate the growth of the Japanese economy, while without such a Sphere Japan would remain dependent upon the whims of the colonial governments for supplies of vital raw materials such as oil. While it was the military who were best able to convert their views into concrete policies, businessmen also had some voice in the policy-making process. Businessmen were, for example, represented along with bureaucrats, intellectuals and military men on official research bodies such as the influential Showa Research Association which, in Professor Kishi's words "had no small influence on the rationale behind the Navy's policy of advance towards the Southern Areas". Organisations like the Nanyo Kyokai were also subcontracted by the Navy to carry out research on Southeast Asia in the immediate pre-war period(47).

It is doubtful, however, whether all businessmen with interests in Southeast Asia shared the militaristic views of men like Ishihara. It must be remembered that Ishihara's economic empire was concentrated entirely in Southeast Asia, and he therefore had everything to gain and nothing to lose by the creation of a Greater East Asia Co-Prosperity Sphere. But the larger and older-established zaibatsu had a long history of commercial ties with Europe and the United States and were therefore less likely to be willing to risk a full-scale military confrontation with these nations. The views of such enterprises are perhaps better represented by the industrialist Asano Ryozo, who, as late as 1939, hoped that Japan could carry out its aims in Asia with the co-operation of the United States. In an interview reported in the Japan Times Weekly Asano stated that "interests of Japan and America in the Orient are . . . Co-ordinative".

> "Since the amount of the investments of the United States in the East is comparatively small and particularly in view of the fact that American exports to this section of the world are occupied largely by petroleum, tobacco and other commodities which are scarce in Japan, Mr Asano said he sees no reason why the two countries cannot co-operate with each other economically and otherwise. . . .
>
> "Japan ought to seek her way to the north and south, where there is a great room for the development of the Japanese race" he said "If you ask my opinion, I should say that Japan and the United States must co-operate for the development of markets in the Orient"(48).

Although the final sentence has an almost prophetic ring, in the light of post-war events, such sentiments were not realistic in the circumstances of the late 1930's. The zaibatsu representatives who held such views may have acted as a slight restraining force in the period before total war became inevitable, but it was they who understood best of all the vital role which Southeast Asia must play in such a war, and once the government was set on a military solution Japanese business threw itself whole-heartedly into the tasks of promoting Japan's "Southward Advance".

Japanese Business and the Colonial Structure of the Indies

An analysis of the relationship between overseas investing firms and local elites is always a complex matter, but this is particularly true of a colonial situation in which the interests of indigenous elites are likely to be radically opposed to those of the colonial administration. In the case of the pre-war Dutch East Indies, we must consider the relationship of Japanese firms with three quite distinct groups: the European administrative and business elite; the overseas Chinese community, who played a central role in internal trade and distribution in the Indies, and the nascent Indonesian political elite.

Although Japanese immigrants to the Indies played a role rather similar to that of the overseas Chinese, the large Japanese corporations, as we have seen, followed closely in the steps of the major Western investors in the Indies. In the earliest periods the *zaibatsu*-related trading and investing companies, which were after all largely modelled on Western enterprises, sought to identify themselves with the European community in Southeast Asia. In 1921, for example, Mitsui Bussan's Surabaya representative recommended that the company should not involve itself in the profitable internal Indies sugar trade because, "by putting us on the same level as Chinese and Indian trading firms, this speculation could damage the dignity of our company"(49). Japanese companies were to some extent successful in securing the acceptance of their western rivals in the Indies: the Japanese were officially given the status of "honorary Europeans" by the colonial government (a dubious distinction which they enjoy in South Africa to the present day).

In the early 1930's, however, there was a marked shift in official Japanese attitudes to the colonial regime. From this period onwards, public statements by Japanese businessmen and economic negotiators tended increasingly to identify Japan's interests with those of the Indonesian population rather than with those of the European colonial powers. This is implicit, for example, in the statement of Japan's chief representative to the 1934 economic conference:

> "The Dutch East Indies is a producer of raw materials, while Japan is dependent upon other countries to supply the raw materials necessary for her major modern industries. Moreover, Japan, being only 3,000 miles from the Indies, is more favourably situated than European nations, and for this and other reasons Japan's industrial produce is best suited in price and quality to the economic life of the mass of the Indies population. Therefore it is natural that Japan and the Indies should help one another, and should be bound together by inseparable ties"(50).

As time went on such sentiments were even more plainly enunciated:

> "Broadly speaking, the South Seas foreign trade is featured by the fact that their respective home countries occupy an important position in international trade relations, while the Japanese share is but a drop in the bucket. . . . The home countries' over-important position in their respective colonies is attributed to none other than their self-centred colonial policy pursued in utter disregard of the natives who are undoubtedly desirous of buying cheap goods from this country (i.e. Japan)"(51).

The change in Japanese official attitudes towards the colonial elite can be attributed to various causes. To a large extent, it was clearly a reaction to the increasingly hostile and discriminatory policies of the colonial government towards Japanese trade and investment. It may also have reflected a realisation by Japanese business and political leaders that the colonial regimes of Southeast Asia could not last for ever, and that Japan's long term interests lay with the indigenous population rather than with the western expatriate communities. At the same time, these increasingly anti-western sentiments were part of a wider growth of Pan Asian nationalism in Japan, and were perhaps fuelled by a genuine disquiet amongst Japanese businessmen and diplomats at the patent injustices of the colonial system which they encountered during their tours of duty in Southeast Asia. Matsuura Kojiro, a pre-war Indies representative of a major Japanese trading firm, is typical of many when he recalls how his early indifference to the political conditions of the Indies changed as he became increasingly aware of the disparity between the incomes and educational opportunities of the European community and those of the Indonesian masses[52].

Relations between Japanese companies and the overseas Chinese community in the Indies were also uneasy. It was the Chinese who had most to lose from the growth of small-scale enterprises - shops, laundries, etc. - set up by Japanese immigrants to the Indies. Larger Chinese concerns were also threatened by the growing role of Japanese companies in the Indies foreign trade. But it was political, rather than economic, issues which brought matters to a head. In 1931, in response to Japan's seizure of Manchuria, Chinese businesses throughout Southeast Asia, staged a boycott of Japanese goods[53]. In the Indies, the boycott lasted for almost four months, and was accompanied by the formation of militant anti-Japanese organisations amongst Chinese communities in some parts of the archipelago, notably Medan. It was, however, less effective than boycotts staged in countries such as Malaya and Singapore, whose Chinese populations were larger and had closer ties with their home country. The results of the boycott in the Indies were paradoxical: by forcing Japanese companies to by-pass the Chinese-controlled retail system, it appears to have encouraged the creation of Japanese owned distribution networks, thus strengthening Japan's role in the Indies economy.

Upsurges of anti-Japanese feeling amongst the Overseas Chinese communities recurred sporadically throughout the 1930's, but in spite of these it should be noted that good relations were established at an individual level between many Japanese and Chinese businessmen in Southeast Asia, and that Japan became increasingly aware of the importance of establishing links with the Overseas Chinese. After the creation of the pro-Japanese Wang Ching-Wei regime in Nanking the Japanese Consulate-General in Batavia became a focus of efforts to win support from the Chinese communities in Java, recruiting amongst others C. M. Chow, a Chinese-Indonesian journalist who was to play an active part in post-war relations between Japan and Indonesia(54). Some joint ventures between Japanese and Chinese capital had been established in the Philippines during the 1930's and by the immediate pre-war period Japanese experts were advocating the extension of "Sino-Japanese joint enterprises through collaboration between Chinese capital and Japanese technique as part of our policy towards Chinese settlers in the South Seas"(55).

Japanese attempts to sway Chinese public opinion were, however, less successful than their attempts to win the support of politically conscious Indonesians. There appears to have been some truth in Japanese claims that the growth of manufactured imports from Japan harmed Western rather than Indonesian interests. Although in some areas of the economy (notably textiles) Japanese imports competed with domestic production, the availability of cheap manufactured goods increased the purchasing power of many Indonesians at a time when money wages were stagnant or declining. Certainly, the evident popularity of Japan in the late 1930's suggests that Japanese economic influence was not regarded as a threat by the majority of the population. Deliberate links with Indonesian nationalist figures appear to have been fostered only by a handful of Japanese companies - and for the most part by the newer enterprises rather than by the old-established zaibatsu. This is of some interest since it is a pattern which recurs in the post-war period - political risk-taking is most commonly a feature of new entrants to a particular market or industrial sector, while established companies are either more prudent in their political activities or more successful in keeping them secret. The most overtly political of Japanese entrepreneurs in Southeast Asia was probably Ishihara Hiroichiro, whose support for numerous Japanese ultra-nationalist and Pan Asian secret societies is well documented. Ishihara's political activities extended to the Indies, where he financed visits to Japan for prominent Indonesian journalists(56). Similar schemes were supported by the semi-governmental South Manchuria Railway Company(57). Japan's influence on pre-war Indonesian nationalism, however, arose less from such covert political activities than from the sheer presence of Japan in Southeast Asia. The growing number of Japanese manufactured goods in the shops, and of Japanese-owned enterprises throughout the Indies, together with the increasing significance of Japan as a political force in Asia, did not fail to impress the Indonesian intelligentsia, whose education under the colonial system had been designed to inculcate the myth of white superiority. Sutan Sjahrir, himself deeply influenced by Western culture and deeply suspicious of Japan, wrote in 1939:

> "Indirectly, the popular support for Japan is a means of expressing feelings of antipathy toward the Dutch role. . . . It is not that the people regard the Japanese as guardian angels, or that anyone wishes to exchange the Dutch for the Japanese. . . . Rather, their delight applies simply to the difficulties that the 'brave little Japanese' are causing the hated but still feared white man. It is, in fact, precisely the ones who are affected most by feelings of inferiority who feel sympathetically inclined toward the Japanese in this way"(58).

Japan-Southeast Asia Economic Relations in their Historical Context

The discussion so far indicates some of the political implications of Japan's pre-war economic interests in Southeast Asia. To summarise: the economic policies of Japan's leaders from the Meiji period onwards, and particularly from the late 1920's, made Japan increasingly dependent on Southeast Asia as a source of raw material imports and as a market for manufactured exports; Japan's growing economic role in the Indies led to political conflict with the Dutch colonial administration, and this conflict was aggravated by the identification of Japanese business with Japanese government in the minds of the Dutch authorities, and by the fact that Japan's economic advance, which undermined the supremacy of the colonial power and encouraged the forces of Indonesian nationalism, was seen as a political threat to Dutch control in the Indies. But relations between Japan and the Dutch East Indies did not develop in isolation from the outside world. The growth of Japanese economic interest in the Indies, and the political conflict which this interest produced, cannot be understood without some reference to developments which were taking place in the international economy and the international balance of power.

The increase of Japanese investment in Southeast Asia during the 1930's was merely part of a general increase in which some features of the modern multinational corporation were already evident. From the late 1920's onward there had been, not only a rise in investment by large western corporations, but also a marked trend towards manufacturing investment. In the case of the Indies this came both from the old-established colonial companies such as Borsumy, Jacobsen van den Berg etc. and from giant manufacturing corporations - "multinationals" in the modern sense of the word - among them General Motors, Goodyear, Unilever, Bata, Ever Ready and British American Tobacco(59). The growing importance of the multinational corporation in the region was emphasised by Callis in his survey of foreign investment in Southeast Asia, published in 1942.

"The most powerful instrument in our times for the promotion of trade as well as the placing of investments is the great international corporation. Its growing influence can be hardly overestimated and it has certainly not received the amount of attention which it deserves.

The financial and legal structure of the great corporation makes it exceptionally well suited for international business. Its ability to transcend political boundaries, to attract and accumulate capital, to establish, acquire and control subsidiaries, to combine decentralised business with centralised management and finances, has made the great corporation an effective and attractive medium for private businessmen and governments in their desire to exert economic control in foreign lands. . . .

Today two-thirds of the foreign capital in Southeast Asia is that of corporations"(60).

Clearly, some of the forces behind the post-war boom in multinational investments were already at work in the 1930's. The technical pre-requisites of the multinational corporation: telegraph, telephones, radio, air travel etc. were being developed throughout the world. The great oligopolistic corporations were, as indicated in the quotation from Callis, already an important force in developed western economies. At the same time, the economic circumstances of the 1930's produced certain disincentives to investment in the home economy while the competitive growth of import restrictions stimulated investment abroad as a strategy to avoid such restrictions. But the political conditions which were to favour the expansion of world trade and the rise of the multinational corporation in the 1950's and 1960's were conspicuously absent in the immediate pre-war period. As Gilpin has persuasively argued:-

"An economic system . . . does not arise spontaneously owing to the operation of an invisible hand, and in the absence of the exercise of power. Rather, every economic system rests on a particular political order; its nature cannot be understood aside from politics"(61).

According to this argument, the nineteenth and early twentieth century era of free trade was ensured by the dominance of Great Britain in world affairs. Similarly, the post-war era of multinationalisation reflects U.S. predominance in the non-Communist world; and the economic conflict of the 1930's reflects the hiatus between the decline of British economic supremacy and the entry of the U.S. as the principal actor in the world economic system. The failure of the international system to regulate the growing forces of economic regionalism led to declining trade and an unfavourable political environment for the growth of international investments. In such a climate the foreign investment which did take place was largely confined within the increasingly rigid boundaries of regional economic blocs. Japanese foreign investment, for example, which in the mid-1930's reached levels which were not to be equalled for another thirty-five years, was very largely confined to the Japanese sphere of political influence in East Asia.

The growing economic, and ultimately military conflict between Japan and the colonial administration of the Dutch East Indies cannot therefore be attributed simply to the activities of Japanese companies or to the Indies government's reactions to those activities. Rather, it must be seen in the wider context of a world where political realities had ceased to conform with economic realities; where European control of much of South and Southeast Asia was being undermined, not only by the rise of new economic powers such as Japan, but also, from within, by the relative decline of Europe as the centre of the world economy. It is in this external situation that we must seek the fundamental causes of Japan's invasion of Southeast Asia with all its enormous implications for the political and economic development of the region.

Japanese Companies During the Occupation of Indonesia

It is common practice for studies of the development of Japanese business to pass over the war years with little more than a few sentences explaining the exceptional nature of this period. In some senses this is justified. The years from 1942 to 1945 (and indeed the years immediately before the outbreak of the Pacific War) clearly were untypical in many respects. As always in time of war, the normal working of private companies was constrained by a high degree of governmental and military control. Besides, the great expansion of Japanese capital into the occupied areas of Southeast Asia was totally reversed at the end of the War, so there was no direct continuity between wartime interests and post-war Japanese investment projects.

In this study, however, it is necessary for a number of reasons to take a slightly more detailed look at the activities of Japanese firms in occupied Indonesia. In the first place, the role of Japanese companies in the occupation of Southeast Asia is in itself a matter of historical interest which has so far been largely over-looked by studies of the War period. Secondly, the Japanese occupation had certain lasting economic effects which influenced the problems of development facing the first governments of independent Indonesia. And, finally, the Occupation left a profound impression on the attitude of Indonesians towards Japan, and impression which was to influence subsequent Indonesian reactions to the presence of Japanese companies. It must be said, however, that a detailed investigation of the role of Japanese firms during the occupation is hampered by a lack of documentary evidence, much of which was destroyed in the closing phases of the War, and by the natural reticence of those involved about this sensitive period in Japan's history.

In order to understand the economic policies of Japanese military administration in the occupied areas, it is necessary to consider two competing political tendencies which underlay the rise of Japanese militarism in the 1930's[62]. The first tendency was that of radical nationalism, as exemplified by men like Kita Ikki, Okawa Shumei etc. These men, whose views largely represented the interests of the peasantry from which much of the Japanese army was recruited, combined fervent nationalism and exaltation of the imperial system with a radical critique of the existing Japanese economic structure. Above all, they attacked the dominant position of the privately-owned zaibatsu in the national economy, and argued for a greater degree of public control over finance and industry. Radical militarists were responsible for incidents such as the assassination of Baron Dan Takuma, principal manager of the Mitsui zaibatsu and although their influence weakened with the defeat of the so-called "26 February Affair" of 1936, aspects of their ideology did filter through into national policy as the military tightened their control over government in the late 1930's, and early 1940's. Radical nationalism was essentially a movement of lower-ranking officers in the Imperial Army. The attitudes of the military elite, on the other hand, were far closer to those of the administrative and business elites: while accepting the nationalistic elements, they, for the most part, rejected the concepts of radical social and economic change and the attacks on private property which were central to the writings of men like Kita.

The development of military policies reflects the desire for consensus which many commentators regard as a characteristic of the Japanese political system. The principal forces of radical nationalism were defeated in 1936, but much of the rhetoric, if not the substance, of their ideology was absorbed by the military elite and used in the creation of economic policy during the war years. This is illustrated by measures such as the creation of Industrial Control Associations, whose apparent aim was to strengthen the control of government and military over the activities of the <u>zaibatsu</u>, but whose practical effect was (as Bisson and others have argued)[63] to reinforce the predominance of the <u>zaibatsu</u> in the Japanese economy. This ambivilance between anti-business sentiments and the continued power of private enterprise in the economy was evident also in the development of Japan's economic policies for the occupied territories of Southeast Asia.

One of the first acts of the occupation forces in Southeast Asia was to divide control of plantation agriculture, mining and manufacturing between Japanese companies. Only the most important strategic raw materials, such as oil, were placed directly under the command of the army. The allocation of industries was expanded and altered throughout the course of the war, but sample lists of companies involved (see Tables 1.4 - 1.7) suggest a fairly even division of spoils amongst the major <u>zaibatsu</u>. Experience was clearly a major consideration; thus Furukawa who had long-standing interests in the export of Indies bauxite, was placed in charge of Sumatran bauxite resources, and the Nomura East Indies Development Co., with its long experience of investment in the archipelago, received greatly expanded plantation and mining rights. For similar reasons, a number of small companies established by Japanese settlers - for example Ariuma Yoko and Takekoshi Shokai - were entrusted with important positions in the control of internal and external trade. In all it is estimated that about 180 Japanese companies and some 8,000 Japanese civilian employees were involved in the task of running the war-time Indonesian economy. In the words of one Japanese account:-

> "Of all the countries in the Greater East Asia Co-Prosperity Sphere, Indonesia was the area where every company most wanted to expand its interests, and prominent company figures were sent as representatives to Java in particular"[64].

At the same time, military mistrust of the profit motive, together with the exigencies of the war situation, led to the creation of a number of guilds and control associations in various sectors of the economy to minimise competititon between the companies involved and ensure that their activities were co-ordinated with the national interest. The frequent creation, reorganisation and abolition of these control bodies during the three-and-a-half years of the Japanese occupation indicates the experimental and ad hoc nature of much of Japan's economic policy in the occupied territories. In the case of sugar production, for example, a Sugar Sales Co-operative was created in March 1942, a Sugar Corporation to control production and refining in June 1943, and in May 1944, the industry was reorganised and the six companies involved in Java sugar production were grouped into a Sugar Manufacturers Federation. Similarly Sumatran rubber production, which was initially controlled from Singapore, was subsequently entrusted to a Sumatra Plantation Association representing the major Japanese private interests concerned[(65)]. Overall control of prices, production targets etc., came from relevant sections of the military administration in each area - it should be noted that Indonesia was divided into three areas for administrative purposes: Java and Sumatra having separate Army-controlled administrations and the remaining islands coming under the Japanese navy.

As the war situation worsened, the military administration intensified its efforts to guide and stimulate production. At first little emphasis had been placed on industrial production, but in 1943 the deteriorating supply situation in Java led to the creation of a Council for the Disposition of Javanese Industry (Jawa Sangyo Haichi Iinkai), which encouraged former Japanese residents of the Dutch East Indies to return and assist in the development of production to meet local military and civilian needs[66]. Then in April 1944 a "New Economic System" was introduced in Java, in an effort to counteract the problems created by inflation and falling living standards. For the first time, this proposed measures to transfer some economic power to Indonesians, but at the same time it emphasised the need for military control of the economy and advocated the eradication of "the individualistic and liberalistic economic order based on profit-seeking" and of "the self-indulgent and hedonistic 'Jewish' economic life"[67]. By this time, however, the administration's energy was increasingly absorbed by the mere mechanics of avoiding total economic and military collapse, and there is little evidence that the "New Economic System" produced any fundamental practical alterations in the Javanese economy.

An intriguing question which remains to be answered is whether Japanese companies in the Indies were merely the passive instruments of the military administration's policies, or whether they themselves played any part in shaping the formulation and execution of those policies. Some accounts by those involved emphasise the powerlessness of Japanese companies in the occupied territories. For example, Niizeki Yasutaro, who was chief representative of Mitsui Bussan in Jakarta for part of the war period, recalls the total subordination of the Javanese economy to the military administration's Strategic Commodities Board. According to Niizeki, the independence of private companies was so severely circumscribed that he, as chief representative of one of the most important companies in the Indies, had virtually nothing to do during his stay in Jakarta but drink the high-quality alcohol left behind by the Dutch[68].

Other accounts, however, cause one to question whether the influence of Japanese business on the administration of the Indies was as negligible as Niizeki implies. Clearly, major economic decisions, being so closely bound up with the conduct of the war, remained firmly in the hands of the military. Clearly, too, Japanese businessmen in the occupied territories found their activities hampered by what they saw as inefficient and irrational military bureaucracy. In the Indies they were particularly plagued by the division of responsibilities between Army and Navy, and the consequent wrangling over the use of scarce resources. Niizeki recalls a prominent Japanese army figure remarking: "This is not a war against the United States. It's a war against the Navy"(69). But in the formulation of local details of policy there was scope for business interests to exert a certain amount of day-to-day influence. In the first place, a number of officials in the military administration were recruited from the ranks of businessmen who had previous connections with the Dutch East Indies. For example, the head of the administration's Education Section was a former Indies' representative of the Bank of Taiwan, while a representative from the Nomura East Indies Development Co. became Governor of Jogyakarta(70). The desperate shortage of local expertise, which was a major problem for the Japanese military in many of the occupied territories, must in itself have placed a degree of leverage in the hands of the more experienced business representatives, and it is hard to believe that they failed to use this where necessary. Again, although the formal power of organisations like the Strategic Commodities Board was overwhelming, Japanese businessmen who were brought back to the Indies during the Occupation found that in practice, by recruiting the support of certain sympathetic figures in the administration, they could do much to cut through the red tape of the military bureaucracy(71). The power of private entrepreneurs in remoter areas of the archipelago was certainly considerable, indeed, in some cases a degree of social tension was caused where Japanese businessmen and their

Indonesian employees attempted to utilise the "powers and rights of Japan as occupier"(72). The degree to which private interests were successful in influencing the economic policies of the central military administration remains uncertain. What is clear is that they tried to influence it. In mid-1942, for example, a prolonged struggle took place between the military authorities, who proposed the total liquidation of western banks in Java, and Japanese banking interests, who wished to see the banks transferred intact to Japanese management. In the end the Army's policy prevailed(73). The incident, however, suggests that Japanese private businesses under the occupation were more than mere puppets in the hands of an all-powerful military regime.

The activities of Japanese companies in many areas of Indonesia had a great and immediate effect on the lives of the Indonesian population. The Okuma Memorial Institute's survey of the Japanese military administration concludes that "if we review the impact of the Japanese firms that were ordered to develop . . . mineral resources, in economic and social terms the effects were more than those coming from the military administration itself"(74). But the largely negative effects of the Japanese occupation on the Indonesian economy cannot be wholly, or even principally, blamed on the private companies which were entrusted with the running of that economy. The long term economic aim of the Japanese in Southeast Asia was to reshape the region's economy to suit the needs of the Greater East Asia Co-Prosperity Sphere. This was, in itself, no more reprehensible than the activities of the western colonial powers, which had developed the region to meet the needs of Europe and America. However, it was a task which, in the best of circumstances would have been long and hard to complete. In the circumstances of the Second World War it was totally impossible.

Thus, Indonesia, whose foreign trade had been dominated by the export of raw materials to the West, found itself cut off from its traditional markets. Plantation agriculture was particularly severely affected. Demand within the Co-Prosperity Sphere for tropical produce such as sugar, tea and coffee was not sufficient to warrant the maintenance of the large Indonesian plantation sector, and production of these commodities was deliberately run down(75). Sugar output fell to less than half the pre-war level by 1944, and on Java, the area of tea and coffee plantations fell by over 22%. Sumatran rubber production was also severely affected by the Occupation - not only did output fall drastically, but the failure to plant new rubber trees during this period was to be a source of problems for future Indonesian rubber production. Plantation agriculture, particularly Javanese sugar production, was very closely integrated into the village economy, and although some attempt was made to turn former estate land over to food production or to new crops such as rami, cinchona and pyrethrum, the wartime decline of plantation agriculture had severe social repercussions throughout Indonesia.

In the mining sector, unlike plantation agriculture, the Japanese had ambitious plans for the development and expansion of production. The mineral wealth of Indonesia had, after all, been an important factor in the decision to invade Southeast Asia. Targets included a two-fold increase in the export of bauxite and an almost three-fold increase in nickel ore exports(76). Mineral surveys were undertaken in many areas, and production of some vital raw materials, notably manganese, does appear to have increased in the early years of the Occupation. But the Japanese soon found themselves hampered by an acute shortage of technical expertise, and by the Allied blockade, which restricted the movement of shipping between Japan and the

Occupied territories of Southeast Asia. The situation was further aggravated by the Dutch scorched earth policy, which had destroyed coal mines in Java and oil installations in Borneo. Although oil was a major priority for the Japanese military administration, production was not restored to pre-war levels (see Table 1.8).

The only sector of the Indonesian economy in which one can discern any positive trends during the occupation period was manufacturing industry. This is somewhat ironical, since Japanese plans for Southeast Asia specifically stated that:

> "In keeping with the policy of utilising the Southern areas as a supplier of raw materials for our country and as a market for our products, the fostering of manufacturing industries in the occupied areas shall be discouraged"(77).

In practice, however, the deteriorating transport situation, which eventually disrupted even inter-island communications, forced the occupation authorities to encourage an increasing degree of industrial self-sufficiency. The measures taken in 1943 to promote the return of Japanese businessmen with previous connections with Indonesia was part of this policy. It is estimated that whereas at the outbreak of the war there had been 319 foreign-owned manufacturing enterprises in Indonesia, by 1945 the Japanese military and private companies controlled 503 such enterprises(78). The increase in terms of production may have been less impressive, since in many cases machinery was allowed to deteriorate for lack of maintenance and technical personnel, but the policy of regional autarchy employed by the Japanese in the closing stages of the War certainly led to increased manufacturing activity in some of the remoter areas of the archipelago. In many cases industrial plant was physically removed from Java to other islands, and in Pontianak, for example, the number of manufacturing enterprises increased from four to eighteen in the course of the

Occupation[79]. An increase in manufacturing activity by Indonesians also appears to have taken place in the last phases of the War. This again was probably less the result of any "New Economic Policy" on the part of the military authorities, than a response to the economic pressures of the period. It is one of the paradoxes of Indonesian economic history that such spontaneous increases in small-scale industrial enterprises have occurred most markedly in periods of severe economic disruption[80].

The growth of manufacturing activity, however, reflected not an improvement but a deterioration in the standard of living of ordinary Indonesians. The increase in local production was by no means sufficient to make up for the decline of internal and external trade, and many areas experienced severe shortages of basic consumer goods such as textiles and matches. Even more seriously, from 1943 onwards food shortages began to occur throughout the archipelago[81]. These were partly a consequence of drought and poor harvests in 1943-44, and partly the result of the disastrous system of forced rice deliveries introduced by the military administration. The system was intended to control inflation and ensure that every area of Indonesia was self-sufficient in rice. In practice it acted as a disincentive to production, encouraged inefficiency and corruption, aroused suspicion and hostility amongst the rural population, and sharpened divisions and tensions in Indonesian society. Great bitterness was felt towards those who, because of their privileged position under the Japanese administration, were able to obtain better rations than others[82]. Japanese companies occupied an invidious position in this system since they were appointed to supervise rice collection in various areas. Another much-criticised aspect of Japanese military rule in which private enterprise was involved was the use of forced labour[83].

The Romusha (labour service recruits) were in theory volunteers who were supposed to receive special privileges in return for their labour on vital projects such as defence projects, mines, roads and railways. In practice, however, the shortage of genuine volunteers turned the system into one of forced labour which caused enormous hardship to those involved. It is estimated that about 500,000 romusha were recruited for work outside their home areas, perhaps 200,000 of them overseas. Of those sent abroad, only 70,000 are thought to have returned. Sukarno, who visited the coal and gold mines in Banten, described the labourers employed there as "pitiable skeletons"(84), and a report by Indonesian advisors to the military administration suggests that health conditions in some rural areas had been aggravated by returning romusha who brought with them malaria, T.B. and skin diseases. The memory of the Occupation as a period when ordinary Indonesians "had to endure indignities worse than any they had known before"(85) was to influence the attitude of Indonesians towards Japan - and hence towards Japanese investment - in the post-war period.

At the same time, however, memories of the Occupation, particularly for the political elite, were far from being entirely negative. A detailed analysis of the impact of Japanese rule on Indonesian political history is beyond the scope of this thesis but, as several studies of the period have shown, the events of 1942-45 had a decisive effect in speeding the arrival of Indonesian independence and in preparing future political leaders - notably Sukarno and Mohammed Hatta - for their positions in an independent nation(86). It does not appear to have been the original intention of the Japanese leadership to create genuinely sovereign states in Southeast Asia. But as the military situation deteriorated they were increasingly obliged to win public support for the war effort by recruiting Indonesians into the administrative machinery and by promising ultimate independence. Certain sections of Japanese military - notably the group connected with Rear Admiral Maeda, the Naval Attache in Surabaya - were particularly sympathetic towards the cause of Indonesian nationalism, and supported the nationalist leadership during the crucial closing phases of the War. The Japanese also established an Indonesian defence force - the PETA - which was a training ground for many future Indonesian political and military leaders, amongst them Suharto, Kemal Idris and Zulkifli Lubis[87]. These political developments not only did much to counteract the anti-Japanese sentiments caused by wartime economic hardships, but also created personal ties between Japanese military and administrative leaders and prominent Indonesian nationalists, which, as we shall see, were to be important in the re-creation of economic relations in the post-war period.

TABLE 1.1

TRADE BETWEEN JAPAN AND THE DUTCH EAST INDIES

1912-1924

(Fl. 1000)

YEAR	EXPORTS TO THE INDIES	IMPORTS FROM THE INDIES	TOTAL
1912	4,901	21,467	26,368
1913	6,769	35,812	42,581
1914	6,591	19,175	25,770
1915	12,810	15,623	28,433
1916	27,238	18,107	45,345
1917	54,879	31,357	86,236
1918	114,580	77,812	192,392
1919	77,075	180,875	257,950
1920	134,137	140,014	274,151
1921	86,095	109,088	195,183
1922	57,494	115,429	172,923
1923	49,693	109,573	159,266
1924	67,062	111,353	178,415

Source: Mitsui Bunko, Mitsui Bussan Archives No 390

TABLE 1.2

PRINCIPAL JAPANESE EXPORTS TO THE INDIES

1920-1924

(Fl 1000)

	1920	1921	1922	1923	1924
Cotton Textiles	66,046	32,096	23,305	20,979	33,629
Cement	5,042	4,926	712	161	638
Matches	5,033	2,615	4,620	2,452	1,448
Coal and Coke	3,680	4,430	1,504	1,604	270
Steel etc.	3,155	924	701	907	1,214
Garments	2,844	3,584	1,846	2,028	2,348
Fertiliser	9,267	656	1,158	115	5
Pottery	3,585	4,204	3,750	3,397	4,034
Tea	2,768	3,295	3,142	3,191	6,649
Tyres	2,435	3,418	1,740	1,043	685
Miscellaneous Textiles	2,064	1,387	1,004	950	1,089
Fashion goods	2,145	2,486	1,525	1,394	1,760
Timber	2,662	2,060	1,137	1,394	1,293
Silk and Silk compounds	1,945	2,969	1,767	904	1,232
Chemicals	2,199	419	200	76	81

Source: Mitsui Bunko, Mitsui Bussan Archives No 390, p 24.

TABLE 1.3

ZAIBATSU-OWNED PLANTATIONS IN THE DUTCH EAST INDIES

NAME OF COMPANY	ZAIBATSU AFFILIATION	LOCATION OF PLANTATION	PRINCIPAL PRODUCT	LEASED AREA (hectares)
Nettai Sangyo*	Mitsui	Sumatra	Rubber	3,037
Showa Rubber	Mitsubishi	Sumatra	Rubber	6,256
Toyama Agriculture	Mitsubishi	Sumatra	Palm Oil	5,783
Furukawa Gomei	Furukawa	Sumatra	Rubber	2,500
Okura Agriculture	Okura	Sumatra	Rubber Palm Oil	2,442
Nomura East Indies Dev. Co	Nomura	Borneo	Rubber	7,182
Nomura East Indies Dev. Co	Nomura	Sumatra	Palm Oil Coffee	6,634

* (Tropical Produce Co.)

Source: Jagatara Kanwa pp 215-22.

TABLE 1.4

COMPANIES IN CHARGE OF JAVANESE INDUSTRY
(MILITARY ADMINISTRATION IN JAVA, NO DATE).

PRODUCT	COMPANY	PLACE OF PRODUCTION
Cotton	Mitsui Norin K.K. Toyama Noji K.K.	
Hemp	Nanyo Kohatsu K.K. Osaka Seima K.K.	
Gutta Percha	Sumitomo Honsha	W. Java
Wattle and Gambier	Nomura Shokusan Nangoku Sangyo	W. Java
Agricultural Chemicals	Unallocated	
Pharmaceuticals	Unallocated	
Machinery	Utsunomiya Seisakusho	Surabaya
Cigarettes	Toa Tobacco Toyo Tobacco	Cheribon
Sugar	Taiwan Seito Meiji Seito Dai Nihon Seito Ensuiko Seito Nanyo Kohatsu Okinawa Seito	
Butanol	Dai Nihon Seito Ensuiko Seito Koei Shokai Godo Shusei K.K.	
Paper	Unallocated	
Beer	Kirin Beer K.K.	Surabaya Batavia
Soft Drinks	Kumeisei Kaisha	
Confectionery	Unallocated	
Sweets	Unallocated	
Tapioca	Unallocated	
Alcohol	Unallocated	

(continued)

Tobacco	Unallocated	
Timber	Unallocated	
Hides	Taiwan Chikusan Kogyo K.K. Kanematsu Shokai Takashimaya Iida K.K. Nihon Genpi K.K.	
Leather	Sanyo Hikaku K.K.	Surabaya Batavia
Fishing	Eifuku Sangyo	Batavia
Marine Insurance	Tokyo Insurance Taisho Insurance Sumitoma Insurance	
Fire Insurance	Nihon Insurance	
Warehousing and Loading	Soma Soko Nanyo Soko	

TABLE 1.5

COMPANIES IN CHARGE OF JAVANESE TRADE
(MILITARY ADMINISTRATION IN JAVA, NO DATE)

PRODUCT	COMPANY	CONTROL ASSOCIATION
Copra	Mitsui Bussan	Nihon Yuryo Tosei K.K.
Vegetable Oils	Takekoshi Shoji Senda Shoji	Nihon Yuryo Tosei K.K.
Untreated Rubber	Mitsui Bussan Mitsubishi Shoji	Nihon Gomu Yunyu Kumiai
Resin	Nomura Shokusan	Nanyo Yunyu Kumiai
Sisal and Hemp	Daido Boeki	Nanyo Yunyu Kumiai
Kapok	Takekoshi Shoji	Nihon Kapok
Leather	Nihon Genpi	Nihon Genpi
Leaf Tobacco	Kyodo Tobacco Beisei Tobacco	Monopoly Corporation
Scrap Iron	Nanyo Kokuzutetsu Yunyu Tosei Kumiai	Tetsudo Genryo Tosei K.K.
Tannin	Nihon Tannin Shoji	Nihon Tannin Shoji
Cinchona and Quinine	Takeda Chobei Nangoku Sangyo	Nihon Iyaku Seisan K.K.
Coffee	Nangoku Sangyo Nomura Shokusan	Dai Nihon Kohi Shashogyo Kumiai
Maize	Mitsubishi Shoji	Shiryo Haikyu K.K.
Sugar	Mitsui Bussan Mitsubishi Shoji	Nihon Sato Haikyu K.K.
Indigo	Dai Nihon Indigo	Monopoly Corporation
Palm Oil	Nomura Shokusan Toyama Noji	Nihon Yuryo Tosei K.K.
Timber	Yukimoto Shoten	Nihon Mokuzai Kaisha

TABLE 1.6

ALLOCATION OF MINING RIGHTS IN INDONESIA
(GREATER EAST ASIA MINISTRY: SOUTHERN AREAS ECONOMIC POLICY
31st JULY 1943)

MINERAL	AREA	COMPANY	DATE OF ALLOCATION
Coal	Bukit Asam (Sumatra)	Mitsui Kosan	19 February 1942
	Ombilin (Sumatra)	Hokkaido Rail and Steamship Co.	16 May 1942
	Baya mines (Java)	Sumitomo Kogyo	30 November 1942
	Celebes	Masei Kogyo	28 December 1942
	Logos (Sumatra)	Mitsubishi Kogyo	16 July 1943
	Pulu Laut (S. Borneo)	Nihon Seitetsu	25 July 1943
Tin	Banka (Sumatra)	Mutsubishi Kogyo	19 February 1942
Bauxite	Bintan and Batam (Sumatra)	Furukawa Kogyo	19 February 1942
Mica	Celebes	Celebes Kogyo	17 March 1942
Nickel	Pomala (Celebes)	Sumitomo Kogyo	19 February 1942
Asphalt	Buton	Buton Sangyo	16 May 1942
Industrial Diamonds	Martapura (S. Borneo)	Nomura Shokusan	16 May 1942
	Pontianak (S. Borneo)	Nomura Shokusan	30 November 1942
Manganese	S. Borneo S. Borneo	Nomura Shokusan	16 June 1942 26 May 1943
Phosphate	Java	Nihon Chisso Hiryo K.K.	16 September 1942
Sulphur	Priangan (Java)	Nihon Chisso Hiryo K.K.	16 September 1942
	N. Celebes	Nanyo Takushoku	16 September 1942

(continued)

Copper	Celebes	Sumitomo	12 April 1943
Cinnabar	S. Borneo	Nomura Shokusan	26 May 1943
Lead	S. Borneo	Nichi-Nan Kogyo	26 May 1943
Iron Ore	S. Borneo	Nihon Seitetsu	25 July 1943

TABLE 1.7

PLANTATION AND FORESTRY RIGHTS IN INDONESIA
(GREATER EAST ASIA MINISTRY: SOUTHERN AREAS ECONOMIC POLICY
31st JULY 1943)

PRODUCT	AREA	COMPANY
Cotton	Java, Sumatra and N. Borneo	Mitsui Norin Toyama Noji Toyo Menka
	Celebes, Lesser Sundas, New Guinea, and S. Borneo	Kanefuchi Boseki Dai Nihon Boseki Toyo Boseki Taiwan Takushoku Toyo Takushoku Nanyo Takushoku Nanyo Kohatsu Mitsui Norin Mitsubishi Shoji
Ramie	Sumatra	Nomura Shokusan Toyama Noji Okura Shokusan
	Celebes	Furukawa Takushoku Mitsubishi Noji
Sizal	Sumatra	Nomura Shokusan Toyama Noji
	Java	Nanyo Kohatsu Osaka Seima
	Halmahera	Edogawa Noen
	New Guinea	Nanyo Kohatsu
Oil Palm	Sumatra	Toyama Noji Nomura Shokusan Okura Sumatra Noba
Timber	Sumatra	Mitsui Bussan Toyama Noji
	S. Borneo	Nissan Norin Daido Ajia Ringyo Nanyo Sangyo Nanyo Ringyo Borneo Bussan Toman Ringyo Yukimoto Shokai Shimada Koshi Nomura Shokusan Sumitomo Borneo Shokusan Nichiran Koshi

(continued)

Timber	Celebes	Buton Sangyo Nissan Norin
	New Guinea	Nanyo Kohatsu
Resin	Sumatra	Toyama Noji Aragawa Shoten Sumitomo Honsha
Gutta Percha	Java	Sumitomo Honsha
	Sumatra	Sumatra Takushoku
	S. Borneo	Nomura Shokusan
	W. Borneo	Sumitomo Honsha
Wattle and Gambir	W. Java	Nomura Shokusan
	Sumatra	Sumatra Takushoku Asahi Tannin
Rice Production	Malaya and Sumatra	Toyo Takushoku Taiwan Takushoku Toyama Noji
	S. Borneo	Toyo Takushoku

TABLE 1.8

INDONESIA: OUTPUT OF SELECTED MINERALS

1937-1945

(thousand metric tons)

YEAR	MANGANESE	TIN	PETROLEUM
1937	5.8	39.8	7,262
1938	5.1	27.7	7,398
1939	6.4	28.3	7,949
1940	6.1	43.5	7,939
1941	7.3	51.8*	6,848
1942	20.0*	10.1	3,083
1943	20.0*	17.9	6,203
1944	20.0*	6.9	2,859
1945	-	1.0	956

* estimated

Source: U.N. Statistical Yearbook, 1948.

NOTES TO CHAPTER I

1. See "The Japanese and the South Seas", Japan Times Weekly, 29th May, 1941, p 189; also Tsutsui Chihiro: "Our Southern Reconstruction Policy", Contemporary Japan, December 1942, p 1750.
2. Jawa Ryoko Hokoku, Mitsui Bunko, Mitsui Bussan Archives, No 350, p 2.
3. On the Indonesian Economy in the early twentieth century, see J. S. Furnivall: Netherlands India: A Study of a Plural Economy. Cambridge University Press, 1944. G. C. Allen and A. G. Donnithorne: Western Enterprise in Malaya and Indonesia, London, Allen and Unwin, 1957; J. H. Boeke: Economics and Economic Policy of Dual Societies, Haarlem, Tjeenk Willink en Zoon, 1953.
4. William W. Lockwood: The Economic Development of Japan, Princeton N.J. Princeton University Press, 1968, pp 115 and 122.
5. Japan Year Book, 1936.
6. On the Structure and Development of the Zaibatsu see Eleanor M. Hadley: Antitrust in Japan, Princeton N.J. Princeton University Press, 1970; Tamaki Hajime: Nihon Zaibatsu-Shi, Tokyo, Shisosha, 1976.
7. See Umetsu Kazuro: Shosha,Tokyo, Kyokusha, 1975, Ch. 3.
8. Netherlands Government Information Service: Ten Years of Japanese Burrowing in the Netherlands East Indies, New York, 1942, p 31.
9. Masuda Ato and Goto Kenichi: "Nihon-Indonesia Keizai Kankei Shi Kenkyu no Josetsu ni Mukete", Shakai Kagaku Tokyu, 1977, No 67, pp 323-373.
10. Department van Landbouw, Nijverheid en Handel: Jaaroverzicht van den in - en uitvoer van Nederlandsch Indie gedurende het Jaar 1932 (Part III), Batavia, 1934.

11. Taisho Jugonendo Shitencho Kaigi Hokokusho - Surbabaya Shiten 1926, Mitsui Bunko, Mitsui Bussan Archives No 390, p 29.

12. Ibid, p 39.

13. I have found five different estimates of cumulative Japanese investment in the Dutch East Indies at various dates between 1929 and 1939. A report in the Japan Weekly Chronicle of 12th December 1929 estimates Japanese investment in the Indies to that date as about ¥ 70 million (some Fl 85 million at the current rate of exchange). However, two later estimates (one by the Government-General of Taiwan and one by the Nanyo Kyokai) quoted in the Japan Times Weekly of the 29th May 1941 are considerably lower. The first, made in 1935, puts investment in the Indies at ¥ 46,100,000; the second, made in 1937, gives a slightly smaller figure of ¥ 42,296,000. On the other hand Yano Toru in Nanshin no Keifu, Tokyo, Chuo Koronsha 1975, quotes a postwar Treasury estimate that by 1937 Japanese investment in the Indies amounted to ¥ 171, 339,000. Finally, Hellmut Callis, in Foreign Capital in Southeast Asia, New York, Institute of Pacific Relations, 1942, puts the figure at U.S. $ 12,000 (about ¥ 43 million at the rate of exchange of that time). Unfortunately, there is no way of checking the accuracy of these varied estimates, and the great differences between them must be attributed both to the difficulties of collecting data, particularly on small-scale investment projects, and to fluctuations in the rate of exchange between the yen and other currencies.

14. Yano: Nanshin no Keifu, pp 105-106.

15. Taisho 10-nen Shitencho Kaigi Shiryo: Surabaya Shiten. 1921. Mitsui Bunko, Mitsui Bussan Archives No 352, p 41.

16. Sources of information on Japanese agricultural investment in the Indies are: Hagiwara Toshio et al: Jagatara Kanwa, Tokyo. Jagatara Tomo no Kai 1978 pp 206-212 and 215-223; Japan Times Weekly, May 29th, 1941, pp 197-199; Yano: Nanshin no Keifu pp 105-115. For data on Nangoku Sangyo K.K. see Taiwan Seito Shi Mitsui Bunko cat no E 802/190, pp 340-343.

17. Data on mining investment are derived from Japan Times Weekly 29th May 1941, pp 170-171; Sekiyu ni Kansuru Hokokushu 1902, Mitsui Bunko, Mitsui Bussan archives No 430; Jagatara Kanwa, pp 9-10.

18. Netherlands East Indies Government: Indisch Verslag 1941, p 318.

19. For information on the growth of manufacturing investment see Hellmut Callis: Foreign Capital in Southeast Asia; Japan Times Weekly, 29th May 1941, p 171; Chosen to Sozo - Mitsui Bussan 100-nen no Ayumi Tokyo, Mitsui Bussan K.K. 1976, pp 116-117. Statistics on the number of Japanese manufacturing enterprises in the Indies are derived from W. van Warmelo: "De Indische Industrie Gedurende de Japansch Bezetting", Economisch - Statistische Berichten 27th March 1946, p 202.

20. See Hagiwara: Jagatara Kanwa, pp 212-215 and 282; Yano: Nanshin no Keifu, pp 107-112; Taisho Jugonendo Shitencho Kaigi, pp 149-153.

21. Callis: Foreign Capital in Southeast Asia, p 33.

22. See Yano: Nanshin no Keifu, Chs 1-4; also Goto Kenichi: "Life and Death of 'Abdul Rachman' (1906-1949); One Aspect of Japanese-Indonesian Relationships" Indonesia 1976 No 22, pp 57-67; and Hagiwara: Jagatara Kanwa.

23. Japan Times Weekly, 29th May 1941, p 197.

24. Itoh Choshi: Nanyo Nogyo Shigenron Tokyo, Nihon Hyoronsha 1937, p 170.

25. Yano: *Nanshin no Keifu*, pp 124-127.

26. See Yano Toru. "Japan's Involvement with Southeast Asia in the Period before World War II - Kazue Tsutsumibayashi" *Tonan Ajia Kenkyu*, Vol 15, No 3, December 1977, pp 307-333; Hagiwara: *Jagatara Kanwa*, pp 64-68.

27. Yano: *Nanshin no Keifu*, pp 107-112.

28. Sutan Sjahrir: *Out of Exile*, New York, 1949, p 136.

29. Yano: *Nanshin no Keifu*, p 160.

30. See J. Hirschmeier and T. Yui: *The Development of Japanese Business*, London, Allen & Unwin, 1975.

31. See Allen and Donnithorne, op cit, pp 25-27.

32. Hagiwara: *Jagatara Kanwa*, pp 5-13.

33. Yano: *Nanshin no Keifu*, pp 148-149.

34. Hagiwara: *Jagatara Kanwa*, p 206.

35. T. A. Bisson: *Zaibatsu Dissolution in Japan*, Westport Conn., Greenwood Press 1954, p 13.

36. For details of the Oriental Colonisation Co. and its activities in S.E. Asia see Tamaki: *Nihon Zaibatsu Shi*, pp 46-47; *Japan Times Weekly* 29th May 1941, p 179; "Oriental Colonisation Co: Investments in Dutch East Indies", *Japan Weekly Chronicle* (Commercial Supplement), 12th December 1929.

37. For information on the *Nanyo Kyokai* see Yano: *Nanshin no Keifu*, pp 76-78.

38. For the background to the 1934 conference see Ato and Goto op cit; also Furnivall: *Netherlands India*, pp 431-440.

39. Quoted in Furnivall, op cit, p 440.

40. *Japan Weekly Chronicle* (Commercial Supplement) June 22nd, 1939, p 202.

41. A detailed account of this conference from the Dutch point of view is given in H. J. van Mook: The Netherlands Indies and Japan: Their Relations 1940-1941, London, Allen and Unwin 1944.

42. See Kaikoroku, Tokyo, Mitsui Bussan K.K., pp 107-108; Higashi Indo Nippo 27th August 1940, p 3; 2nd September 1940, p 3.

43. Netherlands Government Information Service: Ten Years of Japanese Burrowing, p 20.

44. Yano: Nanshin no Keifu, pp 149-158.

45. For further details see Joyce C. Lebra: Japan's Greater East Asia Co-Prosperity Sphere in World War II. Selected Readings and Documents, Kuala Lumpur, Oxford University Press, 1975.

46. Quoted in William Magistretti: "Japan's New Order in the Pacific", Pacific Affairs, 1941, Vol 14, pp 20-03.

47. Lebra, op cit, p xiii.

48. Japan Times Weekly, 15th June 1939, p 219.

49. Taisho 10-nen Shitencho Kaigi Shiryo, p 22.

50. Quoted in Ato and Goto, op cit, p 326.

51. Japan Times Weekly, 29th May 1941, pp 191-192.

52. Matsuura Kojiro: Indonesia Sanju-nen Tokyo, Jitsugyo no Nihon Sha 1977, p 10.

53. See Akashi Yoji: "Nanyo Kakyo to Manshu Jihen", South East Asia History and Culture, No 1, 1971, p 52-78.

54. Interview with C. M. Chow, Tokyo, 14th June 1978.

55. Japan Times Weekly, 29th May 1941, p 171.

56. See Netherlands Government Information Service: Ten Years of Japanese Burrowing, p 27; for Ishihara's other links with Japanese nationalist societies see Richard Storry: The Double Patriots, London, Chatto and Windus, 1957, pp 117-119 and 183-184.

57. Netherlands Government Information Service, op cit, pp 27-30.

58. Sjahrir: Out of Exile, p 195.

59. See Callis: Foreign Capital in Southeast Asia, pp 30-33; Furnivall: Netherlands India, pp 434-435. Allen and Donnithorne: Western Enterprise in Malaya and Indonesia, pp 34-36 and 256-259.

60. Callis, op cit, p 98.

61. Robert Gilpin: U.S. Power and the Multinational Corporation, New York, Basic Books, 1975, pp 40-41.

62. On the ideology of pre-war Japanese nationalism see Storry, op cit; George M. Wilson; Radical Nationalist in Japan; Kita Ikki 1883-1937, Cambridge Mass, Harvard University Press, 1969.

63. T. A. Bisson, "Increase of Zaibatsu Predominance in Wartime Japan". Pacific Affairs, September 1945, pp 55-61.

64. Hagiwara: Jagatara Kanwa, p 190.

65. Okuma Memorial Institute: "Japanese Military Administration in Indonesia". U.S. Dept. of Commerce, Joint Publications Research Service, 1963, p 270-272.

66. See Hagiwara, op cit, p 191; also Showa 19-nen Jawa Nenkan, Jakarta, Jawa Shimbun Sha, 1944, p 79.

67. Okuma Memorial Institute, op cit, p 306-307.

68. See Kaikoroku, pp 207-210; also "Gendai-Shi o Tsukuru Hitobito: Niizeki Yasutaro", Ekonomisuto, 1st February 1972, pp 85-87.

69. Ibid, p 86.

70. Hagiwara, op cit, p 187.

71. Ibid, pp 191-192.

72. Okuma Memorial Institute, op cit, p 302.

73. H. J. Manschot: "Het Geld-, Bank- en Credietwezen in Nederlansch-Indie in de Bezettingsjaren 1942 - 45", Algemeen Weekblad voor Handel, Nijverheid, Financien en Verkeer, 27th March 1946, pp 199.

74. Okuma Memorial Institute, op cit, p 300.

75. For details of plantation agriculture during the Occupation see P. M. Prillwitz: "The Estate Agriculture during the Japanese Occupation" Economic Review of Indonesia, 1947, p 17.

76. Okuma Memorial Institute, op cit, pp 302-303.

77. From Ministry of Navy: Outline on the Conduct of Military Administration in Occupied Areas. See Benda, Irikura and Kishi eds: Japanese Military Administration in Indonesia: Selected Documents, New Haven, Yale University S.E. Asia Studies Translation Series No 6, 1965, p 38.

79. Ibid, p 201.

80. See J. O. Sutter: Indonesiasi: Politics in a Changing Economy Ithaca N.Y., Cornell University 1959 Vol I; on the increase of small-scale manufacturing during the 1930's economic recession see Furnivall: Netherlands India, pp 433-434; a similar increase appears to have taken place during the economic chaos of the latter phases of Guided Democracy; see Ingrid Palmer: The Indonesian Economy Since 1965, London, 1978.

81. For details of the war-time rice distribution policy and its consequences, see B. R. O'G Anderson: "The Problem of Rice", Indonesia, No 2, October 1966, pp 77-123.

82. Ibid, pp 119-123.

83. On the use of forced labour see W. F. Wertheim; Indonesian Society in Transition, The Hague and Bandung, W. van Hoeve 1959, p 228; B. R. O'G Anderson: Java in a Time of Revolution: Occupation and Resistance 1944-1946. Ithaca N.Y. Cornell University Press 1972, p 14. Shiraishi Aiko: "Buritaru no Hannichi Hoki no Shiteki Kosaku: Indonesia Hachigatsu Kakumei Jokyoku" Tonan Ajia Kenkyu, Vol 13, No 4, March 1976, p 540.

84. Sukarno: An Autobiography as Told to Cindy Adams, Indianapolis, Bobbs Merril 1965, p 192.

85. Sjahrir: Out of Exile, p 249.

86. See W. H. Elsbree: Japan's Role in Southeast Asian Nationalist Movement 1940-1945, Cambridge Mass., Harvard University Press 1954; G. McT Kahin: Nationalism and Revolution in Indonesia, Ithaca N.Y., Cornell University Press 1962; Anderson; Java in a Time of Revolution; B. R. O'G Anderson: "Japan the Light of Asia" in J. Silverstein ed. Southeast Asia in World War II Four Essays, New Haven and London, Yale University Press, 1966; Subardjo (Trans. Oku Genzo): Indonesia no Dokuritsu to Kakumei, Tokyo, Riyukei Shosha, 1973.

87. See Joyce C. Lebra: Japanese Trained Armies in Southeast Asia, New York, Columbia University Press 1977; Nugroho Notosusanto: The PETA Army during the Japanese Occupation of Indonesia, Tokyo, Waseda University Press 1979.

II JAPANESE INVESTMENT IN POST-WAR INDONESIA

The Making of a "North-South" Problem

In the immediate post-war years it was by no means obvious that Japan would soon emerge as the dominant economic influence in East Asia. The closing phases of the War had wrought immense damage on the Japanese economy. At the same time, for Southeast Asian nations such as the Philippines and Indonesia, the achievement of independence from colonial rule brought hope of a bright future. In the early 1950's Japan's per capita income was lower than that of Malaya(1), and it seemed quite plausible for Japan's Prime Minister to state that:

> "It is unthinkable . . . that Japan, defeated in war and handicapped on all hands owing to loss of territory, scarcity of resources, war devastations of land, loss of shipping, deterioration of industrial plant and equipment, and the reparations she has undertaken could ever be an economic menace to any country"(2).

In fact, of course, the 1950's and 1960's were to be a period of phenomenal growth for the Japanese economy and consequently also a period which saw a rapid widening of the gap between Japan's level of development and that of Southeast Asian countries including Indonesia. A glance at the statistics (see Table 2.1) gives some indication of the divergent courses of the Indonesian and Japanese economies. Between 1950 and 1970, while Indonesia's GNP doubled, Japan's GNP increased over six-fold. Thus the Indonesian GNP, which had been about one quarter of Japan's in 1950, was less than one-tenth by the early 1970's. Some of the implications of this gap are spelled out by the comparative indices listed in Table 2.2. These show that by the mid-1970's Japan had almost 25 times as many doctors, and over 150 times as many telephones <u>per capita</u> as Indonesia. Conversely, while Indonesia's population was only about 20% larger than Japan's, the juvenile population was more than twice as large, and the death rate almost three times as high.

These figures, however, reveal only the symptom of the problem. The limitations of such figures are most clearly illustrated by referring to a statistic quoted earlier: the fact that Japan's per capita income was lower than Malaya's in the immediate post-war years does not mean that the Japanese economy was, even at that time, comparable in its structure or level of development to the economies of Southeast Asian countries. The first post-war American report on the problem of Japanese reparations envisaged the "raising and evening up" of the level of industrialisation in Asia by the physical removal of industrial plant from Japan to the nations she had occupied(3). But as far as Southeast Asia was concerned, this was simply never a realistic proposition. Apart from the political turmoil which existed in Indonesia and elsewhere at this time, the economic and social structure in the ex-colonial areas of Asia was not such that Japanese industries could have been transplanted wholesale to these areas. The Japanese economy, despite the enormous damage caused, firstly by an over-extended policy of militarisation, and later by allied bombing and occupation, was nevertheless an industrial economy. It possessed a workforce schooled in the disciplines of mass production, a comparative abundance of technical skills, and a business and bureaucratic elite with decades of experience in the management of a modernising economy. It was also, to borrow a more recently popularised expression, an "autocentric" economy. Modernisation was not restricted to a few sectors serving the export market, but was fairly evenly spread throughout heavy and light industry, mining and agriculture. Although exports have always been of great importance to the Japanese economy, the main stimulus to growth had come from the expanding internal market[4]. The well-developed system of roads and railways did not merely link sea-ports with centres of production, but formed a genuine network throughout the country. All these internal linkages, though damaged by the War, were not beyond repair.

In Indonesia, on the other hand, the Japanese occupation had weakened but not fundamentally altered the economic system inherited from Dutch rule. In the words of one writer, referring specifically to Indonesia:

> ". . . on the advent of political independence the ex-colonies were saddled with economies which had never been intended to have an internal dynamic of their own or to have powers for self-generation"[5].

Not only were most of the modern plantation and mining enterprises designed to meet demand outside the Indonesian economy, but many of them were also being rendered increasingly obsolete as the development of new synthetic materials altered the pattern of world demand.

It might be imagined that the arrival of independence provided an opportunity for a radical re-shaping of the Indonesian economy, but this was far from being the case. The immediate necessity for the new Indonesian Republic was political survival. This involved both acceptance by the international community and measures to ensure that internal regional and ideological fissures did not cause the break up of the Republic (a constant danger which almost became a reality in 1957-1958, when military and political elements opposed to President Sukarno attempted to set up an alternative government in Central Sumatra)[6]. The first need - for international recognition - led early Indonesian governments to protect the rights of foreign investors. Indonesia was also obliged to accept, as the price of independence, debts inherited from the Dutch colonial administration. The second need - for political stability - led to the avoidance of radical economic measures during the early years of the Republic's life. At this stage the government concentrated mainly on the tasks of repairing the damage caused by the Second World War and the struggle for independence. From 1957 to 1965, under Sukarno's "Guided Democracy", the Indonesian government sought to free the country from economic dependence on the West and assert its status as a leader of the "New Emerging Forces"(7). But the economic disruption caused by the withdrawal of foreign aid and investment, and the subsequent replacement of the Sukarno regime by a pro-Western and military-dominated government under President Suharto served to emphasise what Franklin B. Weinstein has aptly termed the "dilemma of dependence" faced by less developed nations such as Indonesia(8).

The economic inequality between Japan and Indonesia has inevitably been reflected in the structure of the relationship between the two countries. This is not to imply that the relationship has been totally one-sided. As Indonesia became increasingly reliant upon Japan as an export market, particularly for oil, so Japan became more dependent upon Indonesia for supplies of vital raw materials. By the mid-1970's about 12% of Japan's crude oil supplies came from Indonesia(9). Nevertheless, because of the disparity in the scale of their economies, Indonesia's dependence upon Japan as a trading partner has always been far greater than Japan's dependence on Indonesia. (See Table 2.3). This economic dependence has been reinforced by the one-way flow of private capital and government funds (firstly in the form of war reparations and later as official aid) from Japan to Indonesia, and also by the fact that Indonesia's exports to Japan are dominated by a small number of primary products - particularly oil and timber, demand for which is very sensitive to economic fluctuations.

But if the post-war relationship between Japan and Indonesia has been an unequal relationship, it has certainly not been a static one. Not only have economic links between Japan and Indonesia increased in absolute and in relative terms, they have also developed through several distinct historical phases:

a) The first phase - from about 1950 to the early 1960's - might be characterised as a period of "triangular trade". During this period, Japan's imports of raw materials came principally from the U.S.A. (which continues to be a major source of primary products, providing 27% of Japan's raw material imports in 1976, as against 21% from Southeast Asia)[10]. A large percentage of Japan's exports also went to the United States, but South and Southeast Asia constituted Japan's major export market, particularly for consumer goods such as textiles. The United States, in turn, was the chief export market for Southeast Asian raw materials. It should be noted that the importance of Southeast Asia for Japan in the post-war period was increased by the loss of Japan's main pre-war export market, China.

b) The second phase - from the early 1960's to 1973/74 can be seen as marking the transition to a new stage in Japan's external economic relationships. During this phase, the significance of Southeast Asia for

Japan was altered by a number of simultaneous and connected developments in the Japanese economy. The very rapid economic growth of the 1960's created a growing demand for imported raw materials in resource-poor Japan. As early as 1950-51 the raw-materials shortages which accompanied the Korean War boom had shown the need to secure reliable supplies of strategic resources, and the growing awareness of this need from the late 1950's onwards led to the first Japanese attempts to negotiate independent agreements on oil imports, by-passing the Western controlled oil majors. At the same time, the rising costs of land and labour in Japan stimulated the growth of Japanese foreign investment in labour-intensive manufacturing. In the earlier phases, such overseas manufacturing ventures were located mainly in Taiwan, Hong Kong and S. Korea, but after the establishment of the Suharto regime with its more favourable policy towards foreign investors, a large number of Japanese manufacturing projects were set up in Indonesia, particularly in import-substituting sectors such as textiles. The consequences of these developments can be seen from the figures for trade between Japan and Indonesia (see Tables 2.3 and 2.4). From 1963 onwards, Japan's trade with Indonesia went into permanent deficit (with the one exception of the politically troubled year 1965). Although Japan continued to run a trade surplus with Southeast Asia as a whole, the deficit in trade with Indonesia (the richest source of raw materials in the region) indicates the growing importance of Southeast Asia as a supplier of resources essential to Japan's economic development (particularly oil). The growth of import-substituting investment is reflected in a relative decline in Japanese exports of finished consumer goods to Indonesia, and an increase in exports of machinery and other heavy-industrial products[11].

c) From the period of the 1973/74 oil crisis onwards, Japan entered a third phase in relations with Southeast Asia. This phase is still continuing, and its final impact on the pattern of economic relations remains to be seen. During this phase, the main emphasis has been on diversifying supplies of essential raw materials, encouraging the development of modern "technology-intensive" industries in Japan, and promoting the transfer of relatively standardised industries such as steel and chemicals to countries with lower wages and a greater availability of industrial sites. This has been reflected in a trend away from small-scale investment projects in import-substituting industries, and towards large-scale integrated projects concerned with the production and primary processing of raw materials. It has also led to growing Japanese imports of basic manufactured goods from some less developed countries (such as Korea), though not yet from Indonesia[12].

By the late 1960's Japan was by far the most important trading partner of most Southeast Asian nations, and a major investor in many of these countries. But Japan's political role in the region continued to be nebulous and low key. This was the consequence of a deliberate and largely successful policy by which Japan, conscious of the legacy of mistrust created by her war-time expansion, sought to emphasise economic relationships while avoiding overseas political commitments. In the words of one Japanese scholar, Japan's post-war economic and political development took place not only under the American nuclear umbrella, but also under the umbrella of America's Asia policy(13).

The Japanese government was generally able to maintain a neutral stance in the less strategic political upheavals of post-war Asia - Japan for example maintained good relations with Indonesia both under Sukarno's strongly nationalist rule and under the pro-Western Suharto regime, and acted as a mediator between Indonesia and Malaysia during the period of conflict between those two countries from 1963 to 1966(14). But on the major issues affecting the region - the Korean and Vietnam Wars, the recognition of China etc. - Japan's position remained strictly subordinate to U.S. policy.

Japanese policy initiatives were thus largely confined to relatively non-controversial issues, and usually to issues with a highly economic bias. The normalisation of Japanese relations with the nations she had occupied during World War II (with the notable exceptions of China and North Korea) was marked by the signing of agreements providing economic reparations for damages caused during the War. In the case of Indonesia, this agreement (together with a formal Peace Treaty) was signed in January 1958. Subsequently Japan was active in the creation of the Asian Development Bank in 1966 and was a founder-member of the Inter-Governmental Group on Indonesia (I.G.G.I.), the multi-lateral aid consortium set up to assist the Suharto Government in 1967. More recently as well as being a major aid donor to several individual Southeast Asian countries, Japan has provided financial backing for the development projects of A.S.E.A.N. (the five-member Association of Southeast Asian Nations).

But the development of non-economic relations with Southeast Asia has been slow. This is evident, not only from the low profile of Japan's political involvement in the region, but also from the absence of contacts at a popular level. The flow of emigration from Japan to Southeast Asia, which had been a feature of pre-war relations, ceased entirely in the post-war period, when rapid economic growth provided Japan's population with full employment and rising living standards at home. From 1945 onwards Japanese visitors to Southeast Asia were almost invariably either tourists or business representatives on short term overseas postings. In either case they did not have the opportunity to develop strong local contacts in the way that pre-war emigrants had done(15). Conversely there was virtually no migration from Southeast Asia to Japan. Unlike Western European countries, Japan chose to solve the labour shortage of the 1960's by exporting capital rather than by importing workers from less developed countries.

At a cultural level, the post-war period in Japan was marked by an almost total absence of "Asia consciousness". Some historians have sought to divide Japan's recent history into phases of identification with the West and identification with Asia(16). In this scheme, the post-war period has been emphatically one of identification with the West. The massive influx of Western influence into Japan after 1945 coincided with a rejection of the Pan Asian sentiments associated with Japan's wartime military expansion. A paradoxical side-effect of this rejection of militant Pan Asianism (which had never in fact been based on a real sympathy for, or understanding of, other Asian cultures) was a general neglect of serious academic interest in Southeast Asia. The low priority accorded to the study of

Southeast Asian languages and history in Japanese universities contrasts strikingly with the considerable resources devoted to the study of Western culture. At a more general level, exposure to Western material in television programmes, films, books, newspaper and magazine articles etc. leaves the average Japanese man or woman with a very high level of knowledge and awareness of events in Western nations. By contrast, popular knowledge of Southeast Asian countries tends to be hazy and largely limited to economic aspects. As one Indonesian journalist long resident in Japan has observed, the principal Japanese image of Indonesia continues to be as a "country of rich resources"(17). In Indonesia, too, the main cultural orientation is still towards the West, a consequence both of long colonial ties with the Netherlands and of the continuing political and culture influence of the United States. The teaching of the Japanese language was enforced by the army of occupation during the War, and thus became associated in Indonesian minds with that unhappy period in Japanese-Indonesian relations, and although opportunities for study in Japan have been increasing in recent years, the Indonesian academic elite retains far closer contacts with Europe and America than with Japan.

The strictly economic nature of Japan's post-war relationship with Indonesia and other Asian nations has had many advantages. It enabled Japan to create friendly relations with Southeast Asia relatively unhampered by the legacy of the War; it saved Japan the military and political cost of large-scale overseas commitments; above all, it provided a relatively simple and rational basis on which Japan could conduct its foreign policy free fron contentious issues such as nationalism and re-armament. Recently, however, the problems of this economic approach to

Japan's regional role have become more and more apparent. In the first place, Japan's policy has aroused criticism from other Asian countries who have come to regard the Japanese as "economic animals". The dangers of ignoring the political aspects of economic relations were brought home to the Japanese public in 1974 when Prime Minister Tanaka's tour of Southeast Asian countries was met with violent protests culminating in attacks on Japanese cars and on the Jakarta showrooms of the Japanese multinational Toyota. The post-Vietnam withdrawal of America from some of her Asian commitments has also led to increasing outside pressure upon Japan to fill the gap.

Japan is thus obliged to face the fact that her post-war role in Asia has never truly been "a-political". The very presence of Japanese companies in other Asian nations has profound political, social and diplomatic consequences which the Japanese government must take into account in shaping future policies. Since the meeting of former Prime Minister Fukuda with the heads of state of A.S.E.A.N. in 1977, Japan has placed increasing emphasis on the need to deepen contacts "in the spiritual as well as the material sphere"(18). However, the actual shape of Japan's emerging role in Asia remains unclear. To the extent that Japan's future political and cultural links with Southeast Asia must reflect the underlying economic imbalance, they may run the risk of creating as many problems as they solve.

From Zaibatsu to Multinational Corporation

Having looked briefly at the nature of Japan's post-war relationship with Indonesia, we must next consider in more detail the purpose and the structure of the growing involvement of Japanese business in the Indonesian economy. But in order to understand the special characteristics of the post-war "multinationalisation" of the Japanese firm, it is first necessary to outline the changes which took place in the organisation of Japanese business in the wake of defeat in World War II.

As we have seen, two forces behind the overseas spread of Japanese economic influence in the pre-war period were the zaibatsu, and in particular, the great general trading houses (sogo shosha) which played a central organisational role within the zaibatsu. In the immediate post-war period the zaibatsu were the principal focus of the economic reforms introduced by the American military government headed by General Douglas MacArthur, which controlled Japan from its surrender in 1945 until the hand-over to civilian rule in 1952. The great zaibatsu family fortunes were liquidated; the zaibatsu holding companies were dissolved; the business leadership was purged; and an anti-monopoly law was proposed to prevent the re-creation of similar conglomerates in the future. All these measures were designed to promote a less concentrated, more competitive economic structure, which the United States regarded as an essential pre-requisite if Japan was to be turned from a military state into a liberal democracy on Western lines. However, the reforming zeal of the American administration began to wane as the subsequent development of Cold War tensions led the West to view Japan less as a defeated enemy than as a vital anti-Communist bastion in East Asia. The anti-monopoly measures actually enforced were thus considerably weaker than those originally proposed by MacArthur's staff[19]. The power of the banks, in particular, was left almost intact, and from the late 1950's onwards the gradual re-emergence of business groupings, centred on the major banks, sogo shosha, and manufacturing firms, led a number of economists and journalists in Japan and abroad to speak of a "Zaibatsu revival"(20).

The business groups which have developed in the post-war period are, however, fundamentally different from the pre-war zaibatsu, although they are no less uniquely Japanese and no less important an element in understanding the structure of the Japanese business and the nature of Japan's overseas economic expansion. The zaibatsu, it will be recalled, were pyramidal in structure, with a holding company at the top controlling a number of large financial, trading and manufacturing firms, which in turn controlled long chains of smaller subsidiaries reaching into almost every sector of Japanese manufacturing and distribution. In the post-war period the lower part of the pyramids gradually re-emerged, as large companies consolidated their control over chains of subsidiaries. These chains - known in Japanese as keiretsu,linked the largest and most modern corporations, via a long line of medium sized companies, to small family firms, often with a single workshop carrying out routine tasks of assembly, repair and distribution. The principal change from the past is to be found when we examine the top of the pyramid structure. Indeed, post-war business groups can no longer strictly be termed "pyramids" since the apex is missing: the holding companies abolished under the American zaibatsu-dissolution programme were never restored. What emerged instead in the 1950's and 1960's were loose groupings of a number of large firms in which no single company or body had overall control.

The informal and flexible structure of these post-war business groupings - or kigyo shudan - becomes evident when we attempt to define the links which hold them together. There is, for example, a certain amount of cross-ownership of shares, but it is unusual for more than 50% of the shares of any one member firm to be held by other group companies. Even then, since these shareholdings are divided between a number of companies they can only be considered significant if one assumes that group members are likely to act in concert to exert control over their fellow member firms. An analysis of the figures for nineteen major companies in the Mitsui group shows that the average percentage of shares owned by other Mitsui group companies was 18.9% and in two cases (Mitsukoshi Department Store and Mitsui Mining) the figures were as low as 2.0% and 1.7% respectively(21). A slightly more powerful unifying force is provided by intra-group borrowing: firms tend to borrow quite heavily from the financial institutions within their group, and this financial dependence is particularly important because of the high debt-equity ratio of most large Japanese firms. Again, however, it is not normal for more than 50% of the borrowings of any one firm to come from within the group: in the case of the Mitsui sample quoted above the average figure was 30.8%, and intra-group borrowings were again normally divided between the group's four large financial companies (Mitsui Bank, Mitsui Trust and Banking, Mitsui Mutual Life Insurance, and Taisho Marine and Fire Insurance)(22). It is evident, therefore, that the financial links within the group, although strong enough to create a sense of shared interests and mutual support, are not sufficient to place any one company in command of the group or to create the sort of monolithic unity which existed within the pre-war zaibatsu.

Some writers, in seeking to locate the centre of power in the kigyo shudan, have emphasised the emergence of Presidents'

Clubs[23]. Most of the major groups have established such clubs, consisting of the Presidents of the principal "core" companies of the group, which meet at regular intervals (usually monthly). In fact, however, the function of such meetings is largely formal, and they cannot be considered as a forum for serious policy-making. More attention should perhaps be paid to the lower-level meetings of middle-managers and technical experts within the kigyo shudan, and to the informal, personal contacts which often develop between individual business leaders in prominent group firms. The importance of such contacts is, however, by its very nature extremely difficult to quantify. The kigyo shudan then, unlike the zaibatsu, have no centralised decision making body, and although group policy may be co-ordinated on certain issues, competition between group members is often intense. It should also be pointed out that there is no single structural pattern for a kigyo shudan. Each group has characteristics of its own. Of the six major kigyo shudan - the Mitsubishi group, the Mitsui group, the Sumitomo group, the Fuyo group, the DKB (Dai-Ichi Kangyo Bank) group and the Sanwa group - the Mitsubishi group is sometimes regarded as being the best co-ordinated. The central power of the Mitsubishi group is fairly evenly divided between the Mitsubishi Bank, Mitsubishi Shoji and Mitsubishi Heavy Industries. In the Mitsui group the power of Mitsui Bussan is comparatively great because of the relative weakness of the group's financial and heavy industry companies. The three major groups which have emerged since the War - the Fuyo, DKB and Sanwa groups - are looser in structure than the direct descendants of the zaibatsu, and are largely centred on their respective banks. However, the centre of gravity in any group may shift depending upon the relative success of its core companies and the quality of their management.

Since the structure of the kigyo shudan is so loose and so hard to define it seems reasonable to ask what function these groups can possibly serve. One answer is that they provide a wider focus for the loyalty of their employees than the individual firm. A sense of "group identification" undoubtedly exists, particularly within the ex-zaibatsu groupings, and this is assiduously fostered by group publications, group-sponsored social projects such as hospitals and educational foundations etc. The various kigyo shudan are constantly assessing their own position as compared with those of their rivals, and the existence of such groups certainly helps to encourage the intensely competitive spirit which is characteristic of Japanese industry. Indeed, some economists have suggested that the determination of every kigyo shudan to keep up with its rivals in every new market or new field of production has led in some cases to excessive competition and inefficient use of resources[24]. The importance of group competition may help to explain the phenomenon of a very rapid influx of rival Japanese companies into a foreign country in the early stages of investment (as in the case of textile investment in Southeast Asia) - no group wishes to be left out of a new and potentially profitable field.

In a more positive sense the kigyo shudan provide pools of capital, technology and personnel which can be used to research and exploit promising fields for development and to set up overseas projects. One of the interesting features of the early phases of post-war Japanese overseas investment was that many of the companies involved were relatively small. These were, typically, companies manufacturing simple, standardised products - textiles, footwear, electrical batteries, processed foods etc. - for export to less developed countries. Such companies had the most to lose from the growth of economic protectionism in Third World countries during the 1950's and 1960's, and their processes were well suited to the needs of countries in the early stages of industrialisation. But without the support which they derived from the group structure of Japanese industry, it is unlikely that these companies would have been able to initiate overseas investment projects. Through membership of an industrial grouping, such small-to-medium sized companies were able to call on the financial backing of a large bank, the international expertise of a general trading company, and in some cases also the technological advice of larger manufacturing firms in the same field[25]. The value of the kigyo shudan applies not only to such small-scale projects but also to large-scale overseas ventures which require financial resources beyond the reach of a single multinational firm. A further function of the kigyo shudan which may be mentioned in passing is their role in assisting member companies in times of financial difficulty.

In fact, the very informality and flexibility of the kigyo shudan may well be a key to their success. Group unity is sufficient to be of value where required, but not great enough to curb the independence and initiative of member companies. For example, when Mitsubishi Heavy Industries decided to construct a large ship repair yard in Singapore, it was able to recruit the financial and commercial support of Mitsubishi Bank and Mitsubishi Shoji in setting up the project. But when the textile manufacturing giant Teijin set up a synthetic textile venture in Indonesia in 1971, it was backed, not by trading companies which were fellow members of the Sanwa Group, but by Toyo Menka of the Mitsui group and Itoh Chu of the DKB group, both of which had long experience in the Indonesian textile trade.

The flexibility of the kigyo shudan although a crucial source of strength, is also a liability in the sense that it may give rise to misunderstanding and mistrust abroad. Many foreign observers persist in regarding the Mitsubishi, Mitsui and Sumitomo groups as if they were identical with the pre-war zaibatsu of the same names. One recent study of the Indonesian economy, for example, states of the Mitsui group that, by the end of the Second Five Year Plan "this single corporation would . . . have invested the equivalent of more than one quarter of all foreign investment approvals between 1967 and August 1974"[(26)]. In fact, as has been argued here, the kigyo shudan cannot be considered as operating like a single corporation or even like a western-style conglomerate. Given the diffuseness and lack of centralised decision-making in the Mitsui group, the scale of this group's investment in Indonesia is not really as sinister as the above quotation would suggest. However, the size and unique structure of the kigyo shudan undoubtedly arouse concern and suspicion in many of the less developed countries in which their member companies operate.

The enduring tendency towards group-formation in the Japanese economy is emphasised by the fact that many of the newer manufacturing conglomerates which have developed since the war have chosen to retain or establish an affiliation with one of the major kigyo shudan. The industrial reconstruction of the immediate post-war period opened the way for a number of small companies, particularly in the automobile and electronics industries, to develop into rivals of the older manufacturing giants. Amongst these companies were several which have become household names, both in Japan and abroad - Matsushita Electrical Industries, Sony Corporation, Hitachi, Toyota Motor Co., Honda Motor Co. etc. These companies developed a network of interests in their own industrial field very much on the lines of western conglomerates such as General Motors or Philips, and are now amongst the leading Japanese overseas investors. At the same time, however, many find it advantageous to have a loose link with one of the "big six" business groupings. In 1978, for example, Hitachi and the ship-building giant Ishikawajima-Harima (IHI) announced their formal membership of the DKB kigyo shudan,[27] while Toyota, although itself the centre of a large web of industrial enterprises, retains a connection with the Mitsui group from which it originated.

An analysis of the organisation of Japanese multinational firms would not be complete without some mention of the post-war role of the sogo shosha. On the face of it it seems surprising that the shosha not only survived the war and its aftermath, but actually grew and prospered in the post-war period. In 1947 MacArthur's administration ordered the dissolution of the two largest trading firms: Mitsui Bussan and Mitsubishi Shoji, and the experience of Western industrialised nations, where the role of the great trading houses had declined with the decline of the European-controlled colonial empires, would have appeared to indicate a bleak future for the sogo shosha[28]. Yet by the early 1960's the two dissolved trading companies had reconstituted themselves and resumed a central role in the Japanese economy, and a number of smaller specialist trading companies had diversified themselves and joined the ranks of the major sogo shosha. By 1965 the "big ten" shosha - Mitsubishi Shoji, Mitsui Bussan, Marubeni, Itoh Chu, Sumitomo Shoji, Nissho-Iwai, Toyo Menka, Kanematsu-Gosho, Ataka Sangyo and Nichimen Jitsugyo - between them handled over 50% of Japan's exports and almost 65% of Japan's imports(29).

One reason for the post-war success of the sogo shosha must lie in the internal structure of the Japanese distribution system. The sogo shosha had created for themselves a vital role in providing links between various sectors of Japanese industry, and to the present day almost half the commercial transactions of the major sogo shosha take the form of internal trade. A second explanation is to be found in the shortage of foreign expertise and language skills amongst businessmen in the immediate post-war period. This was aggravated by Japan's war-time isolation from the western nations which were to be amongst her chief trading partners from 1950 onwards. Some large sogo shosha were recruiting and training staff for overseas postings as early as 1951, and these companies were to provide a useful fund of scarce human resources during the early years of Japan's post-war economic growth(30).

During the high-growth era of the 1960's the sogo shosha not only increased their sales turnover, but also expanded their non-commercial functions to such an extent that the name sogo shosha (general trading company) became almost a misnomer. Perhaps the most important of these additional functions was as financial intermediaries borrowing from large banks and lending on favourable terms to manufacturers who wished to raise short-to-medium term loans. The shosha also came to play an increasingly vital role as international information networks, collecting and storing data not only on matters directly related to their trade activities but also on new technological developments, overseas economic and social trends, and political changes around the world. By the early 1970's Mitsui Bussan's information network was widely reputed to be second only to that of the CIA. Their information-gathering function, together with their day-to-day contacts with a wide range of Japanese and foreign companies, enabled the shosha to act as intermediaries in the creation of large scale projects in new fields, to arrange tie-ups between Japanese firms and overseas multinationals and to assist in the import of foreign technology[31].

Most importantly, from the point of view of this study, it also enabled them to play a leading part in the initiation of Japanese investment projects abroad. The shosha were among the first to appreciate the possibilities for overseas investment, particularly as a means of maintaining Japanese exports to less developed countries in the face of growing import restrictions, and as a means of securing sources of strategic raw materials. They were also in a position to advise relatively inexperienced Japanese overseas investors on local markets, suitable partners for joint ventures etc. In return, the shosha received the right to supply Japanese-made inputs to overseas projects and where necessary to export the products of these projects. By 1978 six of the ten largest Japanese overseas investing companies were sogo shosha (see Table 2.5).

Since the early 1970's many experts have expressed doubts over the future role of the sogo shosha. The shosha faced particular difficulties during the transition from high to lower growth rates which took place during the period 1972-74. They were widely criticised for hoarding and other anti-social activities during the oil crisis of 1973/74, and in 1975 one of the "Big Ten" - Ataka Sangyo - faced financial collapse and was eventually forced to merge with its rival, Itoh Chu. Prof. Michael Yoshino, in his study of Japan's multinational enterprises, presents a widely-held point of view when he criticises the shosha for their "entrenched bias towards exploiting short-term gains" and their failure to take an active interest in the development of the overseas investment projects which they have initiated, and argues that their future will be as agents in the multinational spread of other companies, rather than as fully-fledged multinationals in their own right. Yoshino also points out that the growing expertise of Japanese manufacturing firms in foreign investment is undermining the role of the shosha in foreign manufacturing ventures[32].

However, the shosha have certain strengths which may enable them to refute such pessimistic prognostications. Shosha at present show a high degree of awareness of their predicament, and have taken a number of measures to adapt their structure to changing circumstances. These include the strengthening and rationalisation of their overseas investment projects, the expansion of their role in third country trade (which in 1975 accounted for about 9% of the transactions of the "Big Ten") and the development of their research and planning functions. The organisational and information-gathering systems of the major shosha are likely to be of continued value as the pattern of Japan's foreign investment moves towards large-scale overseas projects backed by consortia of Japanese companies. Shosha would also have a role to play in creating joint-ventures in which Japanese firms participate with foreign multinationals, and more generally in bridging the gap between business interests and the political realm in a world in which "the exercise of power is not a matter of choice but a necessity" for the multinational corporation(33). One American analysis of the multinational firm has concluded that the future belongs, less to the traditional manufacturing giants, than to firms which specialise in "investing principally in R. and D, in the international recruitment of skilled technical and managerial personnel, in the organisation of inter-related global markets . . . and in the capability of engineering and starting up modern plants, farms, mines, fisheries, schools, hospitals - whatever is needed, so long as ownership is not a precondition(34). While the <u>shosha</u> have so far not been notable for activities of the first two types, they have been developing a growing role in the latter two fields, and although they are unlikely to develop into "multinationals" on the classical western model, they can be expected to continue to exert a central influence on the shape of Japan's economic presence abroad.

The Japanese Strategy of Overseas Investment

Since the mid-1960's there has been an upsurge of academic and public interest in the phenomenon of overseas direct investment, and in the multinational corporation which is the principal agent of such investment. As Robert Aliber wrote in 1969:

> "One of the remarkable phenomena of the last ten years has been the rapid growth in international investment. Surges of international investment before World War II and in the 1920's have consisted largely of portfolio investment; funds moved from low-interest-rate areas to high-interest-rate areas. Since World War II, the major component of the capital flow has been direct investment as firms domiciled in one country have established foreign branches and purchased foreign firms"(35).

The great majority of this foreign direct investment has originated in the United States, although Western European countries such as Britain, West Germany, the Netherlands, Switzerland and Sweden have also been large-scale overseas investors. By the end of 1975 the United States had net overseas direct investments of more than $133 billion; Britain, the nearest rival of the U.S.A., fell far behind with less than $ 39 billion(36); Japan's overseas direct investments totalled just over $ 15 billion. However, Japan's role as a foreign investor was developing rapidly. Between 1967 and September 1976 Japan's cumulative direct overseas investments increased fifteen-fold from $ 1,176 million to $ 17,784 million. In 1967 the United States' stock of foreign direct investment was more than thirty times as great as Japan's; by 1975 it was less than nine times as great(37). Japan was clearly participating in the phenomenal increase of overseas direct investment which has been a characteristic feature of the leading capitalist economies in recent decades.

It might therefore be expected that the causes and patterns of Japan's growing foreign investment would closely resemble those found in the case of the United States. But as Yoshino, Kojima and Ozawa have all shown(38), this was not so. Overseas direct investment can be analysed in various ways:

a) By geographical area - about two-thirds of U.S. foreign investment to 1975 was in advanced industrial countries, particularly in Western Europe. The remaining third was in Latin America and other less developed regions.

b) By sector - about 40% of U.S. overseas investment was in manufacturing industry, about 30% in resource extraction (particularly the oil industry) and the remainder in commerce and services, banking, insurance etc.

c) By size of company - statistics on this subject are rather poor, but foreign investment in the U.S. case has clearly been identified with large firms. According to Vernon, U.S. multinational companies were about three times the average size of U.S. national companies(39).

The debate over the spread of multinational corporations has encountered certain problems of definition. In the first place there has been some semantic disagreement over the use of the word "multinational". This word has however come to be generally accepted in popular as well as academic use, and will therefore be used here in preference to "international corporation", "transnational corporation", "global enterprise" or any of the other alternatives which have been put forward(40). The second problem is fundamental since it affects the relationship between the phenomenon of overseas direct investment and the phenomenon of the multinational corporation: should <u>all</u> companies which have direct investments overseas be considered under the heading of "multinational corporations", or does this term imply something more: large size, a wide geographical spread of overseas projects etc? In practice, many analysts of the multinational firm have adopted the widest possible definition "an enterprise which owns or controls producing facilities (i.e. factories, mines, oil refineries, distribution outlets, offices etc.) in more than one country"(41). Yet although this definition includes within its scope a great range of companies of varying size, type and nationality (including also companies originating in Third World countries), attention has been directed very largely to a single type of multinational firm: the very large, technologically advanced, U.S.-based manufacturing company with subsidiaries in other developed countries. The reasons for this bias are self evident. Such companies do, in fact, account for a very large share of the total stock of overseas direct investment. They are a relatively recent phenomenon, and therefore challenging to theoreticians of international economics. Moreover, their existence requires more explanation than that of, for example, the older-established resource-exploiting multinationals.

By implication, overseas direct investment has come to be identified with the multinational corporation, and the multinational corporation with the very large manufacturing firm of which General Motors, ITT, IBM and Pepsico are typical examples. Explanations of the post-war expansion of overseas direct investment have therefore been designed principally to fit the case of these companies. Such explanations have emphasised the oligopolistic structure of U.S. industry, the advantages confered by the possession of patented technology or brand names, the phenomenon of the "product life cycle" etc[42]. Relatively little attention has been paid to the spread of multinational investments in resource extraction, although this has been proceeding rapidly. Multinationals' investments in less developed countries have tended to be treated in a quite separate analytical context, one which concentrates on the economic and political impact of the multinational on the host country[43]. Works on this type of investment have therefore been rather poorly integrated into general theories on the causes and mechanisms of multinational investment. The same is also true of the small multinational firm.

This is unfortunate, because when we turn to the case of Japanese overseas investment, we find that the typical profile of the Japanese multinational company is quite different from that of the U.S. multinational.

a) In the first place, by 1976, about 60% of Japanese overseas direct investment was in less developed countries, with Asia taking by far the largest share. Only 24% of investment was in North America, and the remainder in Europe and Oceania (mainly Australia).

b) In terms of industrial sector, Japan's investments in commerce and service industry were comparatively large (almost 40% of the total), resource-orientated investments, like those of the United States, were about 30% of all foreign investment, and investment in manufacturing accounted for only 30% of the total.

c) A substantial share of Japanese overseas investment was by small or medium sized firms. The 1976 survey of overseas investing companies by Japan's Ministry of International Trade and Industry (MITI) found that 36.3% were small or medium sized companies with paid up capital of less than ¥ 100 million (about U.S. $ 300,000)(44).

Further analysis of the figures suggests even greater variation from the U.S. pattern of overseas investment. Japanese investment in the U.S. and particularly in Europe is very largely in the commerce/service/banking sector, while Japanese overseas manufacturing projects are located predominantly in less developed countries. In 1977 36.5% of Japanese overseas manufacturing investment (by value) was in other Asian countries and 29.3% in Latin America(45). A further characteristic of Japanese multinational companies emerges when we examine the sectoral composition of Japan's overseas manufacturing investment. U.S. multinationals, as we have seen, are associated mainly with the production of technologically sophisticated brand-name goods. Raymond Vernon's survey of 187 major U.S. multinationals found "a heavy emphasis on skilled manpower and on advertising. At the low end of the scale are textiles and steel; at the high end motor vehicles, fabricated metals, petroleum, drugs and other chemicals"(46). Japanese companies, on the contrary, have invested very heavily in overseas production of textiles and steel, although chemicals and electrical appliances have also been a major field for foreign investment. If we examine a list of the twenty largest Japanese overseas investing corporations, therefore, we find hardly any which conform to the standard image of the multinational enterprise. Eight (including the top five) are general trading companies, and of the manufacturing firms, six are engaged in the production of standardised items such as textiles, (Toray and Teijin), steel and ships (Mitsubishi Heavy Industries, Ishikawajima-Harima). Only five - Matsushita, Honda, Nissan, Sony and Toshiba fit the traditional picture of the large multinational manufacturing firm, and even in these cases the resemblance to western multinationals is not as great as it might seem. Matsushita Denki Sangyo (one branch of the Matsushita Electrical Company), for example, had thirty-seven overseas subsidiaries or affiliates by 1977, twelve in developed countries and twenty-five in less developed countries. But of the twelve in developed countries only six were engaged in manufacturing or assembly, the remainder all being involved in sales and servicing only. Of the twenty-five subsidiaries in less developed countries, however, twenty were manufacturing ventures[(47)].

Lastly, Japanese overseas projects, particularly overseas manufacturing projects, differ from their American counterparts in being relatively small in size. According to the MITI survey quoted earlier, the average size of Japanese investment projects in Taiwan was U.S. $ 295,000, while that of U.S. projects in Taiwan was $ 1,773,000[(48)]. This pattern is repeated in all the other Asian countries in which Japan has substantial investments. Japanese companies are also likely to have smaller percentage holdings in overseas joint ventures than American firms, and often indeed hold a minority of shares in overseas manufacturing projects.

From this summary of the characteristics of Japanese overseas investment we can draw up an outline of four "typical" Japanese multinational companies:

a) The large general trading company, investing widely in commercial, manufacturing and resource-orientated projects in all parts of the world.
b) The large manufacturing firm producing standardised items such as textiles, steel etc., and investing heavily in less developed countries.
c) The large "brand-name" company producing electrical appliances, cars, motor-cycles, etc. This company typically has many sales and servicing subsidiaries in developed countries, and a number of manufacturing subsidiaries throughout the world, but predominantly

d) The small-to-medium sized company with one or two manufacturing subsidiaries in less developed countries (often in partnership with another Japanese firm).

It will be noticed that one form of multinational enterprise is conspicuously absent from this list: the very large overseas resource exploiting company on the pattern of the U.S. and European oil majors, Alcoa, Rio Tinto Zinc etc. Although some Japanese mining companies (notably Nittetsu Mining) have undertaken substantial overseas investment, the risks and the scale of investment have induced Japanese companies to adopt a collaborative approach to overseas resource development. The majority of such projects are carried out by consortia of companies, usually including one or more _sogo shosha_ and a number of raw material users(49).

The concept of the large multinational manufacturing company on the U.S. model produced explanations of overseas investment in terms of the oligopolistic structure of the home economy, the importance of product differentiation and the need to "ride" the product life-cycle. What explanations can we find to fit the diverse forms of Japanese multinational enterprise outlined above? One point needs to be made clear from the outset. It might be thought that the peculiarities of Japanese overseas multinational companies arise from Japan's relatively short experience as a large-scale overseas investor, and that Japan is therefore at a "primitive" stage of multinationalisation, one through which countries like the United States have already passed. But this is not the case. Whether or not Japanese multinational companies will tend to converge with the American pattern in the future remains to be seen, but there is no evidence to suggest that U.S. overseas investment at any stage of its development resembled the present structure of Japanese overseas investment[50]. The role of the general trading companies, the relative importance of investment in less developed countries, the large number of overseas ventures by small firms - all these are uniquely Japanese.

Next it must be noted that, although the relative importance of overseas investment in manufacturing, in resource exploitation and in commerce and service industries has varied over the years, all types of foreign investment have experienced the same very rapid increase since about 1966. Indeed, since the beginning of the 1970's there has been a marked growth not only of direct overseas investment, but also of loans and security investment[51]. This suggests that any explanations based on, for example, manufacturing investment alone are insufficient, and that we must look for the causes of Japan's overseas investment in the fundamental conditions of the Japanese economy itself. The structure of Japan's economy in the 1960's was one which was excellently designed for rapid economic growth. Its peculiarities included a very high level of personal savings and a very high ratio of fixed capital formation to GNP. By the second half of the 1960's, however, this rapid growth had run up against a number of constraints. One of these was the drying up of the "pool" of labour which could be recruited from agriculture or low-productive industries into the modern, high-productive sector. Although the labour shortage caused a rise in wages, the high propensity towards saving which had been built into the system during the earlier phases of rapid growth persisted, and the increase in domestic consumption lagged behind the rise in wages. A second constraint was caused by the growing shortage of industrial sites and soaring land prices. Associated with this was a rise in public concern over problems of pollution, which had become increasingly evident as one of the less desirable side-effects of Japan's "economic miracle". This led in 1970 to the passing of a series of laws giving Japan "the world's most complete framework relating to environmental protection"(52). Finally, Japan's economic success produced (after 1965) a growing balance of payments surplus. This had two important effects. One was a change in government policy away from restriction and towards the promotion of foreign investment. The other was the growth of foreign pressures against the import of Japanese goods, which also gave some stimulus to overseas investment. The situation in Japan during the late 1960's, and early 1970's, therefore approximated to that which Gilpin defines as the first phase of overseas investment:-

> "Owing to its technological advantages and industrial efficiency, the core's income rises rapidly. There is a high level of savings, which is not absorbed domestically in consumption or investment. As the core's wealth and savings accumulate, capital is exported to the periphery of the world economy. During this phase, foreign investment is primarily a function of the relative economic strength of the core"(53).

(It should be noted that Gilpin's use of the words "core" and "periphery" is different from that of development economists such as Frank and Amin). In the case of Japan, however, the sudden expansion of overseas investment was not merely a consequence of Japan's economic success, but was specifically related to the problems of moving from a period of exceptionally rapid growth to a period of slower growth at home.

These general trends in the Japanese economy may be seen as explanations for the <u>fact</u> of Japanese overseas investment in the late 1960's and 1970's. What remains to be explained is the form and the location of that investment. As far as investment in commerce and resource development are concerned, the motives are readily explicable. Investment in sales and servicing subsidiaries can be seen as a form of sales promotion, designed to secure an ever-expanding market for increasingly sophisticated Japanese manufactured exports. The growth of investment in the exploitation of overseas raw material is even more self-explanatory, given Japan's very heavy dependence on imports of such resources. The oil crisis of 1973/74 in particular emphasised Japan's vulnerability in this area (Japan imports over 99% of her crude oil consumption) and led to a rapid rise in the number of large-scale overseas projects aimed at acquiring autonomous and secure supplies of energy-related raw materials such as oil, liquified natural gas (LNG) and uranium.

As far as manufacturing investment is concerned, the motives have been rather more complex. One traditional explanation for U.S. overseas investment - based on the product life cycle - emphasised the connection between overseas investment and trade:

> "To begin with, U.S.-controlled enterprises generate new products and processes in response to high per capita income and the relative availability of productive factors in the United States; they introduce these new products or processes abroad through exports; when their export position is threatened they establish overseas subsidiaries to exploit what remains of their advantage; they retain their oligopolistic advantage for a period of time, then lose it as the basis for the original lead is completely eroded"(54).

In the later stages, it is argued, overseas investing companies may seek to maintain their advantage either by improving or promoting their product, or by moving production to another, lower-cost production site which will then serve as a base for exports to third markets or even back to the United States. Eventually, they will build up an entire network of overseas producing subsidiaries, and so advance to a higher stage of the multinational process. A comparison with this model helps to indicate both the similarities and the differences of Japan's strategy of overseas manufacturing investment. The geographical pattern of Japanese manufacturing investment is very closely related to the pattern of Japan's export trade in the 1950's and early 1960's. During this period Japan's advantage as an exporter of manufactured goods arose, not from any position of technological leadership, but from an intermediate status which enabled Japan to produce reasonably high quality goods at a relatively low price. These goods consisted principally of household electrical appliances etc., based on U.S. technology, which were exported to developed countries, and standardised manufactured products such as textiles, cement and steel, which were exported to the less developed countries particularly in East and Southeast Asia. As time went on, Japanese manufacturers developed certain types of product (cars, motor-cycles, television tubes, calculators etc.) to a degree of sophistication which exceeded that of their American originals, and this laid the foundation for investment in developed countries, very much along the lines of Vernon's model quoted above. But what concerns us more here is the case of investment in less developed countries. Here Japan's export market began to be eroded by the policies of industrialisation introduced by certain countries. These policies were for the most part import-substitution policies aimed at precisely those basic manufactured goods which formed the mainstay of Japanese exports. The threat to Japan's export markets prompted the first flow of Japanese manufacturing investment (particularly in textiles) into countries such as Hong Kong, Taiwan and Korea with which Japan had historical and cultural connections as well as very close trade links. The earliest Japanese investors enjoyed considerable advantages from their status as pioneers in a new and expanding field, but these advantages were rapidly undermined by the growth of competition from other foreign investors and to some extent from domestic rivals. In response, Japanese companies adopted two strategies: one was the development of more sophisticated, export-orientated projects in the same East Asian host countries; the other was the growth of import-substituting investment in other areas of Asia, notably Thailand, Indonesia and the Philippines(55).

More recently the investment strategy has been taken one step further as Japanese investment in East and Southeast Asia has moved increasingly towards heavy industry (notably steel, ship-building and petro-chemicals), and Japanese investors in low-wage countries such as Indonesia and the Philippines have begun to turn their attention from import-substitution towards export-orientated projects(56). The pattern of development of Japan's overseas investment so far therefore bears some resemblance to that of the product life cycle model outlined above. But in the case of Japanese industry it has not been a micro-economic product life cycle based on the patented know-how of individual firms, but rather a macro-economic cycle involving the movement abroad of whole sectors of industrial activity. The process appears to have begun almost haphazardly, as the spontaneous response of Japanese companies to the threat of loss of markets and rising overseas competition, but it has come to be a clearly articulated strategy, strongly encouraged by governmental and semi-governmental bodies. The aim of this strategy is the transfer of less sophisticated manufacturing processes to less developed countries, and the simultaneous re-orientation of the domestic economy towards more advanced "knowledge-intensive" industries.

> "In the case of Japanese corporations, overseas investments were initially made in such import-substituting consumer goods industries as textiles and sundry goods for which recipient countries offered relatively easy access. They contributed to the economic development of the recipient countries, on the one hand, and to the sophistication of our industrial structure on the other. In the case of overseas investments for textile mills, for instance, there is a view that they are undesirable in that they tend to accelerate the growth of import-substituting industries in the recipient countries and therefore deprive domestic mills of their export market. However, such industries are bound to grow in developing countries anyway. Moreover, the expanding textile industries in developing countries will eventually translate into increased exports of Japanese textile machinery and thus play a significant role in the improvement of this country's industrial structure"(57).

> "As part of the switch of the industrial structure at an international level for the purpose of the formation of the new international economic system, Japan's own industrial structure should be switched. In view of the inevitable transfer of labour intensive or low value added industries to the developing countries, domestic "lower industries" should be shifted to the "upper industries" or contracted by stage. For this purpose, it is important to provide long-term funds for business switchover at low interests and financial incentives for cessation of designated business, and set up the system to provide companies desirous of overseas operation with information and guidance on local conditions"(58).

This strategy has not only been strongly supported by the Japanese government, but has also been put forward at the theoretical level as an alternative to the U.S. model of multinational investment by economists such as Kojima Kiyoshi(59).

Most public statements on this investment strategy, however, fail to come to grips with the fundamental dilemma of whether the international division of labour which it seeks to promote is to be a vertical or a horizontal one. The statements quoted above would seem to suggest a vertical division of labour, by which Japan, while transferring less advanced forms of industry to her Asian neighbours, would remain perpetually "one step ahead" in terms of economic and technological development. If this is successful it may encourage the quantitative growth of GNP in the less developed regions of Asia, but is likely to be viewed by political leaders in the host nations as a perpetuation of the dependence and unequal specialisation which has characterised their countries' economic relations with Japan in the past. For this reason such a foreign investment strategy is unlikely to achieve its supposed intention of contributing to a solution of the North-South problem. On the other hand, it may be argued that Japan is unlikely to be able to restructure her domestic economy rapidly enough to maintain her lead over other industrialising Asian nations. In that case, the transfer of investment in basic manufacturing processes from Japan to East and Southeast Asia might be seen as helping to produce a more equal international distribution of industrialisation. But the reactions of Japanese industry to the challenges which have emerged so far, notably from South Korean textiles, steel and ship-building, suggest that this was not the intention behind the recent growth of foreign investment. In the case of Indonesia, as we shall see, Japanese investment has so far shown few signs of causing any real narrowing of the economic gap between the two nations.

Japanese Investment Projects in Indonesia

The first projects undertaken by Japanese companies in Indonesia in the post-war period were not investment projects but were part of the reparations agreement between Japan and Indonesia which had been signed in 1958. This agreement stipulated that Japan would pay $ 223,080,000 reparations over twelve years, and would also provide $ 400,000,000 credit for Indonesian economic development. The reparations funds, however, were to be spent on development projects for which Japanese companies were to act as contractors. These projects included the construction of the Karankates Dam in East Java by the Japanese firms Nippon Koei and Kajima Construction and of three hotels in Java and Bali by a consortium of firms including Kinoshita Sansho. The reparations projects therefore provided a number of Japanese firms with an opportunity to gain experience of working in Indonesia and to establish contacts in Indonesia business and political circles. They also (as Nishihara has shown[60]) stimulated the growth of trade between Japan and Indonesia. In some cases reparations projects led directly to investment. The construction of the Wisma Nusantara office block in central Jakarta, for example, ran out of funds and was eventually taken over as a private investment project by Mitsui Bussan. In more general terms it seems clear that the reparations agreement helped to open the way for the earliest Japanese investment ventures in post-war Indonesia. Of the twenty-nine companies which acted as contractors in major reparations projects, fourteen had undertaken private investments in Indonesia by 1974[61].

Until 1965 the growth of Japanese private investment in Indonesia was slow. This was related both to conditions within the Japanese economy, where the pressures for overseas investment were only just beginning to build up by the mid-60's, and to the economic and political situation in Indonesia. The Sukarno government was in general hostile to foreign investment, which was seen as perpetuating Indonesia's colonial subjugation to the West. Almost all major western investment projects were nationalised during the late 1950's and early 1960's. Sukarno's attitude towards Japan was more favourable, partly because of his relatively good relations with the Japanese occupation forces during the War, and partly because he viewed Japanese aid and investment as a possible counter-balance to the economic influence of the West. However, suspicion of left-wing tendencies in the Sukarno regime, and of general political instability in Indonesia, made Japanese business interests cautious of large-scale economic involvement in Indonesia during this period.

The most significant investment project of the early 1960's was the North Sumatra Oil Development Company (NOSODECO), created in June 1960 to develop former Royal Dutch Shell oil fields in Sumatra. This was a production-sharing venture, a form of resource development project which has since become standard practice for foreign investment in Indonesian oil. Under the production-sharing contract the government-owned oil company PERMINA (later to become PERTAMINA) retained the sole right to control oil and gas undertakings. The Japanese side, consisting of a consortium of companies with strong financial backing from the Japanese EXIM Bank, were officially contractors in a ten-year project. They were to provide finance (some $ 52 million) and technical assistance for oil development and in return were to receive forty per cent of the resulting increase in production. The project was of some importance from the Japanese point of view because it was one of the earliest Japanese overseas oil ventures in the post-war period[(62)]. Seven other production-sharing projects in nickel, timber, sugar and pearl production were planned or set up during the Sukarno period. One further Japanese venture which should be mentioned in this context was the Bank Perdania, a private bank established in collaboration with Indonesian businessmen by the Daiwa Bank and Ishihara Sangyo, which, it will be remembered, had major economic interests in Southeast Asia during the pre-war period[(63)]. In general, however, the uncertain investment climate, the high cost of resource development projects, lack of Japanese expertise and problems of corruption and maladministration hampered the growth of Japanese investment in Indonesia in this period. Of the eight production-sharing projects planned before 1965, only three were in operation by the late 1960's[(64)].

In the autumn of 1965, after an abortive coup by left-wing elements in the armed forces, de facto power in Indonesia was seized by a group of army officers and politicians headed by Maj. Gen. Suharto. Although Sukarno remained the nominal head of state until 1967, a violent purge of those suspected of left-wing affiliations took place, and the political and economic policies pursued by Sukarno during the years of Guided Democracy were reversed[(65)]. Instead of seeking to assert independence from the economic influence of the West, Indonesia was now to pursue a policy of economic development based on western aid and investment. To this end, a foreign investment law was passed in

1967 providing attractive tax incentives for foreign investors. At the same time the Inter-Governmental Group on Indonesia (IGGI) was set up to provide economic support from the major western nations (including Japan) for the Suharto regime's development plans.

The effect of this political re-orientation upon Japan's investment in Indonesia was decisive. Between 1969 and 1972 Japan's cumulative direct investments in Indonesia rose from \$ 194 million to \$ 474 million. This coincided with a rapid influx of foreign capital from other nations (particularly the United States) into Indonesia. During this phase Japanese investment was principally in manufacturing, and consisted mainly of relatively small-scale joint ventures. A typical example is provided by the case of P.T. Iron Wire Works Indonesia, a joint venture set up in 1972 to produce nail wire. The project has two Japanese partners - the trading firm Nissho Iwai and the manufacturing firm Kasuga Kogyo. The host-country partner is a Chinese-Indonesian firm which holds 40% equity in the venture. The total paid-up capital of the project is just \$ 1 million[66]. Textile production provided the largest field for Japanese investment in this period, and here there were some bigger projects such as the two integrated synthetic textile plants set up in 1971 by the major multinational concerns Teijin and Toray[67].

Resource-orientated investment in the late 1960's and early 1970's was for the most part restricted to timber and fisheries. By the end of 1971 Japanese companies had invested \$ 40 million in the development of the Jatibaran oil field off West Java, and had joined with U.S. oil companies in three other major oil projects. There were also two Japanese-owned oil trading companies - Far East Oil (set up in 1965) and Japan Indonesia Oil (1972) handling Indonesian oil exports to Japan[68]. But, lacking experience in this field and without a powerful oil company, Japan fell far behind the United States in oil investment. A similar situation prevailed as far as other mineral resources were concerned, and despite Japanese industry's enormous demand for raw materials, the most lucrative and accessible of Indonesia's resources came under the control of U.S. multinationals such as Freeport Sulphur (copper) and Alcoa (bauxite).

Japanese investment in Indonesia continued to increase rapidly throughout the mid-1970's and by September 1977 had reached a total of over $ 3 billion. This means that Japan now appears in Indonesian government statistics as the largest foreign investor in Indonesia. Such statistics are somewhat misleading, firstly because they exclude the oil sector, in which there has been substantial American investment, and secondly because they are given on an approval basis and therefore represent forecasts of future investment rather than the actual current situation. Most estimates suggest that U.S. companies are still responsible for the largest share of existing investments in Indonesia[69]. The government figures, however, emphasise two important facts. One is that Japanese investment has been assuming an increasingly important role in the Indonesian economy and is likely to exceed investment by other developed countries in the near future. The second is that Japanese companies have been responsible for by far the largest share of foreign investment in the manufacturing sector, which is of particular importance to the Indonesian government's development plans.

Although the total outflow of Japanese direct investment decreased sharply in the wake of the 1973/74 oil crisis, investment in Indonesia continued to rise (see Table 2.7). From 1974 onwards, however, the greatest increase was in resource-orientated investment (see Table 2.8). The most notable case was the Asahan project. P.T. Indonesia Asahan was set up in 1976 with finance from twelve Japanese trading and aluminium smelting firms and large-scale support from the Japanese government. The project involves the construction of two hydro-electric power stations and an aluminium smelter on the River Asahan in North Sumatra. The scheme, which is regarded by the Suharto government as the key to an ambitious regional development programme, was originally expected to cost some $ 800 million, but by the beginning of 1979 the cost estimate had risen to almost $ 2 billion, 90% of which is to be financed from Japan(70). Other major ventures into resource production included a production-sharing arrangement between PERTAMINA and the Japanese oil company Teikoku Oil, signed in 1978, and loans of over $ 1.4 billion provided by Japanese private companies and government agencies for the production of Indonesian LNG(71).

As far as manufacturing investment is concerned, the period since 1974 has seen a trend away from light industries such as textiles and towards the production of chemicals, agricultural machinery etc. New projects initiated between 1975 and 1979 have included the manufacturing of truck and motor-cycle parts by Suzuki Motor Co., of tyres by a consortium led by Bridgestone Tyre and of cement by a joint venture including Mitsui Bussan and Onoda Cement. Recent public statements by Japanese businessmen (for example at the First Indonesia-Japan Joint Economic Conference in March 1979) have emphasised the need to invest in export-orientated manufacturing, and since this approach is also supported by the latest World Bank reports on the Indonesian economy it may well represent the future trend of Japanese manufacturing investment in Indonesia[72].

An assessment of the impact of Japanese investment on the Indonesian economy is a complex matter, but an outline of the main issues involved may be helpful at this stage. In the first place it should be noted that Japanese investment in Indonesia has been highly visible. In particular, the great number of Japanese manufacturing projects located in urban areas created an awareness of Japan's economic presence amongst Indonesian workers and urban elites.

Next we must consider to what extent Japanese investment has fulfilled the objectives of Indonesia's foreign investment policies. Under the Second Five Year Development Plan (Repelita II, 1974-79), the development priorities which foreign investment was supposed to support were:

1. the contribution to national output;
2. the creation of employment opportunities;
3. the spread of economic activities to regions outside of Java;
4. the promotion of participation of Indonesian society in development;
5. the promotion of a more equal pattern of income distribution"[73].

In order to further these aims, the Indonesian government has introduced a number of measures providing special incentives for investment in priority industries and areas, and promoting increasing Indonesian participation in joint ventures.

Japanese investment has undoubtedly made some "contribution to national output". During the first phase of Japanese manufacturing investment in Indonesia (1966-71) textile output rose from 250 million metres to 600 million metres. Timber production, in which Japan was a major investor, also rose rapidly. In 1959 timber exports had only amounted to just 1% of Indonesia's total exports: by 1974 they amounted to 10%, and 32% of non-oil exports[74]. Japanese companies' contributions to the other major development objectives, however, are more questionable. By 1976 it was estimated that just over 45,000 Indonesians were employed in Japanese financed joint ventures. In addition to this, one may assume some secondary creation of jobs as the indirect impact of Japanese investment. On the other hand it is clear that Japanese manufacturing investment in some industries, notably textiles, has actually displaced more jobs than it created by introducing more capital-intensive methods of production. It can be argued, of course, that this is an inevitable consequence of industrialisation which would have occurred whether the capital invested had been Japanese, American or Indonesian. But the fact remains that the destruction of jobs in traditional small-scale textile-production created some hostility towards Japanese investors and raised certain doubts about the suitability of the production-methods introduced by foreign companies.

The regional spread of Japanese investment (and, it may be added, of other foreign investment) also gives little encouragement to the idea that it is assisting in a more even balance of regional development. Up to the end of 1976 78% of the total number of Japanese investment projects were located in the relatively developed and overcrowded island of Java, and of these

65% were the Jakarta metropolitan region and the surrounding area of West Java. By contrast it should be pointed out that some exceptionally large projects (including the Asahan project) are located in remote and underdeveloped areas of Indonesia. But in many cases these are highly capital intensive mining or forestry ventures providing little local job-creation. The issues of investment in remote regions of the archipelago also highlights one of the dilemmas of development in a country such as Indonesia: to what extent should the interests of the local population - often ethnically and culturally far removed from that of the governing elite - be made to serve the needs of national development as a whole? Japanese forestry investment in Kalimantan, for example, has contributed to the expansion of Indonesian timber exports, but has at the same time hastened the destruction of the traditional way of life of the local Dayak population(75).

In order to ensure the "participation of Indonesian society in development" the Indonesian government has sought to ensure that most foreign investment projects take the form of a joint venture with a considerable "pribumi" (indigenous) share of equity capital, and that where possible a majority holding in such ventures should pass into Indonesian hands within a fixed period (usually ten years)(76). This is a subject which will be discussed further in Chapter IV. Here it may be said that Japanese companies have a better record of accepting minority holdings in joint-ventures than their American or European rivals. It is also evident, however, that Indonesian ownership of capital in joint ventures is not necessarily reflected in managerial control. This is a consequence both of the greater managerial expertise of Japanese partners, and of the fact that Japanese joint ventures tend to have a high debt-equity ratio and be heavily dependent on loans from Japanese firms(77). The issue is also complicated by the fact that in many cases the local partners in joint-ventures come from the Chinese ethnic minority.

There is no evidence to suggest that the presence of Japanese companies in Indonesia has contributed to "a more equal pattern of income distribution". Although some economists have sought to refute the view that the gap between rich and poor is actually widening, there is little reason to believe that the great majority of Indonesians are deriving any substantial benefits from the growth of foreign investment. According to a recent survey by the U.N. International Labour Office: "within the past decade or so millions of Javanese have moved from mere poverty towards the perilous state of indigence, in which there is little or no access to work or food"(78). A fundamental problem from the point of view of those who seek to present the multinational corporation as an "engine of development" capable of solving the problems of the Third World is that however much foreign firms may speed industrialisation, a very large number of people in a nation like Indonesia will remain dependent upon subsistence agriculture for a very long time. And it is precisely in the area of small-scale agriculture that the multinational corporation has least experience and least to contribute. The importance of agricultural development is clear to some of the leading Japanese investors in Indonesia(79) and attempts have been made to combine investment in export-orientated food production with the development of small-holder production for local consumption. But such schemes have so far had little commercial success, and remain essentially show-case "development projects" which could not be repeated on a large scale.

Japanese investment therefore may have contributed to the growth of the Indonesian GNP - running at a rate of 7% per annum in the period 1974-79 - but it appears to have done little to relieve the serious problems of unemployment, shortage of managerial expertise, and wide economic disparities between different regions and social classes in Indonesia. Any more complex assessment of the costs and benefits arising from Japan's economic presence in Indonesia would involve an analysis of the possible alternative strategies for development, and would therefore take us beyond the scope of this study.

TABLE 2.1

GNP AT CONSTANT MARKET PRICES (US $ billion)

	JAPAN		INDONESIA	
Year	At 1963 prices	Index	At 1960 prices	Index
1950	21.8	100	5.9	100
1955	31.4	144	7.8	132
1960	50.0	229	8.6	146
1961	57.8	265	9.1	154
1962	61.2	281	9.3	158
1963	68.0	312	9.0	152
1964	77.3	354	9.4	159
1965	80.9	371	9.5	161
1966	89.1	409	9.7	164
1967	101.2	464	9.9	168
1968	115.7	531	10.9	185
1969	129.5	594	11.7	198
1970	143.1	656	12.6	213
1971	152.1	698	13.4	227
1972	165.6	760	14.3	242
1973	183.8	843	15.9	269

Source: World Bank: World Tables 1976

TABLE 2.2

JAPAN AND INDONESIA - COMPARATIVE SOCIAL INDICES

	JAPAN	INDONESIA
Population (millions)	109.7 (1974)	132 (est)
Population under 15 (millions)	24.4	*
Population aged 5-9 (millions)	*	50
Birth rate per 1000	19.4	44 (est)
Death rate per 1000	6.6	20 (est)
Secondary school places (millions)	4.7	2.6
Doctors per 1000	1.137	0.046
Telephones per 1000	282.59	1.88
Motor cars per 1000	217.87	2.15

(* = not available)

Source: Far Eastern Economic Review: Asia Yearbook 1976

TABLE 2.3

STRUCTURAL ANALYSIS OF JAPAN'S TRADE WITH INDONESIA
(SELECTED YEARS)

Exports to Indonesia (US $ m.)

Commodity	1956	1966	1976
Foodstuffs	- ( )	1.4 (1.2%)	11.4 (0.7%)
Textiles	41.5 (54.6%)	47.0 (39.3%)	88.3 (5.4%)
Non-ferrous metal products	9.8 (12.9%)	2.0 (1.6%)	33.6 (2.9%)
Chemicals	- ( )	13.1 (10.9%)	201.4 (12.3%)
Iron and Steel	4.9 (6.4%)	12.3 (10.3%)	356.4 (21.7%)
Machinery	6.0 (7.9%)	30.7 (25.6%)	805.5 (49.1%)
Other	13.8 (18.2%)	22.0 (18.4%)	142.0 (8.7%)
Total	76.0 (100.0%)	119.8 (100.0%)	1638.6 (100.0%)
% of Japan's total exports	3.0%	1.2%	2.4%
% of Indonesia's total imports	15.6%	26.8%	26.2%

(continued)

TABLE 2.3 (continued)

STRUCTURAL ANALYSIS OF JAPAN'S TRADE WITH INDONESIA (SELECTED YEARS)

	Imports from Indonesia		
Commodity	1956	1966	1976
Sugar	10.4 (11.4%)	3.2 (1.8%)	- ( )
Copra	6.5 (7.1%)	5.8 (3.3%)	- ( )
Rubber	26.7 (29.2%)	40.7 (23.1%)	20.7 (0.5%)
Timber	* ( )	* ( )	682.6 (16.7%)
Crude oil	18.1 (19.8%)	79.8 (45.4%)	2684.1 (65.6%)
Bauxite	2.5 (2.7%)	5.5 (3.1%)	13.4 (0.3%)
Other non-ferrous metals	- ( )	- ( )	99.0 (2.4%)
Other	27.2 (29.7%)	135.9 (23.2%)	590.9 (14.4%)
Total	91.4 (100.0%)	175.9 (100.0%)	4090.7 (100.0%)
% of Japan's total imports	2.8%	1.8%	6.3%
% of Indonesia's total exports	8.3%	17.8%	41.7%

(* = not available)

Sources: Matsuo "Structural Analysis of Japan's Trade with Southeast Asia"; Keidanren: Indonesia-Genjo to Mondai-ten; Nishihara: The Japanese and Sukarno's Indonesia: MITI: Tsusho Hakusho 1977: Indonesia, Buro Pusat Statistik: Foreign Trade Statistics, 1977.

TABLE 2.4

JAPAN'S TRADE WITH INDONESIA 1947-1976 (U.S. $ m.)

Year	Exports to Indonesia	Imports from Indonesia	Balance
1947/50 (annual average)	35.4	10.4	+25
1951/55 (annual average)	95.6	64.5	+31.1
1956/60 (annual average)	75.2	64.2	+11.0
1961	154.8	86.7	+68.1
1962	116.3	92.9	+23.4
1963	99.0	104.8	- 5.8
1964	122.1	130.7	- 8.6
1965	207.2	149.3	+57.9
1966	118.6	175.5	-56.9
1967	155.1	195.0	-39.9
1968	146.6	251.8	-105.2
1969	235.8	397.3	-161.5
1970	315.8	636.5	-320.7
1971	452.8	854.5	-401.7
1972	615.5	1,197.5	-582.0
1973	902.4	2,213.6	-1311.2
1974	1,450.3	4,571.5	-3121.2
1975	1,849.8	3,430.3	-1580.5
1976	1,638.6	4,090.7	-2452.1

Source: Japan Min. of International Trade and Industry Tsusho Hakusho, various years.

TABLE 2.5

TWENTY LARGEST JAPANESE OVERSEAS INVESTING COMPANIES (1978)

	Name of Company	Principal Business	Overseas investment Outstanding (million ¥)	No. of affiliated companies overseas
1.	Mitsui Bussan	Sogo shosha	246,800	228
2.	Mitsubishi Shoji	Sogo shosha	144,300	227
3.	Marubeni	Sogo shosha	125,300	229
4.	Itoh Chu	Sogo shosha	109,400	210
5.	Sumitomo Shoji	Sogo shosha	59,000	129
6.	Matsushita Denki	Electrical goods	52,400	56
7.	Toray	Textiles	50,500	52
8.	Kawasaki Steel	Steel	40,800	27
9.	Teijin	Textiles	40,500	33
10.	Tomen	Sogo shosha	39,400	84
11.	Nissho Iwai	Sogo shosha	38,500	122
12.	Shin-Nihon Steel	Steel	37,400	26
13.	Honda Motor Co.	Cars/Motor-cycles	34,700	26

(continued)

14.	Mitsubishi Heavy Industries	Heavy industry	34,400	22
15.	Nissan Motor Co.	Cars	32,600	16
16.	Sony	Electrical goods	31,700	22
17.	Nihon Usiminas	Mining	29,700	1
18.	Ishikawajima-Harima Heavy Industries	Shipbuilding	25,300	18
19.	Kanematsu Gosho	Sogo shosha	24,900	83
20.	Toshiba Electric	Electrical goods	21,600	45

Source: Toyo Keizai Kaigai Shinshutsu Kigyo Sorai 1979

TABLE 2.6

JAPAN'S OVERSEAS INVESTMENT
SEPTEMBER 1976 BREAKDOWN BY SECTOR AND REGION

U.S. $ million

	N America	C and S America	Asia	Middle East	Europe	Africa	Oceania	Total
Manufacturing Industries	965	1,670	2,131	254	282	61	331	5,694 (32%)
Agriculture and Forestry	36	60	105	2	0	4	35	242 (1%)
Fisheries and Marine Prod.	18	28	40	0	2	27	22	138 (1%)
Mining	401	586	1,797	398	851	353	407	4,793 (27%)
Construction	58	64	23	3	4	0	2	155 (1%)
Commerce	1,674	204	150	3	303	2	89	2,426 (14%)
Banking and Insurance	459	255	155	18	472	1	28	1,388 (8%)
Others	640	238	466	62	748	198	50	2,403 (13%)
Branch Offices	45	4	43	397	52	1	3	544 (3%)
Total	4,297 (24%)	3,110 (17%)	4,911 (28%)	1,137 (6%)	2,714 (15%)	648 (4%)	967 (5%)	17,784 (100%)

Source: MITI: Japan's Overseas Investments, 1977

TABLE 2.7

JAPANESE DIRECT INVESTMENT IN INDONESIA 1951-1976

Year	No. of Cases	Value (US $ m.)
1951/69	44	194
1970	34	49
1971	48	112
1972	61	119
1973	143	341
1974	113	375
1975	118	585
1976	84	929
Total	645	2,703

Source: Ministry of Finance, Japan.

TABLE 2.8

SECTORAL ANALYSIS OF JAPANESE INVESTMENT IN INDONESIA

SECTOR	1973		1977 (Sept.)	
	US $ m.	%	US $ m.	%
Agriculture Forestry Fisheries	51	12.6%	116	3.8%
Mining	75	18.5%	2015	67.2%
Manufacturing	212	52.2%	714	23.8%
Construction	4	1.0%	9	0.3%
Commerce Transportation Services etc.	64	15.8%	146	4.9%
Total	406	100.0%	2999	100.0%

Source: Bank of Japan.

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III "JAPAN, INCORPORATED" AND INDONESIA

The study of transnational politics involves, as was pointed out in the introduction, an examination, not only of the "horizontal" links which are created between one nation and another by the multinational corporation, but also of "vertical" links between the multinational and national governments in the home and host countries. Michael Hodges begins his analysis of multinational corporations in Britain from the hypothesis that "foreign investment will become more salient as a policy issue for host governments as government intervention in the host economy increases"(1). But it is also clear that the political impact of the multinational company abroad will depend to a large extent on the interaction of companies and government in the home economy. In the case of Japan overseas reaction to the Japanese multinational company has been strongly influenced by the fear that Japanese firms are closely linked with one another and with their home government, and that they therefore act less as business rivals than as agents of national policy. This is a view most forcibly expressed by a former Philippines Secretary of Foreign Affairs, Raul Manglapus, who has written:

> ". . . the Japanese global enterprise, unlike its American counterpart, is not really one individual, though giant, enterprise competing with its fellow individual national or foreign enterprises. The Japanese challenge is not the Japanese corporation. It is not a group of competing corporations. It is not even 'Japan Incorporated', if that is taken to mean only the total co-operation between giant corporations, the flawless collaboration between giant groups. The Japanese challenge is Japan itself, a solid, homogeneous harmonious, co-operative unit engaged in world business"(2).

What evidence is there to support the view that Japanese companies co-operate with one another in the face of foreign competition? Is it true to suggest that their overseas activities are controlled by the Japanese government, or conversely, that they themselves mould Japanese foreign policy to suit their own needs? In what ways have the interests of Japanese multinational companies influenced the development of Japan's post-war policies towards Indonesia? These are the questions which this chapter will attempt to answer.

Multinational Companies and Nation States

There are many ways in which we can classify theories about the multinational corporation. For example, theories may be grouped according to the political pre-conceptions of their proponents - into "Marxist" theories, "liberal" theories, etc. - or they may be grouped according to their normative attitudes towards the multinational - into "pro" and "anti" multinational theories. For the purposes of this chapter it may be useful to consider such theories according to their approach to national interests, dividing them very broadly into those which identify the multinational company with the interests of its home nation; those which see the rise of the multinational as eroding the national sovereignty of all, both home and host, countries; and those which view the multinational as redistributing political power away from the home nation and towards host nations.

The dividing lines between these groups of theories do not necessarily coincide with traditional ideological divisions between "left" and "right". For example, the first of our three viewpoints, which associates the multinational with its home country's national power, has been supported both by neo-Marxist theorists such as Harry Magdoff and Joyce and Gabriel Kolko(3) and also by writers like Jean-Jacques Servan-Schreiber whose book, The American Challenge, was based on mercantilist concepts of economic nationalism(4). The neo-Marxist view begins from the assumption that political power in advanced capitalist countries reflects the interests of big business, which since the 1960's can be largely equated with multinational business.

Thus Paul Sweezy and Harry Magdoff, discussing the American multinational corporation, have written that ". . . the government of the United States is controlled by the very same corporations which have spread their tentacles out into every corner of the globe"(5). Neo-mercantilists like Servan-Schreiber, on the other hand, tend to emphasise the authority of state political power, and to assume that governments will therefore use their multinational companies as agents of the national interest. Most writers, whether neo-Marxist or neo-mercantilist, would agree that national business interests are not monolithic or all-powerful. They recognise that within the broad framework of "national interest" there is room for conflicts of interest between rival business or political groups. But it is in the very nature of this approach that it tends to focus attention more on the areas of co-operation between multinational corporations and their home governments than on areas of disagreement in the government-business relationship. The conclusions of those who view the multinational corporation as an extension of national economic power tend to point to a future of increasing international conflict. This conflict is seen as arising both between the industrialised western countries which are rival centres of multinational business and between North and South, as multinationals based in developed countries aggravate the economic contradictions in the Third World countries in which they operate.

In the late 1960's and early 1970's these views were challenged by a new set of ideas on the multinational corporation. The new approach, which was put forward by works such as Raymond Vernon's <u>Sovereignty at Bay</u>(6) and Charles P. Kindleberger's <u>American Business Abroad</u>(7), suggested that, as companies became increasingly multinational, so they lost their identification with, and loyalty to, the nation in which they were based. Furthermore, it was argued, the ability of multinational firms to move capital and productive facilities from one country to another, and their ability to evade national taxes by the use of transfer pricing, etc., was eroding the sovereignty of national governments. Since the activities of multinational companies could only be controlled by international co-operation, this argument continued, the growth of the multinational firm would inevitably produce a transfer of power from the nation state to supranational regulatory bodies. This view was associated in particular with a number of American liberal theorists, who tended to emphasise the beneficial effects which would arise from declining nationalism and growing internationalism. But it was also supported by writers like Stephen Hymer, who presented a very different vision of the future. While agreeing that the multinational would weaken national sovereignty and increase the integration of the world economy, Hymer argued that the resulting world order would be a hierarchical one, in which power would be concentrated in metropolitan centres like New York, London, Paris, Bonn and Tokyo(8).

As already mentioned, the popular concept of the Japanese multinational has tended to emphasise the links between business and the national interest in Japan. Even Raymond Vernon, who was one of the first to put forward the view that the multinational was weakening national sovereignty, found it necessary to state that "In many ways . . . the overseas ventures of the Japanese have come close to conforming with the Marxist assumptions about ties between imperialism and capitalism"(9). There have, however, been some attempts to apply the "Sovereignty at Bay" theory to Japan, and to argue that the multinational spread of Japanese business interests will eventually erode the traditionally close relationship between government and big business in Japan. One recent study, for example, predicts that, in Japan as elsewhere the multinational will develop into "a global business, unhampered by national boundaries and nationality, that separates politics from economics"(10). The evidence for and against this theory will be looked at later in this chapter.

Lastly, however, it should be noted that a third theory of the multinational has been gaining popularity since the mid-1970's. Influenced by the success of economic nationalism in the OPEC nations and other Third World host countries, some writers have now sought to construct a cyclical model, according to which the multinational begins by conforming to the interests of its home nation, but eventually becomes a captive in the hands of host country economic nationalists, thus helping to effect a transfer of power from home to host nation. Bergsten, Horst and Moran, for example, conclude that the "shift in power from multinationals to host governments . . . is cumulative, irreversible and speeding up all the time"(11).

The rise and fall in popularity of the three theories outlined here may have something to do with the course of recent American history. Since the U.S.A. is the main home of the multinational corporation, most theorists have naturally tended to generalise from the American experience. In the American case, the growth of academic interest in the multinational corporation coincided with a relative decline in the predominance of the United States as a world economic power, and this fact perhaps helps to explain the shift in emphasis from the notion of the multinational as an agent of national power, via the "Sovereignty at Bay" concept, to the image of the multinational as a cause of the home country's national decline. Conversely, in the Japanese case, the growth of overseas direct investment so far has coincided with a period in which Japan was increasing its importance as a world economic power, and this in turn may account to some extent for the popular tendency to view the Japanese multinational from a neo-mercantilist to neo-imperialist standpoint.

The Japanese Government-Business Relationship

The attitude to Japanese business abroad is also strongly influenced by the popular notion of "Japan, Incorporated". The image of the multinational as a force behind the economic expansionism of its home country implies the existence of some sort of "power elite", and, as one recent study has pointed out, while the power elite model "enjoys a relatively small but devoted following" among American political scientists, among students of Japanese politics it is "the orthodoxy and its critics are the heretics"(12).

There are a number of reasons why the power elite model has exercised such a strong sway on Japanese political science. One is the dominance of the conservatives in post-war Japanese politics. Right-wing parties have been in power continuously since 1948, and since the 1955 merger which created a single conservative grouping - the Liberal Democratic Party (LDP) - this party has enjoyed a virtual monopoly of political power. Its position as the permanent party in power enabled the LDP to forge close and stable links with the bureaucracy and with big business interests. Connections with big business are strengthened by the fact that much of the party's finance comes from private companies, either directly or via business organisations such as Keidanren (the Federation of Economic Organisations)(13). Co-ordination between bureaucracy, business and the LDP is cemented both by frequent consultations and by the system of "amakudari" (literally "descent from heaven") by which senior bureaucrats retire early and often enter private business or politics (almost invariably on the conservative side). The need for rapid growth in the post-war period led to a relatively high degree of government intervention in the economy, notably in the form of "administrative guidance" from the Ministry of International Trade and Industry to big business. This guidance, however, was not autocratically imposed but was formulated by a continuous process of consultation between the bureaucracy and leading big business circles (commonly known in Japan as zaikai), thus once again re-enforcing the impression of a power elite at the centre of Japanese policy making.

At the same time we should note the absence of elements which might have introduced conflicting interests into the Japanese political structure. The opposition parties - of whom the most important are the Socialist Party, the Communist Party, the middle-of-the-road Democratic Socialist Party, and the Buddhist Komeito - remain divided by irreconcilable ideological differences and have, therefore, been able to exert only a limited influence on Japanese political life. The military have lost the political role which was so important in the pre-war period. Some interests other than those of big business have been effectively organised into pressure groups - among the most notable are the farmers union Nokyo, the Japan Medical Association and the trade union organisations, of which the largest is Sohyo. These groups differ from the business elite, not in their power to influence legislation which directly affects their interests, but in the scope of their influence. The voice of business has an important impact not only on industrial policy but also on a wide range of issues including foreign policy, where the impact of these alternative interest groups is felt little if at all(14).

The traditional picture of the Japanese power elite is therefore of an "unholy trinity" consisting of the LDP, the bureaucracy and big business. The precise structure of this trinity is open to varying interpretations. Many writers have seen the bureaucracy as being at the apex of the power triangle(15). Others have emphasised the power of big business(16). It has been common to argue that the formally sovereign government organs of Prime Minister and cabinet are in fact relatively weak; that, as one commentator has put it "in countries such as Japan elected governments pull on strings whose other ends are not actually connected to anything"(17). A number of recent studies, on the other hand, have emphasised the power and effectiveness, at least of individual politicians, in making and implementing decisions(18). What appears to be certain is that all three elements of the triangular relationship work closely together, that their respective roles are not always clearly defined, and that business in Japan, instead of being viewed as part of "society", whose relationship with "the state" is a vertical and subordinate one, must be seen as being closely integrated into the ruling structure.

The concept of "Japan, Incorporated", however, emerged not only from analysis of the mechanisms of Japanese policy-making but also from theories on the structure of Japanese society. Again and again writings on Japanese society emphasise the contrast between Western individualism and Japanese identification with the group, which in its widest sense becomes identification with the nation(19). As in other Asian societies (including Indonesia) consultation and consensus are preferred to the "tyranny of the majority" and responsibility is shared amongst the group rather than being pinned on an indentifiable individual. The most comprehensive and influential account of the workings of the Japanese social system is that of the Japanese sociologist Nakane Chie, who has developed the theory of the "vertical society"(20). According to this theory, the Japanese individual identifies himself (or herself) not according to "attribute" (e.g. as a farmer, car worker, teacher or politician) but according to "frame" (as a member of x village, y company or z school). The structure of these "frame" groups is vertical, like the structure of the family, and horizontal links between groups and between individuals are poorly developed. The overall structure of society is therefore like an inverted "v", a triangle without a base. Hence

> "Japanese history knows no instance of oligarchy. Nor have the political parties of modern Japan ever had recourse to the device of the coalition. One party always dominates the others, and there has always been a single leader, legitimate and acknowledged by all factions, though not necessarily a man of power"(21).

This image of a "homogeneous society built on a vertical organisational principle" in which "the power at the top . . . always succeeds in imposing its aims"(22), has done much to increase the alarm with which outsiders have viewed the arrival of the Japanese multinational corporation. But in some cases this alarm has been based on a misunderstanding of the dynamics of Japanese society. Nakane's "vertical society" refers to the formal structure of social relationships, but as she herself states, the ceremonial leader (first Emperor and later Prime Minister in political context) is "not necessarily a man of power". Indeed it could be argued that despite the formal appearance of things, power in Japan (at least since 1868) has <u>always</u> been wielded by an oligarchy of influential and often competing individuals: in the Meiji period by the handful of dominant reformers whom historians in fact refer to as the "Meiji oligarchs"; in the Taisho and early Showa periods by conflicting groups of prominent politicians, bureaucrats and <u>zaibatsu</u> leaders, and as war approached, increasingly by rival groupings within the armed forces; in the post-war period by shifting coalitions of political, bureaucratic and business interests.

The contention of this study is that if we wish to compare the Japanese government-business relationship with the structure of a private corporation, the comparison should not be with the pre-war _zaibatsu_ or even the western-style conglomerate, whose head office wields _de facto_ power over its various branches, but rather with the more modern and uniquely Japanese _kigyo shudan_, whose structure was discussed in the previous chapter. Like the _kigyo shudan_, the Japanese "power elite" operates within a framework of shared interest and identity. But, as in the case of the _kigyo shudan_ this framework leaves substantial scope for competition and even conflict between the group's component parts. Just as the Presidents' Club did not constitute the locus of real decision-making in the _kigyo shudan_, so in the Japanese political structure the process of policy formation should be looked for less in formal governmental bodies such as the Cabinet than in informal groupings based on personal contact between leading politicians, bureaucrats and businessmen. Lastly, just as in the _kigyo shudan_ the relative power of member companies varies according to circumstances and to the personalities of their leaders, so in the governmental structure the influences of politicians, ministries and business interest groups will depend upon the nature of the decisions to be made and on the personalities of individual decision-makers.

Multinationals and Japan's Policy Towards Indonesia: The Framework of Consensus

As we have seen, there are two approaches to the concept of the multinational as an agent of national policy. One approach emphasises the power of the state, which uses home-based multinationals to pursue its interest abroad. The other emphasises the power of the multinational, which uses the mechanisms of government to back up its ventures overseas.

In actual practice, looking at the case of Japan's relations with Southeast Asia, it is very difficult to make the distinction which differentiates these two alternative approaches. For most of the post-war period, at least as far as Southeast Asia was concerned, the interests of business and what the government conceived to be the interests of the nation were in harmony. There were, as we shall see, few instances where government and business confronted each other as such, and few cases where one forced its policies against the better judgement of the other. Who therefore was using whom?

It may be illuminating to start with some comparisons with the pre-war period. In pre-war years the interests of business and government in Southeast Asia were generally harmonious. However, with the growing involvement of Japan in mainland Asia, the government began to take an increasingly active role in pushing economic links with the "South Seas". This involved the formation of public policy companies, and, in 1940-41, the use of businessmen as economic negotiators with the Dutch East Indies. Although the fundamental aims of government and business were not antagonistic, the government was in this instance more interested in the overall Japanese strategy in Asia than in the profitability of Japanese business in the Indies. In the post-war period it is harder to find similar instances where the government took a clear initiative in policies towards Indonesia. Although, at a governmental level, a reparations agreement was signed in 1958 and good relations were established with the Suharto government from 1966 onwards, these policies were carried out with the strong prompting of private business and with business interests clearly in mind. In general, to borrow Pempel's words, the government "served as a doorman between domestic Japanese society and the international arena, determining what could enter or leave Japan and on what conditions"(23), but leaving the precise shape of Japan's economic relations with Indonesia very much in the hands of private business. It is only since the mid-1970's that the government has recognised the need to assume more direct control over the development of links with Southeast Asia, as indicated by the visit of Prime Minister Fukuda to ASEAN countries in 1977 and the subsequent increase of large, government-supported investment projects in Indonesia.

We can define four different, though inter-related, ways in which Japanese multinational firms and the Japanese government have co-operated in the creation of Japan's relationship with Southeast Asia:

a) In the broadest sense, by developing a consensus on issues such as the need to invest overseas and the need to develop foreign sources of raw materials, they have jointly shaped the framework within which foreign policy is made.

b) Multinational companies have encouraged the government to improve political relations with countries where they wished to trade and invest.

c) In other instances, multinational firms have expanded independently abroad, and then, when their overseas activities encountered problems, have called on the Japanese government for political or economic support.

d) In many cases the government and business groupings have jointly and simultaneously initiated new developments in relations with Indonesia and other Southeast Asian countries.

Examples of all these types of government-business inter-action can be found in the history of Japan's relations with Indonesia. But before looking at these examples, it is necessary to introduce the dramatis personnae of business, governmental and semi-governmental bodies involved, and to look in a little more detail at the mechanisms of government-business co-operation in Japan.

There are a number of organisations which co-ordinate and articulate the interests of Japanese business. The most wide-ranging and influential of these is Keidanren (Keizai Dantai Rengokai - the Federation of Economic Organisations) which exists to represent the interests of big business on all relevant political issues. (It should be noted that keidanren is not concerned with management-labour relations or pay bargaining, which are handled by a separate organisation). Keidanren's many committees include an Indonesia committee, established in 1967, which has carried out research, published pamphlets and organised meetings between prominent Japanese businessmen and business and governmental figures in Indonesia. Keidanren is not the only forum for the political interests of business. Others include the Keizai Doyukai (Committee for Economic Development) an independent grouping of prominent businessmen whose policy proposals tend to be more overtly ideological, and sometimes rather more liberal, than the consensus views put forward by Keidanren; and Nissho (Nihon Shogyo Kaigisho - Japan Chamber of Commerce) Japan's oldest business association, which brings together smaller as well as large companies from all parts of the country. The interests of specific industrial sectors are also represented by bodies such as the Nihon Tekko Remmei (the Japan Iron and Steel Federation) and Jidosha Kogyo Kai (the Automobile Industry Association)(24).

Using conventional models of a pluralistic political system, we would expect these organisations to act as pressure groups, lobbying political parties, or occasionally ministries, for desired changes in policy. As suggested already, this model does not give an accurate guide to the policy-making process in Japan. It may however be useful to borrow it for a moment as an analytical tool to distinguish between the organisations which exist to co-ordinate and express the views of business and the political and administrative bodies which are theoretically responsible for the formation and execution of policies. On the legislative side, because of the dominance of the LDP, big business has relatively little interest in influencing the policies of minority parties, at least as far as foreign affairs are concerned. But the LDP, far from being a monolithically united party, is more like a coalition of factions, each grouped round a prominent political personality. These factions are not divided by strong ideological differences, though they may at times adopt opposing standpoints on individual policy issues. No single faction is large enough to control the party on its own, and so the process of creating cabinets requires that several factions agree to work together, supporting the prime ministership of one faction's leader. Because of this it is important to cultivate links with all the main LDP factions, not just the one whose leader is currently in power. As well as the factions, which represent the personal following of potential prime ministerial candidates, the LDP also contains a number of sub-groups and study clubs which represent specific policy interests. One example is the Asia-Africa Problems Study Group, created by liberal LDP members, which in the 1960's supported the recognition of the People's Republic of China and also backed Sukarno's position in the Konfrontasi with Malaysia. Such groups, however, normally represent interests outside the mainstream of LDP politics, and have much less influence on the policy-making process than the factions mentioned earlier(25).

In the administration, the main bodies concerned with relations with Southeast Asia are the Foreign Ministry, the Ministry of International Trade and Industry (MITI) and to a lesser extent the Finance Ministry. The Foreign Ministry of course has overall responsibility for relations with other nations, but because of the highly economic nature of Japan's post-war links with Southeast Asia, a particularly important role has been played by MITI. MITI, for example, has been responsible for vetting foreign investment proposals and for co-ordinating large-scale "national" projects like the Asahan Project. Apart from the ministries themselves the importance of several other official bodies should be noted. The Bank of Japan and the Export-Import Bank (under the control of the Ministry of Finance) provide financial support for foreign investment projects. The Overseas Economic Co-operation Fund (OECF), under the jurisdiction of the Economic Planning Agency, is the main body responsible for the disbursement of Japanese official aid, including soft loans to some private investment projects in less developed countries. The Japan International Co-operation Agency (JICA), under the Foreign Ministry, deals with technical assistance. Lastly, a public corporation, the Japan Petroleum Development Corporation (JPDC), provides financial assistance to private firms engaged in overseas oil exploration.

But the relationship between these political and official bodies and the business groups discussed above is far closer and more complex than the notion of "pressure groups" and "lobbying" would suggest. In this context we need to consider the particular importance of two mechanisms for co-ordinating the interests of government and business. These are, firstly, the large number of advisory committees and research bodies established by the various ministries, and secondly, the many influential privately-financed research groups. One form of government-appointed advisory committee is typified by _Sankoshin_ (Sangyo Kozo Shingikai - the Council on Industrial Structure). _Sankoshin_ brings together prominent academics, business leaders and bureaucrats to consider long-term trends in the Japanese industrial structure. Its deliberations are put together into annual reports to the Minister for

International Trade and Industry. A much larger and more formally structured advisory body is Ajiken (Ajia Keizai Kenkyusho - literally the Asia Economic Research Bureau, but normally known in English as the Institute of Developing Economies). Ajiken is audited by MITI and financed largely from government sources. It maintains a large staff, abroad as well as in Japan and conducts research into the problems of development particularly in South and Southeast Asia. Its reports do not necessarily represent the view of the government or of Japanese overseas investors, but by bringing together the various interests involved in Japan's relations with the Third World, it undoubtedly helps to shape the policies both of Japanese multinationals and of Japanese government.

The work of Ajiken is paralleled to some extent by that of privately-financed bodies like the International Development Centre of Japan (IDCJ), headed by the prominent development economist (and Foreign Minister from 1979 to 1980), Okita Saburo. But the distinction between officially-financed and privately-financed research groups is not a sharp one. The IDCJ also receives some governmental support, and has prepared reports for the government as well as acting as consultant to multinational companies. The same fusion of interests applies to the very large and influential private research bodies such as the Nomura Research Institute and Mitsubishi Research Institute whose far-ranging reports on economic and international trends have an undoubted impact on the thinking of the political and business leadership.

Lastly, great emphasis must also be put on the close personal ties which exist between prominent governmental and business figures independently of the formal structures of policy making. It is here that the role of the zaikai (literally "financial circle") becomes significant. The term zaikai applies to the very highest echelon of big business leadership, whose members have become national figures in their own right. Zaikai members, having reached the ceremonial peak of the hierarchy in the largest private corporations no longer need to devote all their energies to company business. They are therefore able to take an active role in national affairs. Because of this, and because of their long experience in the higher ranks of Japanese financial life, they will have had opportunities to cultivate close connections with leading figures in the ministries and the LDP. As Bryant has noted, zaikai leaders tend to take a wide view of political issues, rather than acting strictly as lobbyists for the day-to-day interests of their own corporation, and this fact may help to explain the undoubted, though not easily quantifiable, influence which they exert on the development of Japan's foreign relations(26).

We can now begin to fit the activities of these varied organisations and individuals into the framework of the four types of government-business interaction outlined at the beginning of this section. First, let us consider the broad basis of consensus on the aims of Japan's overseas economic policy. From the post-war return of Japan to the Asian political arena until the early 1970's the prevailing approach to relations with Southeast Asia was a simple one. Japan needed Southeast Asian raw materials; Southeast Asia needed Japan as a source of manufactured goods and of financial assistance to achieve economic development; the two should therefore co-operate through trade, reparations, private investment and economic aid. This argument could be, and often was, expressed in terms which bordered on economic determinism - as if Japan and Southeast Asia could be seen as pieces of a jigsaw just waiting for someone to put them together. And the assumption was that completing the jigsaw would be to the mutual advantage of all concerned. The logic of this was, however, not quite as overwhelming as it might appear. Southeast Asia was not the only possible market for Japanese manufactured goods. The development of transportation made geographical proximity less important than it had been in the past, while the barriers to improved relations with some neighbouring areas, such as the Soviet Union and China, were political rather than geographical or economic ones.

The consensus on the need for close economic relations with Southeast Asia did not arise spontaneously, therefore, but was consciously promoted by various loosely inter-related groups of businessmen, politicians and economists. As early as 1951, for example, a group of businessmen led by Matsunaga Yasuzaemon, the leading figure in the Japanese electrical power industry, formed a private Asia Economic Council to press for improved relations with Southeast Asia. This group, which included a number of prominent _zaikai_ leaders, was frequently consulted by the Yoshida administration on matters concerned with Southeast Asian policy. It was succeeded by a series of other similar bodies, some sponsored by government, others established by private business figures which helped to lay down the guidelines for Japan's policy towards Southeast Asia in the 1950's and 1960's(27). The underlying thinking of the "pro-Southeast Asia" business community at this time was well expressed by Fujiyama Aiichiro, a businessman turned politician and the son of Fujiyama Raita, whose plantation interests in the pre-war Indies were mentioned in Chapter I:

> "Japan, overpopulated and meagerly endowed with raw material resources, lives by trade. In order to ensure her economic stability and growth it is imperative that we make special efforts for the expansion of foreign trade. . . . However, most of the Southeast Asian countries are faced with immense difficulties in balancing their international payments, and shortage of foreign exchange is blocking their economic development efforts. So what we must do is to import as much as possible from these countries the primary products which constitute their major export items, and thereby help to increase their purchasing power"(28).

It should not be implied, however, that it was businessmen alone who created the framework for Japanese thinking on Southeast Asia in the immediate post-war period. What can be said is that together with a number of prominent politicians and academic figures the "Southeast Asia lobby" contributed to a pool of shared ideas from which Japanese policy continually drew its inspiration and its imagery. The words of Fujiyama therefore echo an article written four years earlier by Okita Saburo:

> "It will be seen . . . that Japan is heavily dependent for a wide variety of essential commodities on Southeast Asian nations which possess large potential for future development of resources.
>
> "Moreover, it happens that a high proportion of the commodities imported by Japan from Southeast Asia consists of bulk items for which customers tend to be hard to come by because of shipping and other costs when distances are great. Therefore, increase in purchases by Japan will undoubtedly contribute appreciably towards higher production and income on the part of nations of the area. . . .
>
> "It goes without saying that betterment of economic conditions in the area means improvement of the chances for steadily expanding exports to that region. Consequently, in the long run, such action on the part of Japan will redound to her own benefit"(29).

And the same concept was carried through until the late 1960's when Kawashima Shojiro, Secretary-General of the LDP stated:

> "Although the leadership of Indonesia has changed, Japan's basic policy toward Indonesia has remained unaltered. It is to tie Japanese economic power and technology to Indonesia's rich natural resources in order to promote the prosperity of both countries"(30).

But by 1970 the nature of the consensus on Japan's relationship with Southeast Asia was beginning to alter. The emphasis now was increasingly on investment as well as trade and, rather than seeing a natural correspondence between industrialised Japan and resource-rich Southeast Asia, politicians and businessmen were beginning to speak of the need for Japan to transform its industrial structure in order both to overcome internal economic problems and to prevent the development of other Asian countries from blocking the further development of the Japanese economy. The central feature of the new approach was therefore the transfer of industries to less developed parts of Asia. Here again we see the convergence of views between business, government and academics - the emergence of a concept of relations with Southeast Asia which is then repeatedly taken up and developed in official reports, political speeches and the public statements of business leaders, and which gradually becomes accepted as the foundation on which practical policies are built.

The growing recognition of the need to transform the Japanese industrial structure can be seen, for example, in the statement of Fujita Chujiro of Mitsubishi Shoji, introducing his company's 1970 annual report:

> "<u>Domestic activities</u>: MSK intends to be a leader in encouraging the growth and rationalisation of production in Japan. It will adapt promptly to changes in the industrial structure. It will accelerate its advances into new fields of industry, such as housing, regional and urban development, the information and knowledge industry, and others connected with the prevention of pollution. . . .
>
> "<u>Overseas business activities</u>: MSK plans further expansion of activities that will contribute to the company's growth while aiding local economies through manufacturing activities, development of resources and purchasing of raw materials"(31).

The following year the concept received its first official support in <u>Sankoshin</u>'s 1971 report. In 1974 <u>Sankoshin</u> (whose members included Arisawa Hiromi of the Japan Atomic Industrial Forum and the ubiquitous Okita Saburo) re-emphasised the concept of industrial transformation in Japan and went on to propose that:

"industrial branches such as textiles which involve a low degree of processing and generate low added value should be moved to developing countries where labour costs are low . . . so that Japan can concentrate on highly technology- and knowledge-intensive industries. Also, the shares in our gross output should be lowered for intermediate industrial materials such as crude steel, petrochemicals, non-ferrous metals and pulp. . . ."(32)

The theme of such a "dynamic division of labour" was taken up in the same year by Hashimoto Eiichi, Chairman of Mitsui Bussan and of Keidanren's Indonesia committee, when he made the following prediction to the first Japan-Indonesia Colloquium:

"According to a certain Japanese research institute, Japanese imports will reach 93,000 million dollars in 1980, and imports of products like steel, textiles and sundry goods will amount to 20,800 million dollars. If intermediate products are added to the amount, imports of (manufactured) products will occupy half the total Japanese imports. In other words, export industries of Indonesia will have a market of about 20,000 million dollars in Japan alone in the future.

"Therefore, at a time when Indonesia enters the third five-year plan and her industrialisation is in full swing, Japan will not overlook Indonesia as a source of products of various kinds"(33).

If in retrospect the prophecies in this statement seem to have been rather wild, the underlying approach continues to guide Japan's image of its future relationship with Southeast Asia, and has found practical expression in measures such as the 1976 Small and Medium Enterprises Conversion Law designed to help the restructuring of uncompetitive industries at home, and in the growth of Japanese investment in export-orientated manufacturing in Indonesia and other Southeast Asian countries.

The creation of broadly accepted guidelines for the shape of Japan's relationship with Southeast Asia shows the Japanese process of consensus building at its smoothest and most effective. In the formulation of more detailed practical policy measures the pressures of varied interest groups are rather more evident, and the consensus between government and business is, as we shall see later, less than perfect. First, however, we shall consider some cases where business pressures led to policy initiatives towards Indonesia, and thus opened the way to increased opportunities for trade and investment. The first major post-war policy measure towards Indonesia was the signing of a Peace Treaty and Reparations Agreement in January 1958. As Professor Nishihara has shown in his detailed analysis of this phase of Japan-Indonesia relations, a group of prominent businessmen including Matsunaga Yasuzaemon, Ishihara Hiroichiro (on whom see Chapter I) and Kobayashi Ataru (later advisor to the North Sumatra Oil Development Corporation) played a central part in shaping the reparations agreement, not only through their connections with political figures in Japan, but also by personally engaging in preparatory negotiations with prominent contacts in Indonesia(34). In the 1950's there had been some resistance in Japanese political quarters to the payment of reparations to Indonesia. It was argued, amongst other things, that the concept of reparations was not applicable to Indonesia, since Japan had never been at war with Indonesia itself. But, as the Japanese economy revived, the potential of Southeast Asian nations as trading partners became a central theme in the political statements of business organisations. By 1958 Keidanren was already emphasising the need for reparations settlements to promote normal trade relations with Southeast Asia(35). The idea was taken up by politicians like Miki Takeo of the LDP (a future Prime Minister) who wrote in 1957:

> "Some elements within the Government are said to be in favour of deferring the settlement of the Indonesian reparations because of the unfavourable economic condition in Japan, but it should be known that this theory runs counter to the policy of the Liberal-Democratic Party. The view is absurdly illogical. . . .
>
> "Indonesia is one of the Southeast Asian countries with the largest potentialities which can be developed with the help of Japan. . . ."(36)

The point was even more plainly expressed by Fujiyama Aiichiro, then Foreign Minister, soon after the signing of the agreement with Indonesia:

> "It is gratifying that reparations agreements have been concluded with Burma, the Philippines and Indonesia, while another is under negotiations with Vietnam. The fact that all the reparations agreements now in force contain provisions relating to economic co-operation demonstrates our intention not only to indemnify the signatory powers but also to contribute to their economic rehabilitation and development.
>
> "Our positive co-operation toward the economic development of these countries is calculated to enliven our export trade"(37).

The reference to "enlivening export trade" is significant. 1957 saw the formation of the European Economic Community, and the first signs of American import restrictions against Japanese goods. With poorprospects for expanding these alternative markets, Japanese businessmen and government officials expressed growing concern at the slow rate of growth of exports to Southeast Asia. The main barrier to the increase of trade with Southeast Asia was believed to be the low level of Southeast Asian economic development. It was against this background that, in 1958, Prime Minister Kishi and Foreign Minister Fujiyama proposed the creation of a Southeast Asian Development Fund to be financed by the major developed countries including the USA and Japan. The plan received enthusiastic support from Japanese business circles. Their image of the fund as a vehicle for expanded business activity in the region was suggested by Doi Shoji, President of Sumitomo Chemical Industries, when he rather ambiguously warned his American counterparts: "Don't miss the 'Southeast Asian Development Bus'. It's already leaving"(38). In fact the scheme encountered opposition both in the United States and in Southeast Asia itself, and was eventually abandoned.

But, in addition to its reparation commitments, Japan was already beginning to give bilateral aid in the form of yen credits to less developed Asian countries. The first such credit was granted to India in 1958. Yen credits were also extended to the Sukarno administration in its closing phases, but it was after the fall of Sukarno in 1965-66 that the greatest influx of Japanese aid into Indonesia began(39). In 1967 several leading Japanese businessmen attended the Pacific-Indonesia Businessmen's Conference in Jakarta. On their return they reported their views on the current Indonesian situation to Keidanren's Standing Committee on Economic Co-operation. The outcome of their report was the creation of the Keidanren Indonesia Committee, which rapidly attracted a membership of almost one hundred business leaders including Uemura Kogoro (Vice President of Keidanren), Nagano Shigeo (President of Fuji Iron and Steel), Doko Toshio (President of Toshiba Electric) and Kobayashi Ataru (at that time President of Ajiken)(40). The views of the Indonesia Committee, as expressed by its first Chairman, were that:

> "Aside from being a large potential market for Japan in South-east Asia, Indonesia is vital in ensuring stability in Asia. From this viewpoint, Japan as an advanced industrialised country in Asia should render what she can for the economic rehabilitation of Indonesia. . . .
>
> "Japan has been approached for 110 million dollars . . . Indonesia also appears to be expectant of 400 million-dollar investments combining governmental loans and private foreign investments in 1968 to implement the country's first five-year plan scheduled to start in July 1968.
>
> "It would be rather difficult for Japan to meet Indonesia's expectations 100 per cent, suffering as she is from a deteriorated balance of international payments position at the present moment. However, inasmuch as the Suharto administration, universally agreed as the best regime in Indonesia today, intends to enforce clean politics, the Committee holds that Japan should co-operate as much as possible in the efforts of the Indonesian government to get its economic rehabilitation measures into smooth running order"(41).

To this end leading members of the committee held meetings with officials of the Foreign Ministry and MITI and invited Dr. Sadli, Chairman of Indonesia's Foreign Investment Committee, to address Keidanren members in Tokyo[42]. While Japan did not quite meet Indonesia's highest expectations (official aid in 1968 in fact amounted to $ 83.7 million) by 1973 Indonesia had become the largest recipient of Japanese aid loans. Despite the Suharto administration's less than total success in enforcing "clean politics", business groupings such as the Keidanren Indonesia Committee have continued to press for increased aid to Indonesia with considerable effect. Between 1973 and 1977 over 21% of Japan's total official development assistance went to Indonesia (see Table 3.1).

Japanese business interests have therefore influenced political relations with Indonesia by exerting certain pressures within the framework of the Japanese policy-making process. But their greatest influence has undoubtedly been their independent and individual trade and investment decisions, which, by creating close economic ties with Southeast Asia, have shaped the environment within which Japanese foreign policy operates. The existence of close business links with a country like Indonesia does not necessarily pre-determine the course of political relations with that country. Japanese policy-makers may still retain some options about the way in which future relations with Indonesia are developed. But because of the great accumulation of Japanese economic interests in Indonesia and her neighbours, the Japanese government no longer has the option of ignoring potential political developments in Southeast Asia.

The independent actions of Japanese multinational firms not only affect the entire setting for Japanese foreign relations, but also in some instances create more immediate problems which demand political responses. An example of this type of situation can be seen in the history of Japanese agricultural investment in Indonesia. After the establishment of the Suharto administration, a number of Japanese sogo shosha, in conjunction with influential groups in Indonesia, drew up plans for an experimental form of agricultural investment project. The essence of these projects was that, rather than developing the large-scale production of estate-crops, they would concentrate on producing crops such as maize and cassava, which form an essential part of the Indonesian staple diet. So, although the projects would be principally aimed at the export market, it was hoped that they might have useful social side-effects by promoting more modern agricultural methods amongst the local population. It is characteristic of the patterns of competition amongst Japanese multinational companies that as soon as one firm (Mitsui Bussan) had set up its project it was rapidly followed by others (Mitsubishi and Itoh Chu) who were fearful of being left behind in what appeared to be a promising new form of foreign investment.

All three projects, however, soon encountered similar difficulties. Although the projects (all located in South Sumatra) achieved some successes in opening up new agricultural land and providing employment opportunities, in every case the costs of infrastructure development proved much greater than expected. The projects also encountered social problems which private companies were ill-equipped to deal with. In the case of Mitsui's Mitsugoro project for example, land left temporarily unplanted was often taken over by squatters, who were in some cases forcibly removed. By the time that the companies realised the full extent of these problems, however, whole new agricultural communities, consisting mainly of transmigrants from Java, had sprung up around the projects, and it was therefore almost impossible for the companies simply to withdraw and write off their losses. The projects have therefore received increasing financial backing from the Japanese government and by late 1979 negotiations were underway to transfer the projects to the joint control of the Indonesian and Japanese governments[(43)]. It can be argued that in this case private companies have taken a useful initiative in pioneering a form of development project which government agencies were unlikely to have developed by themselves. But by the same token it is clear that the Japanese and Indonesian governments will find themselves heirs to a form of agricultural project which was designed to fit in with the overall strategies of private trading companies, and which therefore might not have been the form of agricultural assistance which they would have chosen if they had had a free hand in the matter.

The last type of government-business interaction which we must consider is the situation where business interests have neither acted as an internal force "pushing" government policies in a desired direction, nor have "pulled" political relations into the wake of their independent trade and investment activities, but where government and multinational companies have acted in concert to initiate a new step in foreign relations. One example of this pattern of co-ordinative action can be seen in the use of economic missions of prominent businessmen like the Takasugi Mission to Indonesia in 1968. As we have seen Keidanren was at this time putting strong pressure on the Japanese government to improve relations with post-Sukarno Indonesia, and the mission can be seen in part as the outcome of these pressures. But at the same time it was in the government's interests to use business leaders to explore the attitudes and intentions of the Suharto regime, and to act as bridge-builders in establishing good personal relations with members of the new administration. The Takasugi mission was therefore sponsored by the Foreign Office and included fifteen business men under the leadership of Takasugi Shinichi of the Keidanren Indonesia Committee. Officials from the Foreign Ministry, MITI, the Economic Planning Agency, the Ministry of Agriculture and Forestry and the Finance Ministry also accompanied the mission. As well as laying the foundations for the future development of good relations with Indonesia, and providing information for the Japanese political and business leadership on the current political climate in Jakarta, the Takasugi mission produced several tangible results including an agreement that Indonesia would establish a liaison mission in Jakarta to co-ordinate Japanese investment[(44)].

Another form of joint government-business action can be seen in the relatively recent development of "national" investment projects in Indonesia, for which the prototype was the Asahan hydro-electric and aluminium scheme. The Asahan project has a long history, going back to the Dutch colonial period. During the Japanese occupation of Indonesia, a feasibility study for the construction of a hydro-electric power station on the River Asahan was carried out under the supervision of Kubota Yutaka, a businessman who in the post-war period became chairman of the multinational construction company Nippon Koei. Both the Sukarno and Suharto governments sought foreign assistance to carry out the scheme, which was considered to have potential both for enhancing Indonesia's industrialisation and international prestige and for promoting the development of the remote and sparsely populated North Sumatran region. Successive surveys were carried out by a Soviet aid team, by Kubota's Nippon Koei and (under the Suharto administration) by a consortium of Japanese and U.S. multinational companies, but each scheme in turn was abandoned. The principal problems were the scale of financing required for such a large project, and the fact that the

Indonesian government insisted on the construction of a hydro-electric plant as well as aluminium smelters, a condition which some private companies saw as making the whole project uneconomical. In 1974 the Japanese government, then headed by Prime Minister Tanaka, developed the concept of making the project a "national" one, and the following year an agreement was reached under which the project was to be carried out by a consortium of twelve major Japanese trading and aluminium smelting companies with strong financial support from the Japanese government[(45)].

In this case, as in others mentioned earlier, it was private Japanese companies (first Nippon Koei and later Sumitomo Chemicals) which initially took an interest in the project and pressed the government to lend its support. But the decisive factor in assuring the implementation of the project was the enthusiastic backing which it began to receive in the mid-1970's from Japanese political circles and from sections of the bureaucracy, notably MITI. It was MITI which acted as a "matchmaker" helping to bring about the formation of a Japanese consortium in which all the major relevant business interests were represented, and MITI who lobbied other ministries, including the Finance and Foreign Ministries, to lend the scheme their political and financial support[(46)]. In the Asahan project and subsequent "national" LNG (liquified natural gas) and oil projects, we can see a change in emphasis from the earlier period of Japanese investment in Southeast Asia. Until the mid-1970's the principal attraction had been the direct profits to be reaped from manufacturing and mining projects in Indonesia, and other Southeast Asian countries. With the Asahan project, however, the emphasis moves to wider strategic considerations: the assurance of a long-term source of aluminium imports, the weakening of Japan's dependence upon foreign multinational companies for supplies of strategic resources, and political support for the development plans of a regime which is considered favourable to Japan's interests in Southeast Asia. Critics of the scheme have questioned its potential profitability, particularly in the light of steadily rising costs, but the extent to which the private companies involved support the broader objectives of the scheme is indicated by the Chairman of Sumitomo Chemical Industries who stated in an interview in 1977:

> "The Asahan project in Indonesia, like the Singapore (petrochemicals) project, is aimed at preventing communist subversion in the region. . . .
>
> "(Singapore and Indonesia) stand at the forefront in confrontation with the communist forces. We must take these countries into the free world camp and Japan's economic assistance is imperative for this.
>
> "I am deeply interested in this kind of international politics, and am seriously considering what we can do for Singapore and Indonesia. My efforts in aluminium and petrochemicals stem from my patriotism - not from any desire to reap profits for my company"(47).

Political considerations have played a similarly important part in Japan's involvement in the Arun and Badak LNG projects (in North Sumatra and East Kalimantan). Here the main considerations have been the importance of reducing Japan's energy dependence on imports of Middle Eastern oil and the environmental benefits of using relatively "clean" LNG in pollution - conscious Japan. The LNG projects differ from the Asahan scheme in that they involved Japanese loans but not equity participation, and because they are also supported by U.S. multinational corporations (Huffco and Mobil Oil). Like the Asahan project, however, LNG development involves a consortium of major Japanese users and trading companies (known collectively as JILCO - Japan Indonesia LNG Co.) and is supported by large-scale loans from the Japanese Exim Bank and Overseas Economic Co-operation Fund(48).

The most recent "national" project is the Japan-Indonesia Oil Co-operation Company (JAPINCO), established in 1979 to undertake an oil exploration and production-sharing contract with Pertamina. A substantial government loan for the project was promised during President Suharto's official visit to Japan in June 1979. Like the other projects mentioned here this scheme involves serious economic risks, and the main consideration appears to be less immediate profitability than the vital national need to secure supplies of crude oil, particularly since some existing oil contracts with Indonesia are due to expire in the early 1980's(49).

In all these "national" projects the emphasis on long-term economic security rather than immediate profits made close government-business co-operation a necessity. The increasing use of the government-backed consortium as a vehicle for foreign investment suggests both the growing concern of Japanese multinationals for long-range development rather than windfall profits, and the extent to which the Japanese government is adapting to and utilising its position as a home country for multinational investing firms.

Multinationals and Japan's Policy towards Indonesia - the Patterns of Competition

The evidence of close links between government and business in the formulation of Japan's policies towards Southeast Asia is so clear that it is hardly surprising to find a prominent Indonesian economist writing that "The government, bureaucrats (technocrats) and business enterprises in Japan are operating as partners in progress and in fact could be considered as a 'conglomerate'"(50), or Manglapus stating categorically that you cannot "play off" one Japanese company against another(51). But it is important to recognise that the two facts are not identical; the existence of a close relationship between government and multinational companies is not synonymous with the existence of total harmony or flawless co-operation.

The statement by Manglapus, quoted at the beginning of this chapter, raises two questions. The first is the extent to which Japanese multinational companies compete with one another in their private business activities. This is a question which is fairly easily answered. The fact that major Japanese overseas investors have sometimes joined into consortia to carry out specific projects does not mean that these companies have ceased to compete with one another. Indeed, their eagerness to join such consortia arises partly from their desire to keep track of their rival's activities and their fear of being excluded from risky but potentially profitable new fields of business activity. The large trading and manufacturing companies which participate in these consortia continue to compete vigorously in other fields, and in fact it is precisely between these large, oligopolistic firms that the most intense competition takes place. Evidence of this can clearly be seen in the activities of the giant textile manufacturing companies Teijin and Toray, whose desire to match each other's strength in every field of investment is, according to some critics, a cause of Japanese over-investment in the Southeast Asian textiles industry[(52)].

The second question is the extent to which there has been competition and conflict within the Japanese government-business relationship over issues of Southeast Asian policy. There have been a number of cases in recent Japanese history where government policy has come into direct conflict with the collective interests of big business - one of the most prominent examples being the Miki administration's attempts to introduce strong anti-monopoly measures in 1975[(53)]. The formulation of Japan's policies towards Indonesia has not been characterised by such direct and straightforward confrontations. But there have been a number of cases where political, administrative and business leaders have combined into more complex rival groupings to press for contrasting policy measures. An analysis of just one such case may help to illuminate the internal dynamics of the Japanese government-business relationship.

In the early 1970's it was possible to observe a division in Japanese politics over the issue of Indonesian resources. On the one hand there were those who believed that Japan's best strategy for securing supplies of oil and other raw material imports lay in close co-operation with the established western multinationals. On the other hand, from about 1972, an increasingly powerful group of businessmen, politicians and bureaucrats argued for a more aggressively independent resource policy(54). The first group, which essentially represented the conventional wisdom of Japan's post-war economic policies, was closelyidentified with former Prime Minister Kishi Nobusuke, who supported a line of close co-operation with the United States in economic as well as political and security issues. Kishi had resigned from the premiership in 1960, but as leader of a powerful LDP faction he continued to wield considerable influence in Japanese political life. Kishi, it should be remembered had also been the Prime Minister responsible for the signing of the reparations agreement with Indonesia, and as such had developed lasting links with some prominent Indonesian political figures.

One of Japan's first independent overseas oil ventures, the North Sumatra Oil Development Company, had in fact been initiated under Kishi's premiership, but Kishi also retained close links with the western oil majors. In 1963, Caltex, Stanvac and Shell, then the major oil producers in Indonesia, held meetings with the Indonesian government in Tokyo to draw up new production contracts. In 1966 the Far East Oil Trading Company (FEO) was created as a Japanese-Indonesian joint venture to dispose of the 20% of Caltex crude which, under the 1963 agreements, was transferred to the Indonesian government in lieu of profit shares. The oil handled by FEO was to be sold exclusively to Nihon Sekiyu, a Japanese affiliate of Caltex. It is widely accepted in Japan that Kishi was closely associated with the setting up of this company[(55)], and FEO has certainly pursued a policy of close co-operation with the existing American interests in Indonesia, as shown for example by its central role in creating the joint LNG development projects with Huffco and Mobil Oil. Amongst the prominent business leaders associated with this "pro-American" approach are Kikawada Kazutaka and Ashihara Yoshishige, Presidents respectively of Tokyo Electric and Kansai Electric, two of the country's largest oil consumers[(56)].

The premiership of Tanaka Kakuei (1972-75), however, saw the emergence of an energetic "resources faction", supported by Tanaka himself, as well as by senior civil servants in the Ministry of International Trade and Industry and by prominent businessmen including Kobayashi Ataru and Nakayama Sohei. Kobayashi had been Chairman of Ajiken and President of Japan's first independent oil venture (the Arabian Oil Co.) as well as an advisor to the North Sumatra Oil Development Company[(57)], while Nakayama as President of the Japan Development Bank, was a central figure in promoting the Indonesian LNG projects and was a keen supporter of an unsuccessful scheme to build a CTS (Central Terminal Station for oil storage) on the island of Lombok[(58)]. The pressures for a more independent resource policy were given added impetus by the oil shock of 1973-74, and led to the initiation of a number of new projects including an oil development project in Abu Dhabi and the signing of an agreement on the Asahan project. There were also unsuccessful attempts to secure Japanese participation in the development of North Sea oil and Siberian natural resources. The new resource policy can be seen as a factor in the setting up of the Japan Indonesia Oil Company (JIO) in 1972. This enterprise, which was created with advisory assistance from Nakayama Sohei and with strong financial support from the Toyota Motor Company, was a rival to Far East Oil and performed the identical function of handling oil imports from Indonesia(59). The creation of the JIO, which has been criticised by some as a wasteful duplication of functions, can be seen in part as representing genuine policy differences between rival business groupings, and in part as representing a personal power struggle between the businessmen and politicians involved. Both companies are widely rumoured to have been associated with political corruption, though this has never been substantiated.

The evidence of a political division between a "pro-American faction" and a "resources faction" raises a number of interesting issues. The first point to be noted is that neither of the rival groupings can be clearly identified with recognised political or other institutions. The division was not between "government" and "business" nor between rival political parties or rival business organisations, and it was only partially a division between rival factions within the LDP. Rather, the two alternative policy positions can be seen as being represented by "floating groups" centred around a core of prominent political,administrative and business figures whose contact with one another was largely personal and informal. This analysis is to some extent borne out by other case studies of Japanese policy-making, for example, Fukui's study of Japan's policy towards China in the early 1970's (although in Fukui's case-study business interests evidently played a less prominent role than they did in Japan's resource policy)[60]. However, the creation and workings of these informal interest groups have so far received little academic attention and are not widely understood outside Japan. It is perhaps for this reason that host governments have persisted in believing that Japanese multinationals and government operate as a single entity, and have generally shown less skill in playing off rival Japanese interest groups against one another than they have in the case of rival American or European interests[61].

Excessive emphasis on the concept of a monolithic power elite may also lead observers of the Japanese political process to ignore outside constraints which govern the influence of business on policy making. It is true that, in the case of relations with Southeast Asia, the power of business influence has been relatively great because no rival pressure groups in Japan have taken an interest in the subject. However, it does seem probable that public opinion, expressed mainly through the vigorously critical mass media, acts as a check on the activities of business and of government in relation to Southeast Asia. The power of public opinion and press criticism is not easily measured, since it acts mainly in a negative sense, creating certain boundaries over which multinational companies know they must not step. But it is reasonable to suggest, for example, that public opinion is the chief reason why Japanese companies have not been able to enter the lucrative and attractive field of arms trade to Southeast Asian countries. The prohibition on arms exports, which is a result of the disarmament clauses built into Japan's post-war constitution, is undoubtedly irksome to some Japanese companies, and there have been certain pressures to modify or remove it. But matters concerning arms and the military are particularly politically sensitive in Japan, and recent attempts by one company to circumvent the ban and export arms to the Philippines has led to prosecution under foreign exchange and trade control laws[62].

Multinational Growth and the Japanese Government-Business Relationship

The conclusion of this chapter is that Japanese multinational companies and the Japanese government have been closely linked together in the shaping of Japan's post-war policy towards Indonesia, but that there have been substantial policy differences amongst leading businessmen, politicians and bureaucrats from time to time, and that the freedom of action of the political and business elite has been constrained to some extent by external political factors such as the force of public opinion. Here it is necessary to return for a moment to the concept of "Sovereignty at Bay" which was discussed at the beginning of this chapter. As we have seen, some commentators have argued that the overseas spread of business interests would weaken the identity of interest between large companies and their home governments, and ultimately erode the power of nation states both as home countries and as host countries to multinational enterprises. This argument may not seem to be very readily applicable to the Japanese case, but it might be suggested that, since the emergence of the Japanese multinational is a relatively new phenomenon, cracks in the traditionally close Japanese government-business relationship should just be beginning to appear in the early 1980's.

In fact some evidence does appear to support this contention. There are, for example, signs that a few large Japanese multinationals are becoming less and less "Japan-centred". Until recently Japanese multinationals tended to be considerably more high-centralised than their western counterparts, but as Yoshino and Tsurumi have noted, by the mid-1970's a number of firms were beginning to link up their overseas projects in various countries into a genuine network of international business[63]. There is also evidence of increasing use of tax havens by Japanese companies. Statistics on this are difficult to collect, since it is a practice which is somewhat disapproved of in Japan, but it is suggested by the inclusion of countries like Bermuda in the list of the top fifteen host countries for Japanese investment. In the last decade there have also been an increasing number of tie-ups between Japanese and foreign multinational companies. In Indonesia, for example, Japanese companies now have an equity interest in the large nickel projects controlled by the Canadian multinational Inco, and have participated in joint ventures with British and Dutch companies(64).

All these developments might be expected to divide the loyalties of Japanese firms, and even to weaken the framework of common interest with the government. But although these changes in company structure do affect the nature of government-business relations, other evidence paradoxically suggests that Japanese firms are in some ways becoming more rather than less dependent on government for the success of their foreign investment projects. This is partly because of the recent trend towards large "national" resource-development projects such as the Asahan Project. These ventures need government support both financially, because of the great risks involved, and politically because the economic and social impact of such projects on the host country is too great to be handled by a private company alone. The growth of foreign investment has had other wider implications which have increased the interaction between Japanese multinationals and government. The strategy of transferring certain types of industry to less developed countries and fostering new knowledge-intensive industries at home inevitably requires strong support from the government - providing assistance for areas where traditional industries are declining, giving assistance to the development of the computer, aerospace and other industries. At the same time, adverse reactions to the growth of Japanese investment in Southeast Asia have sometimes made it necessary for the government to intervene in the interests of good international relations. In the case of Japan, therefore, it does not seem likely that multinational companies will lose their national identity, or that the overall power and sovereignty of the Japanese government will be diminished by the international spread of Japanese business enterprises.

Prospects for the Future

The post-war history of Japanese companies in Southeast Asia appears to conform to the expectations of those writers who argued that the spread of the multinational overseas would produce a corresponding spread in the political influence and political involvements of the home government. Some observers of this trend have gone on to argue that the expansion of Japan's economic interests in Southeast Asia would inevitably lead to military conflict. Thus Nagasu Kazuji predicted:-

> "One day in the latter half of the 1970's in a certain country in Southeast Asia there will be a rock-throwing demonstration against Japanese business. The Japanese government will be hard pressed to do something, and every day film clips of the danger to Japanese will fill the television screen. The whole country will be agitated. The maritime self-defence forces, on the humane pretext of saving the lives of our countrymen, will rush to the trouble spot to protect Japanese interests"(65).

In fact, such pessimistic prophecies have not been fulfilled, partly because of the pressures of Japanese and world public opinion against military ventures of this kind, partly no doubt because Japanese multinational companies themselves are well aware that gunboat diplomacy is not in their own long-term interests. But there are other issues which are raised by the growth of Japan's political role in Southeast Asia. Professor Yano, as we have seen, distinguishes between two main phases in Japan's pre-war relationship with Southeast Asia: the first phase, that of "contacts with the South Seas" (Nanyo Kanyo), was characterised by a largely unofficial relationship based on the private activities of Japanese companies and individual Japanese emigrants. The second phase, that of "Southwards Advance" (Nanshin) was characterised by government intervention and a growing emphasis on the national interest[(66)]. It is possible to see certain parallels in post-war developments, where Japan's economic links with Indonesia and other Southeast Asian countries have acquired increasing political importance, and where the trend has moved from small-scale projects motivated by private profit, towards a growing number of large-scale projects motivated mainly by "national policy" considerations.

As in the pre-war period, it can be said that the increasing "politicisation" of relations with Southeast Asia has arisen partly from external circumstances (in this case the oil crisis and America's declining economic and military presence in the region). But, as in the pre-war period, it is also reasonable to suggest that the existence of close ties between business and government, and the growth of private economic interests in Southeast Asia, set the stage for political moves towards Southeast Asia as a response to unfavourable changes in the world economic climate. The need to create a closer and more formal framework of relations with Southeast Asia is likely to be a major problem for future Japanese governments, and the options open to Japan will be discussed further in the final chapter.

TABLE 3.1

JAPANESE OFFICIAL AID TO INDONESIA 1973-1977
(excluding assistance through international agencies)

	$ m.	% of Total Official Aid Payments
1973	142.9	18.7%
1974	221.1	25.1%
1975	197.9	23.3%
1976	200.5	26.6%
1977	148.3	16.5%
Total	910.7	21.9%

Source: Ministry of Foreign Affairs, Japan.

NOTES TO CHAPTER III

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60. Fukui: "Tanaka Goes to Peking".

61. For one example of a host country government "playing off" political groups in the U.S.A. see Bergsten, Horst, and Moran, op cit, pp 391-392. Harvey Stockwin suggests that the Indonesian government may have successfully exploited factional differences in Japan to gain favourable terms for the Asahan Project; see "Asahan, Why Japan Said Yes", p 43.

62. Japan Quarterly, Vol. 26, No. 1, January-March 1979, p 141.

63. M. Y. Yoshino: Japan's Multinational Enterprises, Cambridge, Mass. and London, Harvard University Press, 1976, pp 73-77; Tsurumi, op cit, p 210-212.

64. See Kaigai Shinshutsu Kigyo Soran, Tokyo, Toyo Keizai Shimposha, 1979.

65. See Nagasu Kazuji: "The Super-Illusions of an Economic Superpower", Japan Interpreter, Summer-Autumn 1974, p 158. Also J. Halliday and G. McCormack: Japanese Imperialism Today, Harmondsworth, Middlesex, Penguin Books, 1973, p 225.

66. Yano Toru: Nanshin no Keifu, Tokyo, Chuo Koronsha, 1975.

IV JAPANESE MULTINATIONAL COMPANIES AND INDONESIAN ELITES

Multinational companies are not simply channels through which capital, technology and managerial skills flow across international borders. As entities possessing a high degree of organisation, large capital resources and often sophisticated technical know-how they have the power to exert (and indeed cannot avoid exerting) an influence beyond the immediate consequences of their business transactions. In their home country, as we have seen, multinational corporations influence the shape of policies, including foreign policy, both inadvertently in their pursuit of corporate profits and consciously through their leverage on the political system. In host countries, too, the presence of the foreign multinational has inescapable political and social consequences. But the nature of these consequences, and the degree of political passion which the foreign multinational excites, will depend to a great extent on the strength and the level of development of local business organisations and of local political and administrative structures.

The Politics of "Dependencia"

In the past twenty years much has been written about the effect of the multinational corporation on less developed countries. Attention has been focused mainly on the direct economic effects: on the balance of payments, on the creation of employment, on the transfer of technology, etc. But, theoretically at least, these economic influences can be controlled to a large degree by host country legislation. Host governments may introduce taxes or incentives to steer foreign investors into certain industries, pass laws on the employment of foreign nationals and the repatriation of profits, and threaten unco-operative foreign enterprises with the ultimate deterrent of nationalisation. So any analysis of the impact of the multinational must also consider the extent to which Third World governments have the power and political will to use such controls successfully, and the extent to which the presence of foreign multinationals may weaken or subvert the political processes of the host country.

One widely-accepted view is that host country political and economic elites identify themselves with foreign interests rather than with the interests of the majority of people in their own country. This approach was vividly expressed by Malcolm Caldwell, who characterised the aims of bourgeoisie in the Third World as being

> "the exclusive licence to import or produce locally, the government contract, lucrative collaboration with rich foreign companies, and a multitude of other practices to make maximum money for minimum effort. . . . The only point of the exercise is to attain as quickly as possible a flashy meretricious Western-style way of life, with big air-conditioned cars, vast showy gadget-infested suburban villas, children at school and university in America, Australia, or Europe for the sake of ostentation, and so on"(1).

In order to maintain their position, Caldwell argued, Third World elites were forced into ever-closer co-operation with the companies and governments of the advanced capitalist nations. Their role was "to suppress their own people for the benefit of foreign interests"(2). Although national alliances might be forged during the struggle for political independence, such alliances were invariably temporary and fragile ones:

> "It was obvious even before the seal of international recognition had been put on Indonesian independence, for example, that class differences were already disrupting the disparate forces that had joined under elite leadership to fight the Dutch. After independence, unchecked by a principled and disciplined party, the various elements went their own ways, the rich landlords and compradore and national bourgeoisie to profiteer and the poor to knuckle down again"(3).

This emphasis on the alliance between Third World elites and external political and economic forces has been criticised by some writers, who have seen the growth of host-country controls on the multinational, and the development of producer cartels such as OPEC, as evidence of a more complex and unstable relationship between foreign investors and host-country elites. Writing from this point of view, Theodore Moran has put forward three hypotheses about possible causes of friction between foreign multinationals and domestic elites:

> 1. "that the penetration of foreign investors threatens the interests of, and eventually kindles a reaction among, at least three distinct groups in the host-country - local producers for whom multinationals mean increased competition, government officials (tecnicos) for whom multinationals mean a hindrance to the exercise of macro-economic policy, and political leaders for whom multinationals mean a challenge to national sovereignty (and for whom the issue of foreign domination provides a way of gaining public prominence)";
>
> 2. "that the squeezing of foreign investors provides a channel for domestic elites to try to take the pressure off themselves as urbanisation, industrialisation, and social mobilisation increase the demand for government programmes financed by tax revenue";
>
> 3. "that the self-interests of firms themselves in diverse kinds of industries should engender profound splits within the foreign business community about the kind and extent of social change considered desirable within the host country"(4).

These hypotheses form a convenient framework which can be used when considering the relationship between Japanese investors and Indonesian elites. To anticipate the conclusions of this chapter, Moran's hypotheses have only a limited relevance to the situation in Indonesia. But in order to understand why his predictions of the elite's reactions to the foreign multinational have not been fulfilled it is necessary to consider the nature of the Indonesian business and political structure. Testing these hypotheses against the actual situation in Indonesia may also help to clarify the rather ambiguous and uneasy relationship which exists between local elites and foreign multinationals, and to explain why the growth of Japanese investment has been an important issue in Indonesian politics during the last decade.

Japanese Investors and the Indonesian Chinese Community

One complication arises from the position of the Chinese minority in Indonesian business. The power of the ethnic Chinese in Indonesian economic life is not easy to estimate, but is generally recognised to be substantial. One recent report states, for example, that 30 of the 46 major Indonesian shipping companies, ten of the twelve largest construction companies, and 23 of the 35 Indonesian companies represented at the 1978 ASEAN trade fair in Sydney were Chinese-controlled(5). Since the majority of people of Chinese origin are now Indonesian citizens, and many have adopted Indonesian-sounding names, the size of the Chinese minority itself is open to question, but estimates range from 2.4 million to 3.8 million, or about 3% of the total Indonesian population(6).

The position of the Chinese community in post-independence South-east Asia (excluding Singapore) has sometimes been likened to that of the Jewish community in Europe at the beginning of this century(7). A more accurate analogy would be the situation of the Asian minority in the former British colonies of East Africa. In other words, it is a position in which varying degrees of economic power have been combined with considerable political and social discrimination. Most of the Chinese settlers in Indonesia arrived during the late 19th century or early 20th century to work as coolies and plantation workers. Many subsequently entered commercial life, where their position as traders, shopkeepers and middlemen, and the preservation of their ethnic identity, was encouraged by Dutch colonial legislation. This, on the one hand, prevented them from entering farming by restricting their landholding rights and, on the other, assigned to them the separate status of "foreign orientals" under racial classification laws. As Wertheim has written:

> "In their function of professional traders, the Chinese were held in little esteem by the Indonesian nobility and peasant. But in the colonial estimation they were, within certain limits, very useful and usually fairly loyal intermediaries between the white man and the Indonesian population, with greater affinity to the former than the native people"(8).

This situation tended to heighten anti-Chinese feeling in the immediate post-war period. The citizenship of Chinese-Indonesians became a major political issue, and although large numbers of Chinese residents acquired Indonesian nationality under the Dual Nationality Agreement which came into force in 1960, this agreement was abrogated in 1969, and over one million Indonesian residents of Chinese origin are still officially stateless, or nationals of the People's Republic of China or Taiwan(9). The present Indonesian administration has recently introduced measures to speed the naturalisation of the non-Indonesian members of the Chinese community, and this would undoubtedly help increase their assimilation into Indonesian society, and ease the pressures of bureaucratic harassment which have sometimes been directed against non-Indonesian citizens. But the fading of cultural differences is bound to be a slower process. In the past, the Chinese have frequently been used as scapegoats for economic failures, and in this respect, little distinction has been made between those who are and those who are not Indonesian citizens. Ironically, the political pressures on Chinese-Indonesians may have helped to enhance their role in commerce and industry, just as the political handicaps of religious dissenters are believed to have been partly responsible for the latters' prominence amongst the entrepreneurs of the English industrial revolution.

Moran assumes that foreign investment will compete with the activities of domestic entrepreneurs and eventually arouse their economic opposition. In the pre-war period there was in fact some evidence of this type of antagonism between Japanese interests and the Chinese communities in Southeast Asia, although, as we have seen, the immediate causes of the anti-Japanese boycotts of the 1930's were political rather than economic. In the post-war period, despite some criticism of Japan from prominent members of the Indonesian-Chinese community, the relationship has essentially been a co-operative one.

Two reasons for this may be suggested. The first is that the impact of Japanese investment on the interests of locally established businessmen has by no means been a wholly harmful one. For many small enterprises in traditional manufacturing, particularly textiles, the arrival of large modern Japanese-owned concerns has certainly spelt ruin, but for those in other areas such as retail distribution, transport, etc., Japanese investment has created more opportunities than it destroyed. This is particularly true of the larger and more successful local businesses, which were in a position to enter into partnerships with Japanese investors. A very large percentage of Japanese manufacturing projects take the form of such joint ventures, with the Japanese side providing the majority of the capital and the local partner providing expertise on Indonesian business methods, the recruitment of personnel etc. Many of these joint ventures are with businessmen of Chinese origin. One widely quoted estimate (by a Japanese embassy spokesman) is that by 1974 70% of Japan's 138 joint ventures were with Chinese partners[10].

The second point which must be emphasised is that Moran's hypothesis overlooks the possibility of cultural and political complications such as exist in the case of the Indonesian-Chinese community.

It has been suggested by a leading observer of Indonesian politics that their association with foreign investment has increased the vulnerability of the Chinese business community to criticism from other sectors of Indonesian society(11). This would appear to be borne out by the events of 1974, when riots originally directed against Japanese investors rapidly spilled over into indiscriminate violence against Chinese business properties. But whether or not this assessment is correct, it is clear that the Chinese business community, because of its special situation in Indonesian society, is in no position to lead a crusade against foreign capital, even if it should be in its own economic interests to do so.

Japanese Investment and the Pribumi Issue

Post-war Indonesian governments have of course been conscious of the absence of a strong indigenous (pribumi) business class, and have made sporadic attempts to foster the development of such a class. In the 1950's the attempts took the form of subsidies to pribumi enterprises together with expropriation of foreign-owned enterprises and measures aimed at restricting the power of the Chinese community. From the fall of Sukarno until 1974 the primary emphasis was on economic rehabilitation and development: industrial expansion was an aim per se, and few economic planners were troubled by the fact that much of this expansion was financed and controlled by foreign multinational corporations. The riots of 1974, however, revealed a disturbing level of discontent with existing economic policies and with the growing presence of Japanese companies in Indonesia. In the wake of the riots, the government introduced a new strategy which sought to use foreign investment as a means to assist the development of a class of indigenous entrepreneurs. Under the new foreign investment policy the government required that a majority share in all projects should be in pribumi hands within ten years. The government also began to advance credit to pribumi businessmen on advantageous terms, and more recently, measures have also been introduced to ensure that companies from the "economically weak" (i.e. pribumi) sectors of society should be given preference in bidding for government contracts[12].

But the success of these measures so far is questionable. One major problem is the simple matter of financing. Becoming an entrepreneur by definition requires capital, and no amount of legislation can conjure capital into the hands of potential pribumi businessmen. Thus, even where foreign companies have been eager to comply with government regulations, they have often found that their local partner cannot raise sufficient funds to increase his share in the venture, and have eventually produced some form of face-saving arrangement by lending capital to the pribumi partner or by increasing the debt-equity ratio of the project. Various schemes have been considered for the setting up of a financing body which would be created by a consortium of foreign investors and provide loans to pribumi partners in joint ventures. These schemes, however, would not solve the dilemma of dependence on foreign capital, and in turn would raise further problems of guaranteeing the repayment of loans[13]. Local banks have also played an active role in providing credit to pribumi entrepreneurs, but here again problems of guaranteeing repayment act as a restricting factor.

It should be added that the goodwill of the foreign investor in the exercise cannot always be assumed. Yoshino and others have noted that, as multinational companies begin to link their overseas ventures into networks of international business, and as the sophistication of their technology increases, so they tend to seek greater, and preferably total, financial and managerial control over their overseas ventures[14]. Japanese companies have in fact had a particularly good record of accepting joint-ventures overseas rather than demanding whole-ownership of their subsidiaries. However, both Yoshino and Tsurumi found that, once the initial difficulties of operating a project abroad were mastered, Japanese multinational companies tended to feel the need for increasing financial and managerial control over their subsidiaries. This threatens to bring the interests of the multinational company into direct conflict with the policies of the host country. Developments so far suggest that the outcome of such conflicts of interest will take the form mainly of compromise arrangements like those outlined above, with a majority of shares passing into the hands of the pribumi partner while real financial and managerial control remains in the hands of the foreign company. The Ajiken/LEKNAS survey of Japanese investors in Indonesia in fact found a slight movement towards majority Indonesian equity ownership in Japanese subsidiaries, but at the same time noted the extremely high debt equity ratio of Japanese projects in Indonesia(15). It is also important to emphasise that government directives on pribumi participation refer to the financing of joint ventures and not to their management. In many cases the power of the foreign partner lies not only in his greater capital resources but also in his funds of technological know-how and managerial skills, and local partners may on occasion find themselves excluded from key decision-making processes or assigned to less strategic and prestigious tasks, such as personnel management.

The problems mentioned here of course apply to all foreign investors, not only to Japanese firms, although they have tended to become particularly associated in the public mind with Japanese investment because of the large number of Japanese manufacturing projects in Indonesia. At the same time, they also raise the wider issue of the use of foreign investment as a seed-bed for the cultivation of a local managerial class. Caldwell's description of the Third World entrepreneur as seeking "maximum money for minimum effort" may be an unkind caricature, but there does appear to be some validity in his point that the type of local business activity fostered by partnerships with foreign multinationals in a country like Indonesia is a long way from the classical image of industrial enterprise. In the first place it must be pointed out that a large number of local partners in joint ventures are companies which are either directly or indirectly state-owned. This is in part related to the problem of raising private finance for indigenously-owned firms. One Indonesian economist has recently claimed that, taking into account companies such as Pertamina, the national airline Garuda, and the large government-run plantations, as much as 90% of the economy may be state-owned(16). This is surely an exaggeration, but it is certainly true that many foreign investments, particularly large scale investments in sectors such as mining, refining, forestry and plantation agriculture, are undertaken in partnership with government-controlled enterprises.

Many companies which are not directly state-owned also have close links with official bodies or with the military. A good example of this is Kosgoro, which is the Indonesian partner of the Mitsugoro agricultural project and has also been active in construction ventures with European multinationals. Kosgoro was one of a number of companies which emerged in the 1950's as the Indonesian army began to extend its influence over the economy. Officially a "veterans association", it was set up to provide jobs for retired military personnel and, according to its official proclamations, to "undertake multiple operations for the national welfare". In practice, its operations soon extended to include newspaper publication, cigarette manufacturing and the management of hotels and nightclubs. It retains close links with the military and with the government (one of its principal founders is now Vice-Minister for Transmigration) and can be seen as one of a network of organisations which have served to strengthen the economic base of the Indonesian army[17].

Even where the Indonesian partner in a joint venture is a privately-owned company this company is often financed by a prominent figure from the bureaucracy, politics or the military, who may be happy to leave the running of his business affairs in the hands of the foreign partner or non-Pribumi Indonesians. This illustrates once again the problems of bringing together capital and entrepreneurial talent in a society where the main paths to wealth and status are through political rather than economic activity. An extreme, but perhaps symbolic example of the type of business leader produced by the strongly foreign-investment-based strategy of development is Ibnu Sutowo, President-Director of the state oil company Pertamina until 1975. Sutowo built up and expanded Pertamina with all the energy, imagination and ruthlessness which characterised the entrepreneurs of the English industrial revolution or the tycoons of nineteenth century America. But this very growth itself produced an accumulation of political power, an entanglement in rumours of corruption and an excessive reliance on foreign financing which led to Sutowo's downfall[18].

At the same time, the government, in its emphasis on rapid growth and on large-scale investment projects, has until recently paid relatively little attention to traditional areas of Indonesian enterprise in smallholder agriculture, fisheries and small-scale industries such as textiles, cigar production etc. Thus the indigenous entrepreneurial skills which did exist in these older but nevertheless important forms of private enterprise have encountered stagnant or declining opportunities for productive activity under much of Suharto's "New Order".

Raymond Vernon has argued that the multinational company, by stimulating the development of local business communities in the countries where it operates, creates a force which will eventually react against the presence of the foreign investor and provide support for the rise of economic nationalism[19]. In the case of Indonesia the pattern has been somewhat different. Opposition to foreign investment has come from those connected with the traditional and usually small-scale manufacturing enterprises which have felt their existence to be threatened by the arrival of large multinational companies. On the other hand, the new business groups which have flourished since the mid-1960's, have produced occasional minor criticisms of foreign investors, often on the grounds of their political insensitivity or their lack of knowledge of local customs, but have not been a source of radical attacks on foreign investment[20]. This may be, as Vernon would have us believe, because Indonesia has not yet proceeded far enough down the path of foreign-investment-led economic development. But experiences so far suggest that, given the Indonesian social and ethnic structure, foreign investment in itself is unlikely to stimulate the growth of an independent, nationalistic and politically powerful business elite which will come to compete with, and challenge the presence of, the foreign multinational.

Japanese Multinationals and the Political Elite

As the discussion so far has indicated, relations between the foreign multinational and host country political and administrative elites tend to be far closer in a less developed country such as Indonesia than in a highly industrialised country. This is partly because foreign investment plays such a central role in the development strategies of many western-orientated Third World countries. The Indonesian government hopes that foreign private capital will increase the country's inflow of foreign exchange, reduce unemployment, speed the transfer of modern technologies from more developed countries, train Indonesians in industrial and managerial skills etc. With so much at stake, it is almost impossible for the Indonesian government to follow the line of "benign neglect" which has characterised some industrialised countries' policies towards foreign investment. Instead, the Indonesian policy, like that of many other Southeast Asian countries, has produced a complex network of incentives and disincentives designed to foster certain types of investment in certain types of industries and certain geographical areas. Moreover, because of the relative weakness of the local business class, the government as an institution, or politicians and administrators as individuals, are much more likely to be directly engaged in investment projects with foreign multinationals than would be the case in a more highly industrialised economy.

This close interaction of foreign multinationals and the host government has had two consequences. Firstly, it has increased the salience of foreign investment as a political issue: opposition to foreign investment in Indonesia easily spills over into opposition to government economic policies, just as criticism of the activities of individual foreign multinationals easily spills over into criticism of the economic interests of prominent political figures. Secondly, it has created a highly ambivalent attitude to foreign investment amongst the political and administrative elite.

Moran's expectations that government officials and political leaders would increasingly resent the constraints to sovereignty imposed by foreign economic influences, and would see the milking of the multinational as a means to win popular support, have been partly fulfilled in Indonesia. Under the Sukarno regime, foreign investors (at that time mainly American, Dutch and British) became the target of growing attacks from the political leadership. These attacks may be seen in part as arising from a genuine belief that power of foreign companies in Indonesia was hindering economic development and attainment of full political self-determination. At the same time the foreign investor clearly provided a convenient excuse for, and distraction from, Indonesia's growing internal economic problems. At this stage Japanese investment was largely exempt from the criticism levelled at other industrialised countries. This was not only because Japanese investment was very small in scale by comparison with American and European investment, but also because Japan was seen as a convenient counterweight to the economic power of the West.

After the fall of Sukarno, however, the situation was virtually reversed. Although American and Japanese investment both flowed into Indonesia in large quantities, it was the Japanese companies which attracted increasingly adverse comment from some political quarters, while U.S. investment failed to become a politically controversial issue. The reasons for this contrast will be discussed in further detail below. Here it may be noted that, although criticism of Japanese investment came mainly from extra-governmental sources (particularly students and other intellectuals) some Indonesian leaders were clearly irked by Japan's economic power and by their own country's heavy reliance on Japanese trade, aid and investment.

Interestingly, Weinstein's study of Indonesian foreign policy-making found that it was precisely the decision-makers most experienced in dealing with Japan who were most likely to regard Japan as a major threat(21). Criticisms of Japan and of Japanese investors by prominent government figures are not uncommon, particularly in cases where Japan has been thought to be using its economic power to influence Indonesian internal affairs(22). Similarly, the increasing number of "nationalistic" regulations, such as the <u>pribumi</u> regulations of 1974 and the renegotiation of oil contracts, can be seen as attempts to placate public criticism of the large Japanese economic presence in Indonesia and of the continuing vast inequalities in the distribution of wealth. Latent public hostility to Japanese investors has sometimes been mobilised by individual politicians who have seen it as a tool for the advancement of their own careers in government.

But such expressions of nationalism take place within circumscribing boundaries. The main restricting factors are economic. Having chosen to follow a development strategy which places great emphasis on foreign aid, trade and private investment, the Indonesian government cannot afford to make too many threatening gestures towards foreign firms for fear of stemming a flow of foreign capital which has become vital to Indonesian economic and social stability and thus to the survival of the regime itself. The economic and political consequences of Sukarno's nationalist policies are a lesson which the Indonesian leadership is unlikely to forget. The path which the government treads is indeed a narrow one: on one side are the internal pressures of the urban poor, the intellectuals and the political opposition, which, if neglected, may boil over as they did in 1974; on the other are the sensitivities of the foreign investor, who may be frightened away by excessively nationalistic noises, as happened to some extent after the introduction of stricter controls on investment in the mid-1970's.

A second set of factors which may restrict the effectiveness of government attempts to limit the power of the foreign investor are the problems of administration. During the 1970's the Indonesian government introduced measures to increase the domestic share in foreign ventures and to ensure that investors in natural resources carried out primary processing of raw materials in Indonesia wherever possible. It also declared its intention of enforcing the long-standing regulation forbidding the operation of foreign trading companies in Indonesia. Yet in every case the effect of these policies on the foreign investor has been much less drastic than would at first appear. We have already seen the various means employed by foreign companies to comply with the letter if not the spirit of the pribumi ownership requirements. Similarly, Japanese trading companies continue to be as active as ever in Indonesia. The official restrictions on their presence have simply meant that, rather than engaging directly in trade, they must act as liaison offices linking domestic producers with overseas buyers(23).

The limited effects of restrictions on foreign multinationals are partly the result of a lack of administrative expertise. A. R. Soehoed, then Deputy Chairman of Indonesia's Capital Investment Co-ordinating Board, described the difficulties of enforcing the requirements for local processing of raw materials:

> "It's fine to lay down a rule that you require more processing. The trouble is what do you require exactly? . . . The balancing out of what is desired by the government and what the market can carry is not easy. It requires time, it requires expertise, it requires a lot of negotiations. . . . Our problem is we are still very limited in experience and personnel and so we aren't able to take quick decisions and put the right decisions down on paper and this, indeed, gives the impression of quite a bit of uncertainty. That's no good, but what can you do? Those are the tools you have"(24).

Apart from the question of bureaucratic efficiency there must also be some doubt over the administration's political will to enforce such regulations strictly. This again reflects the dilemma of a government which needs to make concessions to internal public opinion without seriously threatening external relations with foreign companies and governments. It also leads us on to the vexed issue of corruption.

Much has been written about the links between foreign investment and corruption in Indonesia, and both Indonesian administrators and foreign multinationals have attempted to lay the blame upon the other party. Thus, Adam Malik, at that time Foreign Minister, is quoted as criticising Japanese firms for creating a climate in which corruption can flourish: "Instead of helping us they make matters worse by placing tremendous temptations before our local administrators"(25). On the other hand, Japanese businessmen often argue, in private at least, that they are obliged to give bribes because it is the local custom. For them, corrupt payments not only increase the cost of a project but also lay them open to criticism in the media at home and abroad and can place them in a situation of considerable legal and administrative uncertainty. One major Japanese company was left with no legal redress when an intermediary pocketed a substantial sum of money destined for payment to Indonesian administrators and then claimed that he had never received it. The company was obliged to make the payment again, this time secretly photographing the transaction for its own protection(26).

Japanese companies have often been singled out for attack in connection with the rise of corruption in post-war Indonesia, but there is no reason to believe either that they helped to initiate the tradition of bribe-payments or that they have a substantially worse record in this respect than other foreign firms. Corruption - both "small" corruption, i.e. payments by private individuals to administrators to ensure favourable treatment, and "big" corruption, i.e. the creaming of economic projects by political and administrative leaders - became a problem early in the history of post-independence Indonesia. Under Sukarno's Guided Democracy rapid inflation, and government control of trade via a system of import licences, seriously exacerbated the problem(27). By the time that Japanese companies began to operate in

Indonesia on a large scale, therefore, the problem was already in existence. There is no evidence, on the other hand, to suggest that Japanese businessmen were particularly reluctant to comply with local customs. Rumours of corruption surround several of the Japanese reparations projects, notably the delivery of ships by the trading firm Kinoshita Shoten(28). Detailed data on corrupt payments are of course impossible to collect, but it seems probable that such payments have been a feature of many investment projects both by Japanese and by other foreign multinational companies over the past two decades.

The social factors which encourage the spread of corruption are complex. It should be observed that different types of corruption may flourish in different societies: in Japan itself, for example, "large" political corruption appears to be fairly widespread, while "small" corruption by minor officials is almost unknown. Public awareness of the extent of corruption, particularly political corruption, will also depend to a large extent on the freedom and investigative zeal of the media in the country concerned. In Indonesia, accusations of corrupt activities by multinational companies are concerned mainly with the higher-level forms of corruption. If a multinational company pays bribes to officials to expedite the processing of visas or customs procedures it is doing no more than is done by many private Indonesian citizens, and is not regarded as behaving particularly reprehensibly. It is when such a company is believed to be providing large sums to top-ranking officials and politicians, possibly in exchange for immunity from certain government regulations, that it is regarded as a major threat to national integrity.

It is in the economic structure of Indonesia that we can find the roots of the financial relationship between foreign investors and the governmental elite: a somewhat furtive relationship which is often criticised by both partners and yet which appears to be self-perpetuating. In many industrialised countries (not least in Japan) a close financial link exists between big business and politics. Large companies are major providers of funds to conservative or liberal political parties and cultivate close and enduring links with prominent political figures. In Indonesia, where such a very large share of private investment is by foreign firms, a similar relationship has tended to develop between the political elite and multinationals. The origins of this type of relationship were already observed by Kahin when he studied the role of foreign aid in the early post-independence period.

> ". . . Indonesia was and remains badly lacking in indigenous social elements economically independent of government and endowed with sufficient financial resources to support the sort of political parties requisite to the effective operation of parliamentary democracy . . . (but) there were various devices whereby 5 to 10 per cent of loans from foreign countries could be siphoned into the coffers of the parties which formed the government. These devices were by no means of exclusive benefit to the party organisations, for frequently considerable amounts went into the pockets of individual cabinet members and prominent party officials"(29).

Even today, when elections assume a less central part in the Indonesian political system, foreign companies continue to play an important role as potential sources of the funds essential to advance a political or administrative career. Two examples may help to illustrate this process. In one case, a representative of a major Japanese multinational explained that his company paid money into the election fund of an Indonesian provincial governor in whose district a major investment project was situated. This payment, he argued, was in principle identical to the payment which his company might make to the election funds of a party or politician in Japan(30). In the second case, a young and successful Indonesian bureaucrat spoke of his gratitude to a Japanese multinational which had provided him with the services of their local branches, company cars, etc., on his recent official visits abroad(31). In neither case was there any evidence of "corruption" in the strict sense of payment for services rendered. Nevertheless, this type of financial relationship between foreign companies and government does raise a number of important questions. Firstly, one may question the extent to which a politician or administrator is able to retain his integrity and impartiality after contracting such debts of gratitude to foreign investors. Secondly, there is the problem of the effect of such financial relationships on the public's confidence in government and bureaucracy. This is a particular problem because the ethical and legal status of such relationships tends to be unclear. In Japan itself, for example, payments by private companies to party funds may be targets of frequent criticism, but they are clearly provided for and regulated by law and are, to some extent, open to public scrutiny. In the Indonesian case, on the other hand, there is no clear code governing payments from foreign firms to political bodies. Such payments therefore tend automatically to be made in secret, thus increasing the aura of suspicion which surrounds the relationship between politicians and foreign multinationals. Lastly, once governmental leaders have discovered the ease with which foreign companies may be tapped for funds, they are unlikely to engage in the more arduous process of building up internal mechanisms of political mobilisation and fund raising. Thus financial relations between private investors and politicians create precedents and traditions from which neither side is easily able to break free.

The problems of Third World host governments in their dealings with multinationals have been vividly described by Franklin Weinstein, who emphasises the political as well as the economic aspects of underdevelopment:

> "Under-development has, of course, many dimensions. Of central importance is the inadequacy of political and economic institutions. Corruption is a most serious condition in these countries less for moral reasons than for its reflection of the anarchy pervading both political and economic arenas; it so pervades both public and private sectors and introduces such a high degree of unpredictability into decision making that it virtually precludes consistent implementation of policies in most fields"(32).

Elsewhere, answering the question of whether multinational companies (MNCs) contribute to development, he writes:

> "The irony of this question is immediately apparent. We are really asking whether MNCs are likely to contribute to the process by which Third World States may become better able to control MNCs. For to foster development means, among other things, to help the state create institutions capable of sustaining the enforcement of its laws and regulations (including those concerning MNCs) and the mobilisation of its own national resources, both human and material (which would make it less dependent on MNCs)"(33).

The history of the multinational company in Indonesia so far does not therefore conform to Moran's pattern of growing host country nationalism. Instead, we find a situation where the power of the host government is confined by the conflicting pressures of internal nationalism and external economic power. In this situation, the most likely outcome is not increasing government hostility towards the multinational, but a growing gap between strict written laws, designed to assuage the fears of nationalists at home, and lax enforcement, designed to reassure the foreign investor. The existence of this gap between regulations and their enforcement can be seen as a major impediment to the development of stable, effective and publicly respected governmental institutions in the host country.

Multinational Companies and Host Country Political Divisions

Moran's third hypothesis - that multinational companies themselves may have conflicting interests in relation to host country policies -

is an interesting one which has rarely been tested empirically. Moran goes on to suggest that, while all will be equally interested in political stability, multinationals producing for the local market may tend to favour more progressive social policies than those producing for export: the former would see a rise in host country incomes as expanding their market, while the latter would see it as increasing their costs. Multinationals engaged in resource extraction might be expected to be generally less concerned about host country social policies, except where these had an influence on the political environment(34).

The difficulties of testing this kind of hypothesis are obvious. The employees of multinational companies rarely advertise their views on the internal politics of host countries, and if any attempts were made to influence policies, this would inevitably be done well away from the public eye. The typical response of Japanese company representatives, when questioned on their attitudes to Indonesian development, was to emphasise their firm's desire to co-operate in fulfilling the aims of the government's current Five Year Development Plan.

Studies of the Sukarno period, where greater political turbulence and a degree of historical perspective make such observations easier, do suggest occasional political divisions between foreign business interests in Indonesia. There is some evidence, for example, of a division between Japanese businessmen during the period of the Sumatra Rebellion of 1957-61. Ishihara Hiroichiro, who was one of the first Japanese businessmen to invest in post-war Indonesia, is said to have lost favour with the government because of his support of the rebels at this time(35). The Indonesian business leader, Omar Tusin, who visited Tokyo in 1957, also reported that Takasugi Shinichi of Mitsubishi Electric was among those "particularly sympathetic towards

Indonesia's anti-Sukarnoist drive"[36]. It will be recalled that Takasugi was the central figure in the establishment of good relations with the Suharto regime after the fall of Sukarno. But while some Japanese businessmen were expressing doubts about the nature of Sukarno's leadership, others were busy establishing the closest links with the regime. This was particularly true of some of the smaller Japanese firms who were anxious to establish a foothold in the lucrative reparations business. The Kinoshita Trading Company, for example, is believed to have paid substantial sums into a private "Revolution Fund" set up by Sukarno for his personal and political purposes[37]. Kubo Masao of the Tonichi Trading Company also sought to cement his relationship with the regime by introducing Sukarno to a Japanese bar hostess who, as Ratna Dewi, became Sukarno's fourth wife. (This was unsuccessful from Kubo's point of view, because Dewi severed links with her mentor after her marriage to Sukarno)[38]. More recently, too, there have been signs of divisions amongst Japanese investors in their support for individual political figures in Indonesia. One of Japan's "top ten" trading companies of the early 1970's refused to become involved in dealings with Pertamina because it mistrusted the personality and policies of Pertamina's flamboyant director, Ibnu Sutowo. Other Japanese firms, on the other hand, became actively involved in Sutowo's more speculative ventures, a fact which some had later cause to regret[39].

It is questionable, however, whether these divisions represented real disagreements over the nature of Indonesia's internal policies, or whether they merely reflected differing strategies for securing or expanding a company's role in Indonesian trade, reparations and investment. Particularly in the early phases of post-war economic relations with Indonesia, Japanese companies found it necessary to establish personal connections with leading figures in the regime in order to win approval for their reparation or investment projects and to maintain a channel of information on Indonesian political changes. For this purpose, different companies employed different strategies. Many sought the help of intermediaries whose connections with the Indonesian political elite went back to the days of the Japanese occupation or beyond. Mitsui Bussan, for example, employed Rear-Admiral Maeda who had been a prominent figure in assisting the proclamation of Indonesian independence after the Japanese surrender in 1945. His career with Mitsui, however, does not appear to have yielded great benefits for the company: as one of Maeda's associates has said, "He was a good military leader, but not a businessman"(40). Nishijima Shigetada, Maeda's wartime aide and a close friend of the prominent politician (now Vice President) Adam Malik, served a more important role as advisor to several companies, including the North Sumatra Oil Development Company(41). A third major intermediary was C. M. Chow, an Indonesian-born Chinese businessman who had worked in Japanese intelligence during the War(42). Other companies chose to make use of various contacts which had been forged between Japan and the Indonesian army leadership during the Occupation period. In general, however, the main criterion for the choice of political contacts or intermediaries would appear to have been the likelihood of their providing long term benefits for the company concerned, rather than their political ideology.

A further difficulty of applying Moran's framework of political divisions to Japanese multinationals arises from his assumption that companies are either producers for the local market, producers for export or resource developers. In fact, the <u>sogo shosha</u> which play such an important role in Japanese overseas investment are often all three at once. Mitsui Bussan, for example, has invested in import-substituting industries such as textiles, export-orientated ventures in agriculture and resource-orientated projects in forestry and fisheries. Even the large manufacturing companies such as Teijin and Toray are likely to have an eye to foreign as well as local markets. It is precisely those large multinationals with the greatest influence on Indonesian life who are least likely to fit neatly into the potentially conflicting categories of investment postulated by Moran.

Here we may also briefly consider a second type of division amongst multinationals which is sometimes suggested by observers of Southeast Asian affairs. This is the division between companies of different national origin, in particular, between Japanese and U.S. multinationals. The wider issue of the relationship between Japanese and American policies towards Southeast Asia will be considered further in the next chapter. It should be noted, however, that some writers have seen an association between U.S. investment and the "technocrats" in the Indonesian government, while Japanese investment has been more closely associated with the President's personal advisors(43). The "technocrats", typified by individuals such as Dr. Widjojo Nitisastro (at present Minister for Economic Affairs) and Dr. Emil Salim (currently Environment Minister) are mainly European or U.S.-trained economists, and their policies have sometimes been identified with a more cautious approach to economic growth and a greater emphasis on redistribution than has been characteristic of the political leaders drawn from military backgrounds. The two figures more commonly seen as supporters of Japanese investment are Major Generals Ali Murtopo and Sudjono Humardani. Both have played an important role as close associates of and advisors to President Suharto, although Humardani has never held a cabinet post and Murtopo has only recently become Minister for Information.

On a superficial level such a division between "pro-American" and "pro-Japanese" politicians is justifiable. It is to be expected that the American education of many technocrats may give them a certain understanding of the interests of U.S. investors. At the same time it is true that Murtopo and Humardani have been active in promoting contacts with Japan. Humardani is believed to have played a central role in negotiations on the Asahan project, while Ali Murtopo was responsible for creating the Centre for Strategic and International Studies, a research body which sponsors annual meetings of leading Japanese and Indonesian political and business leaders.

It would be a mistake, however, to view these two groups as supporting conflicting policies. Despite resentment at Japanese economic power in some quarters, both technocrats and generals clearly acknowledge the need for Japanese <u>and</u> American private investment. Neither group can be seen as wishing to defeat or exclude the policies of the other. On the contrary, they co-operate in formulation of Indonesia's economic development plans. If Japanese companies are identified with figures such as Murtopo and Humardani, then, it is not because they support their policies rather than those of the "technocrats" but, once again, because this provides the most effective means of access to the centre of political power.

A survey of the post-war history of Japanese companies in Indonesia therefore provides some examples of inter-company rivalry based on different tactics for establishing links with the host country political elite. But it produces no evidence of a genuine split between multinationals in their attitudes to the nature of Indonesian leadership. It also raises doubts as to whether such a split is possible. Moran agrees that all multinational companies have certain common interests in respect to host country policies. The most fundamental of these might be defined as "stability" - i.e. the absence of civil unrest and of frequent changes of government - and "a friendly environment" - i.e. policies which ensure the continued and preferably expanding presence of foreign investment. It is probable, however, that these two requirements leave little scope for fundamental variations of policy in a country like Indonesia. It should be emphasised that ethnic, cultural and religious divisions, together with the potential friction between military and civilians and between rich and poor make the mere maintenance of "stability" in Indonesia a fairly formidable task. When we add to this the need to maintain a certain minimal level of economic growth, the need to repay the large foreign debts contracted during earlier economic development plans, etc., it becomes clear that the scope for fundamental changes of policy within the existing system is really quite limited. So although some multinational companies, like some Indonesian leaders, would doubtless wish in theory to see the progressive social policies and economic redistribution in Indonesia, the practical realities of a political and economic environment which their very presence has helped to create makes it unlikely that radical departures in this direction could be pursued without endangering the basic requirements of "stability" and "a friendly environment".

Host Country Opposition to the Multinational Company

In discussing the relationship between the host government and the multinational corporation we have assumed the presence of internal forces hostile to the foreign investor. As we have seen, these hostile pressures have not come from the expanding modern business sector which has arisen with the growth of foreign investment. Nor has it been generated within the ruling elite, since the government's resistance to foreign economic influence has been balanced by its desire to maintain the inflow of foreign trade and investment. What then is the nature of host country hostility to the multinational corporation and from what sectors of society does it arise?

The most obvious source of opposition to the multinational company are those groups who find their livelihoods directly threatened by its presence. One of the principal causes of anti-Japanese unrest in Indonesia has been the decline of traditional centres of textile production, such as Majalaya in West Java, which is seen as the consequence of large-scale Japanese investment in synthetic textile production. The arrival of large Japanese, South Korean and other fishing interests in Indonesian waters has also caused protests amongst Indonesian fishing communities in North Sumatra and East Java[44].

A rather different form of hostility to multinational interests has come from the Indonesian workforce employed in some foreign-owned enterprises. It should be said that in general workers employed by multinational companies in Indonesia enjoy a relatively high level of pay and status which they are anxious to preserve. In this respect one would expect them to identify their interests with those of the multinationals. But insensitivity of management to local customs, and highly visible inequalities of wealth between local and expatriate employees, can cause vigorous attacks on multinationals from their Indonesian workforce. This happened for example in 1972 when employees of a Toray joint venture struck in protest at the attitudes of management to its Indonesian employees and the refusal to provide time for prayer.

Examples like the ones quoted above suggest that those who are directly and negatively affected by the activities of multinational companies are often amongst the poorer and less articulate sections of the population. Because they are socially and geographically diverse, and because their protests tend to be specific ones related to their own livelihoods, they do not form a coherent body of opposition to foreign investment, and their activities pose little threat to the government or the multinational companies. A more important influence is exerted by those groups closer to the centre of power who have sometimes taken up the protests of small businessmen, factory workers, fishermen and others and articulated them into a more general attack on the role of foreign multinationals. These groups consist mainly of students and other urban intellectuals (writers, journalists, etc.) and are sometimes more or less overtly supported by opposition politicians.

The role of students as critics of government policy and of foreign economic influence is common to many countries, developed as well as less developed, and it cannot be explained in terms of the Indonesian social structure alone. To a large extent the political role of students clearly arises from the fact that, although they form a highly educated and privileged sector they have not yet formed any close commitments to the existing political and economic establishment. The organisation of higher education into large colleges and university campuses also means that students are not only articulate but also easily mobilised. In Indonesia the student community played an important role in the development of pre-war nationalism, and more recently student activism has been a major factor in the fall of Sukarno and in the political opposition to the Suharto regime.

It may be surmised that the specific student hostility to anything smacking of foreign economic domination is also in part the consequence of post-war education policies. In Indonesia, as in many formerly colonised territories, a major aim of the educational system has been to develop a sense of national identity and national pride. Douglas has observed that the emphasis on nationalism has been particularly strong at high-school level in Indonesia(45). The students of the late 1960's and early 1970's were also strongly influenced by stories of the "Generation of '45" - those members of their parents' generation who had led the struggle for independence[46]. Although the older nationalist leaders such as Sukarno had co-operated with the Japanese occupation forces, and had regarded the Pacific War as a crucial prelude to independence, many of the prominent figures of the "Generation of '45" had been highly critical of this co-operative attitude to Japan, and had regarded their struggle for freedom as being directed as much against the Japanese occupiers as against the old colonial powers. It is not surprising that a student generation reared on stories of nationalist heroism should have reacted negatively to the growing economic influence of Japan during the early 1970's.

Japanese multinational companies have clearly been the principal target of criticism by students and intellectuals in Indonesia during the past decade. This may appear unjustified, since even at the end of the 1970's the cumulative realised investments of U.S. companies were still greater than those of Japanese firms, and U.S. political and military influence in the Southeast Asian region was still undeniably more powerful than Japanese influence. To some extent, this is a consequence of the comparative "visibility" of Japanese investment, mentioned in Chapter 2. The large number of Japanese investment projects, and the fact that they were mainly located in urban areas, has created an unbalanced impression of the relative scales of Japanese and U.S. investment. Japanese investment, being mainly in the manufacturing sector, has probably had a greater impact on Indonesian society than U.S. investment, which tends to take the form of resource-extracting "enclaves" in remote areas. The very newness and unfamiliarity of many Japanese company and brand names may also have increased their visibility and vulnerability to criticism. But to a large extent hostility to Japanese economic influence amongst Indonesian intellectuals may be attributed to a correct, if sometimes instinctive, appreciation of the fact that, while American influence is static or declining, Japanese investment and influence has increased rapidly and appears likely to continue growing in the future(47).

The latent hostility to Japan's economic presence in Indonesia provides support for politicians critical of the present regime and its economic policies. Foreign investment, and specifically the exploitation of Indonesian fishery resources by Japanese firms, was one of the main issues raised by the PDI, the smaller of the two opposition parties, during their 1977 election campaign(48). (It should be noted that the Indonesian electoral system is such that neither the PDI nor the larger opposition group, the PPP, had any hope of winning the election, but the 1977 campaign undoubtedly provided an opportunity for some expression of popular discontent with the government's economic strategy). The international development of Islam as a political force has also had some impact in Indonesia, where foreign economic and cultural influences have been criticised by Islamic leaders and politicians(49). The political role of Islam in Indonesia has, however, been traditionally much weaker than in other countries with comparable Muslim populations, and it is most unlikely that Islam in Indonesia could provide a focus for a crusade against foreign economic influence in the way that it has done, for example, in Iran.

Criticism of multinationals, and particularly of Japanese multinationals, has been taken up not only by opposition politicians but also, at least on one occasion, by prominent figures within the political establishment who have sought to use the issue as a weapon in their struggle against more powerful rivals. It was this conjunction of mass unrest amongst students and other urban groups on the one hand and an internal power-struggle within the establishment on the other which gave rise to the so-called Malari (or 15 January) Affair of 1974(50).

The events of January 1974 must be seen against the background firstly of widespread disillusionment with the development strategies of the Suharto regime, secondly of an atmosphere of political unrest surrounding recent reforms of the marriage and divorce laws, and thirdly of growing protests throughout Southeast Asia against Japanese economic influence in the region. Protests by students against the government's economic policies and the power of foreign multinationals had been gathering momentum since the autumn of 1973, and were assuming an increasingly anti-Japanese tone.

On 7th January, Prime Minister Tanaka left Japan for a tour of Southeast Asian countries. Jakarta was perhaps the most important stop on his itinerary because of the central role which Indonesia played in the Tanaka government's energy strategies. According to one person involved in the preparations for the tour, the Japanese government had received warnings of potential trouble from their Jakarta embassy, but had rejected these in favour of a conflicting optimistic report prepared by an embassy official with close links to Suharto's entourage(51). In Bangkok and Kuala Lumpur, which he visited first, Tanaka was met with student demonstrations protesting against Japanese investment and trade imbalances. News of these demonstrations fuelled the enthusiasm of dissident forces in Indonesia, but there can be little doubt that the anti-Japanese riots in Jakarta would not have attained the scale that they did but for divisions within the Indonesian political and military establishment.

It is widely accepted that a crucial factor in the Malari Affair was the division between the Presidential advisors - notably Major Generals Ali Murtopo and Sudjono Humardani - who as we have seen had achieved a position of great influence in Indonesian political life, and General Sumitro, Commander of the security body Kopkamtib, who felt himself increasingly excluded from the centre of decision-making. Murtopo and Humardani had been closely identified with the policy of encouraging the growth of Japanese investment. Sumitro, on the other hand, although officially responsible for suppressing the student protests, took a highly conciliatory line, touring campuses throughout Java and even promising protestors "a new pattern of leadership"[52]. In the weeks before the arrival of Tanaka in Jakarta, Sumitro appears to have tried to strengthen his position by winning support from other prominent military figures with girevances against the regime. At the same time, Kopkamtib maintained its unusually lenient approach to demonstrations, hoping perhaps to use public opinion to put pressure on the presidential advisors. If this was the plan, however, it back-fired badly. After Tanaka's arrival in Jakarta on 14th January, the demonstrations erupted into two days of rioting during which Japanese cars and the showrooms of Toyota's Indonesian subsidiary were attacked, and a number of Chinese businesses were looted. Order was only restored after several demonstrators had been killed and Tanaka had been obliged to make a hasty and undignified departure. It is suggested by some observers that, while Sumitro had encouraged the earlier demonstrations, the later rioting was partly instigated by supporters of Ali Murtopo, who was aware that the breakdown of order would discredit his rivals in Kopkamtib[53]. Whatever the true causes of this complex affair, the outcome was that Sumitro was forced to retire from his positions as Commander of Kopkamtib and Deputy Commander of the Armed Forces.

Because of the obscure political manoeuvres surrounding the Malari Affair, it is tempting to interpret it as a purely internal Indonesian problem rather than as a genuine product of anti-Japanese feeling. This view, however, is over-simplified. As Palmer has written: "It is immaterial whether the demonstrations were or were not organised;

the emotions were genuinely felt"[54]. The Malari Affair illustrates two fundamental problems surrounding the activities of multinational companies in less developed countries. The first of these problems is that the dominant role of foreign companies in the economy almost inevitably conflicts with the nationalist ideals inculcated through the education system, and therefore arouses opposition amongst students and urban intellectuals. The second is that the close identification of the foreign multinationals with the current political regime, discussed earlier in this chapter, makes foreign investors particularly vulnerable to criticism during periods of political upheaval.

Both the Indonesian government and Japanese multinationals have removed some of the more obvious causes of discontent - the former by strengthening regulations on foreign investment, the latter by measures such as increasing expenditure on charitable and educational activities in Indonesia and by developing awareness of Indonesian culture and traditions amongst their personnel. Japanese businessmen posted to Indonesia are now often provided with instruction sheets reminding them, for example, to cultivate the friendship of Indonesians rather than associating exclusively with other expatriates and to speak Indonesian rather than Japanese when local employees are present. But although the violence of 1974 has not been repeated, most observers would agree that, just as there has been no fundamental change in the role of multinationals in the Indonesian economy, so there has been no fundamental change in the level of latent hostility to Japanese firms amongst intellectuals and other sectors particularly of urban Indonesian society. During periods of strong governmental control such hostility remains below the surface, but the possibility of further eruptions of opposition to foreign investors in times of internal political instability can never be ruled out.

Foreign Multinationals and Host Country Leverage

Since the mid-1970's there has been, as already noted, a tendency to emphasise the shift in power from the multinational corporation to the host country. This has been explained partly in terms of the growing experience of governments, particularly third world governments, in dealing with multinationals:

> "At one time, because they lacked technology, marketing skills and management know-how, the developing countries were in a poor bargaining position vis-a-vis foreign firms in extractive industries. But the situation has changed dramatically over time. The countries now recognise the value of the resources they possess. They have become more skilled in the bargaining process and more ready to exert their sovereignty. The outcome is what one would expect in a bilateral monopoly where one bargainer becomes increasingly well-informed and much of the foreign technology and know-how has been transferred; it is now the companies, not the countries, who are dependent"(55).

A second explanation is based on the "hostage" position of the multinational's local subsidiary once the investment has been made. Thus F. R. Root has written:

> "Before the initial investment is made, the host government is often in a weak bargaining position because the multinational enterprise usually has several options to invest in other countries. To obtain investment, therefore, the host government may have to offer concessions such as tax exemption for the first five years of the affiliate's operations. Once the investment is made, however, the power balance tends to shift in favour of the host government. The multinational enterprise has now committed resources which may be lost if the affiliate does not maintain its viability. As the host country becomes less dependent on the affiliate for capital, technology, management, access to export markets or external economies, it is in a better position to insist on new conditions to maintain (or increase) its share of economic benefits"(56).

It can be argued, however, that this view of the multinational as an increasingly helpless tool in the hands of third world nationalists is, like earlier visions of an irreversible transfer of sovereignty from the nation state to the multinational corporation, based on a rather short-term view. Looking at the issue over a longer period what one sees in fact is a two-sided process of adjustment and development in the relationship between the multinational corporation and the host nation. It is true, of course, that the bargaining power of some Third World governments has increased substantially in regard to certain vital raw materials. Thus Indonesia was able, during the 1970's, to extract greatly increased revenue from oil production, both because of the importance of oil to the industrialised nations of the world and because of the rather exceptional political and geographical circumstances which facilitated the creation of OPEC. It is true, again that the Indonesian government has become more experienced in dealing with foreign multinational corporations, and has also benefited from the experiences of other less developed countries, both in ASEAN and elsewhere. At the same time, the rise of new centres of multinational activity, such as West Germany and Japan, and more recently, South Korea, has meant greater competition amongst multinational firms and thus greater opportunities for the host government to "play off" one firm against another.

On the other hand it must be remembered that the multinational corporations are also developing and gaining experience in the management of relations with foreign governments. Just as host governments have sought to reduce their dependence on any single industrialised country by balancing the investments of the various rival centres of multinational activity, so the corporations themselves have sought to minimise the risks of overseas investment by spreading their activities over many countries. Thus in the 1970's we can see an increasing diversification of Japanese companies' foreign investments away from Southeast Asia and South America and towards North America, Europe, and even to a lesser extent, Africa. By building up complex information networks and training their staff in the techniques of managing overseas operations, Japanese multinationals have overcome some of the problems of cultural isolation which beset the earlier phases of their development. In Indonesia, many Japanese firms have, as already indicated, cultivated friendly relations with a wide range of political, administrative and business leaders. They have also become more skilled in adapting their business methods to conform with apparently nationalistic local regulations, and more generally in reconciling their own interests to the aims and development strategies of Third World host governments.

Looking at the post-war history of Japanese companies in Indonesia, what we see is, not a transfer of power from one partner to the other, but the development of an increasingly institutionalised relationship between multinational companies and the host government. During the Sukarno period, the reaction of the Indonesian government to foreign investors was fluctuating and inconsistent. On the one hand, there was a general atmosphere of hostility towards foreign investment, which was seen perpetuating the economic dependence of the colonial era. On the other, Japanese companies were regarded as a useful alternative source of capital to balance the older-established economic powers. The lack of Indonesian experience in dealing with foreign multinationals, and the absence of any coherent policy towards foreign investors, meant that, while some Japanese companies were able to secure quite favourable terms particularly for production-sharing ventures, the political environment remained unattractive to most Japanese multinationals. During this period, much depended on a company's personal contacts with the regime, and these were often conducted through a single political intermediary whose fall from grace could mean the abandonment of an investment project(57).

Under Suharto, not only has the general atmosphere been much more favourable to the foreign investor, but relations between foreign companies and the regime have become more stable and more coherently organised. Although personal contacts between Japanese multinationals and individual governmental figures continue to be extremely important, such contacts now tend to be more broadly based than they were under Sukarno, and they are supplemented by formal bodies such as the annual Japan-Indonesia Conferences and the more recently established Indonesia-Japan Joint Economic Conference(58). The development of such contacts, together with the increased use of foreign economic advisors seconded from multinational corporations, has led to a growing co-ordination of the aims of the multinational corporations with those of the Indonesian government's development plans.

From the point of view of foreign investors, the institutionalisation of their relations with the host government reduces the risks of unexpected and damaging nationalistic measures and makes it possible for them to plan further ahead. But at the same time their identification with the current regime makes them increasingly dependent on the success of the regime's economic policies. The foreign multinational, and in particular, the Japanese multinational, is a natural target of attack for the government's opponents in times of political unrest. For the Indonesian authorities, foreign investment has been a cornerstone of their development strategy. Yet the large-scale presence of foreign multinationals has had certain profound effects on the development of Indonesian political structures. Amongst other things, it has produced substantial dependence on foreign investors as sources of covert funding for political and administrative careers and has tended to encourage a widening gap between rhetoric and reality in economic policymaking. For both sides, however, the continued stability and development of the relationship is of central importance. The future of the existing political elite and the future role of Japanese multinationals in Indonesia depend very much on one another.

NOTES ON CHAPTER IV

1. Malcolm Caldwell: The Wealth of Some Nations, London, Zed Books, 1977, p 83.
2. Ibid, p 84.
3. Ibid, p 85.
4. Theodore H. Moran: "Multinational Corporations and Dependency: A Dialogue for Dependistas and Non-Dependistas", International Organisation, Vol 32, No 1, Winter 1978, pp 93-94.
5. See David Jenkins "Giving Credit Where It Is Due", Far Eastern Economic Review, 21 September 1979, p 113.
6. The lower estimate is from H. Mabbett and P. C. Mabbett: The Chinese in Indonesia, the Philippines and Malaysia, Minority Rights Group Report No 10, p 3; the higher figure is quoted in David Jenkins, "The Traders who Came to Stay", Far Eastern Economic Review, 21 September 1979, p 40.
7. This comparison is emphasised, for example, in Garth Alexander: Silent Invasion: The Chinese in Southeast Asia, London, Macdonald, 1973.
8. W. F. Wertheim: Indonesian Society in Transition, The Hague, W. van Hoeve, 1969, p 141.
9. Jenkins: "Traders who Came to Stay", p 41.
10. Ingrid Palmer: The Indonesian Economy Since 1965, London, Frank Cass & Co., 1978, p 167.
11. Mochtar Lubis - Personal interview, Jakarta, August 1979.
12. See Far Eastern Economic Review, 21 September 1979, p 116.
13. See for example Mahendra: Some Aspects of Financing Equity of Indigenous Joint Venture Partners in Indonesia, Jakarta 1979, Mimeographed paper pp 4-5.
14. M. Y. Yoshino: Japan's Multinational Enterprises, Cambridge, Mass., & London, Harvard University Press, 1976, pp 142-143. Also

Y. Tsurumi: The Japanese Are Coming: A Multinational Interaction of Firms and Politics, Cambridge, Mass., Ballinger Publishing Co., 1976, pp 209-210.

15. L. Siahan et al: Japanese Direct Investment in Indonesia: Findings of an Experimental Survey, Tokyo, Institute of Developing Economies, 1978, pp 78-80.

16. Kwik Kian Gie, quoted in Jenkins: "Giving Credit Where It Is Due", p 114.

17. On Kosgoro, see Ochiai Hideo: Sumatora no Koya Kara, Tokyo, N.H.K. Books, 1977, p 14.

18. See Far Eastern Economic Review, 19 March 1976; on the early career of Sutowo see A. G. Bartlett et al: Pertamina: Indonesian National Oil, Jakarta, Singapore and Tulsa, Amerasian Ltd., 1972.

19. Raymond Vernon: Sovereignty at Bay, London, Longman, 1971, p 197.

20. Criticisms of this kind, attacking certain forms of Japanese investment while emphasising the need for increased investment by Japanese multinationals in general, have been put forward by prominent business figures such as Panglaykim: Business Relations Between Indonesia and Japan, Jakarta, Centre for Strategic and International Studies, 1974; and Suhendro Notowidjojo: Japan-Indonesian Relationship in Joint Ventures in Indonesia, Mimeographed conference paper.

21. Franklin B. Weinstein: Indonesian Foreign Policy and the Dilemma of Dependence, Ithaca and London, Cornell University Press, 1976, pp 98-101.

22. For example, a number of politicians and administrators interviewed by Weinstein resented what they believed to be Japanese attempts to use economic aid as a lever to obtain favourable fishing rights. Ibid, pp 262-263.

23. Asahi Shimbun Keizaibu: Sogo Shosha, Tokyo, Asahi Shimbunsha, 1977, p 255.

24. A. R. Soehoed, interviewed in Far Eastern Economic Review, 17 December 1976.

25. Adam Malik, quoted in "Indonesia Prime Test for Japan", Washington Post, 2 March 1973.

26. Anonymous Japanese businessman, interviewed Tokyo April 1978.

27. B. Glassburner: "Pricing of Foreign Exchange in Indonesia 1966-1967"; in B. Glassburner (ed.): The Economy of Indonesia: Selected Readings, Ithaca, N.Y. Cornell University Press, 1971.

28. Masashi Nishihara: The Japanese and Sukarno's Indonesia: Tokyo Jakarta Relations 1951-1966, Honolulu, University Press of Hawaii, 1976, pp 102-103.

29. G. McT. Kahin (ed.): Major Governments of Asia (2nd edition), Itaca, N.Y., Cornell University Press, 1963, pp 632-633.

30. Anonymous Japanese businessman interviewed Tokyo, April 1978.

31. Anonymous Indonesian civil servant interviewed Jakarta, August 1979.

32. Franklin B. Weinstein: "Multinational Corporations and the Third World: The Case of Japan and Southeast Asia", International Organization, Summer 1976, p 387.

33. Ibid, p 396.

34. Moran, op cit, pp 94-95.

35. Nishihara, op cit, p 103.

36. Ibid, p 192.

37. Ato Masuda: "Sengo no Nihon to Indonesia no Kankei ni Tsuite: 'Cho Shin Mo Korekushon' o Megutte", Shakai Kagaku Tokyu, March 1979, pp 516-517.

38. Nishihara, op cit, pp 113-115.

39. Asahi Shibun Keizaibu, op cit, p 33.

40. Nishijima Shigetada, interviewed Tokyo, 27 May 1978.

41. Ibid. See also Nishihara, op cit, pp 118-120.

42. Masuda, op cit, pp 461-534.

43. See for example Derek Davies in "Indonesia '75", supplement, Far Eastern Economic Review, 7 November 1975, pp 3-4.

44. See Indonesia: Feiten en Meningen, Vol 4, No 5, p 13.

45. Stephen A. Douglas: Political Socialization and Student Activism in Indonesia, Urbana University of Illinois Press, 1970, pp 69-71.

46. Ibid, pp 111-112.

47. See above, Chapter 2.

48. Indonesia: Feiten en Meningen, Vol 4, No 1, p 14.

49. Adrian Peters: "Moslems Threaten Suharto's Government", The Guardian, 26 October 1978.

50. This analysis of the Malari Affair is based, except where otherwise indicated, on Harold Crouch: "The '15th January Affair' in Indonesia", Dyason House Papers, Vol 1, No 1, August 1974, pp 1-5.

51. Personal interview, Japan, April 1978.

52. Crouch, op cit, p 4.

53. This is suggested for example by Brian May in The Indonesian Tragedy, London, Routledge & Kegan Paul, 1978, p 305.

54. Palmer, op cit, p 153.

55. R. Hal Mason: "Conflicts between Host Countries and the Multinational Enterprise", California Management Review, Autumn 1974, p 6.

56. F. R. Root: International Trade and Investment, (4th edition), Cincinnati, South-Western Publishing Co., 1978, p 589. Root, however, accepts that the reversal of power positions need not be true of every direct investment.

57. See for example Nishihara, op cit, Ch. 5.

58. The Japan-Indonesia Conferences, attended by leading political, administrative, business and academic figures from both countries, are organised jointly by the Indonesian Centre for Strategic and International Studies and the Japanese Foreign Office, and have been held annually since 1974. The first Indonesia-Japan Joint Economic Conference was held in March 1979, and attended by representatives from Keidanren and its Indonesian counterpart KADIN. See Gekkan Indonesia, April 1979, pp 3-6.

V THE INTERNATIONAL SETTING

In considering the internal dynamics of the role of Japanese multinationals in Indonesia, we have been treating this role as though it had an existence of its own, separate from the international political and economic order. Such a close-up view is necessary if we are to understand the complexities of the changing interaction of two nations, but it presents only a partial picture of reality. No study of the relations between two countries is complete until we have placed it in the wider context of the world order. In Chapter One we saw the profound impact of international problems on the activities of Japanese companies in the Indies during the 1930's and 1940's. In this chapter we shall consider how the international environment has shaped the post-war position of Japanese multinationals in Indonesia, and how changes in that environment are likely to affect the future of Japanese investment in Southeast Asia.

Multinational Companies and the World Order

During the past two decades many writers have attempted to assess the impact of the multinational corporation on the world order. Often works on this subject, whether by Marxist or by liberal writers, have been characterised by what Gilpin has termed a "Marxist emphasis on the historical laws of development"(1). In other words, they have stressed the primary of economic forces over political forces, and have argued that, since the multinational corporation appears to be the most developed and powerful form of economic organisation in the post-war world, the structure of international political relations will be determined by the evolution of the multinational firm.

Such arguments have taken their most extreme form in the works of writers such as Howard V. Perlmutter. Writing in the first half of the 1970's, Perlmutter stated:

> "We assume . . . that for the remainder of the 1970's the MNC (multinational corporation) can be conceptually described as a leading system in the global industrial system, with the nation-state and trade unions as lagging systems"(2).

While accepting the existence of countervailing ethnocentric forces, therefore, Perlmutter based his predictions for the future on the development and dominance of the multinational firm, and saw the period 1980-1990 as being characterised, among other things, by the emergence of Global Industrial System Constellations involving capital from less developed as well as developed nations, and by the rise of trans-ideological firms formed from the merging of Comecon and West European companies. In the more distant future, Perlmutter believed, this trend would produce "global cities and regional cities"; "global educational systems"; "global telecommunication-transportation systems"; and "global arms reduction in relation to global security system"(3).

In fact Gilpin is incorrect in labelling such rather unilinear views of history as "Marxist". As Barratt Brown has emphasised:

> "Marxist analysis is not simply a matter of looking for direct economic motives behind all individual actions or even of looking for economic explanations for all social actions. . . . Social formations are a complex totality for Marxists as for others, and economic or materialist interpretations are not to be applied mechanically but dialectically, that is, allowing for the feedback of human consciousness into the material world"(4).

Gilpin is surely right, however, in arguing that

> "although the economic and technical substructure partially determines and interacts with the political superstructure, political values and security interests are crucial determinants of international economic relations"(5).

The multinational corporation, though an extremely important factor in international relations, is only one of a number of forces shaping world affairs. Firstly, it must be noted that the geographical scope of the multinational's activities is limited. While a number of socialist countries, most notably China, have begun to welcome technical assistance from multinational companies, this is a relatively recent phenomenon and is far from universal. Many Asian countries, including nations such as Burma as well as Vietnam and North Korea, have maintained a cautious approach to foreign capital. Moreover, the role of foreign multinational corporations in socialist countries, which normally involves the sale of technology or the construction of plants, but not the acquisition of equity or the permanent management of projects, is likely to have rather different political and economic consequences from the more traditional activities of multinationals in other parts of the world. Predictions of the rise of state-owned "multinationals" based in centrally planned economies have also shown few signs of being fulfilled.

Next, as noted in Chapter Three, the multinational corporations are not the only interest groups influencing the development of home country foreign policies. Important though they are, multinational companies may not always be able to present a united view on the desirable direction of future policies, or may not always be able to make their views prevail over those of other interest groups such as farmers, organised labour etc. Equally importantly, the short run desire of multinational companies for increased profits, and their long run desire for stability and growth, may suggest different political strategies. Lastly, the actions of multinational companies themselves may contribute to the development of unforeseen reactions. This can be seen in the rise of nationalism amongst intellectuals and other groups in Third World host countries, leading on occasion to revolutionary social upheavals as in Iran in 1978-1979.

All these diverse forces help to create the international framework within which the multinational firm operates. It is not the multinational spread of business alone, but rather the interaction of the multinational corporation with other dynamic elements in this framework, which helps to determine the future shape of the world order.

Japan, Southeast Asia and the Cold War

The most important external factor governing Japan's role in Southeast Asia until the late 1960's was the political tension between capitalist and communist powers. Yano describes the Cold War as being one of two "lucky accidents of history" which enabled Japan to re-establish a presence in Southeast Asia in spite of defeat in World War II. (The other "accident of history", according to Yano, was the development of a North South problem and the consequent Southeast Asian demand for Japanese capital and technology)(6).

Taking a general view of Japan's relationship with the United States since 1945, we can see that Japan has filled two simultaneous and contradictory roles in America's international strategy: one being the role of (first potential and later actual) economic rival to the U.S., and the other being the role of political ally. As Halliday and McCormack have pointed out, this divided attitude to Japan on the part of U.S. government and business can be observed even during the phase of the American occupation (1945-1951); while certain American business groups, particularly those connected with the textile and ceramics industries, pressed for punitive measures against Japanese industry, other companies, mainly connected with heavy industry, lobbied successfully for more lenient policies which would allow the rapid revival of the Japanese economy(7). The two conflicting strands in U.S. policy have persisted to the present day, although the image of Japan as a rival has naturally strengthened as the Japanese economy expanded. However, it can be argued that the predominant view of Japan as a political ally during the 1950's and 1960's, and the consequent support for Japan's economic recovery and development, was primarily the result of the tense security situation in Asia during this period.

The Cold War and the later development of U.S. military commitments in Southeast Asia had several important consequences for Japan's role in the region. Firstly, by causing the U.S. to assist the economic recovery of Japan, it facilitated the growth of the Japanese multinational corporations which are the subject of this study. From the U.S. point of view, Japan's recovery was necessary not only to prevent political instability in Japan itself, but also to provide a base for American security operations in Asia and to present a showcase of capitalist economic development which might be observed and emulated by other Asian nations. In the words of Prime Minister Kishi, addressing the U.S. Congress in 1957: "As the most advanced industrialised nation in Asia, Japan has already shown that economic and social progress can be achieved without the communist shortcut"(8). Besides providing direct reconstruction aid to Japan, American economic assistance took the form of arrangements which gave Japan access to the U.S. market without demanding reciprocal trade and investment rights for American companies in Japan. At the same time, U.S. procurements during the Korean and Vietnam Wars accelerated Japan's economic growth, while security arrangements between Japan and the U.S. freed the Japanese government from the necessity of large-scale defence expenditures.

The American military umbrella not only protected Japan itself but also helped to keep the economies of Southeast Asian nations open to Japanese trade and investment. Japan, having theoretically renounced the maintenance of armed forces under Article 9 of the post-war Constitution, was of course unable to participate in the Southeast Asia Treaty Organisation (SEATO) created in 1954. Indonesia too has avoided commitment to military alliances, preferring to pursue an "independent and active" policy of non-alignment (although this rubric has in practice left considerable scope for variation, from the distinctly pro-Chinese policies of Sukarno's Guided Democracy to the distinctly pro-Western policies of the present regime). Nevertheless it can be argued that security arrangements created largely under the auspices of the United States created a form of cordon sanitaire between Indonesia and the communist countries of the Asian mainland.

Equally important was America's role as a supplier of aid to many Southeast Asian countries. Despite Sukarno's well-known suspicion of Western aid, Indonesia did in fact receive considerable sums in financial assistance from the United States and other western nations until the final phase of Guided Democracy. Much greater amounts of American aid flowed into countries such as Thailand and Taiwan (which were among the first centres of Japanese post-war overseas investment) and, of course, into Indonesia after the fall of Sukarno. As well as providing bilateral aid, the United States also acted in concert with Japan in setting up the Asian Development Bank (established in 1966 to provide financial support for Asian development plans) and later in creating the Inter-Governmental Group on Indonesia (IGGI) which has given large-scale economic support to the Suharto government. All these activities were of crucial importance in creating the necessary economic environment for the expansion of Japanese trade with, and investment in, Southeast Asia.

Japan and the U.S.A. in Southeast Asia: Political Allies or Economic Rivals?

From the late 1960's onwards, however, U.S. attitudes towards Japan's role in Asia began to undergo a gradual change. The image of Japan as a political ally began to be increasingly overlaid by the image of Japan as an economic rival.

One cause of this change was undoubtedly the very success of policies designed to foster Japan's economic strength. Not only had Japan's recovery and subsequent economic growth proceeded far more rapidly than expected by most western observers, but also the measures designed to encourage economic ties between Japan and Southeast Asia were helping to create a situation in which Japanese trade and investment in the region was catching up with or overtaking that of the U.S.A. and the European former colonial powers (see Tables 5.1 and 5.2). Although the overt cause of growing economic conflict between Japan and other developed countries during the 1970's has been the increase of Japanese exports to the West, this conflict must also be seen against the background of economic competition in Third World markets, including those of Southeast Asia. While Japan's success in capturing a large share of such markets cannot be criticised as "unfair" by western companies, it may be argued that this has been highly damaging to less competitive western nations: perhaps almost as damaging as the more controversial problems of dumping invisible trade barriers, etc.

A second cause of changing U.S. attitudes towards Japan arose from alterations in the international political environment, and the consequent decline of Japan's function as a front-line state in the struggle against communism. Here the central factor was the failure of U.S. strategies in Indo-China. This led to a general U.S. reaction against large-scale overseas military commitments, and in particular to a turning away from Asia, indicated not only by the declining emphasis on Asia in American foreign policy but also by the decreasing journalistic and academic interest in Asian affairs in the United States(9). At the same time, the foreign exchange problems generated by American expenditure in Vietnam exacerbated economic tensions between Japan and the U.S., while the development of Detente and of good relations with the People's Republic of China weakened Japan's strategic role in Asia.

By the late 1970's, therefore, there was growing American dissatisfaction with the situation in non-Communist Southeast Asia: a situation in which Japan, as the dominant economic power, appeared to derive most of the benefits while the U.S.A., as the dominant political and military power, appeared to incur most of the costs. Three alternative approaches to the problem have been put forward by academics and politicians. The first is that Japan should increasingly "share the burden" of military responsibilities in Asia by increasing her armed forces to a scale commensurate with her economic strength(10). Some steps in this direction have already been taken: Japan has responded to U.S. pressures by increasing defence expenditure (though this so far remains below the psychological barrier of 1% of GNP), and the Japanese Self Defence Forces have recently extended their role by taking part in joint exercises with the U.S.A., Australia and New Zealand in the Pacific(11). An alternative view is that America, having overcome the initial reaction to its failures in Indo-China, should now be prepared to resume a more active role, economically as well as militarily, in Southeast Asia(12). A third argument is that, given the intense opposition to a Japanese military revival both within Japan and elsewhere in Asia, the present arrangement is in fact the most effective one, and should be continued and strengthened.

According to this line of reasoning, the American government, rather than bemoaning Japan's economic success and the costs of "defending Asia", should recognise the considerable strategic significance of Japan's aid and investment, and should encourage Japan to continue and expand its economic role in Asia while the United States continues to fulfil its role as principal military power in the region(13).

The issue of the respective roles of the U.S.A. and Japan in Southeast Asia raises two important questions. The first question is whether economic power can be separated from military power. As already indicated (see Chapter 3) most modern theories of imperialism rest on the assumption that the overseas spread of a nation's economic interests will inevitably produce a corresponding spread of political and military commitments abroad. Indeed, as Andrew Mack has observed, the principal concern of most post-war Western theorists of imperialism has been to seek economic explanations for the various military and political interventions carried out by the United States in the Third World(14). In Japan, we see an example of a country which has achieved the status of a major economic world power without large-scale military development. The question which remains is whether this can be any more than a temporary situation - a reflection of the time which it takes for political and military realities to adjust themselves to new economic realities - or whether Japan can prove to be an exception to generalisations on the correspondence of military and economic power.

Present trends suggest that the growth of Japanese economic power in Asia is in fact being followed by a more gradual growth of Japan's military role in the region. This is indicated not only by the fact that Japan's military expenditure is growing more rapidly than that of any other OECD country (though from a smaller base) but also by the gradually extending scope of Japan's military responsibilities - including the cautious development of links with armed forces in other Asian countries such as Indonesia(15). However, it would be an over-simplification to assume that Japan is merely taking over America's military role in Asia. Because of the strong inhibitions against military power in Japan, the lessons which have been learnt from America's mistakes in Indo-China, and changing circumstances in Asia and the rest of the world, the political and military role which Japan develops in East and Southeast Asia is likely to be considerably different from the roles of other great powers, and of Japan herself, in the past.

In the first place, future Japanese strategies in Asia will probably continue to place considerable emphasis on economic aspects, particularly aid. The security significance of economic assistance has long been a powerful consideration in the minds of Japanese politicians and administrators. This has been very important in Japan's relations with the less developed countries of Southeast Asia where, as Yano has written, the perception that "any threat to their security comes not from outside, but from domestic sources, is particularly easy for Japanese to understand and to agree with"(16). A second aspect of Japan's future role in Asia is that it is likely to be based on co-operative economic, political and security arrangements embracing the United States, Australia and New Zealand as well as other East and Southeast Asian countries. The Japanese desire to promote such forms of co-operation (which will be discussed in more detail below) can again be seen as reflecting a cautious approach to the assumption of overseas political responsibilities.

These two emphases in Japan's security policies have been clearly expressed in a number of recent reports by official and unofficial research groups in Japan. In 1976, the non-governmental Economic Study Security Group published recommendations on the need for Japan to strengthen and defend its "economic border". Principal amongst its proposals were suggestions for the creation of a free trade zone or free yen zone in Asia and the increased strategic use of aid(17). The following year the influential Nomura Research Group's International Environment and Japan's Grand Strategy for the 21st Century while accepting the need to "form a national consensus on the defence problem by arousing the people's interest in and gaining their understanding and support of the defence problem" put forward the following measures as suitable responses to U.S. demands for an increased Japanese military role in Asia:

> "(a) Japan should provide co-operation through its Self-Defence Forces and officers for the maintenance of peace by the United Nations or
>
> (b) Japan should participate in political or economic activities that will indirectly contribute to the promotion of security in the Asia-Pacific area. Such political activities should include
>
> 1. an intermediary role for the promotion of peaceful co-existence or co-operative relations between ASEAN and the three Indo-chinese countries;
>
> 2. an intermediary role to promote peaceful co-existence and conciliation between North and South Korea;
>
> 3. economic assistance to support the development of ASEAN which is to become a nuclear (sic) of the Pacific community;
>
> 4. multilateral assistance to Asian nations through the Asia Development Bank; and
>
> 5. preparedness to pay the cost over a long period to promote the eventual formation of the Asia-Pacific area"(18).

Current developments, in other words, would seem to support the idea that the development of Japan as an economic power and the overseas spread of Japanese multinational enterprises will cause Japan to assume an increasingly important political and strategic role in world affairs and particularly in the Southeast Asia region where some of her main economic interests lie. At the same time, however, they also suggest that the precise nature of this political and strategic role will be shaped not only by Japan's present economic circumstances but also by external political factors and by the legacy of lessons learnt from Japan's own recent history.

The second question raised by Japanese and U.S. activities in Southeast Asia also concerns the impact of the multinational corporation on world affairs. This question is whether the growth of the multinational promotes co-operation or rivalry between the principal foreign-investing countries. The theory that there is growing co-operation between the developed centres of multinational business was strongly argued by Stephen Hymer in his "The Multinational Corporation and the Law of Uneven Development"(19). Here Hymer suggested that, although there will be fierce international competition in the initial stages when multinationals are predominantly based in their home territories, the gradual interpenetration of national economies will produce growing co-operation between developed countries, leading eventually to the creation of a constellation of closely linked metropolitan centres whose businesses will jointly control a hierarchy of peripheral regions. On the other hand writers such as Robert Gilpin have tended to follow the neo-mercantilist argument that foreign investment causes increasing rivalry amongst the leading industrialised nations, and thus increasing international tension(20). A similar line of reasoning has been taken to even greater extremes by the Soviet academic Viktor Dybov, who has written:

> ". . . by the early 1970's three main centres of imperialist rivalry had clearly emerged: the U.S.A., Western Europe and Japan. Competition between them is becoming increasingly keen and merciless partly due to the growing might of the multinational monopolies(21).

As is so often the case, a study of the roles of U.S. and Japanese multinational corporations in Southeast Asia provides evidence which might be used to support either argument. On the one hand, there have been a growing number of instances where Japanese companies have obtained minority holdings in U.S. foreign investment projects, or where Japanese and American multinational corporations have co-operated in setting up overseas ventures. In Indonesia, examples of this type of activity may be seen in the cases of Freeport Sulphur's Ertzberg copper mine, in which a consortium of Japanese companies has a 13% shareholding, and of the Arun and Badak LNG projects. Japanese multinational companies have also co-operated with U.S. oil majors in the creation or extension of investment projects in Indonesia[22]. This, together with the growth of cross-investment by Japanese companies in the U.S.A. and by American companies in Japan, might be seen as a sign of increasing co-operation between multinational corporations regardless of national origin. On the other hand, as has already been mentioned, the success of Japanese companies in capturing Third World markets by exports and by foreign investment has led to an undeniable increase in economic conflict between Japan and other developed nations, including the United States.

Here again it may be condluded that it is not the existence of the multinational corporation in itself which inevitably leads either to co-operation or to rivalry amongst the advanced industrial nations. The decisive factor is rather the interaction of the multinational spread of business with the changing political and economic environment in which it operates. In the 1930's, as we have seen, the early development of multinational companies coincided with and intensified the division of the world into competing economic blocs. From 1945 until the 1970's the liberalisation of world trade, the development of international communications, the aspirations of Third World countries for rapid industrialisation, and, from 1960 onward, declining military tensions between East and West, all facilitated the expansion of the multinational corporation, and it seemed reasonable to expect that this expansion would in turn help to promote those trends in world affairs which were so favourable to the growth of international business. At present, however, there appears to be a renewed tendency to economic regionalism. Although political factors are a major cause, this trend can also be seen to some extent as an unintended consequence of the multinational spread of business. In particular, the transfer of basic industries from Japan and other industrialised nations to low-wage countries such as those of East and Southeast Asia has created severe industrial problems in the less dynamic developed countries including the United States itself. The transfer of industries has at the same time stimulated the development of new, more sophisticated technologies which are having profound effects on the international economic order. Because the progress from economies dominated by older steel and petroleum-based heavy industries to economies dominated by newer high-technology industries is not taking place at an even rate throughout the developed world, economic rivalry and friction are increasing and there are growing demands for protectionist policies in many industrialised nations. The problems created by this economic transition are aggravated because they coincide with changes in the political order, from a system centred around two rival superpowers - the United States and the Soviet Union - to a multi-polar world.

As a consequence of these developments Japanese multinational companies, whose long-term interests would seem to be best served by an open and liberal world economic system, may find their activities restricted by economic conflicts amongst the developed nations, and the Japanese government, despite its anxiety to maintain an "omnidirectional" approach to world affairs, may find itself obliged to develop increasingly close and formal links with other Asian and Pacific rim nations.

The Question of China

A further example of the influence of the external political and strategic environment on the activities of the multinational may be found in the history of Japan's relations with the People's Republic of China. Besides its direct influence on the growth of economic ties between Japan and Southeast Asia (discussed above), the Cold War also had the important consequence of blocking the development of relations with China. In order to understand the significance of this, it is necessary to remember Japan's great dependence on the Chinese market in the pre-war period - in 1939 almost 50% of Japan's exports had gone to China (including Kwantung and Manchuria), while the same area had accounted for about 23% of Japan's imports(23). However, one of the conditions attached to the signing of the San Francisco Peace Treaty which ended the American occupation of Japan was that Japan should support American policy towards China. In 1952 Japan recognised the

Chiang Kai Shek regime in Taiwan, and although in 1962 a trade agreement was signed with the People's Republic, economic relations remained at a very low level until 1972. (In 1970 only 3% of Japanese exports went to Mainland China)[24].

Some Japanese business interests continued to lobby for closer links with China during the 1950's and 1960's, but the principal factors behind the sudden change of Japanese policy in the 1970's were ones over which Japanese multinational companies had little direct control. The first was the weakening position of the United States in international affairs, which led to a more flexible American attitude to communist countries, and thus paved the way for President Nixon's visit to Peking in 1972. The second was the Sino-Soviet split, and the growing tension between China and the Soviet Union as the war in Indo-China entered its final phases. This tension made China's political leaders increasingly anxious to obtain new friends abroad, and to seek new sources of financial and technical assistance for industrial modernisation and development.

In September 1972 Prime Minister Tanaka visited China, and negotiations for the signing of a peace treaty with the People's Republic began. (Neither China nor the Soviet Union had signed the San Francisco Treaty of 1951 which formally ended Japan's state of hostility with the other Allied powers). Although negotiations on the Treaty proceeded slowly, Tanaka's visit paved the way for the rapid expansion of economic ties between the two countries. Between 1972 and 1977 Japanese exports to China grew from just over $ 600 million to almost $ 2,000 million, while imports rose to $1500 million[25]. In February 1978 a Long Term Trade Contract between Japan and China was signed in Peking, and in August of the same year the long-awaited Treaty of Peace and Friendship was also signed. To mark the ratification of the Treaty, the Chinese Vice-President Teng Shiao-ping (Deng Xiaoping) visited Japan in 1978 and met a number of prominent Japanese business leaders. In December 1979 Prime Minister Ohira paid a return visit to China, bringing with him promises of $ 1.5 billion in concessionary yen loans to China during the early to mid 1980's[26].

For Japanese multinational companies, the re-establishment of relations with China has brought not only a general increase in trade but also greatly enlarged opportunities for the sale of plant and technology. In 1978 alone contracts were signed for the construction of a steel plant in Shanghai by Shin Nihon Seitetsu (New Japan Steel), the export of colour TV plants to China by Toshiba and Hitachi, and the setting up of ethylene manufacturing facilities by Nikki and of synthetic leather manufacturing by the textiles firm Kurashiki Rayon. These contracts are believed to be worth about $ 3 billion to the Japanese companies concerned[27].

The relevance of these events for the role of Japanese multinationals in Southeast Asia may not immediately be apparent. But it should be emphasised that there has been a close connection between Japan's relations with China and her relations with Southeast Asia in recent decades. In particular, the loss of economic ties with China in the immediate post-war period was an important stimulus to the development of trade with and investment in the Southeast Asian region. The fact that Japan's political leaders perceive a problem in balancing their relations with China against those with Southeast Asia is clear from their many statements on the subject. For example, Prime Minister Ohira and Foreign Minister Okita were anxious to emphasise that the 1979 official visit to Peking and the promise of large-scale concessionary loans to China, did not affect Japan's commitment to ASEAN. These reassurances were backed by the announcement of a ¥ 55 billion loan to Indonesia in the same week as the announcement of aid agreements with China[28].

Many Southeast Asian politicians and businessmen fear that Japan's new friendship with China may affect their countries in three ways. Firstly, it may draw Japanese aid and investment away from the Southeast Asian region[29]. This is a difficult subject to assess, because it involves assumptions about what <u>would</u> have happened if Japan had not expanded her economic ties with China. So far there is little evidence of an absolute decline in Japanese aid, trade or investment in Southeast Asia. On the other hand, many Japanese companies are clearly enthusiastic about the potential for enlarged economic relations with China. Not only does the economic development of China present the prospect of a vast market for exports and a rich source of certain raw material or semi-manufactured imports, but also, by contrast with most Southeast Asian nations, China today appears to present a picture of comparative political stability and social discipline. There are also the advantages of long historical and cultural ties between Japan and China, which undoubtedly colour popular Japanese attitudes towards China. It seems possible, therefore, that the growth of a Japanese economic stake in China may lead to a relative, though perhaps not an absolute, diminution of Southeast Asia's position in Japan's external economic relations.

One issue of particular concern to Indonesia is the question of oil. An early impetus behind the re-establishment of trading links with China was provided by the belief (particularly in Japan's Ministry of International Trade and Development) that China's large oil supplies might offer a solution to Japan's chronic energy problems. From Indonesia's point of view, this raised the spectre of the loss of the country's main oil market to Chinese competition[30]. In fact, events have proved that both Japanese hopes and Indonesian fears were exaggerated. The increase of Japan's oil imports from China may have been one factor in the stagnant demand for Indonesian oil in the mid-1970's, but by

1978 China still supplied only 3.2% of Japan's oil needs, while Indonesia supplied 12.9%[31]. The main reason for this has been the quality of Chinese oil, which is substantially heavier than that previously imported by Japan. A large-scale increase in dependence on Chinese oil would make it necessary to adapt existing refining facilities, and is therefore not favoured by the Japanese oil industry[32]. The continuing Japanese demand for Indonesian oil has been emphasised by the major new production-sharing agreements between Japanese companies and Pertamina in 1979. It is likely, however, that the existence of an alternative source of oil in China has given Japanese interests an added bargaining counter in negotiations for new oil contracts with their Indonesian partners.

A second fear often expressed by Southeast Asian leaders is that Japanese economic co-operation may help to turn China into a major economic rival, and that increased Chinese exports of basic industrial goods may harm their own countries' prospects for industrialisation[33]. Against this it might be argued, firstly, that China with its huge internal market is unlikely to develop a highly export-orientated economy like those of the so-called Newly Industrialised Countries (South Korea, Taiwan, Singapore, etc)., and secondly, that China's current outward-looking economic policy could in fact generate new trading opportunities for Southeast Asian countries. On the other hand, it is true that many of the present plans for economic co-operation between Japan and China envisage the repayment of loans by exports of basic manufactured products from the newly constructed plants[34]. This suggests that there may indeed be a considerable increase in Chinese exports of iron and steel, petrochemicals, etc. to Japan during the next decade, and that this may diminish any hopes which the less developed countries of Southeast Asia had of breaking into the Japanese market for such heavy industrial goods.

In the long run, unless there is a dramatic change in the economic strategies of the Chinese leadership, it would seem that China's comparatively high level of social development and political centralisation may provide a basis for rapid economic growth. And it is this possibility which gives rise to the third, most general and least clearly defined fear of certain Southeast Asian leaders: the fear of China as a new economic and military power with the capability to influence events in Southeast Asia. The fear of China amongst the Indonesian political leadership is an old and deep-seated one, and as early as 1973 a number of bureaucrats and military figures were already voicing alarm at the possibility of some form of joint Chinese-Japanese political or economic domination of the region(35). When expressed in this way such fears can surely be dismissed as unrealistic. There is, however, a grain of truth in the idea that greatly increased economic co-operation between Japan and China may have certain, possibly undesirable, effects on the security environment in Asia.

One of the claims which has often been made for the multinational corporation is that, by extending its activities into communist countries, it helps to diminish the political tensions between East and West. In part, this argument is based on the somewhat curious notion that, as the economic structures of Communist countries become more closely comparable to those of Capitalist nations, so political tensions will disappear(36). In fact, in the political world, like often competes most fiercely with like, and the fact that nations use the same technology is no guarantee that they will wish to become political allies. In the case of China it is clear that Japanese companies, by assisting the rapid build-up of Chinese heavy industry, will be indirectly assisting the development of Chinese military capability, and given the present delicate balance of relations between the United States, China and the Soviet Union and her Asian allies, any such development could ultimately have important consequences for the levels of international tension in East and Southeast Asia.

The Development of ASEAN

Relations between the nations of Southeast Asia form another dimension of the environment in which Japanese multinational firms operate. Here the most significant factor has been the formation and development of the Association of Southeast Asian Nations (ASEAN), created in 1967 as a regional economic unit consisting of five nations: Thailand, Malaysia, Singapore, Indonesia and the Philippines.

ASEAN is one of a number of regional economic units which have been created by less developed countries in the past two decades. Most have drawn on the experiences of the European Economic Community and the Latin American Free Trade Association (LAFTA - the earliest Third World regional community, comprising eleven Central and South American countries). The degree of economic integration which has been achieved by such communities, however, varies according to the nature of the region and the length of the community's existence. In fact, the early development of ASEAN was slow. It was not until 1975 that the organisation acquired a permanent secretariat (located in Jakarta). Since the mid-1970's greater progress has been made. Much of this has been political, motivated by events in Indo-China, but some advances have also taken place in the economic sphere, including the preparation of plans for five major ASEAN industrial projects, one to be undertaken in each member country.

Two somewhat contrasting motives may be seen as underlying the popularity of regional community formation in the 1960's and 1970's. The first was the belief that the existence of a regional economic community would strengthen the power of smaller, and particularly of poorer, nations in their dealings with the major economic powers. More generally, it was also hoped that regional integration would weaken the dependence of Third World countries on the developed North. As Galtung has pointed out, the present economic structure of the world is a "feudal" or vertical one, in which not only trade but also political and cultural links between less developed countries and the industrialised world tend to be more intense than similar links amongst the less developed countries themselves[(37)]. By the creation of organisations such as ASEAN, it was argued, less developed countries might not only pool their economic resources but also overcome the artificial political and institutional barriers which often exist between neighbours as a legacy of colonial history[(38)].

This aspect of regional community formation has been emphasised by some writers, who have seen it as a means by which Third World host countries are strengthening their bargaining power in relation to foreign multinational firms. Such writers commonly point to the example of the Andean Pact nations, which have had some success in evolving a joint policy for the regulation of multinationals in their region[(39)].

But if increased political bargaining power was one of the aims of the new regionalism, another was increased economic efficiency. By enlarging the local market, it was argued, economic communities would assist industrial development in low-income countries such as those of Southeast Asia. A regional community would also enable national governments to go some way towards co-ordinating their development plans, thus preventing wasteful competition between fledgling industries in neighbouring countries. From this point of view, regional integration was seen less as a strategy for increasing local control of foreign multinationals than as a means of making the region more attractive to foreign capital:

> "With a wider market assured it is . . . easier to attract foreign capital and to receive co-operation from the developed countries. Foreign firms in developed countries, accustomed to large-scale operation, do not find it attractive to establish several independent factories in different countries, each with a small domestic market. The increased possibility of specialisation according to factor endowment also increases overall productivity, promotes growth, and realises external economies by establishing a cluster of related industries. With an expanded market for each country's products and increased imports from member countries, more foreign exchange resources can be made available for purchase, from the developed countries, of capital equipment or other essentials not produced within the common-market countries"(40).

In practice, the existence of communities such as ASEAN has tended to serve the latter purpose rather than the former. Indeed, the experience of ASEAN indicates that the two purposes may to some extent be incompatible, at least in the early stages of development. Because of the lack of a strong industrial base within the community, demands for rapid industrialisation can only be met by increasing economic links with the developed countries. Between 1965 and 1975 Japan's share in the exports and imports of the ASEAN countries rose from 18.5% to 25.8% and from 20.5% to 24.2% respectively. During the same period the share of exports and imports accounted for by intra-community trade fell from 24.7% to 16.7% and from 22.7% to 12.3% respectively (see Table 5.1). Similarly, a study of trade, tourism and student exchanges within ASEAN during the early 1970's found little evidence of increasing regional integration(41). The absence of regional interdependence was most noticeable in the case of student exchanges. As the author of the study observed:

> "The need for technological expertise apparently created a demand among ASEAN countries for education which was best obtained in highly developed states. As a consequence, elite students within the ASEAN region preferred to study in Japan or in the West. Students who did go to other countries within the ASEAN association often went to gain expertise in languages, literature, or to conduct research as a partial fulfilment for degree programmes being completed at non-ASEAN institutions"(42).

But from the point of view of the second motive - that of making the region more attractive to foreign capital - the existence of the community appears to have achieved greater results. The period since 1967 has seen a very large-scale influx of Japanese capital into the ASEAN region. The causes of this influx are mainly to be found in factors other than the existence of ASEAN, and, during the earlier period in particular, most of this investment was in any case designed to serve the domestic markets of individual host countries. More recently, however, the growth of export-orientated manufacturing investment in Southeast Asia has increased the significance of ASEAN in the eyes of Japanese multinational companies. The development of ASEAN has also been a factor in the changing nature of relations between Japan and Southeast Asia - from the more loosely-structured economic relations of the 1960's and early 1970's to the more formal and overtly political relationship which was established by the "Fukuda Doctrine" of 1977[(43)].

In practice, most Third World economic communities have tended to develop a specially close relationship with an industrialised nation or group of industrialised nations - LAFTA with the United States, the recently-formed Economic Community of West African States with the EEC etc. ASEAN governments are clearly aware of the dangers of excessive economic dependence upon Japan and the other developed nations of the region (Australia and New Zealand), and have tried to minimize this risk by strenuously promoting relations with other industrialised areas, particularly the EEC[(44)]. Their efforts, however, have met with only limited success, and despite some setbacks in Japan -ASEAN relations since 1977, current developments still point to the gradual emergence of a "special relationship" between Japan and the nations of ASEAN. Japan is committed to providing soft loans of $\$$ 1 billion in support of the five proposed ASEAN industrial projects, and it is expected that Japanese companies will also provide substantial technical assistance for these schemes(45). Japan has promised a $ 10 million contribution to the ASEAN Cultural Fund, and a Japan-ASEAN promotion centre in Tokyo to deal with trade, investment and tourism is being planned.(46) On a non-governmental level, Japanese and Southeast Asian companies are preparing to set up a common investment fund, half of which would be financed by the Japanese side, to promote closer economic co-ordination between Japan and ASEAN(47).

ASEAN, unlike the European Economic Community, has never seen its aim as being a political federation of member states, and relations between Japan and ASEAN will not replace bilateral relations between Japan and individual member countries. The development of links with ASEAN will, however, tend to provide Japanese multinational firms with an increasingly stable and integral role in the economies of Indonesia and other Southeast Asian countries. It is perhaps no exaggeration to say that

> "both in scale and quality, the economic assistance Mr. Fukuda pledged during his visit to the ASEAN nations is epoch-making, and it means that regional economic dependence on Japan is now a fait accompli"(48).

Japanese Companies and the Concept of a Pacific Community

The concept of creating a Pacific Community is not a new one. In Japan, interest in the idea goes back at least to the beginning of the 1960's. One of its earliest advocates was the industrialist and conservative politician Kajima Morinosuke who, during the 1960 Diet debate on the U.S.-Japan Security Treaty, spoke of "the need of promoting economic co-operation among the countries of the Pacific region, namely Canada, Central and South America, Southeast Asia, Australia and New Zealand"(49). In May 1963 the idea received more detailed expression in a report entitled "The Goal of Pacific Economic Co-operation" produced by the Japan Economic Research Council, a private body representing four major business organisations. Their proposal was for the development of a loosely-co-ordinated economic body (known as the Organisation for Pacific Economic Co-operation - OPEC) representing the industrialised nations of the Pacific: Japan, the U.S.A., Canada, Australia and New Zealand. Its purpose was in part to act as a counterweight to the growing economic strength of the European Economic Community[50].

During the 1960's this concept made some progress at a non-governmental level. Enthusiastic support for the idea came from business groups in Australia and New Zealand, who were particularly fearful of the consequences of an expanded EEC. A Pacific Basin Economic Council (PBEC) consisting of business representatives from the five industrialised Pacific nations was set up, and this in turn led to the creation of a Private Investment Corporation for Asia, with funds subscribed by private firms from PBEC nations for joint investment projects in Southeast Asia[51]. The Pacific Basin Economic Council has been described by one of its advocates as an example of "business taking steps ahead of government, thereby building a foundation for government to use"[52]. At this stage, however, governmental opinion, particularly in the United States was cautious about the scheme, while in Japan itself there was a division between the main body of business opinion, which favoured a community of developed Pacific nations, and an increasingly influential group of politicians and Foreign Ministry officials, who hoped for a wider community embracing less developed areas of East and Southeast Asia[53].

During the 1970's a number of factors helped to focus growing attention on the possibilities of realising some form of Pacific economic community. Firstly, rapid economic growth in several of Japan's East Asian neighbours, and growing Japanese investment in Southeast Asia, caused Japanese business opinion to align itself with those political groupings who favoured a wider community including less developed as well as developed Pacific nations. The growing economic power of East Asian countries also affected American attitudes to the scheme. In 1977 U.S. trade with Pacific countries exceeded her trade with Europe for the first time in history[54].

The concept of a broader Pacific community consisting of the industrialised Pacific nations, Southeast Asia and such Central and South American countries as might wish to be included has been supported by a number of semi-official economic bodies in Japan during the 1970's. The Ohira administration elevated this idea to a central plank in its foreign policy, and in 1979 set up a committee of experts to produce more concrete proposals on the subject[55]. In Australia a group of experts is similarly working on proposals for an Organisation for Pacific Trade and Development (OPTD - title OPEC having been abandoned for obvious reasons)[56]. Whether such proposals will be translated into practice remains to be seen. Much will depend upon the attitudes of U.S. political groupings, and on developments in the socialist nations of the Pacific, particularly China. However, the central role which Japanese multinational business interests have played in promoting the scheme leads to some interesting considerations on the role of the multinational in international affairs.

The motives behind support for a Pacific community are varied. At one extreme are the nationalistic political views of people like Kajima, who in 1966 wrote:

> "I have advocated the formation of Pan-Asia as the paramount goal of Japanese diplomacy for many years. This ideal, however, could not be realised because of the arbitrary pressures exerted on Japan's foreign policy following the outbreak of the Manchurian Incident and up until the end of the Pacific War. . . .
>
> "In the meantime, the early attainment of my ideal of Pan Asia has become extremely difficult because of the control of the Chinese Mainland by the communist regime. As an alternative, I am endeavouring to realise the establishment of a Pacific common market or Asian-Pacific community as an initial step"(57).

The main motives for business support for the proposal, however, appear to be based upon two rather more practical considerations: economic efficiency and economic security. These two aspects have been strongly emphasised by one of the scheme's leading proponents, the economist, Kojima Kiyoshi. In his principal work on the subject, Japan and a Pacific Free Trade Area, published in 1971, Kojima argued that the creation of such an area would provide scope for a more effective international division of labour, thus encouraging the restructuring of economies in the developed countries and promoting economic growth and welfare throughout the region(58). But in a more recent work, Kojima emphasises the resource-security aspects of the scheme, pointing out that the five industrialised Pacific countries would be able to obtain about 90% of their required resources (with the important exception of oil) from within a Pacific community(59). Other aspects of economic security have also been important factors in support for the Pacific ideal. In particular, as already indicated, the community was seen as a guarantee against possible adverse effects from the development of economic regionalism in Europe and elsewhere. It has also been argued that, by strengthening co-operation and promoting economic development in the region, a Pacific community would contribute to maintenance of political stability and military security. In a political sense, a Pacific community may be seen as a means of managing potential conflicts between Japan and the United States over their changing roles in Asia.

Although opinion amongst Japan's political and economic leadership is now largely agreed on the necessity of including less developed as well as developed nations in any form of Pacific community, the idea elicits less enthusiasm amongst elites in Southeast Asia itself. The prominent Indonesian politician and economist, Sumitro Djojohadikusumo has expressed fears that a Pacific free trade area might "condemn the less developed part of the Pacific Basin to remain raw material producers in perpetuity"(60). While a leading Indonesian academic, Dr. Lie Tek Tjeng, has questioned the political as well as the economic feasibility of the concept, arguing that it might contravene Indonesia's principles of a "free and active" foreign policy(61).

It must be emphasised that the last thing which Japanese business interests have in mind in supporting the concept of Pacific co-operation is the creation of some form of exclusive economic bloc similar to those which emerged in the 1930's. For Japanese multinationals, with their extensive network of trade and investment connections throughout the world, such a development would have extremely harmful consequences. It is for this reason that the Pacific community is envisaged by its proponents as a very loosely-structured organisation whose development would be gradual and where government intervention would be minimised. Such a development might be seen as conforming to the predictions of Perlmutter and others about the impact of the multinational on the world order. These predictions foresaw a period in which regional economic units would be a dominant force in international affairs, acting so to speak as a stepping-stone between the increasingly obsolete nation-state and the emerging interdependent global industrial system(62).

But in reality, as we have seen, support for the development of regional co-operation does not arise simply from notions of multinational efficiency or from a belief that the boundaries of the nation state are too small for the needs of modern industrial enterprises. Fear of resource nationalism in the Third World, fear of protectionism in less successful industrialised countries and fear of political and military insecurity all play an important part in the considerations of Japanese business and political leaders when they seek to construct a new foreign policy commensurate with Japan's economic strength.

Japanese multinational corporations operate within an international environment in which ideological, national and cultural factors play a very large part. Because of these factors, Japanese foreign investment has tended to become concentrated in certain geographical areas, particularly in the non-Communist countries of East and Southeast Asia and the Americas. The growth of Japanese economic strength in these regions, together with other political developments in the area, have tended to push Japan into the role of a regional power. It is noticeable that, while Japan's foreign policies during the early post-war decades were predominantly orientated towards the developed countries of the West and towards gaining acceptance among them as an industrialised power, the growth of Japanese multinational companies during the 1970's has coincided with growing Japanese political attention to her Asian neighbours and to her role in the Pacific region. It seems probable that, for the next decade or two, Japan's relations with Southeast Asia and with other Pacific rim areas will continue to become closer and more formalised. Such relations will not be to the exclusion of expanded contacts with other parts of the world. But the development of Japan as a regional power in the Pacific will in itself create political pressures, conflicts and opportunities which will help to determine the future role of Japanese multinationals in Southeast Asia.

TABLE 5.1

PRINCIPAL TRADING PARTNERS OF THE FIVE ASEAN COUNTRIES 1960-1975

%

EXPORTS TO	1960	1965	1970	1973	1974	1975
Developed countries	57.2	64.3	61.9	64.8	65.9	63.8
of which Japan	11.5	18.5	23.8	26.9	30.5	25.8
U.S.A.	17.1	19.4	17.1	16.7	18.7	19.9
E.E.C.	21.3	19.0	15.1	15.5	11.7	13.2
Less developed countries	36.7	35.6	34.2	31.5	31.0	34.1
of which ASEAN	27.4	24.7	20.6	17.6	15.0	16.7
OPEC*	0.9	1.1	1.6	1.4	2.3	2.1
other Asia	5.5	7.9	9.5	9.5	8.8	10.2
Communist countries	5.6	0.1	3.7	3.1	2.9	2.1
TOTAL (including others)	100.0	100.0	100.0	100.0	100.0	100.0
IMPORTS FROM						
Developed countries	52.6	62.8	65.9	63.0	60.3	62.0
of which Japan	13.1	20.5	24.8	24.2	23.3	24.2
U.S.A.	13.3	13.0	14.8	15.4	14.2	15.0
E.E.C.	20.6	22.1	18.6	15.9	15.6	15.3
Less developed countries	42.6	37.0	29.6	32.2	35.3	34.2
of which ASEAN	29.4	22.7	14.5	15.1	12.7	12.3
OPEC*	3.8	4.7	6.3	6.3	13.7	10.1
other Asia	8.2	8.6	6.4	8.4	6.8	7.0
Communist countries	4.3	0.2	4.5	3.7	3.7	3.5
TOTAL (including others)	100.0	100.0	100.0	100.0	100.0	100.0

(* excluding Indonesia)

Source: Bank of Japan: Chosa Geppo, February 1977.

TABLE 5.2

PRINCIPAL SOURCES OF FOREIGN DIRECT INVESTMENT
IN FIVE ASEAN COUNTRIES 1972-1975 (CUMULATIVE TOTAL)

INDONESIA

	SOURCE OF INVESTMENT						
YEAR	Japan	U.S.A.	Philippines	Hong Kong	W. Germany	Other	Total
1972	16.0	36.4	12.4	7.4	1.2	26.6	100.0
1973	23.2	30.4	10.4	9.7	1.1	25.2	100.0
1975	43.0	16.4	6.1	9.1	3.9	21.5	100.0

SINGAPORE

	SOURCE OF INVESTMENT						
YEAR	Japan	U.S.A.	U.K.	Holland	W. Germany	Other	Total
1972	6.0	33.0	18.3	17.5	2.8	22.4	100.0
1973	7.1	37.6	15.3	14.7	4.8	20.5	100.0
1975	13.4	33.1	14.2	14.0	3.2	22.1	100.0

THAILAND

	SOURCE OF INVESTMENT						
YEAR	Japan	U.S.A.	Taiwan	Hong Kong	U.K.	Other	Total
1972	37.6	12.9	15.7	1.4	5.3	27.1	100.0
1973	41.5	14.7	15.2	1.7	4.2	22.7	100.0
1975	38.5	13.9	11.4	5.7	5.0	25.5	100.0

MALAYSIA

	SOURCE OF INVESTMENT						
YEAR	Japan	U.S.A.	Singapore	U.K.	Hong Kong	Other	Total
1972	*	*	*	*	*	*	*
1973	10.0	18.8	28.7	18.7	9.1	14.7	100.0
1975	21.3	11.9	27.1	14.8	10.8	14.1	100.0

PHILIPPINES

	SOURCE OF INVESTMENT						
YEAR	Japan	U.S.A.	U.K.	Canada	Switzerland	Other	Total
1972	1.1	79.3	2.7	1.4	0.5	15.0	100.0
1973	*	*	*	*	*	*	*
1975	17.5	48.2	7.8	7.3	5.3	13.9	100.0

(* not available)

Source: Japan Ministry of International Trade and Industry.

NOTES TO CHAPTER V

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3. Ibid, pp 169-170.
4. Michael Barratt Brown: The Economics of Imperialism, Harmondsworth, Middlesex, Penguin Books, 1974, p 25.
5. Gilpin, op cit, p 403.
6. Yano Toru: Nanshin no Keifu, Tokyo, Chuo Koronsha, 1975, pp 179-181.
7. J. Halliday and G. McCormack: Japanese Imperialism Today, London, Penguin Books, 1973, p 4.
8. Kishi Nobusuke. Quoted in K. V. Kesavan: Japan's Relations with Southeast Asia 1952-1960, Bombay, Somaiya Publications, 1972, p 149.
9. See B. Gordon: "Japan, the United States and Southeast Asia": Foreign Affairs, April 1978, pp 577-600.
10. This approach has been emphasised particularly by U.S. Defence Secretary Harold Brown. See Derek Davies: "Return of the Rising Sun", Far Eastern Economic Review, 14 March 1980, pp 18-22; also "Brown to Encourage Japan to Spend More on Defence": Indonesia Times, 15 January 1980.
11. See Davies, op cit, p 22.
12. Gordon, op cit, pp 598-600.
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14. Andrew Mack: "Comparing Theories of Economic Imperialism" in S. J. Rosen and J. R. Kurth (eds.): Testing Theories of Economic Imperialism, Lexington, Mass., Lexington Books, 1974.

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26. T. Dahlby: "A Cautious Helping Hand", Far Eastern Economic Review, 14 December 1979, p 100.

27. Shiranishi, op cit, p 40.

28. See Dahlby, loc cit.

29. Ibid. See also R. Whymant: "Japan Set to Lend China £675 million", The Guardian, 4 December 1979.

30. See R. Tasker: "The Ugly Japanese Image is Still Very Real": Far Eastern Economic Review, 23 March 1979, pp 44-45.

31. See John Lewis: "The Diplomacy of Resources", Far Eastern Economic Review, 28 September 1979, p 58.

32. Shiranishi, op cit, pp 44-45.

33. See Dahlby, loc cit.

34. Shiranishi, op cit, pp 37-38.

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36. See for example Irving Lewis Horowitz: "Capitalism, Communism and Multinationalism" in Said and Simmons, op cit, pp 120-128.

37. Johan Galtung: "A Structural Theory of Imperialism": Journal of Peace Research, No 2, 1971, pp 81-117.

38. See Inche Ismail Ambia: "The Myths and Realities of Regional Economic Co-operation in ASEAN" in Selected Papers Delivered at the Great Economic Debate, Kuala Lumpur, University of Malaya Economics Society 1971, pp 67-72.

39. See for example David H. Blake: "Implications of Multinational Corporations for International Politics" in Patrick M. Boarman and Hans Schollhammer (eds.): Multinational Corporations and Governments, New York, Praeger Publishers, 1975, pp 209-212;

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43. See above, p 102.

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56. See "Pacific Community Proposed": Indonesia Times, 22 November 1979.

57. Kajima, op cit, pp 23-25.

58. Kiyoshi Kojima: Japan and a Pacific Free Trade Area, Tokyo, Hitotsubashi University Press, 1971.

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60. Sumitro Djojohadikusumo, op cit, p 32.

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62. Perlmutter, op cit, pp 168-169.

CONCLUSIONS

When Jon Halliday and Gavan McCormack wrote their study of Japan's role in Asia in the early 1970's, they subtitled it "Co-Prosperity in Greater East Asia"(1). In doing this, they were making an explicit comparison between Japan's economic advance into Asia in the post war period, and her economic and military advance into the same regions before and during the Second World War. The danger of this approach is that it uses such comparisons to evoke emotional reactions based on memories of military rule in Japan and military aggression overseas which are not applicable to the present situation. An alternative approach, which is common to many other works on the subject, is to treat the post war activities of Japanese business in Asia as if they were totally separate from anything which took place before 1945. The danger here is that such an approach overlooks important historical roots to the development of Japanese multinational business: roots which help us to understand both the nature of the Japanese multinational and the impact which it has upon Asian host countries.

In this study we have attempted to trace the changing economic and political function of Japanese companies in Indonesia from the first decades of the century to the present day. When we take a general view of these functions throughout the past 70-odd years, we are presented with a number of patterns which may provide some useful guidelines for future studies of the multinational spread of Japanese business.

The first point to be noted is that, in strictly economic terms, the dividing line is in many senses less between the pre-war relationship and the post-war relationship than between the relationship before and after the mid1960's. In the 1950's and early 1960's, as in pre-war years, the central feature of relations between Japan and Southeast

Asia was the very large volume of trade, particularly of Japanese exports. As in the pre-war period, too, the largest single item in these exports was textiles, although by the 1960's there was already beginning to be a marked diversification towards heavy industrial goods, particularly machinery. In both periods, although there was some direct investment in Southeast Asia, this was on a fairly small scale, particularly when compared with the substantial investments by western industrialised nations. It was probably not until the 1970's that total Japanese overseas investment exceeded its pre-war level. Until the mid-1960's Japanese businessmen and politicians continued to regard Southeast Asia primarily as a market for basic manufactured exports and as a source of raw material imports. Finally, it may be remarked in passing that many of the leading figures in the development of Japanese relations with Southeast Asia during the 1950's and 1960's were men whose links with the region originated in the pre-war and war periods: this is true both of businessmen like Ishihara Hiroichiro and Kubota Yutaka, and of politicians such as Fuyiyama Aüchiro[(2)].

The period up to about 1965, therefore, may be viewed as the preliminary stage in the multinational development of Japanese business, although, because of the militarisation of Japan and the advent of the Second World War, this development was an interrupted and disjointed process. From the mid-1960's onwards, we enter a second phase during which we have witnessed the maturing of Japanese-style multinational business. This phase has a number of special characteristics which distinguish it, both from all earlier periods of Japan's overseas economic expansion and from the development of multinational enterprises in other industrialised nations. The most important of these characteristics is the consciously articulated and co-ordinated policy of transferring standardised, low value-added branches of manufacturing industry to less developed countries and promoting the growth of more technologically advanced industries at home. The special structure of Japanese industry, in which the kigyo shudan and sogo shosha encourage the rapid circulation of ideas and information and the keiretsu provide a link between large and small business, together with the close Japanese government-business relationship, have had an important part to play in the development of this multinational strategy.

From the point of view of economic relations with Southeast Asia, this new stage in the development of Japanese multinational enterprises has had several effects. Southeast Asia is now viewed by Japan's economic leaders primarily as a market for heavy industrial products and, above all, as a major host region for Japanese foreign investment. Although countries like Indonesia have a continuing, and indeed increasing, importance to Japan as sources of vital raw materials, there is growing emphasis on investment projects designed not only to extract but also to process resources overseas before importing them into Japan (as in the case of the Asahan project). In general, Japanese overseas manufacturing investment has extended the bottom end of the Japanese keiretsu structure beyond the boundaries of Japan and into less developed countries in East and Southeast Asia, and elsewhere. These overseas ventures have tended to compete with the functions both of many small businesses and of some larger enterprises producing standardised goods such as steel and synthetic textiles within Japan itself. The development of overseas investment has therefore led to a diversification of such enterprises towards more specialised, technologically sophisticated industrial processes or towards the service sector.

The maturing of the Japanese multinational enterprise is still far from complete. Whether the developments of the past two decades will continue depends to a large extent on external political factors some of which were indicated in Chapter V. From present trends, however, it is possible to sketch an outline of a fully developed form of the Japanese multinational structure. An idealised version of this structure is presented by the economist Kojima Kiyoshi who has written:

> "The future of the world economy or the economic outlook of the Asian-Pacific region under 'Japanese-type' direct foreign investment is easily predicted. First of all, textile and other labour-intensive manufacturing industries would be transplanted from advanced countries to developing countries, resulting in re-organisation of north-south trade. Next, the steel industry, other intermediate goods production, and then various machinery industries would establish a network of intra-industry specialisation between advanced and developing countries. If this were to succeed, a day would come when the national income <u>per capita</u> of the present developing countries became equal to that of the advanced countries. Thus the equalisation would be accomplished through trade, according to the principle of the international division of labour and 'Japanese-type' direct foreign investment"(3).

Kojima, however, overlooks an alternative outcome of such a process of foreign investment. This is that Japan, while "exporting" obsolescent industries to less developed countries, will move forward into new and more profitable fields of industrial activity at home, thus producing a structure which, although dynamic, will be hierarchical rather than egalitarian. The embryonic shape of such a structure can be seen in present economic developments in Asia, where Japan has been fostering highly sophisticated technologies at home, investing in intermediate industries in countries such as South Korea, Taiwan and Singapore, and investing in basic manufacturing in less developed nations such as Indonesia, Thailand and the Philippines. At the same time, there has been a growth of investment by the intermediate group of nations, particularly South Korea, in the less developed group.

This suggests the emergence, less of a community of equally industrialised nations in Asia, than of a three-tier international division of labour. This may be compared to the three-tier structure which Hymer predicted in his essay, "The Multinational Corporation and the Law of Uneven Development"(4). However, while Hymer's theory refers to the international distribution of decision-making functions, the model presented here would involve, more importantly, a hierarchical distribution of new, intermediate and older technologies between different geographical regions.

The consequence of such an unequal but dynamic system is that, as Hymer notes,

> "in each period subordinates achieve (in part) the consumption standards of their superiors in a previous period and are thus torn in two directions: if they look backward and compare their standards of living through time, things seem to be getting better; if they look upward they see that their relative position has not changed"(5).

For the governments of countries like Indonesia, which is likely to find itself at the lower end of such an international division of labour, this may create a serious dilemma in the choice between economic and political goals. As Kojima suggests, 'Japanese type' direct investment stimulates economic growth and industrialisation, which are the central aims of the present Indonesian political leadership. It may not, however, fulfil the desire for reduced international inequalities and increased economic power, which is surely implicit in those aims. This is not to imply that the emerging structure of economic relations in East and Southeast Asia will be a rigid and unchangeable one. Over a longer or shorter period alterations in the international distribution of wealth inevitably occur. But it must be noted that most recent readjustments in the economic power balance have arisen less from the success of foreign-investment based economic development on the lines suggested by Kojima, than from internal weaknesses in the economies of some industrialised countries, or from political developments such as those surrounding the formation of OPEC.

When we turn from economic to political relations, we find that Hymer's predictions about the impact of the multinational corporation on world affairs do not fit the case of Japanese multinationals in Southeast Asia[6]. This study has found that, rather than circumventing and eroding the power of the Japanese and Indonesian governments, Japan's multinational companies have tended to develop new and changing forms of co-operation with home and host governments. Again, evidence of co-operation between Japanese and western multinationals in Southeast Asia is counterbalanced by growing signs that the development of Japanese economic strength in Asia is producing strains in relationships with other industrialised countries. This suggests that the influence of multinational firms on international relations is a complex matter in which many variables, political, historical and social, as well as economic, must be taken into account.

The economic ties between two nations clearly play a central role in determining their political relationship. Thus, just as we can find some similarities between Japanese-Indonesian economic links in the pre-war period and in the 1950's and early 1960's so we can find similarities in political links during those periods. In both periods, Japan's stake in Indonesia was quite small from the point of view of the Japanese economy. Until strategic and political motives began to focus Japanese attention of Southeast Asia in the 1930's, the relationship was, as in the early post-war period, devoid of a strongly political content. Japan's status as a comparative newcomer, an alternative to the economic dominance of western nations, made the presence of Japanese firms, in the 1920's and 1930's as in the 1950's and early 1960's, quite welcome amongst Indonesian political elites (though not amongst the colonial authorities).

But the growth of political tensions which culminated in the Japanese occupation of Indonesia demonstrates the extent to which relations were determined, not by the simple profit motive of Japanese firms but by a combination of external factors. The most important of these factors were the existence of western colonialism in Asia, the collapse of the international economic order, and the social forces which produced the rise of nationalism and militarism in Japan. By contrast, the early post-war relationship took shape in an environment dominated by U.S. political leadership in Asia and a stable international economic system.

In this study it has been observed that a new and more overtly political relationship between Japan and Indonesia has been developing since the first half of the 1970's. Rather than attempting to draw comparisons between this relationship and Japan's earlier political ventures in Asia, it may be useful to consider its development, firstly in the light of the new economic relationship described above, and secondly of the international political setting of the 1970's and 1980's.

As Japanese investment in Indonesia has become larger and more visible, so it has become a source of growing political controversy. Japanese multinational companies, and Japan's economic policies, have been criticised by politicians, journalists and dissident groups in Indonesia and other Southeast Asian countries. This in turn has raised the political saliency of relations with Southeast Asia inside Japan itself and has put pressure on the Japanese government to reconsider its policy towards Indonesia. The increasing scale of investment in Southeast Asia has also caused Japan's business leadership to look less at short-term, individual company profits, and more at the long-term implications of overseas investment. It was this broad reassessment of foreign investment strategies which gave rise to the concept of the transfer of industries. At the same time, developments in other parts of the world were causing increasing concern over secure supplies of natural resources. These two long-term considerations have made it necessary for Japan's business and political leaders to co-operate in new ways and to adopt an increasingly political attitude towards Indonesia and the Southeast Asian region as a whole. Whereas in the early post-war period relations between Japan and Indonesia were highly informal, with individual Japanese businessmen often forming a personal link between the economic and political leadership in the two countries, the present relationship is a more formal one. It is not so much that the role of the Japanese businessman has either increased or diminished, but rather that it has become more closely integrated into a network of official and non-official organisations, conferences and interest groups uniting economic, political and academic elites in Japan and Indonesia.

For reasons outlined in the previous chapter, the rise of Japanese multinational companies has produced economic conflict as well as economic interpenetration between Japan and other industrialised countries. Japan's foreign investment has not been evenly spread across the face of the globe but has become concentrated in certain geographical areas, notably East and Southeast Asia and North and South America. The multinational spread of Japanese business has therefore tended to develop Japan's role as a regional power in the Pacific. This trend has been accentuated by political developments in the U.S.A. and elsewhere. It is within this regional framework that future relations between Japan and Indonesia are likely to develop.

We have attempted to outline the effect which the continued development of Japan's multinational strategy would have on economic relations between Japan and Indonesia. To make similar predictions about the future shape of political relations is more difficult. However, it may be suggested that just as European economic penetration of Southeast Asia, and later American multinational investments in the same region, necessitated the development of changing forms of political relations, so the Japanese model of direct foreign investment will require the development of a new form of political relationship between the more developed and less developed regions of Asia.

In the first place, the three-level diffusion of technology indicated earlier would necessitate changing Japanese trade policy towards the less developed countries, and an opening of the Japanese markets to imports of basic manufactured goods. Already, there have been signs of the development of such a policy, notably at the Manila meeting of UNCTAD in 1979, where Japan took a more liberal line than most other industrialised countries(7). However, the process of adjusting Japan's own industrial structure has not always been a smooth one, and it is possible that the future may bring further economic conflicts of interest such as those which occurred between Japan and other East Asian countries in the mid-1970's(8). The development of basic industries in Indonesia and other less developed countries will also involve the improvement of education and training facilities and of many forms of social and industrial infrastructure. These are areas in which private companies can play only a limited part. The expansion of Japan's economic role in Asia is therefore likely to be accompanied by increasing amounts of official aid to less developed host countries.

The strategy of transferring industries suggests the creation of a highly inter-dependent economic relationship between the countries concerned. An island of sophisticated technology and knowledge-intensive industry cannot survive unless it is supported by a surrounding sea of basic industrial producers. However, because the techniques employed in Japan's less developed trading partners will be widely diffused, it seems unlikely that this inter-dependence will give less developed Asian countries great bargaining power in their political and economic relationship with Japan. It is also probable that the development of such a relationship would generate some significant political problems in Southeast Asia. It has already been noted (Chapter IV) that the large-scale presence of Japanese and other foreign investors in Indonesia has tended to aggravate certain weaknesses in the political system of the host country. By assisting economic growth and industrialisation in Southeast Asia, Japan's multinational strategy may help to relieve some of the current economic pressures on the Indonesian and other Southeast Asian governments. On the other hand, industrialisation itself, by altering the structure of society and the distribution of wealth, may create demands for political change with which existing systems are unable to cope. Such tendencies have recently been observed in countries as diverse as Iran and South Korea. The development of Japan's role in the economy of the Asia-Pacific region may depend to a large extent on its ability to adapt to such political changes elsewhere in Asia.

But, as has been emphasised throughout this study, the future of the Japanese multinational and its impact on host countries is highly vulnerable to external political influences. Attempts to predict the future of Japan's role in Indonesia are complicated by the very inter-dependence of the modern world. In the past, economic crises in Europe and America, Japan's military intervention in China, America's post-war role in Southeast Asia and the oil crisis generated by events in the Middle East have all had profound effects on the activities of Japanese companies in Indonesia. The future, too, will depend upon the ability of the industrialised nations to surmount economic problems and to deal with the resurgence of ideological confrontations between East and West. These are the issues which will determine whether Japan's overseas enterprises, like the Nangoku Sangyo and the Nomura East Indies Development Company before them, disappear into the vortex of political crisis and economic collapse; or whether the Japanese strategy of multinational business develops to full maturity and, like the European trading company in the eighteenth century, like the financial houses of the nineteenth century, and like the American multinational in recent decades, stamps its indelible imprint on the structure of the international economy.

NOTES TO CONCLUSIONS

1. J. Halliday and G. McCormack: Japanese Imperialism Today: Co-Prosperity in Greater East Asia, Harmondsworth, Middlesex, Penguin, 1973.
2. See above, pp 37, 134, 178 and 188-189.
3. K. Kojima: Direct Foreign Investment - A Japanese Model of Multinational Business Operations, London, Croom Helm, 1978, pp 17-18.
4. S. Hymer: "The Multinational Corporation and the Law of Uneven Development" in J. Bhagwati (ed.): Economics and World Order from the 1970's to the 1990's, London and New York, Collier, Macmillan, 1972, pp 113-140.
5. Ibid, p 125.
6. Ibid, p 122 and pp 128-129.
7. Far Eastern Economic Review, 22 March 1979, p 42 and 22 June 1979, p 65. See also Gene Gregory: "Opening a Door to the Third World", Far Eastern Economic Review, 5 March 1976, pp 92-94.
8. Because of problems in the restructuring of the textile industry in 1975, Japan asked Taiwan, Hong Kong, South Korea and China to impose voluntary restrictions on textile exports. See Kojima, op cit, p 166.

GLOSSARY

Ajiken	(Ajia Keizai Kenkyusho - Asia Economic Research Bureau, also known as the Institute of Developing Economies). Japanese semi-governmental organisation conducting research into problems of less developed countries.
amakudari	(Japanese - literally "descent from heaven"). Process by which retired civil servants receive posts in private companies or public enterprises.
ASEAN	(Association of Southeast Asian Nations). Economic association of five Southeast Asian countries: Thailand, Malaysia, Singapore, Indonesia and the Philippines. Formed in 1967.
JICA	(Japan International Co-operation Agency). Governmental agency under the control of the Ministry of Foreign Affairs. Deals with technical assistance to less developed countries.
JPDC	(Japan Petroleum Development Corporation). Governmental agency providing assistance to private firms engaged in overseas oil exploration.
Keidanren	(Keizai Dantai Rengokai - Federation of Economic Organisations). Private organisation for co-ordinating and representing the interests of big business in Japan. Also carries out research, produces publications, etc.
keiretsu	(Japanese). Chain of commercial relationships linking small, medium and large companies in a particular field of productive activity.

Keizai Doyukai — (Committee for Economic Development). Private Japanese business organisation. Carries out research, produces publications, organises conferences, etc. on issues of domestic and international economic interest.

kigyo shudan — (Japanese - literally "conglomeration of enterprises"). Large group of businesses in all fields of manufacturing, trade and finance which are loosely linked by patterns of investment and borrowing. The six main *kigyo shudan* in 1980 were: the Mitsubishi group, the Mitsui group, the Sumitomo group, the Fuyo group, the Sanwa group and the DKB group.

Kopkamtib — (Command for the Restoration of Security and Order). Indonesian military body in charge of internal security.

Malari Affair — January 1974 demonstrations in Jakarta, largely directed against the visit of Japanese Prime Minister Tanaka.

MITI — (Ministry of International Trade and Industry, known in Japanese as Tsusho Sangyo Sho or Tsusansho). Japanese ministry primarily responsible for external economic relations.

nanshin — (Japanese - "southwards advance"). Expression used to describe Japan's economic and later military advance into Southeast Asia in the prewar period.

Nanyo Kyokai	(South Seas Association). Pre-war Japanese private association for promoting economic and cultural links between Japan and Southeast Asia.
Nissho	(Nihon Shogyo Kaigisho - Japan Chamber of Commerce). Japanese private business association representing small, medium and big business.
OECF	(Overseas Economic Co-operation Fund). Japanese governmental agency responsible for the disbursement of official aid.
Overseas Chinese	People of Chinese origin resident abroad (particularly in Southeast Asia).
PBEC	(Pacific Basin Economic Council). Private organisation bringing together business representatives from the five industrialised Pacific nations (Canada, the U.S.A., Japan, Australia and New Zealand).
Pertamina	Indonesian national oil company. Created in 1968 by a merger of two state-owned companies, Permina and Pertamin.
pribumi	(Indonesian - "indigenous"). Used in particular of indigenous Indonesian enterprises to distinguish them from foreign investment projects or enterprises owned by Overseas Chinese residents.
public policy company	Pre-war Japanese company created and financed jointly by government and private business to fulfil specified functions which were thought to be of national interest.

Sankoshin	(Sangyo Kozo Shingikai - Council on Industrial Structure). Advisory body attached to the Japanese Ministry of International Trade and Industry.
sogo shosha	(Japanese) general trading company.
zaibatsu	(Japanese) Large, hierarchical pre-war business conglomerate active in many different fields of manufacturing, commerce and finance.
zaikai	(Japanese - literally "financial circle"). Highest-ranking big business leadership, usually confined to the few-dozen businessmen who have achieved national fame as heads of large, established private companies or public corporations.

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