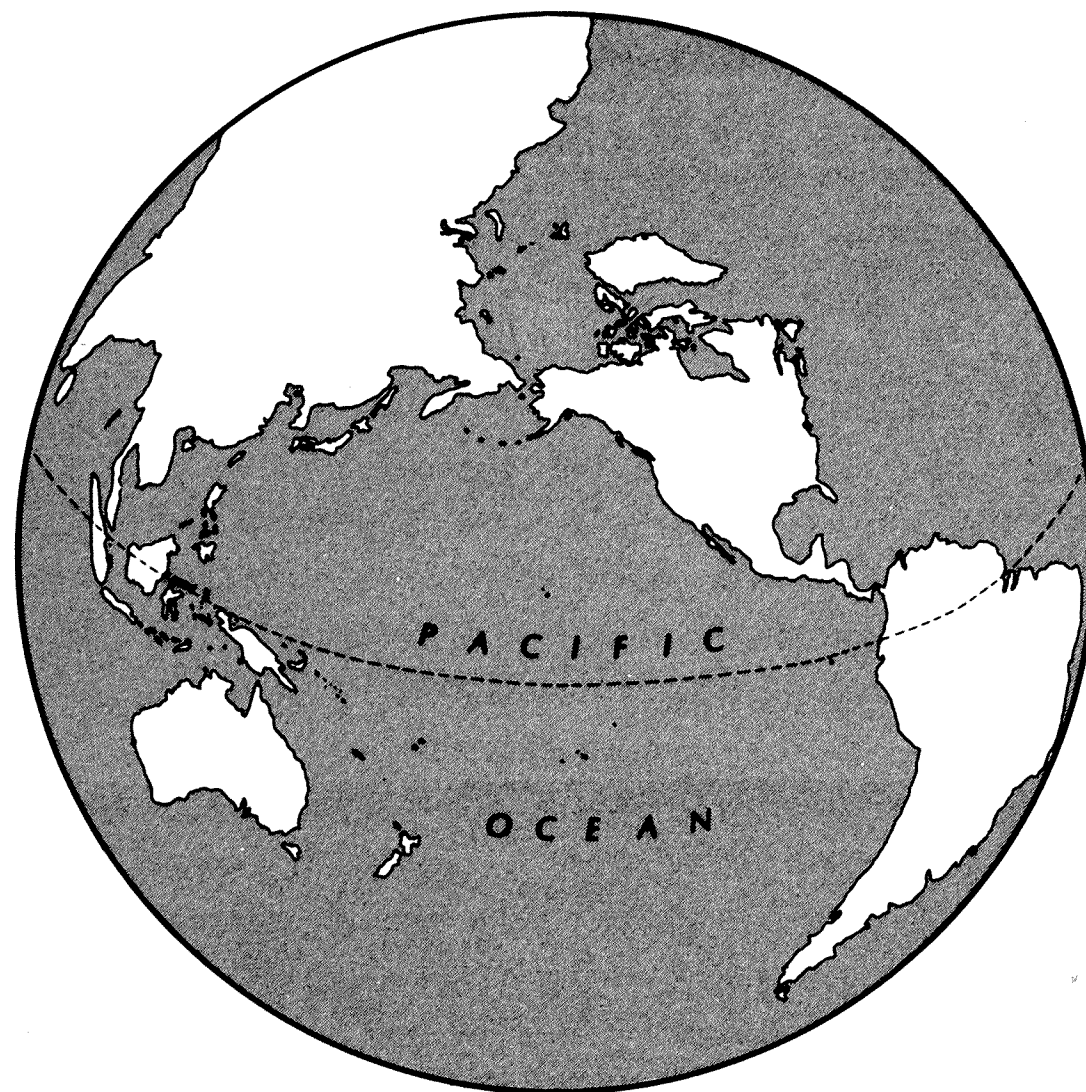


STRUCTURAL CHANGE ON THE PACIFIC RIM:
PERSPECTIVE ON JAPAN

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INDUSTRY AND POLITICS: PERSPECTIVES ON
ASIAN GIANTS

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INTRODUCTION

For Japan the staging of the Tokyo Olympics in 1964 was more than just the hosting of an athletic event; it was a coming out party for a revitalized nation completely devastated by war less than two decades earlier. Japanese producers could look back on that year as a turning point from a reputation as makers of cheap trinkets and unreliable electronic goods to one as setters of high quality standards in internationally marketed commodities ranging from microchips to oil tankers. In another two decades, Japan would be cast into an even more prominent role in the international economy. By the mid-1980s it had become the world's number one creditor and the most rapidly advancing source of direct foreign investment in both productive activities and in real estate and land development around the Pacific Rim.¹

As confirmation of this role, Japanese corporations in mid-1986 were accounting for one-quarter of Fortune's (August 4, 1986) top 100 and 30 percent of the top 500 non-U.S. manufacturing and mining enterprises in the world. Perhaps more strikingly, Japanese banks accounted for five of the six largest banks in the world.² The five banks alone held combined deposits of \$530 billion and assets of \$718 billion, both amounts being greater than the GNP of all but a handful of the nations of the world.

Such successes and statistics have not always been well received. Not a few governments, producers and workers abroad have argued that Japan's stellar rise has been directly proportional to the increases of their own economic woes, ranging from huge and growing negative trade imbalances and industrial

¹taken for discussion here to include North America, East & Southeast Asia, including China, Australia, New Zealand and the Pacific Islands.

²With 147 out of the 500 largest non-U.S. firms, Japan dominates the list of nations having the world's largest corporations, followed by Britain with 77, West Germany with 55, France with 36, Canada with 32 and Sweden with 20. No other nation had more than 10 (Fortune, August 4, 1986, p.201).

decline to high unemployment, weakening currencies, and a host of other social, political and economic ills. The purpose of this paper is to present the case that much of the new 'Japan-bashing' is misplaced. It is misplaced not because many of the allegations about the protected nature of the Japanese economy are not true. Rather it is misplaced because a more basic explanation of current economic crises is to be found not in nation versus nation imagery of the international economy, but rather through an analysis of the processes behind the accelerated transnationalization of capital. These processes are creating a world system which can no longer be characterized by images of territorially bounded capital vying for a bigger share of international trade, but by highly mobile transnational capital which operates above national territories and is rapidly reorganizing all economies of the world economy, including the Japanese economy.

The paper is organized into three sections. Section 1 identifies some of the key factors which have made Japan a center of capital accumulation. Although cultural and institutional factors are of considerable importance, the focus is on the ways in which capital in Japan has maintained both lower labor costs and lower claims upon it by the state. These latter factors, however, have had the effect of limiting the domestic market and in the years to come pose even more severe constraints than ever before on the continuation of what may be termed the Japanese model.

Section 2 makes the case that the rapid accumulation of capital in Japan, coupled with the dampened domestic market which has made this accumulation possible, has hastened the transnationalization of Japanese capital.³ Much of this process is still tentative, and not all circuits of global capital have yet been effectively developed or tapped. In addition, Japanese transnational corporations are still highly targeted on a limited number of countries and, more critically, on specific regions within them. Nevertheless, the transnationalization of the Japanese economy is now occurring at a very rapid pace and has begun to link up with transnational enterprises elsewhere to form truly global capitalist enterprises beneath which national boundaries are being "written in fading ink" (Hymer 1979: 146). A key feature of the transnationalization process has been the movement away from international commodity trade as the force integrating separate national economies into a world system and toward direct foreign investment to create world-wide commodity, production, and finance networks organized and managed within transnational corporate systems.

Section 3 looks at the impact which current trends in the transnationalization of Japanese capital are having on the Pacific Rim. The case is made that the movement of Japanese transnational corporations into all circuits of commodity, production and finance capital has initiated significant changes in the economic structure of Pacific Rim economies and their subnational regions, and has also been behind new relations between capital and labor, and between capital and the state.

³The term "transnationalization", the expansion of capital beyond the territorial constraints of any given nation, including Japan, is more appropriate to the on-going processes than the more often used term "internationalization", which implies the continuation of the nation - state as the basic economic unit within a more integrated global economic system.

1. CAPITAL, LABOR AND THE JAPANESE STATE: AN OVERVIEW

Since the mid-1960s Japanese products have rapidly expanded on international markets to a point at which Japanese corporations were collectively generating favourable trade surpluses in the 1980s in excess of \$50 billion, some 70 percent of which has been with the world's richest economy, the U.S. Explanations of the Japanese 'miracle' are the subject of many large volumes of research which cannot be adequately summarized here. In brief outline, however, the case will be made that three aspects are of crucial importance to the competitive advantage which Japanese products have had on the world market, and therefore to its position as a primary center of capital accumulation in the contemporary world economy. These aspects are, first, the organization of capital, particularly into a division between large oligopolies and small firms; second, the relations between capital and labor; and, third, the position of the state in promoting economic growth over social and welfare-oriented expenditures and in minimizing claims on capital.

1.a the organization of capital

One of the striking differences between the structure of the private sector in Japan and that in many western countries is the co-existence of small and medium-sized firms along with large oligopolistic firms. As late as 1981, 97 percent of all firms in Japan had less than 30 employees (JIL, 1985).¹ These firms accounted for approximately three-fifths of the total labor force. Firms with more than 100 employees accounted for only 0.6 percent of the total number of firms and 23 percent of total employment. To a large extent, it has been the ability of the large-scale firms to push many of the costs and risks of production onto small firms, especially during economic recessions, that lies behind the efficiency of the Japanese economy.

The contrast between the large-scale versus the medium and small scale enterprise is striking. Workers in the smaller establishments are generally not part of the image that has been promoted in both Japanese and foreign popular writing about lifetime employment and the company-as-parent characteristic of Japanese firms. In the smaller firms there is little job security, and many workers are employed on a part-time or piece rate basis. They are not effectively unionized, have few, if any, pension benefits, and are paid low wages. Wages in firms with less than 30 employees, i.e. sixty percent of the labor force, have in fact steadily fallen behind wages in firms having more than 500 employees since 1965, with levels of only 56 percent of the wages in the largest firms in 1983 (JIL, 1985:29).

In effect, the small scale sector acts as a major labor reserve for the large-scale sector, with other reserves consisting of day laborers from rural areas and, more recently, housewives cum part-time workers.² One of the

¹Firms with 4 or less employees accounted for 69 percent of the total number of firms and one-fifth of total employment.

²Women have long served as a source of cheap labor in Japanese factories, but in the post-World War II era, it was primarily young unmarried women who were recruited to low paying factory and office work. In the 1980's, however, the expansion of Japanese production has reached beyond both young women and dekasegi male migrants from rural areas. In 1985 a milestone was passed when for the first time in contemporary Japan more than one-half of all married women were working, many of whom were middle-aged women doing extremely low paying part-time work.

most important changes taking place in the 1960s was the reorganization of the small-scale sector from a collection of independent producers into sub-contractors individually linked to one or a few large firms. This was in part the outcome of the very rapid rate of expansion of the Japanese economy which had begun to exhaust domestic labor supplies in a nation which, unlike Europe and the U.S., did not recruit or allow waves of international migration to fill low-wage positions. Faced with rising labor costs, many smaller firms choose not to compete with larger ones but rather to become sub-contractors (Allen, 1981:122).

The benefits accruing to large-scale organizations from the preservation of the small-scale sector are manifold. Besides gaining access to cheap supplies of labor, in times of recession it is the subcontractor which has to cut back employment.³ It is also the sub-contractor that is required to cut costs of inputs as oligopolies jostle for increased market shares and as international economic relations change. As an example, one result of the recent rise in the value of the yen has been the issuing of demands from parent companies to sub-contractors to lower costs by as much as 30 percent⁴ of risk loss of business to foreign suppliers in Asia and Latin America. Such relationships lie behind recent figures which show that in 1984 more than 20,000 small and medium-sized businesses went bankrupt. This was the first time since World War II that the number of bankruptcies reached this level.

Finally, the sub-contracting system has enabled large firms to capture economies of scale while at the same time avoiding the inefficiencies of huge bureaucracies which have developed in mammoth enterprises in the West. Large firms can also use their financial and technical resources to assist in raising the productivity of smaller ventures without taking the risks of many facets of production. Given wage differences between various activities which are perpetuated by this system, large-scale firms can also maintain a great degree of flexibility in switching to alternative types of production with different combinations of suppliers.

In exchange for taking on the position of sub-contractor, smaller firms gain preferential access to financing and other patronage.⁵ Yet the

³ It is also a common practice for 'parent' firms to re-assign workers to sub-contractors during periods of economic contraction, and to place retired employees (age 55 is the required age of retirement in Japan) with sub-contractors, using the small-scale firm to absorb the costs of maintaining the 'life-time employment system'.

⁴ The widely-publicized 'just-in-time' system associated with Japanese auto assembly plants and now being transplanted to the U.S. also places the costs and risks of timely delivery of parts and components onto the sub-contractor, who must in addition bear storage and related costs.

⁵ At a higher level of organization, most producers in Japan are affiliated with a keiretsu, that is an economic clustering of companies organized around large financial institutions. Each keiretsu is characterized by interlocking directorates and stockholding and linkages with a single bank, most of which are part of the huge trading houses unique to the Japanese (and Korean) economy. Although the strength of the linkages vary, much of industrial competition for market shares in Japan is between keiretsu rather than within them, with each one capable of bringing together resources which would be beyond the capacity of individual members.

imbalance is obvious, and, as stated, the rate of bankruptcies among small firms has been increasing dramatically in the 1980s as the transnationalization of Japanese capital finds alternatives abroad more appealing to sustaining local sub-contractors. As with the first wave of direct foreign investment in the late 1960s, small enterprises may once again be compelled to move production offshore as a means of staying competitive. This time, however, instead of textile plants moving to Southeast Asia, the likely pattern will be parts suppliers and subcontractors following the large Japanese transnationals to the U.S.⁶ and Europe and to export-processing zones in low-income countries.

As small-scale firms increasingly became subordinated to large-scale enterprises, capital was itself becoming more concentrated in the hands of a few large (transnational) enterprises. Although the 1960s was a period in which some smaller firms, such as Matsushita, Yamaha and Honda could successfully expand into huge enterprises, it was also an era which mergers were actively encouraged by the government and in which a new status quo among oligopolies was being established.

One standard measure of oligopolistic competition is the share of markets collectively held by the top five enterprises for a given commodity. An estimate for the year 1970 claimed that 35 percent of all manufacturing output was in oligopolistic sectors (Allen, 1981: 129).⁷ In 1984, five firms controlled 67 to 100 percent of the Japanese domestic market in each of the following sample of industries: crude steel, televisions, video equipment, computers, typewriters, watches, industrial robots, motorcycles, cars, cosmetics, alcoholic beverages, shipbuilding, and telecommunications. Most of these products have been the major commodities being exported from Japan. In addition, Japan's top nine trading houses (sogo shosha) together control 50 percent of all exports and 60 percent of all imports into Japan (1983). Their sales in 1981 accounted for 31 percent of Japan's GNP.⁸ The sogo shosha were until very recently, the main vehicles organizing, financing and providing information for the foreign investments of Japanese firms (Yamamura, 1976; Young, 1979).

Through such mechanisms as the subordination of smaller producers to large firms, the development of oligopolistic markets, the formation of industrial groupings around major banks, and through control of marketing and distribution by large producers and trading houses, it can be argued that despite the veneer of competition in the domestic markets, large-scale corporations have been able to accumulate capital at rates above those that would have been produced in an open, competitive market system.

⁶As an example, Tamon International Inc., a firm with a total of 20 employees making hi-fi speakers, announced in early 1986 that it would shift all production to Korea and Taiwan, with Japanese operations changing from production to international marketing (Business Week, May 12, 1986).

⁷To the extent that the financing, demand and marketing of subcontractors and that exclusive tie-ups exist between small retailers and large oligopolies, this figure substantially underestimates the degree of oligopolistic control over the Japanese economy.

⁸In order of economic size in 1978: Marubeni, C. Itoh, Mitsui, Mitsubishi, Nissho-Iwai, Tomen, Sumitomo, Nichimen, Kanematsu-Gosho (Kotabe, 1984).

Caves and Uekasa (1976:50) argue that "the behaviour of industrial prices alone, reflected in parallel announcements of price changes by rival sellers, indicates a great deal of collusive price-fixing in Japanese industry." This is accomplished through a variety of channels: 'tacit coordination' effected by following the price leadership of the largest firm; trade associations which maintain set prices; price-maintenance contracts with wholesalers; control of distribution channels; acquisition of shares of lesser by leading firms; the formation of joint selling agencies.⁹ All are practiced in Japan, but the most common has been to maintain non-market prices by controlling distribution channels and differentiating products through advertising campaigns.

1.b capital and labor

That industrialists in the West have become enthralled with labor-management relations of large-scale Japanese firms should come as no surprise. What might be surprising is the length of time it took for the Japanese system to be 'discovered' and promoted as a cure-all for the ills of North American and European economies. One of the major achievements of labor in the West was to reorganize on a broad industrial rather than on an individual enterprise basis. The virtue of this achievement was to take away from the individual firm the use of wage differentials between firms as an issue in wage negotiations. Wages could not be held back due to competition between firms. In Japan most so-called unions are organized on a company basis, with the only significant national unions being composed primarily of civil servants. As a result, workers in Japan are not only weakly organized but are also under constant pressure, in the name of competition with rival oligopolies, to accept low wage increases even in times of extraordinarily high company performances.

From a peak of strength in the late 1960s, Japanese labor organizations have become increasingly fragmented and weakened. Only 29 percent of the labor force was in unions in 1983, a steady decline from 35 percent in 1970. The fact that there are 74,486 labor unions in the country attests to their fragmentation. Since 1975 only public sector unions have been growing. In 1985, a year in which Japanese companies generated a record trade surplus for Japan of \$56 billion, Japanese workers settled for the lowest wage increase since the 1950s (Business Week, May 12, 1986).

In sum, contrary to the image being projected abroad, the vast majority of workers in Japan are outside of the lifetime employment system, and various mechanisms have been available to keep the returns to labor in Japan at significantly lower levels than in other high-income countries. Even in the late 1970s and early 1980s, when it was no longer defensible to ask Japanese workers to continue to sacrifice wage gains in order to catch up with the West, average hourly wages for production workers in the U.S. and West Germany continued to range from 20 to 90 percent higher than wages for workers in Japan

⁹In the 1960s Matsushita Electric Company granted exclusive territories to 200 of its sales subsidiaries, supporting them with credit and service organizations, as a means of preventing sellers of its products from competing through pricing. Sony used the technique of distributing goods on consignment to ensure that they were sold at a fixed price. Such strategies are only available to large-scale firms having a broad range of products (Caves and Uekasa, 1976:51).

(JIL, 1985:28). Recent wage gains have stayed at about the level of inflation and well below rates of increase in the GNP.¹⁰

In addition to relatively low wages during their years of employment, Japanese workers also receive very low retirement and pension benefits. In 1981 only 26 percent of Japanese firms had any pension plan at all (JIL, 1984). 55 percent of the firms gave only a lump sum retirement payment, the average of which was equivalent to about two years' regular pay for workers with a high school education employed for 30 years (JIL, 1985: 77).¹¹ This low level of retirement benefits is, ironically, a major reason for high savings rates in Japan which have been essentially channelled into low interest rate loans for the private sector.

To sustain the dominance of capital over labor, other mechanisms are also being developed in large and small enterprises alike: automation in the form of robots in the factory and computers in the office to reduce both blue and white collar workers. In a recent survey, 63 percent of firms adopting new production techniques said that their main reason was to reduce their labor force (JIL, 1983: 44). Only 10 percent said they did so with the purpose of reducing prices. Married women, Japan's last large labor reserve, are also being rapidly brought into part-time and piece rate work as a means of keeping labor costs in Japan below those in the major consumer markets for Japanese exports.¹²

1.c capital and the state

In addition to the organization of capital and the relatively weak position of labor, a third factor behind the emergence of Japan as a world center of capital accumulation has been the use of the state in 'guiding' the economy and making relatively low claims on the private sector. Concerning guidance, much has been written on the role of MITI (sasansho), the Ministry of international Trade and Industry, in orchestrating the formation of cartels (Oligopolies) as a means of dampening 'over-competition' in the domestic economy and as a means of achieving economies of scale to effectively compete abroad against the already huge North American and European corporations. Especially during the 1960s, the "rationalization" of industry into cartels with established common commodity prices occurred in many sectors,

¹⁰By mid-1986, however, the dramatic strengthening of the yen against other major currencies, particularly the US dollar, resulted in manufacturing wages in key industries in Japan to be equal to or even higher than wages in many of the countries traditionally importing high proportions of Japanese manufactured goods. In addition to placing pressures on both subcontractors and labor to reduce costs, the net effect of increasing production costs in Japan generated by changes in exchange rates is likely to be an acceleration of Japanese investment abroad to capture lower wages and costs.

¹¹For firms with more than 30 employees. Regular pay excludes bonuses which, in larger firms, typically makes up one-quarter to one-third of the total annual employment income.

¹²The percentage of women working in part-time positions in Japan increased from 9 percent in 1960 to 12 percent in 1983. 53 percent of all women working in firms of less than 29 employees were hired on a part-time, temporary or piece-rate basis (JIL, 1985: 74).

particularly those which were either experiencing depressed markets and those which were expected to face foreign competition. Two major targets were the steel and the automobile industries, with mergers in the 1960s creating the world's largest steel maker, Nippon Steel, and allowing for the expansion of Toyota into the world's number three automaker by the late 1960s (Halliday and McCormack, 1973:169). It should be noted in passing that anti-monopoly laws in Japan are weak and only partially enforced (Caves and Uekusa, 1976).

Finally, mention needs to be made of the very powerful business associations in Japan. The Keidanren, or confederation of industries has very strong linkages with the ruling Liberal Democratic Party and has been the "fountain of Japan's economic policy". As an assemblage of economic organizations, the Keidanren, sogo shosa, Nikkeiren (Association of Employers) and the Keiretsu comprise a political-economic environment in which competition is, to say the least, highly orchestrated. In addition to the effective use of these organizations by especially the stronger factions of capital to increase their market shares through absorption of smaller enterprises, elimination of competition, and protection against foreign trade and penetration of the Japanese economy by foreign enterprises, much of the strength of these formations has also been used to minimize claims of the state on capital for social development and welfare purposes.

Concerning the claims of the state on corporate earnings, the level in Japan is significantly lower than in other high-income countries. In 1983 average government expenditures in OECD countries were equivalent to 47 percent of each nation's GDP. In Japan in the same year the level stood at 34 percent, the lowest of all OECD countries (OECD, 1983). Taxes stand at about 22 percent of the GDP as compared to the 29 to 45 percent in the other five highest income OECD countries. Japanese industrialists are quick to point out, however, that on paper Japan has one of the highest corporate tax rates (53 percent) and one of the most progressive tax structures. Yet the difference between statutory and actual rates appears to be wide. Less than half of the incorporated firms claim to be making a profit; the rest claim that they are losing money (Woronoff, 1985: 200).¹³ The effective burden of the Japanese tax system falls squarely on neither the small family firm or the giant enterprise, but on the shoulders of the salaried workers.

On the expenditure side, in addition to maintaining a very low level of state expenditures on national defence (1 percent of GNP compared to 7 percent in the U.S.), patterns of government spending in Japan have had a clear bias toward supporting the advancement of industry and economic overhead capital at the expense of expenditures on welfare and social overhead capital. Sewerage systems, for example, reached only one-quarter of the houses in Japan in the mid-1970s compared to 60-97 percent in Europe and the U.S.; the amount of land in city parks in Japan works out to 3.5 m² as compared to the 8.4 to 45.7 m² per capita availability in other OECD countries. In 1980 only 16 percent

¹³The Finance Ministry recently complained that a growing number of Japanese companies are setting up offices overseas as a means to evade taxes by selling shipments at cut-rate prices to subsidiaries in countries where taxes are lower. In 1984 the National Tax Administration disclosed that the top corporations had failed to report at least Y410 billion (\$2 billion) in earnings. Companies investigated and found guilty of tax evasion accounted for 23 percent of all firms. 96 percent of the firms investigated were shown to have evaded taxes (Japan Times, December 12, 1985).

of roads in Japan were paved (50 to 96 percent in other OECD), and in the country that exports quality cars around the world, there are only 5 meters of road per automobile owned, compared to the 15 to 37 meter ratio in Europe and the U.S. (Min. of Construction, 1984; Japan Times, 1983: 168).

1.d capital accumulation and transnationalization

The net outcome of the triangular relationship between capital, labor and the state has been to create large-scale enterprises which have oligopolistic control of domestic markets and, of increasing importance, which can effectively compete on an international scale. This has generated extremely rapid rates of capital accumulation by large-scale Japanese corporations. The very structure upon which this accumulation has been generated, however, has meant that especially in recent years, much of the accumulated capital has no broad avenues for circulation in the domestic economy.

The limited capacity to expand the domestic market has become a major but unresolvable issue as Japan's trade surpluses reach new record levels every year. Carrying the burden of taxes and having to save to pay for retirement years, the Japanese consumer is hard pressed to increase levels of material welfare, especially in a situation where market competition is constrained. Even the increasing value of the yen has had little impact to date on the prices of food and other imports, most of which are channelled through the sogo shosha and are part of longer-term contracts. Besides money, the lack of time to consume material goods and leisure services has become a major issue. After a drop-off in time spent at work in the early 1970s, the hours have returned to levels well above those of Europe and North America. Commuting times have also unrelentingly lengthened, with an average of four to six hours spent per day on commuter trains in the Tokyo metropolitan area, which now accounts for one-fourth of the national population and is increasing its share. For many working men, Sunday with the family has become 'family service day' involving sitting for hours in cars on jammed expressways leading to narrow, under-provisioned suburban and rural roads and amenities.

Even the massive suburbanization of large cities driven by the desire to have a more spacious living environment has not paid off. As land and construction costs rise faster than incomes, the average family can no longer dream of owning a home.¹²⁴ The share of rented units has been increasing as a proportion of total units at the same time that the average floor space of rentals has been decreasing.

If the domestic market cannot be expanded to accommodate the increasing productive capacity of Japanese firms, another source of investment is in banking and finance. Yet here, too, the sources of Japanese economic growth are its limitations. In particular, the regulated interest rates which have served so well to channel financial resources to business have been so low that much of this investment has been moved abroad. In 1985 Japanese interests

¹⁴Outside of major metropolitan areas increases in land prices have levelled off, but in Tokyo rates have increased in recent years. High land prices, in turn, have been a primary limitation on expanding public goods, particularly parks and roadways. If average land prices in Japan were multiplied by the total land area, the value would, at 1985 exchange rates, be equal to the total value of land in the U.S. (Japan Times, November 4, 1985). Japan is about the size of California.

purchased \$55 billion worth of foreign securities, \$46 billion of which was in the U.S., mostly in the form of U.S. Government Treasury bonds. In 1986 the figure in the U.S. is expected to climb to well over \$80 billion. These amounts are so great that the U.S. Treasury openly admits that without the Japanese its periodic bond auctions would not be possible.

As capital finds more profitable avenues for circulation abroad, the Japanese government has entered a fiscal crisis which has been little publicized abroad. Japan, like the U.S., has been issuing government bonds to fill the increasing gap between expenditures and revenues. Whereas in the 1960s government revenues were consistently higher than expenditures, by the 1980s the deficits were out of control. The big push in issuing bonds came with the inflationary period initiated by the oils shock in 1973. By 1986 the outstanding long-term public debt equalled 48 percent of the GNP, compared to 34 percent in the U.S., and 20 percent in West Germany. The debt service ratio stood at 19 percent.¹⁵ Instead of increasing taxes, however, the current government has decided to engage in 'supply-side' economics by cutting taxes and cutting government services. In 1985 subsidies to local governments were cut across the board by 10 percent. Government investments in infrastructure, including roads, schools, ports and housing, have been declining in absolute terms since 1983.

In 1986 the government announced that it would cut social security benefits by one third. As the Japanese society rapidly ages, however, the stress on the public sector to provide health care and a decent standard of living for the elderly presents a problem for which no solution has yet to be suggested. With average life expectancy for women now at 80 years and for men at 75 years, by the year 2000 approximately 18 percent of the population will be over 65 years old, and the number of people in need of retirement pensions and benefits will be four times the 1985 level.

Other social and economic consequences of the processes of accumulation are likely to be manifested in the coming years. Chief among these are a squeeze on middle-class incomes resulting from robotization and office automation, the growth in part-time work and the expected erosion of the lifetime employment system in large-scale companies (Japan Times, 1983). Air pollution is also beyond the capacity of local governments to control. And as mothers join the labor force, husbands are assigned in increasing numbers to locations away from their families, and children spend as much time in juku (privately-run exam preparation schools) as they do in regular schools preparing for Japan's

¹⁵ in the face of this huge debt, the current government has chosen to lower income taxes and cut government spending on welfare programs. At the same time the adoption of a sales tax system, which would place the burden on consumers rather than on producers, seems imminent.

infamous examination 'hell' at all levels of education, the nuclear family itself is being subjected to increasing stress (Fuse, 1984.)¹⁶

Despite the emergence of a number of domestic issues, there seems to be little in the logic of Japanese capitalist development that will lead to their resolution. Instead, what is likely is an accelerated transnationalization of Japanese enterprises as a means of continuing the accumulation process which cannot be sustained through the domestic economy. Section 2 assess this trend by first placing the recent phenomenal growth in Japanese direct foreign investments in a broader context of the transnationalization of capital and then looking more closely at some of the impacts this is having on economic change around the Pacific Rim.

2. The Transnationalization of the Japanese Economy

2.a the transnationalization of capital

The world economy has been undergoing a fundamental transformation over the past three decades. A leading source of this transformation has been the emergence of transnational corporations (TNCs), corporations which, in their world-wide sourcing, production, and marketing operations, can no longer be said to have a clear territorial identity. According to Stopford and Dunning (1983:10), by the early 1980's some 10,000 TNCs controlled approximately 90,000 affiliate firms around the world. Foreign assets of these corporations increased eightfold between 1960 and 1980 and reached a reported level of \$580 billion in 1981.

Unlike their predecessors, the colonial trading companies, which were essentially engaged in perpetuating the exchange of agricultural commodities and natural resources produced or extracted from the Third World for manufactured goods produced in Europe, the modern transnational corporation has gone beyond its initial motive of setting up foreign ventures as a means of promoting trade and maintaining market shares to include both a search for¹ cheap labor supplies and the expansion of finance capital on a world scale.

¹⁶In 1985 there were an estimated 400,000 tanshin funin, or bachelor husbands, living away from their families. Approximately half of this number was comprised of the day laborers and seasonal workers from rural areas working for large factories and the construction industry in metropolitan areas. An increasing proportion, however, were mid-level management staff being sent without consultation by their companies to provincial and foreign branch offices. The high costs of moving in Japan, mortgage payments, the desire to keep children in big cities for education, and the arbitrary way in which companies move staff around with as little as a few weeks' forewarning has meant that many transferred employees leave their families behind.

¹Hymer (1972:40), in a pathbreaking analysis of the contemporary transnational corporation argued that the large joint-stock companies of the past were "like dinosaurs, large in bulk, but small in brain, feeding on the lush vegetation of the new worlds." These were not the ancestors of the modern TNC, which grew from small-scale capitalist enterprises that merged into national enterprises at the end of the nineteenth century.

This trend toward a movement of TNC activities into all 'circuits' of capital (Palloix, 1973; Harvey, 1982) on a global scale has become particular evident in the early 1970s when both the scrapping of the Bretton Woods agreement based on fixed exchange rates with the U.S. dollar in 1971 and the oil crisis in 1973 created the first clear opportunities for global restructuring since World War II (Bluestone and Harrison, 1982). As such, an understanding of the implications of current transnationalization processes is, in many ways, tentative. Given the rates of growth in the activities controlled by transnational corporations, however, it is also likely that studies based on even very recent data will underestimate the strength of the impacts in the coming years, especially when viewing the transnationalization process in Japan, which only began to accelerate in the late 1970s.

One way of identifying potential impacts of the transnationalization of capital on national and local economic change is to identify the forces behind the movement of large-scale enterprises beyond national borders to form global complexes of trade production and finance. For in addition to revolutionary advances in transportation and communications technologies which have provided the technical opportunities for the transnationalization of capital, there are also forces which have compelled enterprises to operate on increasingly expanded spatial scales -- not only as a means of gaining competitive advantage over other enterprises, but also as a means of overcoming limitations, or contradictions, inherent in the capitalist economic system.

As argued by Stilwell (1978), capitalism, as a self-expanding system driving firms for the sake of their own survival to accumulate and reinvest capital at ever-increasing scales, also expands spatial spheres of circulation as a means of meeting four types of requirements for further accumulation:

- a. expanding markets;
- b. maintaining (access to) supplies of surplus labor;
- c. insuring adequate supplies of finance capital, labor and material means of production are available in required quantities.
- d. maintaining (reproducing) social relations of production, i.e. the dominance of capital over labor.

Much of the earlier mainstream literature on modern transnational corporations stressed the first of these spatial aspects, namely market expansion and protection as the motivating force behind the emergence of transnational corporations in the post-World War II years.² Associated with the work of Vernon (1966), the appearance of TNCs was linked to the special historical circumstances surrounding the settlement of the U.S., namely the need to create large-scale, highly innovative firms capable of serving a vast and rapidly expanding national market and of mobilizing resources in situations of acute labor shortages. The great production capacities of these oligopolies soon extended beyond the national market to include trade in technologically advanced products primarily exported to Europe. As technologies become more

²As Stilwell (pp. 22-23) also points out, Marxist (or 'left-Keynesian') theories of underconsumption can also be called upon to explain the necessity to continuously create or penetrate new markets as a means of sustaining the accumulation process.

widely accessible and trade protectionism was threatened with the advent of the EEC, direct foreign investment (DFI) in production abroad replaced trade as a means of maintaining market shares and opening new markets abroad.

First as exports and later as products of subsidiaries located in Europe, the goods produced by the emerging transnationals moved through product cycles and in wave-like fashion over space, saturating markets and being replaced with new ones. High expenditures on research and development characteristic of the U.S. transnational enterprises gave them initial advantage in developing new products and served to maintain oligopolistic patterns of competition. In associating the transnationalization of capital with the expansion of oligopolistic competition, Vernon (1971:11) concluded that TNCs were not to be compared with other types of firms and were, in fact, "in a class by themselves," competing not through market prices but through advertising and other techniques (coupons, prizes) to create markets, differentiate products and to create product loyalties. Many engaged in follow-the-leader patterns of movement into new markets as a strategy to maintain market shares rather than, in the short-term, maximizing profits.

This product cycle theory, in highlighting a special class of transnational corporations among a multitude of lesser enterprises having only a very limited expansion abroad, served to explain findings showing that only 5 percent of the total number of enterprises with foreign affiliates control the operations of 80 percent of total number of such affiliates (Stopford and Dunning, 1983:10). By the 1980's, however, this explanation of the increasing presence of transnational corporations was found to be insufficient.

While debates concerning the relevance of product cycle theory have continued, as suggested in (2) above, many recent studies do argue that transnationals are moving abroad not only to protect and advance market share in foreign economies, but increasingly to take advantage of cheap labor supplies for labor intensive production processes. By segmenting the production process into a number of discreet, routinized operations requiring few skills other than manual dexterity and patience, foreign investment could not be directed towards countries which were not the targetted markets but were the sources of seemingly unlimited supplies of surplus labor. In most cases, governments were called upon to guarantee the stability of these supplies by forbidding or severely restricting the formation of labor unions and labor-oriented political parties, and creating a social climate especially conducive to the recruitment of young Third World rural women into the First

³Vernon (1971:108) later stated that "by 1970 (it) was beginning in some respects to be inadequate as a way of looking at the U.S.-controlled multinational enterprise". One of the major problems in adopting this as a single theory of the transnationalization of capital was that transnationals were emerging from every corner of the world, including the Third World, and not from advanced economies alone (Lecraw, 1977; Wells, 1977; Esho, 1985). Most from Third World countries did not appear to have significantly technological advantages over indigenous producers and most are small in size. To the contrary, they have adapted well because they are more often than not based on simple labor-intensive methods of production which are widely available and are suited to the factor endowments of the host country (Wells, 1983).

World factory system (McGee, 1982).⁴

Although much of the growth of manufacturing activities in Asia's newly-industrializing countries' (NICs) — South Korea, Taiwan, Hong Kong and Singapore -- has been generated by indigenous enterprises capitalized through foreign borrowing, a significant portion of the export sector has been in subsidiaries and joint venture operations of Japanese and U.S. transnationals whose sole motive is to take advantage of cheap (and reliable) labor supplies in these countries. Estimates from the early 1970s concluded that the percentage of exports produced by foreign-controlled companies accounted for at least 15 per cent of the total in Korea, 20 percent in Taiwan, and nearly 70 percent in Singapore (Hamilton, 1983:63).⁵ Further data for Korea indicates that this percentage actually increased during a period of continuing rapid economic growth in the late 1970s to approximately reach 19 percent in 1978.

In the 1980s as Korean transnationals begin to compete with Japanese and American TNCs, foreign investment from South Korea has, in addition to substantial movement into sales operations in the U.S., begun moving into the manufacturing sector in Southeast Asia, pointing to the more general theme that wherever it occurs, the rapid capital accumulation is fostering the transnationalization of capital.⁶

The third motive underlying the transnationalization of capital, the need to ensure that adequate supplies of the material means of production are available in required quantities at required times and locations, involves the search not only for supplies of raw materials, but more generally for the material and financial capital inputs required to smoothly expand the production process. Foreign investments by Japanese enterprises, operating from a resource poor country, concentrated much of their earlier attention on securing natural resources and fuels for the expansion of the domestic industrial base. Much of this was not in mining activities per se but in the construction of infrastructure, and transportation networks to facilitate the shipment of these industrial inputs to Japan. In recent years, South

⁴ commenting upon the radical change which has taken place in the Malay labor force since the early 1970s, namely the unexpected entry of large numbers of women into the factory labor force, McGee (1982, p.16) notes that "These (Penang-based export-processing industries) labour-intensive firms prefer rural labour for it can be dislocated from its social context and the labour force is more pliable. Secondly, they prefer female labor because they are paid lower wages than males and because females are said to be more dexterous at assembly operations. They also prefer female workers because they can be easily dismissed and learn the skills more rapidly."

⁵ In Singapore, the industrialization process has been overwhelmingly captained by transnational capital where "foreign capital has so overwhelmed indigenous firms that the latter have played no role in most export industries and a small role in the rest" (Hamilton, 1983:63).

⁶ Foreign investment by Korean transnationals increased 45 fold between 1970 and 1980, with 30 percent of investment (1982) in Southeast Asia, mostly in manufacturing activities operated by affiliates of Korea's large Japanese-like industrial groups. As with Japanese investments in production in Southeast Asia, Korean investments are primarily oriented toward capturing local markets protected by import-substitution policies and tariffs (Esho, 1985).

Korean enterprises, operating from an even poorer national resource base than Japan, have moved rapidly into these activities in the Middle East, while Japanese capital has been more concertedly into the circuit of international finance capital which, inter alia, has also served to link European, North America and Asian finance capital into a 24-hour non-stop network of banking, stock and bond markets, and currency speculation.

One result of the expanded spatial sphere for bringing material, labor and financial inputs from selected locations has been an increasing regional specialization around single functions within a global partitioning of the production process. As summarized by Stilwell (1978:24):

The trends towards multinationization of capital further increases the scope for such regional specialization. Increasingly one finds situations where a "firm" combines raw materials from a country such as Australia with labor in the Phillipines, Taiwan or some other cheap labor country and supplies the U.S.A. as its principal market. Such multinationalization of production makes a mockery of traditional location theory of the Weberian type which sees a producer seeking a single optimal location within a 'location triangle' defined by the location of the labor input, raw materials and the market; now the producer divides its operations between all three locations! This is the logic of economic specialization under international capitalism.

This new pattern of foreign investment, often referred to as world-wide sourcing began to integrate the world periphery into transnational systems of production, and has provided a means for firms to pursue the fourth avenue of overcoming limitations on accumulation, i.e. to (re)assert the dominance of capital over labor. This motivation is currently nowhere more apparent than in established industrial heartland regions of Europe and North America, where the hyper-mobility of capital, i.e. the threat of relocating production units to other regions, has been a key factor in inducing concessions and give-backs in areas which a decade ago were centers of the strongest labor unions in the world (Peet, 1983; Bluestone and Harrison, 1982). This 'boomerang' effect of bringing Third World-like labor conditions to the high-income countries has also been documented in even rapidly growing metropolitan regions, such as Los Angeles and New York, in terms of an expansion of the number of urban sweatshops, particularly in the garment industry, once-outlawed piece rate work done in homes, and a rapid conversion of full-time to unprotected part-time⁷ work in all sections of the economy (Sassen-Koob, 1980; Soja, et al. 1983).

In sum, from origins in search of new markets and the protection of established markets for commodities, transnational corporations have now established and integrated all circuits of capital — commodity productive, and finance capital — on a global scale (Palloix, 1979). That is capital can now circulate globally in the form of commodities, production (or labor) processes, and money (Harvey, 1982:376). The section below traces the development of Japanese transnational corporations in this light and seeks to draw implications for the dynamics of the transnationalization process for

⁷In addition to using the heightened spatial mobility of capital to assert dominance of labor, regionally segmented production processes can also be used to deny workers in any particular setting the knowledge and control over the entire production process, reducing the potential of workers to take command of it (Stilwell, 1978).

structural change along the Pacific Rim.

2.b Japanese transnationals and international circuits of capital

As previously suggested, the initial post-World War II global expansion of Japanese foreign investment was to organize the supply of resources for a country which had almost none. About half of all foreign investment by Japanese companies in the 1950s was in oil, iron ore and copper ore mining. Most of the remainder was in manufacturing activities associated with natural resource processing: timber process, paper, pulp, steel and non-ferrous metals. Being as yet primarily domestic market oriented, only about one-fifth of the total was devoted to commerce. Geographically, the Mideast ranked first, followed by Brazil and North America. In Asia the largest investments were in India the Philippines and Indonesia (PARC, 1985).

By the time of the Tokyo Olympics in 1964, Japan had accomplished its reindustrialization and was officially recruited into the ranks of the advanced OECD countries. Having fulfilled their roles as rebuilders of the national economy, and already generating high rates of capital accumulation through the mechanisms described in Section 1, the emerging Japanese transnationals began to focus investments on securing shares of the high income North American markets. Much of the investment was used to establish sales support systems in the U.S. which captured around one-fourth of all Japanese direct foreign investment during the 1960s. Investments also included the setting up of banks — the central focus of the keiretsu in Japan, and a well-established function of the reformed zaibatsu and sogo shosha — to facilitate business activities in the U.S. and other markets.

It was also during the latter half of the 1960s that Japanese capital began to move into consumer-oriented manufacturing activities in Asia. Three factors were behind this new type of investment. First, the labor surplus economy of Japan had turned to a labor scarce economy by 1964. With wages rising rapidly in small as well as large-scale firms, the capacity to competitively export labor-intensive commodities decreased. Secondly, without exception all Asian countries had adopted import-substitution policies placing high tariffs or banning altogether the import of many of the potential exports from Japan which, especially in the case of textiles, was then producing commodities that would directly compete with local producers.

Wage differentials and trade tariffs suggested a strategy of setting up production in these countries to both take advantage of cheaper labor costs and to enjoy from within the economy protection against trade from other textile producing countries. Added to this was the third factor, namely the stabilization of political regimes in a region of the world which until this time has still been heavily involved in independence struggles, frequent overthrows of government, and had governments which openly showed their distrust of foreign investors and the Japanese in particular. The change from Sukarno to Soeharto in Indonesia, Park's takeover of the government in Korea and the normalization of relations with Japan, and similar events with Marcos in the Philippines, and the separation of Singapore from Malaysia were among the key political events which provided an increasingly accommodating political environment for investments by Japanese corporations that would locate manufacturing activities in the capital cities of Asia where only a few years before such a presence would have been unthinkable.

The changing emphasis of foreign activities in the 1950s and 1960s notwithstanding, it was not until the late 1960s that Japanese direct foreign investment began to take off for the first time. The major inhibiting factor up to the late 1960s was that, in general, the process of accumulation in Japan still lagged behind levels of imports of raw materials and other commodities, yielding negative balance of payments and, in response, government regulations against the export of capital. By 1968 trade surpluses were convincingly in favor of Japan, and the government rapidly liberalized its policies on capital exports to the extent of promoting overseas investments through generous tax policies on them.

Figures 1a-1c show the surge in foreign investments by Japanese TNCs beginning in the late 1960s. Figure 1a indicates an increase in cumulative investment from less than \$10 billion in 1973 to almost \$80 billion in 1984, an eightfold increase in the span of a decade. Figure 1b identified key international events which had a direct impact on the pace and scale of the transnationalization of Japanese capital. Both the liberalization of foreign investment regulations in 1969 and the subsequent revaluation of the yen against the dollar with the end of fixed exchange rates in 1971 (the 'dollar shock'), gave great impetus to increase investments abroad up to the oil crises of 1973 when the sudden increase in fuel costs slowed down rates of capital accumulation in Japan. With the normalization of relations with Taiwan and Korea, investments during this period began to be channeled to these countries to take advantage of their substantially lower labor costs. Much of the Japanese investment in these countries during this period was made by small and medium-scale companies, particularly textile and electrical machinery makers, aided by the banking and information systems of the giant trading houses, moving labor-intensive processes to Korea and Taiwan both of which had been colonies of Japan.

Throughout the mid-1970s the offshore movement of labor-intensive processes continued to be a noticeable feature of Japanese investment in Asia, but textiles began to slip and attention turned again to the Middle East and Indonesia to stabilize sources of oil. The worldwide recession triggered by the oil crisis and growing antagonisms in Southeast Asia against the rapidly increasing Japanese presence saw Japanese foreign investment stagnating until approximately 1978 when a new plateau was reached.

Japan more than any other industrialized country best weathered the increasing oil prices in the late 1970s and in doing so was poised to strengthen its share of markets in the U.S. and Europe, with major competition no longer coming from U.S. or European transnationals, but from other Japanese transnationals. As Figure 1c indicates, this competition involved increasing the size of investments, which saw a parallel shift away from the smaller firms and toward the large-scale oligopolies as the main sources of direct foreign investment. Political turbulence, such as the assassination of Park in Korea, and economic stagnation in other East and Southeast Asian countries also saw a slow-down in market-oriented investments there which accentuated the increasing share of investment in commerce in the U.S.

By 1981 Japanese direct foreign investment had surpassed that of West Germany to rank Japanese transnationals collectively as third in the world. The sectoral distribution of Japanese DFI had also become more diversified and active in all circuits of capital. Cumulative figures for 1982 showed the following: 39 percent in manufacturing, 20 percent in commerce, 23 percent in mining, 16 percent in finance, insurance and real estate, and 2 percent in

agriculture, forestry and fishing (JETRO, 1984).⁸ As shown in Figure 2 this diversification, marked especially by a rapid decline in the share of investments in natural resources, has also entailed a geographical shift away from the mideast and toward Asia and North America, primarily the U.S.

The overall geographical distribution of Japanese DFI has been distinct from both North American and European patterns. In the latter countries, the main pattern has been marked by high levels of interpenetration. For example, at the same time that U.S. transnationals had 65 percent of their investments in Canada (20 percent) and Europe (45 percent), West Germany transnationals had 77 percent of their investments in other European countries (47 percent) and North America (30 percent) (JETRO, 1984).

For Japan, which has received an insignificant amount of investment from non-Japanese enterprises, the pattern over time has more clearly defined the Pacific Rim as its sphere of penetration, where Japanese transnationals now outpace U.S. TNCs in new investments. Section 3 looks more closely at the implications of the transnationalization of Japanese capital on economic restructuring on the Pacific Rim.

3. JAPANESE TRANSNATIONALS & ECONOMIC CHANGE ON THE PACIFIC RIM

In 1985 Japanese enterprises collectively became the number one capital exporters in the world. In so doing they had effectively moved into all circuits of global commodity, production and finance capital, and were beginning to have an unprecedented impact on the national economies of the Pacific Rim. For sake of discussion, these impacts can be treated under five topics:

- a. economic restructuring in Pacific Rim countries;
- b. relations between capital and labor;
- c. impact on the national and local state.

3.a economic restructuring on the Pacific Rim:

Figure 3 presents an overview of trade patterns among Pacific Rim countries in 1975 and 1983. Figures for both years show the dominance of the U.S. and Japanese economies in total trade patterns among these countries. And while primary export linkages show Japan and the U.S. continuing to be each other's major trading partner, a more telling indicator of the way in which trade and foreign investment has combined to integrate other economies into the processes of capital accumulation around the Pacific Rim is their division as either primary exporters to Japan or to the U.S.

In general, economies dependent upon exports to Japan are those which have been used by Japanese capital to develop natural resources for further processing in Japan. The NIC's, on the other hand, have been at least partially used by both Japanese and U.S. capital to export durable and semi-durable consumer goods, especially electronics and, more recently, automobiles to the U.S. The dynamics of these relationships in terms of

⁸The distribution in DFI from U.S.-based transnationals in 1982 was 43% for manufacturing, 13% for commerce, 30% for oil and mining, 14% in finance, insurance and real estate, and less than 1% in agriculture, forestry and fishing (JETRO, 1984).

foreign investment by Japanese enterprises are shown in Figures 4 and 5. As indicated in Figure 4, geographical shifts in Japanese investment over time have moved toward the Pacific Rim.¹ Within the Pacific Rim, the pattern has been one of geographical 'switching' between investments in resource development in Australia and the Pacific, market penetration and labor-intensive processing in Asia, and market penetration -- increasingly via offshore assembly operations -- in North America.

The sectorial shifts behind the geographical switching of investments on the Pacific Rim are suggested in Figure 5. It shows that the shift away from heavy investments in resources in Asia and the Pacific, including Australia and New Zealand, has tended to move toward increasing investments in commerce rather than in manufacturing. In contrast, the most revealing aspect of changes in North America has been the increasing proportion of investment in the manufacturing sector, which has almost doubled its share of investment since the late 1960s.

A number of factors have propelled this shift: fears of rising protectionism in the U.S. against Japanese exports, and rising capacity of the NICs, particularly Korea, to challenge Japanese exports to its main market in the U.S. have often been cited as two of the main reasons. Behind this, however, have been two more important factors. One has been the accelerating pace of capital accumulation by Japan enterprises which, although still generating surpluses largely through trade, has increasingly sought to stabilize prime markets in the U.S. through steady weakening of labor organizations in all high-income countries, the U.S. included. Japanese investments have played an observable role in this latter process.

As the yen has strengthened against the dollar in 1986, Japanese transnationals have begun to more actively use direct investments in both Asia and the U.S. to maintain primary export markets in North America and, in the latter half of 1986, in Europe. Concerning automobiles sales, in 1985 Mitsubishi linked with Hyundai of Korea to export automobiles to the U.S., and Nissan has acquired 25 percent ownership of Yue Loong Motors, Taiwan's largest car maker, to assemble autos for export to the U.S. as a means of avoiding voluntary quotas. In other areas, Matsushita Electric has joined with Korea's Lucky Gold Star Group to produce exports for the world market. Sanyo Electric Company announced in August of this year that it would move 70 percent of its computer-chip production to Korea and Taiwan; Matsushita announced at the same time that all products selling for less than \$100 would be moved to subsidiaries in Taiwan and Singapore.

All of this is part of what Japanese industrialists and MITI have chosen to call a new pattern of 'horizontal' integration with the economies of Asia, which, in fact, is a mix of the more traditional vertical integration of production processes within transnational corporations combined with some opportunities for transnationals emerging from the NICs to compete in low-value added sectors with Japanese subsidiaries in their countries. Most of the horizontal division of labor within Asia will continue, however, to be manifested in the trade of intermediate commodities to be assembled under the

¹ Even in Latin America where initial investments were in natural resources and basic industries in Chile and Brazil, more recent investments suggest a move toward setting up labor-intensive operations in Mexico to link up with Japanese TNCs operating in the U.S. market.

names of U.S. and Japanese transnationals for final sales in the U.S. (Yamazawa, et al., 1983).

The net implications of this are that as long as the orientation of Japanese transnationals is toward North American (and European) markets, the major shift in investments in East and Southeast Asia will be away from import-substitution industries in these countries and toward export-processing zone type of activities aimed at reconciling the increasing wage gap between Asian and Japanese labor primarily effected not by wage gains in Japan, but by the increasing strength of the yen in international money markets. At a more fundamental level, the new horizontal division of labor reflects a long-term accommodation in a transnationalization process which has gone beyond the U.S. and Japan to include new TNCs from East and Southeast Asia.

A more revealing process which has begun in the 1980s is the integration of U.S. and Japanese capital, particularly, but not exclusively in the automobile industry. Mitsubishi has joined with Chrysler to share the U.S. and foreign markets; Toyota has joined with General Motors to produce the Chevrolet Nova; Isuzu's I-Mark subcompact is already being marketed in the U.S. under the name Chevrolet Spectrum. By the 1990s Japanese car makers will be producing 1.7 million cars a year in the U.S. (Newsweek, July 7, 1986), a large portion of which will carry the names of U.S. automakers.

On the U.S. side, Ford Motor Company, which in 1979 had 94 percent of its reported profits from overseas operations (Bluestone and Harrison, 1982:42), unveiled its new international strategy in 1985, a strategy which includes importing small cars produced by Mazda under the Ford name in Mexico, and linking up to produce cars with Fiat of Italy, Yamaha of Japan, and Kia Motors of South Korea. The assembly plant in Mexico will be putting together 100,000 Mazda designed cars per year for the U.S. and Canadian markets by 1988. This would be in addition to the same arrangement already established in Taiwan. Yamaha Motors will build the 3.0 litre engines for the Ford Taurus and Mercury Sable. General Motors is increasing its import of Japanese cars to 97,000 from Isuzu and 40,000 per year from Suzuki, and is already selling Isuzu pick-up trucks under its name in the U.K.

3.b capital and labor: urban & regional restructuring

In many countries the impact of the transnationalization of capital, when seen at the national level alone, may not appear to be substantial. But given the highly uneven pattern of investments within countries, impacts at local urban and regional levels have been profound. Entire regions in the U.S. and Europe have been deindustrialized as part of the transnationalization of capital and the formation of a single world labor market for labor. The use of subnational space as a means of simultaneously maintaining market shares abroad and reducing labor costs can be clearly seen in patterns of Japanese investment in the U.S. Drawn into setting up assembly operations and production plants in the U.S. as a means of keeping market shares, Japanese transnationals have assiduously avoided locating their subsidiaries in the regions where existing labor pools and infrastructure are most compatible with them. Fear of labor unions has been the major reason for this avoidance.

Japanese automakers, for example, have stayed away from 'Motown' (Detroit), preferring to establish assembly plants in such locations as Smyrna, Tennessee (Nissan); Fremont, California and Georgetown, Kentucky (Toyota); and Normal, Illinois, where Mitsubishi located its plant in order to "have a state

of its own" (Japan Times, Sep. 15, 1985). Using a similar rationale, Japanese electronics firms have also chosen to locate where labor concessions are the easiest to achieve: Hitachi in Oklahoma, Canon in Georgia, Sony in San Diego.

Figures 6 and 7 suggests how transnational investors can have their cake and eat it too, of being established in the U.S. and successfully challenging the strength of labor organizations by avoiding their strongholds. In general, Japanese investment in manufacturing is under-represented in the highly populated industrial heartlands of the northeast and Great Lakes states, and over-represented in states having right-to-work laws (i.e., laws against closed union shops). California appears to be the exception, but even in this strong union state, changes in labor organization have been carried out through the establishment of Japanese subsidiaries, most of which have successfully internalized labor organizations and cut them off from national federations, basing wage increases on company performance rather than industry trends, reversing a fundamental tradition in U.S. labor organization dating from the Clayton Antitrust Act of 1914.¹

Thus at the same time when Business Week (July 21, 1986) headlines read "global profits: a very good year" with record level profits for the world's major multinationals, according to the U.S. Labor Department, the major unions in the U.S. signed contracts with record low wage increases. Average pay for manufacturing workers declined in absolute terms. One-third of the major contracts, and one-half of those in manufacturing, included first-year wage freezes.

The U.S. is, of course, not alone. In Japan attempts by the Nakasone government to convince industry to raise wages as a means of stimulating the domestic market have completely failed.² As mentioned in Section 1, unions in Japan settled for one of the lowest increases since World War II at a time when Japanese corporations had so much surplus that, among their many investments, they were able to purchase \$55 billion in U.S. treasury bills. In fact, given the world recession, much of Japanese surplus capital has rapidly been switched into finance capital and to the purchase of real estate and banks in such world cities as New York, London, Los Angeles and San Francisco. Five out of the six largest banks in the world are Japanese. In California, one of the fastest growing regions on the Pacific Rim, four out of the ten largest banks are owned by Japanese banks.

3.c transnational capital and the state

One of the least explored areas is the impact which transnational corporations have had on the national and local state, particularly with regard to state revenues and public law. Concerning state revenues, it has become increasingly clear that the future of many nations and many more localities is being placed upon efforts to attract transnational capital. Nothing is more revealing in this regard than the setting up by 27 of the fifty U.S. states of

¹This Act declared for the first time that labor cannot be treated as a commodity and, therefore unions could not be held for restraint of trade when striking in order to achieve wages among firms within the same industry.

²the head of the Keidanren (business association) responded in true colors by stating that "People who tell us to raise our wages are just trying to reduce our competitiveness" (Business Week, May 12, 1986).

public relations offices in Tokyo with the sole purpose of advertising the local hospitality that would be shown to prospective Japanese investors. States such as Utah are spending \$167,000 a year to maintain these offices (Japan Times, Oct, 1985). A trip to Japan by a U.S. state governor has become a justifiable expense instead of another junket. Many dream of the big investments such as that by Toyota in Georgetown, Kentucky, which with its 11,000 resident population was to receive \$600 million in investment and 2,000 new jobs to build 200,000 compact cars a year. Land prices also jumped to three times the going rate (Japan Times, Dec. 12, 1985).

To complement these efforts, more than half of the states in the U.S. have also adopted programs to set up 'enterprise zones', tax free havens for large-scale investors willing to locate in high unemployment inner cities areas, as the primary vehicle to stimulate 're-industrialization. Critics of this program claim that such policies do not create new jobs but merely shift them around at the expense of local fiscal responsibility (Walton, 1982). Furthermore, since most of these policies give preferred treatment specifically and only to large-scale enterprises, they give added advantage to these firms in taking over local markets from local, smaller-scale producers.

Finally, there are growing concerns over the impact of 'stateless' capital on the uses of legal and regulatory powers of national and local governments. One of the more obvious of these concerns has been over laws affecting labor which, in the past, has focussed on the justifications which the perceived need for foreign investment has given to the persistence of strong-arm governments and the suppression of labor movements and civil liberties in the Third World.

On a different level, the emergence of transnational corporations has already brought new issues in revenue collecting by the state, the most important of which is how to effectively tax the profits of global corporations which, through their own internal accounting techniques, can engage in transfer pricing and use a battery of other techniques to avoid declaring profits in any location they choose. The economic gains to be made from such capabilities are great. This was indirectly demonstrated this year when coalition of Japanese transnationals having subsidiaries in California formed the Unitary Tax Coalition with contributions of at least \$1 million to successful lobby for the repeal of a long-established practice by the State of California of basing its tax assessments³ on worldwide performance rather than simply on locally-claimed profits alone.

Many of the impacts of the processes described in this paper have yet to be identified or subjected to analysis. It has not been the purpose here to rigorously set forth either a framework or an agenda for this analysis. Rather, the purpose has been to suggest that with the share of transnational capital in the Gross World Product expected to reach 40 percent in 1988 (up from 20 percent in 1971) (Molotch and Logan, 1985), there is increasing need to change the imagery used in International economics away from those of international trade 'wars' through protectionism or producer country cartels as either the cause or the cure of contemporary economic crises. This imagery has

³Members of the group included NEC, Sony, Bank of Tokyo, Industrial Bank of Japan, C. Itoh & Co., Mitsubishi, Nissan Motors, Sumitomo Bank and Tokai Bank. Sony, which has its U.S. television plant in San Diego, alone spent a reported \$195,000 on the effort (Hughes, 1986).

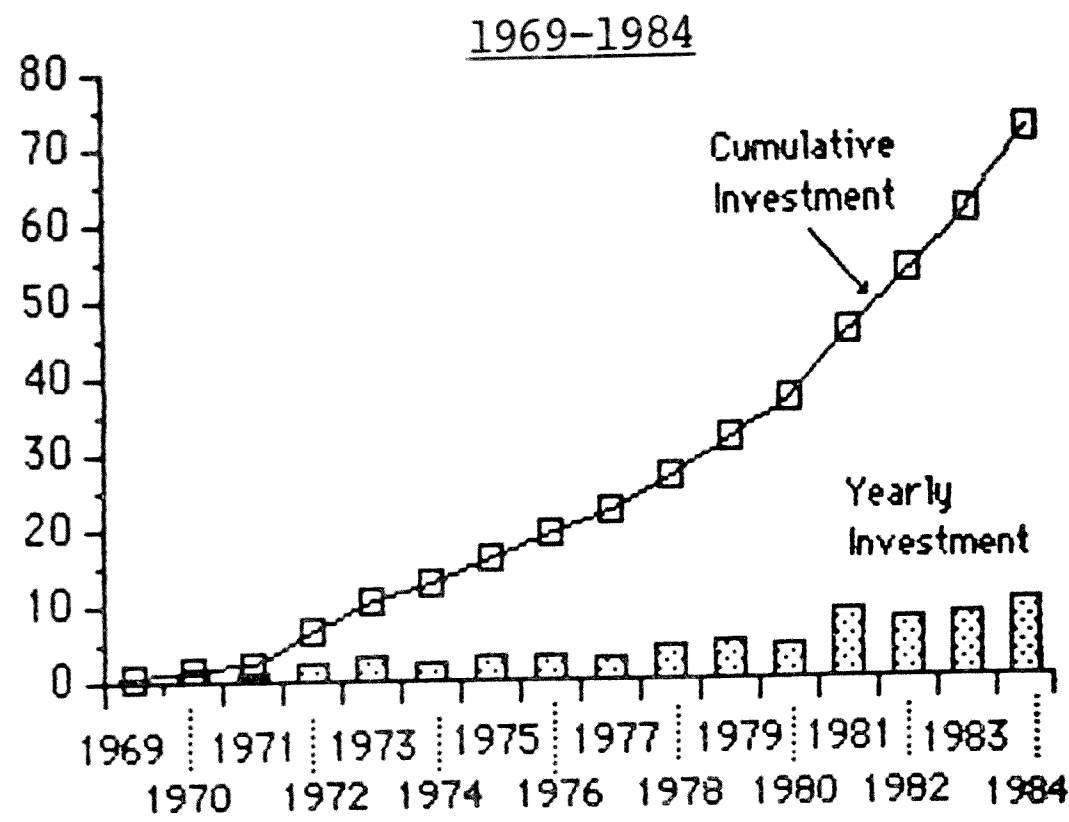
served to obfuscate rather than to clarify the more salient processes of transnationalization of capital, processes which cannot be reduced to pleas to support 'national' over 'foreign' industries. More specifically, this perspective on Japan has tried to show that as capital becomes increasingly mobile at a transnational scale, neither bashing Japan nor extolling it as 'Number 1' serves to shed light on the causes of lost dreams of workers in either that country, the U.S. or anywhere else on the Pacific Rim.

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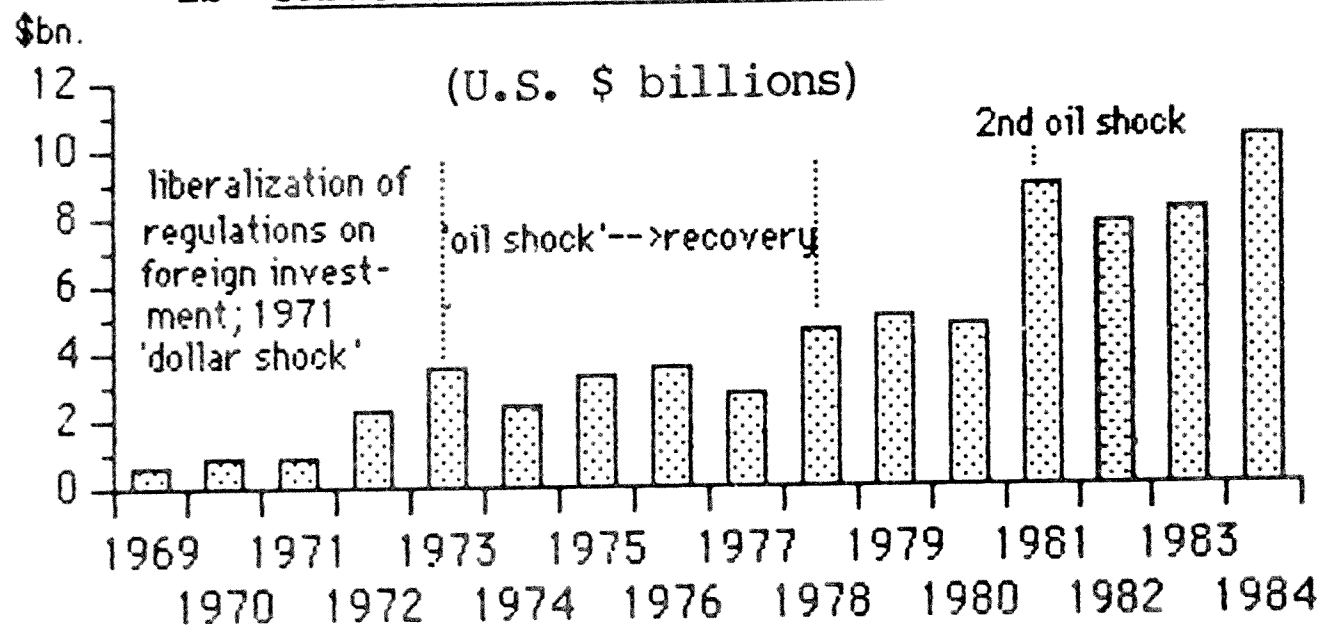
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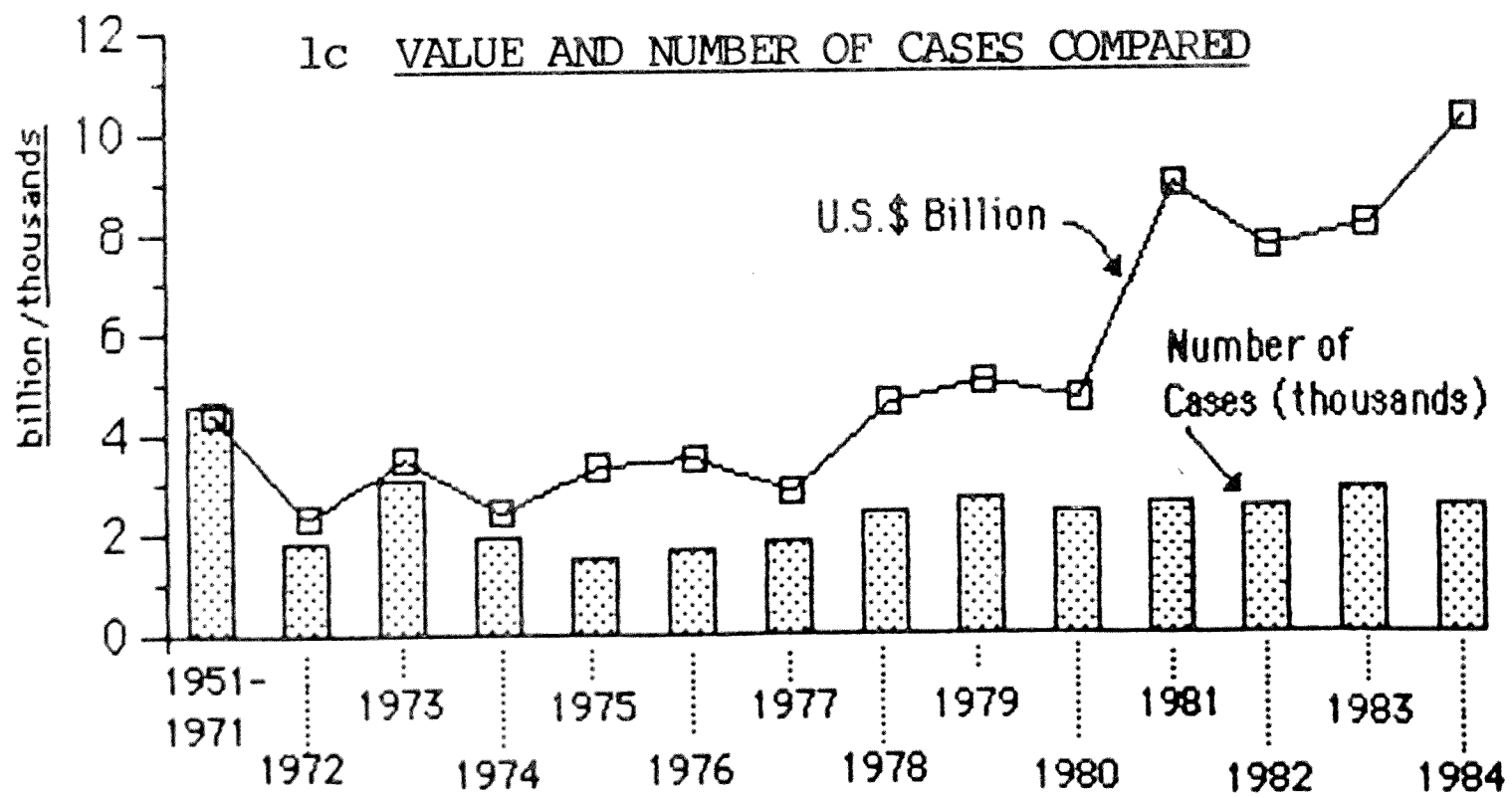
FIGURE 1a JAPANESE DIRECT FOREIGN INVESTMENT



1b JAPANESE DIRECT FOREIGN INVESTMENT



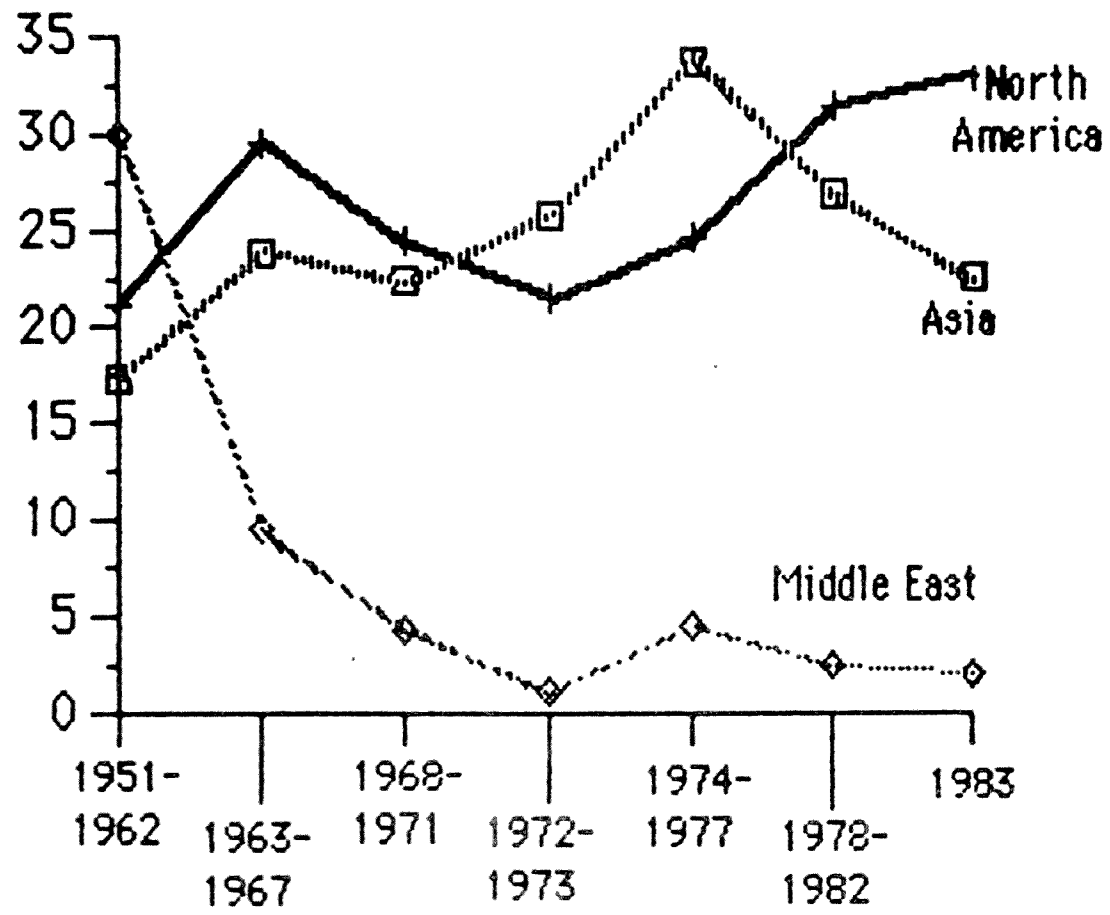
1c VALUE AND NUMBER OF CASES COMPARED



Source: Kezai Koho Center, JAPAN 1985

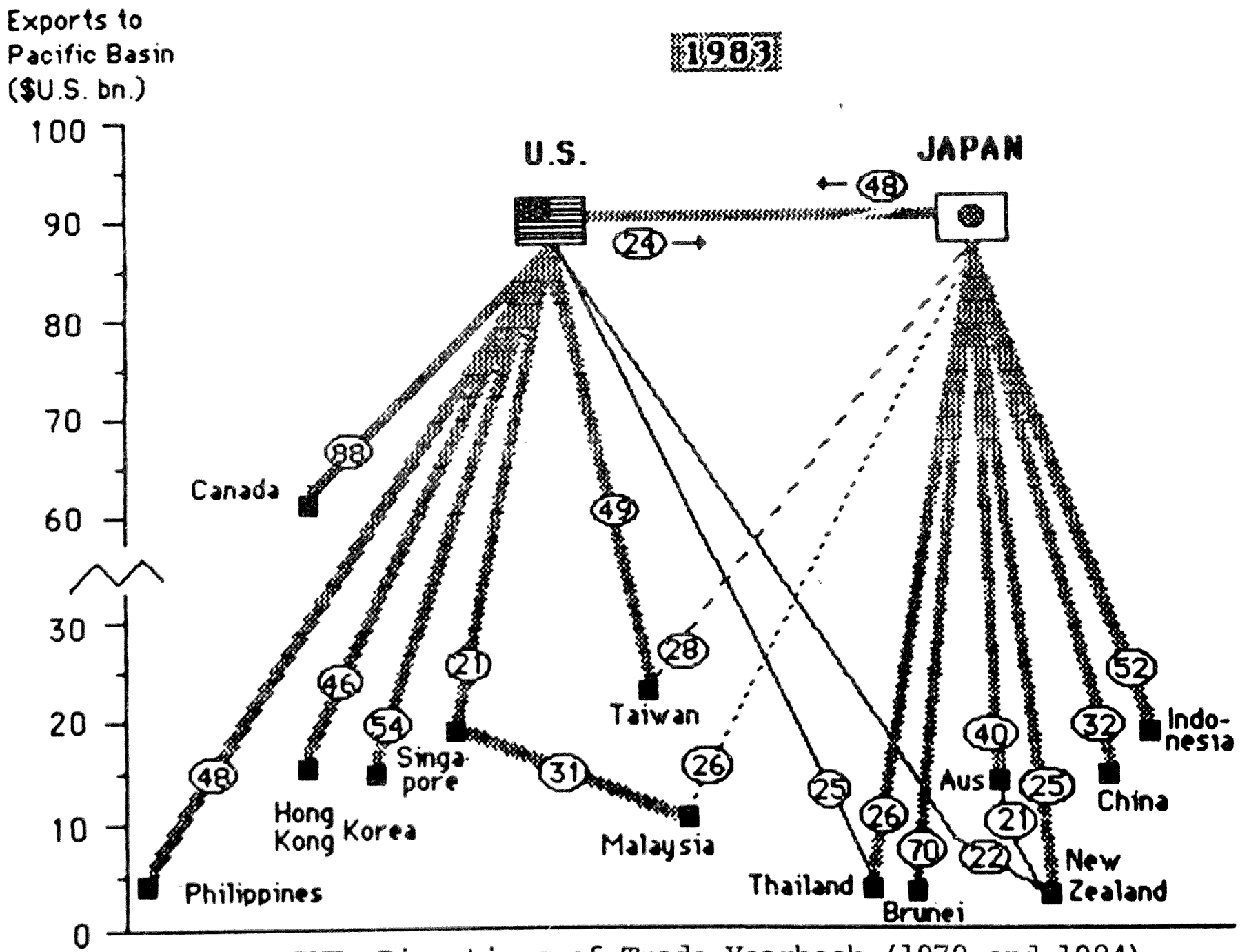
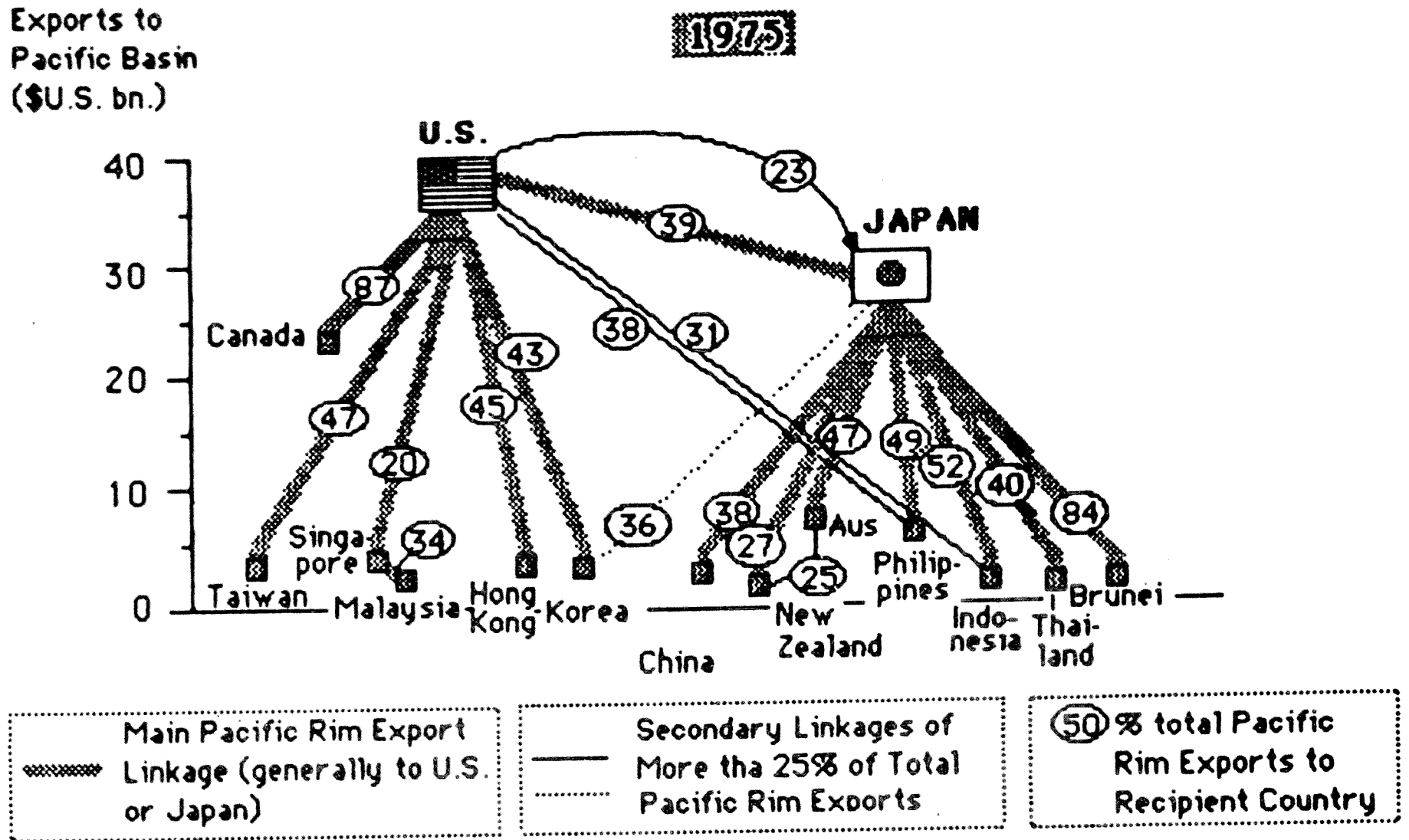
FIGURE 2

JAPANESE DIRECT FOREIGN INVESTMENT
BY SELECTED WORLD REGIONS, 1951-83



Source: MITI, "Overseas Business Activities of Japanese Enterprise," 1983, as compiled in Pacific-Asia Resource Center, "Research Project on Japanese Transnational Enterprises," AMPO, 1985.

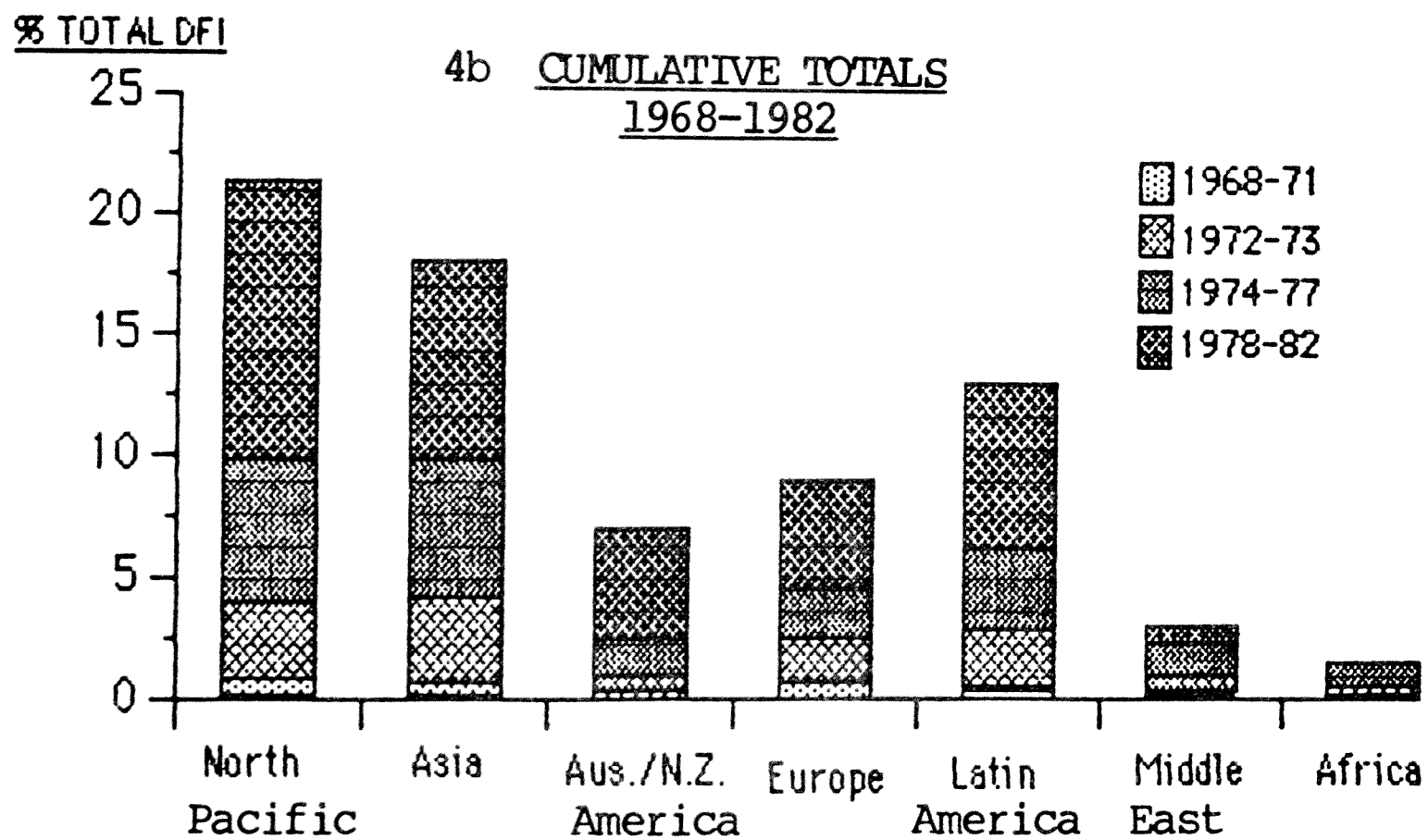
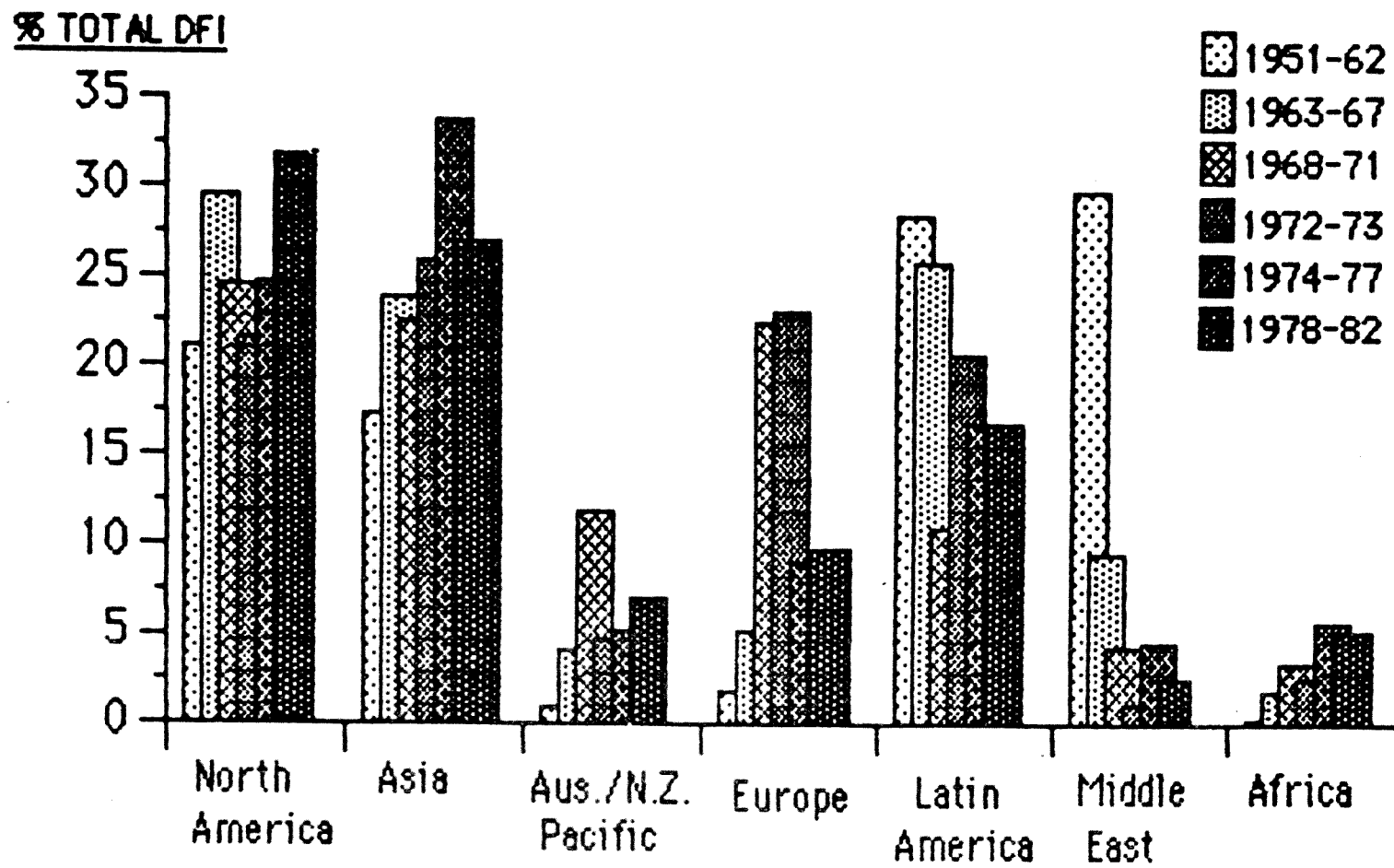
FIGURE 3 VALUE OF EXPORTS AND MAIN EXPORT LINKAGES
BETWEEN PACIFIC BASIN COUNTRIES



Source: IMF, Directions of Trade Yearbook (1979 and 1984)

FIGURE 4a JAPANESE DIRECT FOREIGN INVESTMENT
BY WORLD REGION, 1951-1982

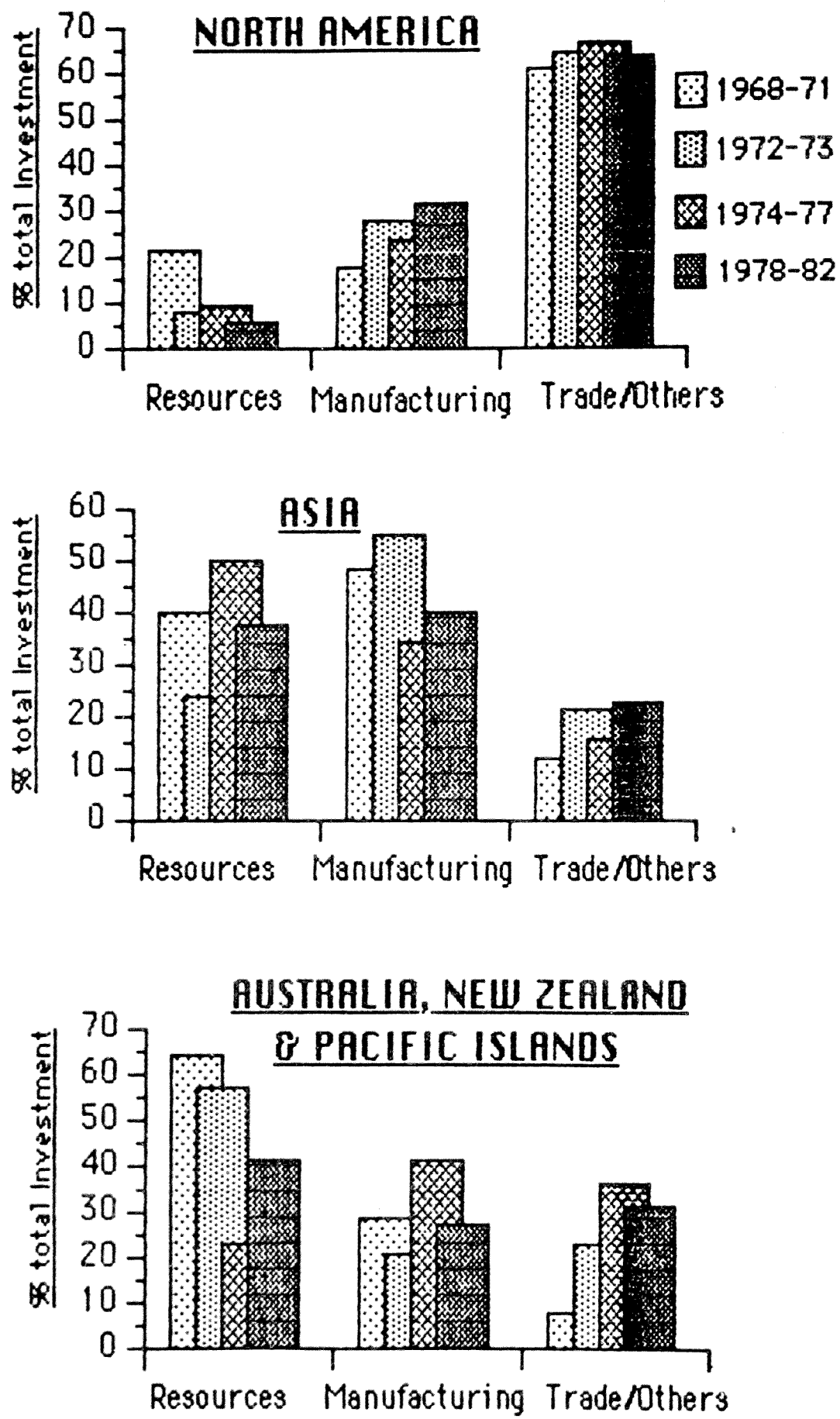
(in percent)



Source: MITI, "Overseas Business Activities of Japanese Enterprise," 1983, as compiled in Pacific-Asia Resource Center, "Research Project on Japanese Transnational Enterprises," AMPCO, 1985.

FIGURE 5

JAPANESE DIRECT FOREIGN INVESTMENT
NORTH AMERICA, ASIA, AND PACIFIC
BY MAJOR SECTORS 1968-82 (%)



Source: MITI, "Overseas Business Activities of Japanese Enterprise," 1983, as compiled in Pacific-Asia Resource Center, "Research Project on Japanese Transnational Enterprises," AMPO, 1985.

FIGURE 6 EMPLOYMENT IN JAPANESE-OWNED MANUFACTURING ACTIVITIES, 1985

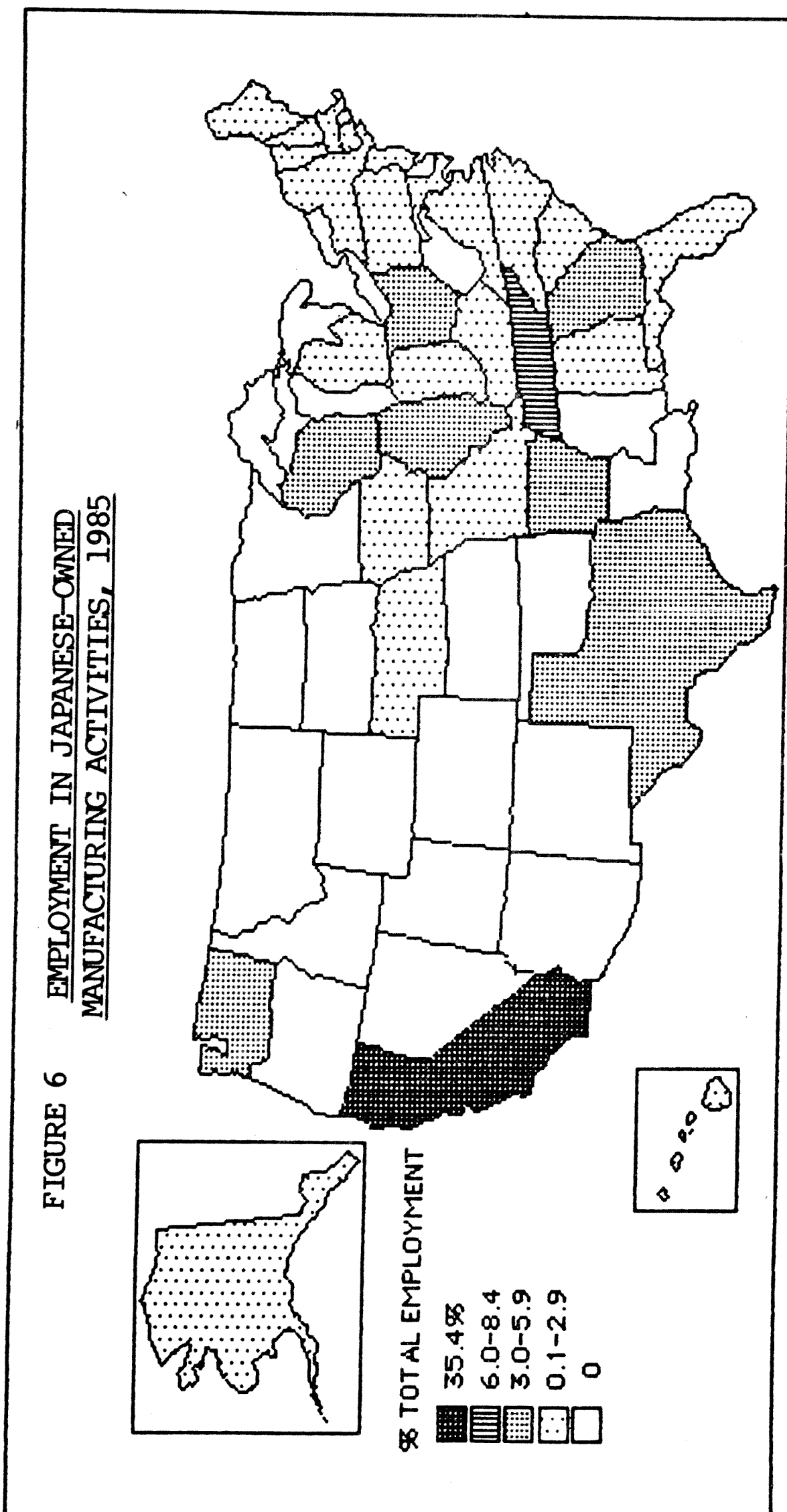
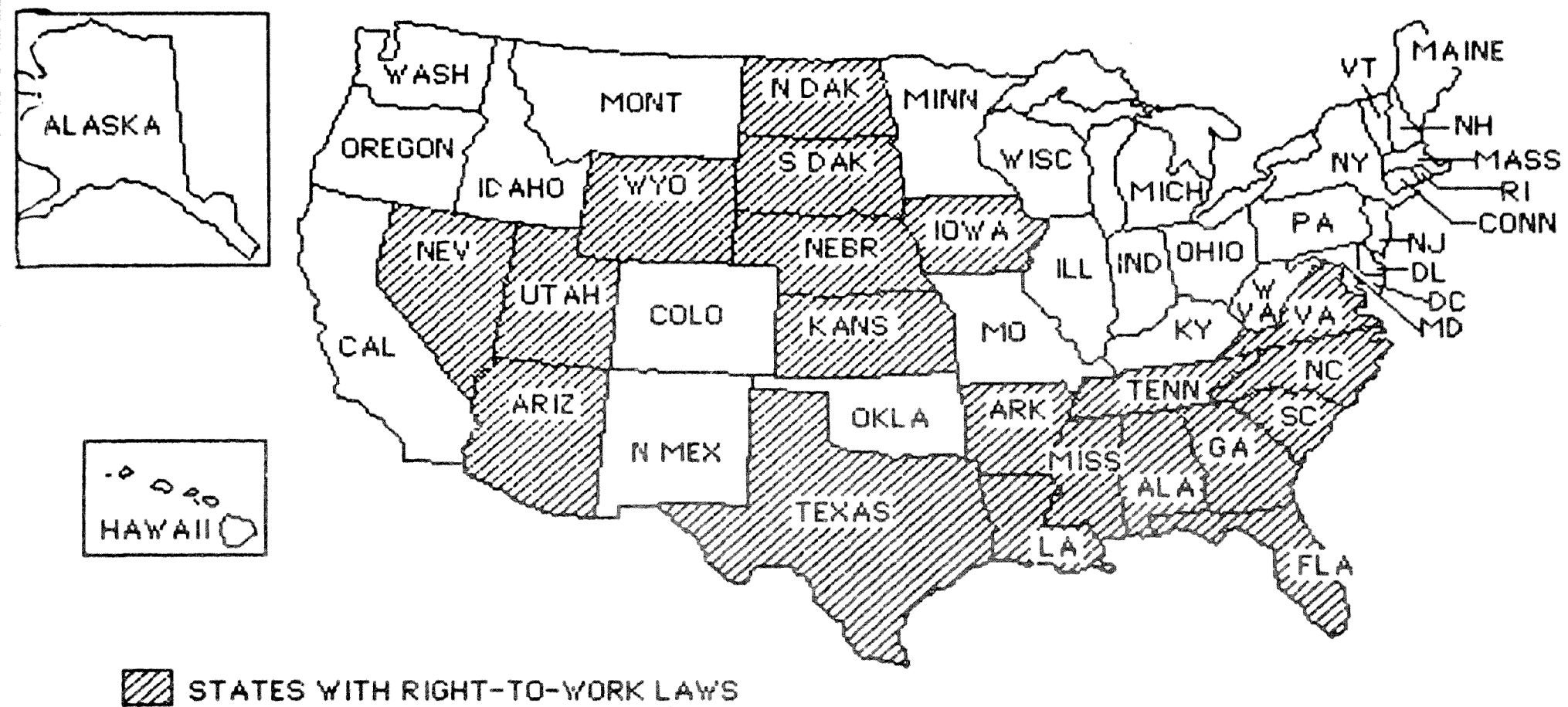


FIGURE 7 STATES HAVING RIGHT-TO-WORK- LAWS IN 1980



Source: B. Bluestone & B. Harrison,
The Deindustrialization of America (Basic Books, 1982), Fig. 5.2.

