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# Japan's Direct Investment in South East Asia

by Jörn Keck, Hamburg \*

Japan's direct investments have become an important factor in the economic reality of South East Asia. The following article gives a structural description of the present state of Japanese direct investment in this region.

After World War II, in 1951, Japan resumed its direct investment activities abroad, but it was not before 1968 that these direct investments (DI) reached international relevance in quantitative and qualitative terms. In 1968<sup>1</sup> the yearly outflow<sup>2</sup> of DI topped the US \$ 500 mn mark for the first time. Since then they have grown — despite two setbacks in 1971 and 1974 — at an amazing pace. According to just released figures<sup>3</sup> on Fiscal Year 1975, which ends March 1976, DI of US \$ 3.28 bn were approved by the Ministry of Finance in that year. This means a 37 p.c. increase over the comparable figure of the preceding fiscal year. This figure is quite close to the US \$ 3.5 bn all time high in 1973. 1972 when due to domestic recession and due to administrative guidelines and changes in the promotion policy to fight the balance of payments deficit the DI suffered a sharp set-back by 31.5 p.c. on the annual basis, they recorded only a comparatively low US \$ 2.4 bn.

The outcome of Japan's foreign investment activities since World War II is a gross stock value<sup>4</sup> of about US \$ 16 bn as per March 31, 1976 (see Table 1). This would put Japan as a foreign investor ahead of France and West Germany if one takes the national statistics as they are.

There seems to be some evidence however that for the purpose of international comparison the Japanese figures are overrating the actual activ-

ities<sup>5</sup>. For instance in comparison with the West German statistics, the Japanese figures have to be discounted with a factor of about 0.67 to allow for basic statistical differences between gross stock values approval based (Japan) and net stock values transaction values based (Federal Republic of Germany)<sup>6</sup>. If this estimation is cor-

**Table 1**  
**Development of Japanese Direct Overseas Investments (Approval Basis)**

| Fiscal Year       | Gross-stock value (US \$ 1,000) | Number of Cases | Annual outflow (US \$ 1,000) | Annual Number of Cases |
|-------------------|---------------------------------|-----------------|------------------------------|------------------------|
| 1951-54           | 9,522                           | 113             | —                            | —                      |
| 1955              | 18,847                          | 177             | 9,325                        | 64                     |
| 1956              | 38,229                          | 296             | 19,382                       | 119                    |
| 1957              | 72,266                          | 368             | 34,037                       | 72                     |
| 1958              | 136,906                         | 446             | 64,640                       | 78                     |
| 1959              | 189,968                         | 569             | 53,062                       | 123                    |
| 1960              | 283,042                         | 674             | 93,074                       | 151                    |
| 1961              | 447,269                         | 792             | 164,227                      | 118                    |
| 1962              | 545,257                         | 964             | 98,252                       | 172                    |
| 1963              | 670,986                         | 1,178           | 125,729                      | 214                    |
| 1964              | 789,526                         | 1,362           | 118,540                      | 184                    |
| 1965              | 948,904                         | 1,560           | 159,378                      | 198                    |
| 1966              | 1,175,995                       | 1,805           | 227,091                      | 245                    |
| 1967              | 1,450,516                       | 2,096           | 274,521                      | 291                    |
| 1968              | 2,007,205                       | 2,466           | 556,689                      | 370                    |
| 1969              | 2,672,251                       | 3,014           | 665,046                      | 548                    |
| 1970              | 3,576,684                       | 3,743           | 904,170                      | 729                    |
| 1971              | 4,435,033                       | 4,645           | 858,349                      | 902                    |
| 1972              | 6,772,861                       | 6,415           | 2,337,828                    | 1,770                  |
| 1973              | 10,270,357                      | 9,507           | 3,497,496                    | 3,097                  |
| 1974              | 12,666,370                      | 11,418          | 2,396,013                    | 1,911                  |
| 1975 <sup>1</sup> | 15,943,000                      | 13,010          | 3,280,000                    | 1,592                  |

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<sup>1</sup> always Fiscal Year (F.Y.).

<sup>2</sup> If not stated otherwise all figures are given on "Approval Basis", according to the statistics published by the Ministry of Finance (MoF).

<sup>3</sup> The Japan Economic Journal, Vol. 14, No. 708, July 20, 1976.

<sup>4</sup> Gross stock value is here defined as the cumulative amount of the annual figures on approved basis. These figures do not account for cancellations, discontinuation, re-transfer of the investment, reduction in the effectively transferred amounts, etc.

<sup>5</sup> Estimated.

Source: Ministry of International Trade and Industry: Keizai-kyoryoku no genjoto mondaiten; Bank of Tokyo: B. o. T. News No. 1013, October 13, 1975. The Japan Economic Journal, Vol. 14, No. 708, July 20, 1976.

<sup>6</sup> See e.g. Koichi Hamada, Japanese Direct Investments Abroad, in: Heide and Ernst Simonis (eds.), Japan, Wiesbaden 1974, p. 156.

<sup>7</sup> For details of this estimation see Jörn Keck and Henry Krägenau, Japanische und Deutsche Direktinvestitionen im Ausland (Japanese and German Direct Investments Abroad), Hamburg 1975.

rect, it means that the stock value of Japan's overseas possession, despite the swift development in the last few years, is still about 30–40 p.c. lower than the one of West Germany.

Anyway, nearly three-quarters (72.2 p.c.) of the Japanese US \$ 16 bn DI have been accomplished in the last four years from F.Y. 1973–1976. These figures give an idea of the dynamics in the Japanese DI's development.

### South East Asia as Investment Region

According to the latest available figures which are for F.Y. 1974, Asia – and that means for all practical purposes South East Asia – holds with 24.6 p.c., equal to US \$ 2.51 bn, the biggest regional share of the then (March 31, 1975) US \$ 12.67 bn gross stock value of Japan's overseas DI. Until 1973 North America (Canada, USA) had been the main target of Japan's foreign investment zeal. Now it trails South East Asia by a small margin with a chunk of 23.8 p.c. equal to US \$ 3.01 bn. The third big investment region, Latin America, follows with a share of 19.8 p.c. equal to US \$ 2.51 bn. If we add US \$ 0.75 bn for the Australia-Oceania region, we find that Japan has in the past channelled about three-quarters (74.1 p.c.) of its DI to countries in the Asian and Pacific region.

Geographically speaking the South East Asian countries would be – because of the relative proximity – the “natural” DI-region for Japan.

But their geographic advantage, as it seems, came only to its full effect after two administrative and political steps had been made by the Japanese Government. The first one was the gradual liberalization of the approval procedure for DI which took place since 1969 and led to an automatic approval system with some provisos for political reasons<sup>7</sup>. The other one was the reform of the “Foreign Exchange Credit System” in August 1972. This reform was actually meant to be a DI promotion measure and at the same time a means to get rid of the then huge foreign exchange reserves. These measures paved the way for a great number of comparatively small DI of the manufacturing industry which account for the bulk of the DI in South East Asia. On the other hand they were also favourable for big scale projects in the resource oriented industry<sup>8</sup>, of which the Pertamina oil project and the Ertsberg-Mine, both in Indonesia, and the Mamut Mine of Malaysia are some examples.

With respect to Japanese DI the national governments in South East Asia tried to adapt their policy measures to the prevailing situations of their countries in order to cope with the respective domestic and international problems. So the last

<sup>7</sup> For details of the approval system see MoF, Zaiseikinyutokkei-geppo (Monthly Fiscal and Monetary Statistics), No. 258, Sept. 1973, p. 4 ff. For an interpretation see Jörn Keck and Henry Krägenau, op. cit., p. 19 ff.

<sup>8</sup> For a detailed description of promotion measures for the mining industry's DI see Axel Gerberding and Warren Hesse, Japans Auslandsbergbau (Japan's Mining Abroad), Hamburg 1976.

**Table 2**  
**The Regional Structure of Japan's Direct Investments**

| Regions<br>Countries       | 1973               |                     |                 | 1974               |                     |                 | 1951–1974          |                     |                 |
|----------------------------|--------------------|---------------------|-----------------|--------------------|---------------------|-----------------|--------------------|---------------------|-----------------|
|                            | Number<br>of Cases | Value<br>(US \$ mn) | per-<br>centage | Number<br>of Cases | Value<br>(US \$ mn) | per-<br>centage | Number<br>of Cases | Value<br>(US \$ mn) | per-<br>centage |
| North America              | 1,121              | 913                 | 26.1            | 619                | 550                 | 22.9            | 3,596              | 3,011               | 23.8            |
| Latin America <sup>1</sup> | 317                | 821                 | 23.5            | 272                | 699                 | 29.2            | 1,405              | 2,510               | 19.8            |
| Indonesia                  | 143                | 341                 | 9.7             | 113                | 376                 | 15.7            | 443                | 1,190               | 9.4             |
| South-Korea                | 315                | 211                 | 6.0             | 98                 | 77                  | 3.2             | 813                | 495                 | 3.9             |
| Hong Kong                  | 216                | 123                 | 3.5             | 148                | 51                  | 2.1             | 819                | 274                 | 2.1             |
| Malaysia                   | 117                | 126                 | 3.6             | 78                 | 48                  | 2.0             | 374                | 250                 | 2.0             |
| Singapore                  | 83                 | 84                  | 2.4             | 55                 | 51                  | 2.1             | 361                | 226                 | 1.8             |
| Thailand                   | 76                 | 34                  | 1.0             | 60                 | 31                  | 1.3             | 468                | 194                 | 1.5             |
| Philippines                | 74                 | 43                  | 1.2             | 55                 | 59                  | 2.5             | 241                | 190                 | 1.5             |
| Taiwan                     | 119                | 34                  | 1.0             | 52                 | 33                  | 1.4             | 649                | 174                 | 1.4             |
| Brunei                     | 1                  | 1                   | 0.1             | 1                  | 2                   | 0.1             | 13                 | 99                  | 0.7             |
| others                     | 21                 | 4                   | 0.1             | 22                 | 3                   | 0.1             | 195                | 40                  | 0.3             |
| Asia                       | 1,165              | 1,001               | 28.6            | 682                | 731                 | 30.5            | 4,376              | 3,122               | 24.6            |
| Europe <sup>2</sup>        | 287                | 338                 | 9.7             | 164                | 189                 | 7.9             | 1,144              | 2,186               | 17.3            |
| Middle and Near East       | 20                 | 110                 | 3.2             | 31                 | 64                  | 2.7             | 96                 | 780                 | 6.2             |
| Africa                     | 61                 | 106                 | 3.0             | 78                 | 55                  | 2.3             | 307                | 309                 | 2.4             |
| Oceania                    | 126                | 208                 | 5.9             | 65                 | 108                 | 4.5             | 494                | 748                 | 5.9             |
| Total                      | 3,097              | 3,497               | 100.0           | 1,911              | 2,396               | 100.0           | 11,418             | 12,666              | 100.0           |

<sup>1</sup> Incl. US \$ 250 mn for Natural Gas in Abu Dhabi. <sup>2</sup> Incl. US \$ 780 mn shares for oil exploitation in Abu Dhabi (ADMA).  
Source: Ministry of International Trade and Industry; Keizaiyokuruno genjo to mondaiten.

few years have seen a kaleidoscope of different restricting and promoting measures, which is not exactly what an overseas-investor is looking for when he has to make far-reaching decisions. All these uncertainties notwithstanding the Japanese DI have become an important factor in the economic reality of the South East Asian region and the DI activities of their multinational corporations are very likely to continue at a rapid pace.

### Important Industries

As can be seen from Table 3, the textile industry — the classical DI branch for Japanese investments in South East Asia — dominates in value terms the manufacturing industry. The DI in the Asian textile industry account for 65 p.c. of all Japanese DI in the textile sector. Hong Kong, Singapore, and South-Korea are the main countries. The labour intensive textile-DI with emphasis on the processing side which were important in the early phases of DI activities have in the last years encountered more and more restrictions by the host countries. They rather preferred capital intensive DI for producing staple fibres, synthetic yarns, etc., with a high technological standard. Japan has to a certain extent adapted its DI to these requests, but since there has been reached a momentary saturation point for these productive capacities in general and for the Japanese textile companies with regard to building up production capacities abroad in particular, no further expansion of their DI can be expected.

At present a considerable part of the DI in Asia's manufacturing industries are of the simple processing and the assembly type. As far as the further prospects are concerned there might well be for some countries a shift to more knowledge intensive and technologically advanced types of manufacturing industries. They could make use of a comparatively well educated labour force in countries like Singapore and Hong Kong and at the same time compensate for their also comparatively high labour costs. As Table 3 shows, at the moment the electric machinery and appliances industry with 460 establishments and a share of 6.9 p.c. is in the second place within the manufacturing industry and it might well in future together with machinery and chemicals, get into a leading position ahead of the textile industry.

It should, however, not be forgotten that from the beginning the mining sector has played an important part for Japanese DI in Asia. Now it accounts for 27.0 p.c. of all DI in the region. The renewed emphasis Japanese companies put on stable and safe supply with raw materials<sup>9</sup> and

<sup>9</sup> Cf. MITI, Wagakuni kigyo no kaigai jigyo katsudo, Dai 4 kaicho. (The Business Activities Abroad of our Companies. 4th survey), Tokyo 1976, p. 12, and the Japan Economic Journal, Vol. 14, No. 708, July 20, 1976.

**Table 3**  
**Japanese Direct Investments in Asia by Industries**

| Industry                                 | Asia            |                  |             | All Regions     |                  |             |
|--|-----------------|------------------|-------------|-----------------|------------------|-------------|
|  | Number of Cases | Value (US \$ mn) | per-centage | Number of Cases | Value (US \$ mn) | per-centage |
| Food and Beverages                       | 120             | 68               | 2.2         | 298             | 231              | 1.8         |
| Textiles                                 | 419             | 601              | 19.3        | 620             | 918              | 7.3         |
| Pulp, Paper and Paper Products           | 153             | 93               | 3.0         | 218             | 423              | 3.3         |
| Chemicals                                | 271             | 110              | 3.5         | 399             | 634              | 5.0         |
| Ferrous and Non-Ferrous Metals, Products | 230             | 137              | 4.4         | 337             | 635              | 5.0         |
| Machinery                                | 218             | 67               | 2.1         | 408             | 307              | 2.4         |
| Electric Machinery, Equipment, Supplies  | 460             | 214              | 6.9         | 603             | 426              | 3.4         |
| Transport Equipment                      | 68              | 96               | 3.1         | 115             | 263              | 2.1         |
| Other Manufacturing Industries           | 582             | 182              | 5.8         | 755             | 300              | 2.4         |
| Sub-Total: Manufacturing Industries      | 2,521           | 1,568            | 50.2        | 3,753           | 4,137            | 32.7        |
| Agriculture, Forestry                    | 139             | 86               | 2.8         | 315             | 178              | 1.4         |
| Fishing, Marine Products                 | 71              | 28               | 0.9         | 203             | 102              | 0.8         |
| Mining                                   | 109             | 844              | 27.0        | 386             | 3,527            | 27.8        |
| Construction                             | 89              | 18               | 0.6         | 173             | 84               | 0.7         |
| Wholesale and Retail Trade               | 655             | 102              | 3.3         | 3,054           | 1,549            | 12.2        |
| Banking and Insurance                    | 103             | 144              | 4.6         | 356             | 1,000            | 7.9         |
| Others (Real Estate etc.)                | 390             | 297              | 9.5         | 2,572           | 1,685            | 13.3        |
| Overseas Branches of all Industries      | 299             | 35               | 1.1         | 606             | 404              | 3.2         |
| Total: Japan's Direct Investments        | 4,376           | 3,122            | 100.0       | 11,418          | 12,666           | 100.0       |

Source: Japan External Trade Organization (JETRO): Kaigai-shijo hakusho (White Paper on Overseas Markets), 1975.

foodstuffs will surely be a factor that continuously will attract Japanese DI in South East Asia.

As it has been pointed out above, the South East Asian region has attracted a lot of small scale Japanese DI. From the data given in Table 3, it can be calculated that the average DI comes up to US \$ 0.71 mn, pretty below the overall average of US \$ 1.1 mn. Especially the geographically "closest" and for Japanese investors comparatively easily accessible countries like South-Korea, Hong Kong and Taiwan have, relative to the accumulated value of Japanese DI, a great number of establishments. These figures manifest in a way the afore-mentioned regional preference of Japanese investors for South East Asia, which was greatly enhanced by the liberal attitude of the Japanese Government, and allowed also small and medium companies to take advantage of low wages and local markets.

### Ranking of Individual Countries

The ranking of the South East Asian countries according to the amount of Japanese DI is as follows: the first rank is held by Indonesia with a

38.1 p.c. share equalling US \$ 1.1 mn. Partly because of the Asahan-Project Indonesia is very likely to boost in future its role as the main host country for Japanese DI in Asia. The second place takes South-Korea that holds 15.9 p.c. equalling US \$ 0.5 mn accumulated investments. The Korean-Boom of 1972/1973 is very likely to be over so that in future the Japanese DI will rather grow at a comparatively modest pace. Next to South-Korea are Hong Kong (8.8 p.c.), Malaysia (8.0 p.c.), and Singapore (7.2 p.c.). Because of its natural resources and abundant labour force Malaysia will have a real chance to emerge as major investment country for Japan, whereas Hong Kong because of high land prices and surging wages is rather faced with a "pull-out-of-Hong Kong" movement. Singapore as a comparatively high-wage country faces similar problems, but has developed some seemingly effective policy measures to attract foreign investments.

The next group with a share of about 6 p.c. each consists of Thailand, the Philippines and Taiwan. Thailand and Taiwan have become political issues, a fact that does not give incentives to foreign investors. The Philippines had been for a long time the domaine for American investments, but recently Japanese DI have gained considerable ground, so that it seems likely that the Philippines, too, will be in future the object of growing Japanese DI.

### Extremely Dynamic Development

According to data published in JETRO's "White Paper on Overseas Markets"<sup>10</sup> Japan is at present the biggest foreign direct investor in four out of seven South East Asian countries, namely South-Korea, Philippines, Thailand, and Indonesia. Its shares in the total foreign direct investments in these countries are 65.6 p.c., 47.5 p.c., 41.5 p.c., 27.9 p.c., respectively. In two more countries, namely Hong Kong and Malaysia, it is in the second position with shares of 15.4 p.c. and 19.2 p.c., respectively. Only in Singapore it ranks only fourth with a chunk of 11.6 p.c.

Comparable figures for 1970 show the extremely dynamic development of the Japanese DI in these countries during the last few years, that even outpaced the traditional and/or colonial investors like Great Britain and the USA. It seems quite sure that this "tidal-wave"-like development of Japanese DI has contributed considerably to the resentments now harboured in some South East Asian countries against the Japanese economic invasion. In South-Korea for instance, the accumulated value of Japanese DI has increased tenfold within four years. In 1970 it was still about

one-half of the American investments. Now it is double their amount<sup>11</sup>.

### Low Degree of Capital Participation

Another feature of Japan's direct investment in South East Asia is the comparatively low percentage of capital participation from the Japanese side. The average participation rate in the companies' capital is 59 p.c., according to survey data collected by MITI per March 31, 1974<sup>12</sup>. Out of 1,268 local affiliates in South East Asia of Japanese parent companies only 199 (15.7 p.c.) record a participation higher than 95 p.c. In 395 (31.1 p.c.) affiliates the Japanese side held a majority participation. The most frequent participation degree was in the 25 p.c. — 50 p.c. bracket.

This comparatively low degree of capital participation corresponds to the above average representation of manufacturing industries within Japan's South East Asian DI. The majority of this DI in the manufacturing industry is of the "import substitution" type and is directed towards the respective domestic markets. Joint ventures for marketing reasons are therefore a common feature. The same is true in South East Asia with respect to sales agents of manufacturers and trading companies, which in other countries are normally 100 p.c. owned affiliates.

Various government policies in most of the South East Asian countries, generally aimed at restricting foreign economic influence on the national production capital and promoting domestic participation in investment activities, have also effectively held down the shares Japanese investors could acquire. Even a small decline in the participation rate could be registered as an outcome of these endeavours. It seems, however, that in future the participation rate of foreign countries in South East Asia might rise for the following reasons: Under the impact of the world economic crisis most of the South East Asian countries have revised to a certain degree their attitude against foreign capital participation and rather adopted incentive and promotion measures to stimulate foreign capital inflow as an important source for domestic investment and progress in technical development. Secondly, with the rate at which "export oriented" DI will grow relative to the "import substitution" type the capital participation rate of foreign companies — and that means also Japanese companies — should go up. For, on an average "export oriented" foreign affiliates have a higher participation share of the parent company as the MITI Survey shows<sup>13</sup>.

<sup>11</sup> Ibid. and p. 89.

<sup>12</sup> MITI, *Wagakuni kigyo no kaigai jigyo katsudo*, op. cit., p. 148.

<sup>13</sup> op. cit., p. 153.

<sup>10</sup> JETRO, *Kaigaishijohakusho* 1975, p. 87 ff.

### Impact on the Host Countries' Trade Balances

The data of the same survey<sup>14</sup> give some hints to how the DI activities of Japanese companies influence the trade balances of their host countries. The afore-mentioned surveyed affiliates in Asia registered in 1973 exports of Yen 394.0 bn and imports of Yen 508.2 bn thus causing a deficit of Yen 114.2 bn, that is about US \$ 0.42 bn for the whole region. They purchased on an average 51.1 p.c. of their inputs from Japan of which 43.0 p.c. came directly from the parent company. Local purchases account for only 41 p.c. on an average. The dependence of the affiliates on imports from Japan is especially high in Malaysia, Indonesia, Singapore, and South-Korea. It is comparatively low (about 40 p.c.) in the Philippines and Hong Kong.

<sup>14</sup> op. cit., p. 171 ff.

The breakdown of the sales of the Japanese affiliates on the other hand shows that on an average 54.5 p.c. are sold in the respective domestic markets, 22 p.c. are exported to third countries and 23.7 p.c. are exported to Japan. In Thailand 88.1 p.c., in Indonesia 84.3 p.c., in Hong Kong 63.2 p.c., and in Malaysia 62.7 p.c. are sold in the national markets. In Singapore 50.9 p.c., Taiwan 54.6 p.c., and South-Korea 71.1 p.c. of the sales are exported either to Japan or to third countries. South-Korean affiliates direct 51.8 p.c. of their sales to Japan.

Since it can be expected that a comparatively high percentage of genuine foreign currency saving, that is "import substitution" type, DI are included in the domestic shares in sales, it remains undecided whether the Japanese DI really contribute to a deterioration rather than to an alleviation of the balance of payments deficits of the Asian DI countries.

## Legal Safeguards for Direct Investments in LDCs

by Dr Heiner Jüttner, Aachen \*

**The developing countries are caught in the cleft stick of assertion of national interests and independence, on one side, and need for an improved investment climate to attract foreign direct investment, on the other. The question facing the foreign firms is how they can safeguard their capital investments against encroachment by the host country which may even expropriate their assets.**

**T**he German direct investments in less developed countries (LDCs) have doubled in the past five years; at the end of 1975 they amounted to DM 12.28 bn. The proportion of German investment capital placed abroad which went to the Third World has remained constant in this period; it was just under 30 p.c. The regional spread of the foreign investments did not change much either<sup>1</sup>.

It appears from these figures that the distribution of the German direct investments over the various groups of countries and continents continues to be largely unaffected by international economic or political influences. Whether this will remain so in future is however in doubt because of the growing emphasis of the developing countries on

demands for full control over their natural resources and economic activities, including the right of expropriation.

What problems are bound to arise will be appreciated most clearly if one calls to mind the continuing efforts of the states of the Third World to attract large sums of foreign capital, and the related technical and commercial know-how, and the dilemma between assertion of their national sovereignty and improvement of the climate for investment which this involves.

### Security the Aim of Business Firms

On the assumption — which is warranted on certain grounds — that business firms will in future still deem foreign investments to be necessary, especially in the developing countries, the possibilities of creating legal safeguards for such capital investments deserve particular attention, for

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<sup>1</sup> Cf. the external economic affairs circulars of the Federal Minister of Economic Affairs concerning property investments by residents in foreign economic territories.