

**EMERGING ENTERPRISES
IN THE ASIA - PACIFIC
REGION**

J. PANGLAYKIM



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Foreword

With this volume Dr. Panglaykim hopes to stimulate discussions and further research on the subject of "Third World Based MNCs". From the time Dr. Panglaykim joined CSIS he had given considerable attention to the MNC phenomenon, and in his own words attempted "to dismantle" the power structure of the thing called MNC. Over the years he gained insight into the various elements of power which had developed in and constituted MNCs. This insight enabled him to distinguish the different power structures of Japanese-based and Western-based MNCs.

Dr Panglaykim's recent attempt is to examine the emerging enterprises in the Asian countries to find out whether these enterprises are evolving into MNCs, by looking at the various aspects of such enterprises: their organization, management style, ownership pattern, their depth and scope of operations, etc. This volume contains his preliminary findings. At this stage, however, those finding indicate the areas which need further research. The following subjects have been indicated by Dr. Panglaykim as potential and useful areas for inquiry: (a) the effects of national policies and the role of the government in the development of "Third World Based MNCs"; (b) the role of such enterprises in industrialization and modernization; (c) the impact of such enter-

prises upon society and the different social strata; (d) the role of such enterprises in strengthening regional cooperation and in contributing to resolving international economic problems.

It is the last area suggested above which CSIS found most relevant, especially with regard to the mechanism with which a more sound foundation for economic cooperation can be developed among the countries in the Asia-Pacific region. Dr. Panglaykim suggested that the establishment of MNCs in the developing part of the region increased the countervailing power of these countries vis a vis Japanese and Western MNCs. But at the same time, such a development would create a more sound relationship between the developing and the developed parts of the region, largely because economic interactions would be based upon a more equal partnership CSIS has recently encouraged its staff to study various aspects of economic interactions in the Asia-Pacific region as part of a larger study project, namely on "The Future of the Asia-Pacific Region". This volume is an invaluable contribution to this study project. We hope that a larger audience would find it useful as well.

Jakarta, October 1979

CSIS

Introduction

An observation of the development of enterprises in the Asia-Pacific region, especially in the Asian countries, suggests a growing awareness on the part of the developing countries in this region to create countervailing powers vis à vis multinational corporations originating in Japan and the West.

Part I of this volume reviews the power structure of Japanese- and Western-based MNCs. The development of Japanese MNCs can be used as a model in the establishment the so-called "Third World Based MNCs". South Korea has followed such a strategy. Part II of this volume examines the emerging groups or corporations in various Asian countries and their prospect. Of interest are the different patterns with which these corporations have developed and might evolve into multinational corporations.

The direction in which existing groups or corporations in the region might evolve into MNCs, need to be studied more explicitly. Four aspects determine the evolution of these enterprises.

The first aspect is organization. Of the emerging enterprises in the region, one could make the following classifications:

- a) those whose establishment were politically motivated and initiated by the government, such as Pernas and Temasek Holding;
- b) those established during the colonial period, have survived and continued their operations, and gradually have been bought by the host countries through the security markets. Sime Darby is an example;
- c) private enterprises dating back before World War II which have grown considerably after the war, such as Kuok Brothers, Bangkok Bank Group, United Overseas Bank, Soriano Group and Ayala Group;
- d) private corporations emerging after World War II, such as Disini Group, Sun Hung Kai, Salim Development Corporations, Y.K. Poa Group;
- e) jointly established by the government and the private sector, such as the general trading firms in Korea (Hyundai, Lucky Group) and Intraco Group in Singapore.

Among the countries where these groups are based there have been considerable cross-investments over the last years. For example, the Bangkok Bank is involved in a variety of investments in Indonesia. Seen from the organization point of view, it can be said that among the emerging enterprises in the Asian countries they have established working arrangements, which provide the foundation for these enterprises to expand their activities into other countries. In this regard, regional financial centers (Singapore and Hong Kong) have assumed an important role as catalysts in the process of cross-investments and in the creation of financial consortia.

Hence, at the firm level one already discerns activities which can be considered multinational in character. Asian airlines, such as Singapore Airlines, Korean Airlines, Thai International and Garuda Indonesian Airways, for example, already possess a remarkable share in the international airline market.

Management style and ownership patterns are also an important element in the growth of those enterprises. It is indeed true that management and ownership of a large number of those corporations are in the hands of certain groups, but this pattern is gradually changing. The style of management has developed in the direction of professionalism. Such a change can also be found in enterprises whose manager was recruited from the bureaucracy. Successful state entrepreneurship is shown by Pernas, Temasek Holdings, Intraco, Singapore Airlines, Hindustani Machine Tools and Garuda Indonesian Airways.

The second aspect regards the relationship between the development of those corporations and the development of the respective national economies. The role of large enterprises and its effects upon different social strata as well as the various impacts upon the economy still need to be studied. The success of "Third World Based MNCs" cannot be separated from their contributions in the transfer of technology at the national level, the development of business and financial infrastructure, such as banking and insurance. A variety of factors influences the development of these enterprises, and these factors differ from one country to another. It is not surprising, therefore, to find quite different patterns in the development of these enterprises.

The third aspect regards the relationship between the development of those corporations and efforts to strengthen regional cooperation at the various levels. Further studies need to be made on the effects of cross investments and on the impacts of groups which operate regionally (Bangkok Bank Group), so as to find patterns of development at the firm level which foster regional development.

The fourth aspect regards the role of these "Third World Based MNCs" in relation to international economic issues such as the North-South Dialogue and the New International Economic Order.

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Part I

The Power Structure of Established MNCs

1

THE MNC PHENOMENON

In the literature and discussions on international corporations such names as transnational corporations, transnational enterprises, multinational enterprises, multinational private enterprises, Sogo Shosha (Zaibatsu, Keiretsu), and international conglomerates are being used. Those who are more cynical call them by such names as octopuses and juggernauts.

The business community is flooded with literature and discussions on international corporations, especially after the interdependency of international businesses have been seen as a reality. The writers have come from different educational backgrounds, among others, academicians, professors, journalists, actors, international businessmen, politicians, economists, including also those who work in such international institutions as the United Nations, UNCTAD, etc. The different discussions have as objective the MNC phenomenon, which has been accepted as a reality by the worlds of business, industry and services.

In this section we will examine MNCs operating in the developing countries. We shall not discuss the MNCs which operate in such industrial countries as the United States, Japan and Western Europe.

Table 1 gives a comparison of direct investment abroad by the major industrial countries.

Table 1

DIRECT INVESTMENT ABROAD: USA, GREAT BRITAIN, WEST GERMANY, JAPAN

	Up to & including the end of the year	Balance of investments abroad (in million US dollars)	% of GNP	Ratio of Export
USA	1976	137,224	8.0	119.3
Great Britain	1977	31,978	13.1	56.9
West Germany	1977	22,458	19.1	
Japan	March 1978	22,211	3.0	26.7

Source : *Japan Quarterly* (April-June, 1979)

USA : 40.7% has been channelled to Western Europe (this invasion into Western Europe is termed by Servan-Schreiber as "The Invasion of the United States into Europe"), 24.7% to Canada and 17.1% to Latin America

West Germany : 55.3% to Europe, 19.7% to the United States, and 14.1% to Latin America.

Japan : Compared with other industrial countries, much more has been channelled to the developing countries, i.e. 57.1%, including 27.4% to Asia and 17.6% to Latin America, while 24.3% has gone to the United States, 13.8% to Western Europe, and 4.8% to Australia and New Zealand.

Seen from the investment point of view, the MNCs have been channelled directly to the developing countries. According to the United Nations Report, direct investments are one of the criteria of the level of business activities of the MNCs. The investments are generally restricted to the group of MNCs. Therefore, the total amount of capital invested can be quite large, but seen from their numbers they are limited to a few tens only. The MNCs are

classified as largescale corporations. They are in economic terminology generally known as having an oligopolistic position.¹

The sales volume of an MNC involves a few hundreds of millions of U.S. dollars, including those which have branch-offices (industrial, etc.) daughter companies, joint-ventures (majority or minority) and large affiliations in different countries. The largest of them all has a sales turnover of several tens of billion of U.S. dollars (See Tables 2 and 3).

Table 2

BIG FIVE SOGO SHOSHA			
	Affiliated Group	Sales 1978 (billion \$)	Asset
1. Mitsubishi Corp.	Mitsubishi	44	17
2. Mitsui & Co.	Mitsui	41	19
3. C. Itoh	Dai-Ichi (Kangyo Bank)	32	11
4. Marubeni	Fuyo (Fuji Bank)	31	11
5. Sumitomo	Sumitomo	28	7

Source: *Asia Week*, May 4, 1979

Table 3

BIG FIVE AMERICAN MNC		
1. General Motors (Detroit)	63	30
2. Exxon (New York)	60	41
3. Ford Motor (Dearborn Mich.)	43	22
4. Mobil (New York)	35	23
5. Texaco (Harrison, New York)	29	20

Source: *Fortune*, May 7, 1979

- 1 Since there are only a few sellers, the fixing of the prices and the determining of the policy for the production output of any one of them will be of importance to the others. A change in policy will influence the market, so that the others will have to follow it. For instance, if one who is classified as the price leader increases or decreases the prices, the others will have to consider seriously of going along too.

Seen from the countries of origin of the MNCs, the participation of those from the United States in 1971 amounted to 50%, while those from Great Britain, France and West Germany 20% each. Because of the participation of the MNCs from Japan, the figures for 1979 will probably be different. Direct Japanese investments have gone up since 1972. In 1973, for instance, they had already surpassed the US\$ 10 billion mark compared to 1971, which just amounted to US\$ 4.4 billion. In one year only (1978) Japan had invested US\$ 4.5 billion, for the greater part to industrial countries.¹

According to the United Nations Report, another aspect of MNCs is the distribution of direct investments, which show a pattern of historical relations. Maybe this is correct for the 1960s and maybe also for such countries as France, West Germany and Great Britain. For instance, Great Britain still has many investments in Hong Kong, Malaysia and Singapore, while the United States still has many in the Philippines. In the beginning Japan has direct investments in South Korea and Taiwan, but now it has also direct investments in Singapore via America. In the other ASEAN countries it is classified as the most dominant investor.

The MNCs are very active in such fields as mining (oil, iron ore, bauxite, etc.), agriculture (plantations in Malaysia and Indonesia), manufacturing and services like banking, insurance, shipping and tourism.

The MNC phenomenon will be approached from the points of view of character, motive, perception and behaviour. These are all based on a combination of three- or five-sides of power, which is one of the foundations of the MNCs. The MNCs are seen by many writer as effective vehicles that have internationalized production, marketing and banking. They have made the interdependency of relations a reality in the international economy. MNCs can be seen as an institution that acts as an

1 *Nihon Keizai Shimbun*, May 22, 1979

effective vehicle and has to be taken into account, in the national and international economy.

Basic Character. The MNCs, which have come from the United States and Western Europe, are said to have expertise, capability and skill to coordinate the three-sides of power – management (entrepreneurialship), access to, and control of, technology, and access to the international money and capital markets. The triangle of power, which has been combined in accordance with the expertise of each of these MNCs, is seen as something that produces the power of the MNCs and creates successful international business with interests in many different countries. But if we observe the Japanese MNCs (known before World War II as *Zaibatsu* and after World War II as *Keiretsu* and later as *Sogo Shosha* or general trading firms), they have two additional sides of power – international network (with offices and representatives abroad, equipped with modern telex and other communications systems) and governmental support (including officials from the bureaucracy and from the political party in power, so that business that go through the Liberal Democratic Party have voices in the formulation of policies)– These MNCs, with their five-sided power structure, have now become formidable competitors of the MNCs from West, thus creating tensions within these two types of MNCs, which have been brought up to their respective governments (like tensions between Japan and the United States and between the EEC and Japan).