Capital Mobility Research Paper Series

Capital Mobility and Workers in Asia: Case Studies on Japan, China, Philippines and Thailand

Asia Monitor Resource Centre

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Capital Mobility and Workers in Asia: Case Studies on Japan, China, Philippines and Thailand

Edited by Asia Monitor Resource Centre
For ATNC Monitoring Network

This book is a part of Capital Mobility Research Paper Series as a collaborative work carried out by AMRC and the researchers of Asian TNC Monitoring Network (ATNC). This collaborative research is one of ATNC's programmes that develop the model of Asian 'Triangle Solidarity' which intends to deal with the changing shape of Asian capital and its impact on workers across Asia. This work is carried out by bringing together unions and labour organizations in the region, taking up a collaborative work that equips them with better strategies to cope with the trend of capital mobility. For further information about the work, please visit http://amrc.org.hk/taxonomy/term/issue_2/49

Asia Monitor Resource Centre

The Asia Monitor Resource Centre is an independent non-governmental organization focusing on Asian labour concerns. The Centre provides information, research, publications, training, labour networking and related services to trade unions, labour groups, and other development NGOs in the region. The Centre's main goal is the support democratic and independent labour movements in Asia. In order to achieve this goal, AMRC upholds the principles of workers' empowerment and gender consciousness, and follows a participatory framework.

ATNC Monitoring Network

Asian Transnational Corporations (ATNC) Monitoring Network is an Asian regional network of trade unions and labour organizations, which arose in 2002 to monitor the working conditions and management strategies in Asian transnational corporations. The Network now focuses on building up the organizing and educational capacities of its members, to monitor their own workplaces on the basis of their collective power, and carry out joint research and campaigns on the common labour issues of its members. Presently the Network has three main sectoral focuses: garments, automobiles and electronics. For more information about ATNC Monitoring Network, please visit its website: www.atnc.org or contact the Coordinator at coordinator@atnc.org.

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Preface

DEMOCRATIC CONTROL OF CAPITAL

Background

In the era of neoliberal globalisation, the mobility of capital is a major challenge for labour movements in many countries. Capital can move easily to those places that offer the best conditions for accumulation. It is gaining more power and is able to transform itself easily from tangible capital goods into liquid financial assets. More than ever, the power of capital can determine people's lives. At the same time, governments of developing countries are offering incentives in the form of favourable policies on trade and tariffs, investment, taxation, special economic zones, and anti-union environments, to attract this capital. Consequently, there have been significant, growing inflows of capital, originating from industrialised countries including the newly industrialising economies (Hong Kong, South Korea, Taiwan, and Singapore), into Asia's developing countries. In recent years, China has emerged as a key player with a growing number of its global transnational corporations (TNCs) investing abroad and participating in global supply chains. Other developing countries in Southeast and South Asia rely heavily on foreign direct investment in their economic policies.

This has resulted in the shift of world manufacturing from industrialised countries to developing nations in the period of internationalisation of monopoly of capital which was begun in the 1970s and has escalated in recent decades. This economic architecture that created a global production and global supply chain system has had a tremendous impact on working people. The system has hurt working people both in the core countries and peripheries. In the core, such as the U.S. and Japan, economies receive less investment and fewer employment opportunities, and wages are being driven down through globalised competition. In the U.S. the share of manufacturing in GDP has dropped from around 28 per cent in the 1950s to 12 per cent in 2010.[1] Japan has also seen a similar decrease.[2] In the peripheries, the competition between countries for foreign direct investment (FDI) and export markets is leading to the systematic establishment of anti-labour regimes to lock in comparative advantages based on cheaper, more manageable labour.

Since early 2000, Asia Monitor Resource Centre (AMRC) has been working to understand and deal with capital mobility by looking at the impact of global production and global supply chain system on workers. AMRC has been working with Asian Transnational Corporations (ATNC) Monitoring Network, through which unions and labour organisations in both capital-sending and capital-receiving countries can pursue concrete actions to improve the working conditions of workers in Asia. This strategy has a specific context, that is, to address uneven development in the region, as the full integration of Asia's developing countries into global capitalist development from 1980s onwards was happened when neoliberalism policy was set up on the final stage. As a result, the policy has been pushed to be implemented in those Asia's developing countries, primarily to remove all barriers in trade and finance, right in the time when developed economies were fully prepared.[3] The heavily-dependence of developing countries upon foreign direct investment (FDI) is reflected from this historical context.

As part of our efforts to grapple with the problems resulted in the development, a series of collaborative research papers and actions have been taken with various groups in ATNC Monitoring Network, and we realise that the issue of financialisation has been one of significant aspects of capital mobility that needs to be investigated.

Transnational Corporations and Financialisation

Financialisation is the term used to summarise a broad set of changes in the relation between the' financial' and 'real' sector which give greater role and domination to financial actors, institutions and motives. It has been used to encompass phenomena as diverse as shareholder value orientation, increasing household debt, changes in attitudes of individuals, increasing incomes from financial activities, and increasing international capital mobility.[4] This finance-led global economy has impacted severely on flexibalisation which has in turn been intensifying the mobility of capital. What has been happening with regards to downsizing of employment, pressure on wages, informalisation, and union busting, among others, are linked to and as the consequences of the financialisation.

The financial investors are the new master in the workplaces, who impose an extremely short investment horizon, together with sky-high expectations of returns on their investments. Shareholders make a prior request on the minimum rate of return from companies. As a result, companies are more and more required to focus on short-term goals, apply cost reductions, and carry out restructuring to serve the profit expectations of shareholders. The quantitative expansion of finance in the operation of domestic and international economies is huge.

For instance, foreign exchange transactions in the world economy have increased from US$15 billion per day in 1973 to US$ 80 billion per day in 1980, and then up to US$1,260 billion per day in 1995. Goods and services purchased in 1973 were only 15 per cent of total world trade transactions. However, by 1995 the figure fell down to less than 2 percent. It means that the explosion of 9.8 percent in currency trading has not been primarily for the purchase of internationally traded goods and services, but for financial transactions.[5] In the U.S. the total financial revenue has been drastically increased from $534 billion in 1956 to $508,456 billion in 2000. On the other hand, the GDP as percent of financial revenue has been rapidly declining from 79.6% to 1.9% at the same period. Derivatives trading – mostly futures contracts on interest rates, foreign currencies, treasury bonds, etc. had reached a level of $1,200 trillion, $1.2 quadrillion, a year. By comparison, U.S. GDP in 2006 was $12.456 trillion.[6] In addition, the international financialisation has resulted in net capital flows from developing to developed countries, thus imposing substantial costs on the former, while subsidising the U.S as leading issuer of quasi-world money.[7] Many studies further elucidate this phenomenon, showing that the profit of financial corporations has dramatically increased, surpassing the profit of non-financials corporations.

Financial transactions in the global economy are now mainly speculative.[8] A statistic shows that the global economic activity in 1971 was valued at US$1.4 billion per day, where 90 percent of it was for the real economy and long-term investment, while just10 percent was for speculative transactions. However, by 1990, the value had shifted dramatically: Only 10 percent of all financial transactions involved aspects of the real economy and long-term investment, and 90 percent can be said to involve speculative transactions. Other statistics have shown roughly the same figures. As recorded by *New Internationalist*, in 2000 alone, 95 percent of the US$1.5 trillion in global financial transactions was speculative; 80 percent of that sum could easily move out of a country within one to seven days, and 40 per cent could leave in less than two days.[9] Consequently, there has been also a *qualitative* expansion of the role of financial institutions, i.e. the transformation from being a servant of non-financial transactions to being a master of them, accumulating capital for their own profit through financial activity. This financialisation, which stands for the rapid growth of the sphere of financial circulation, was begun in the late 1960s in the U.S, then in Western Europe and elsewhere.

The Power and Network of Corporations

Searching for the best places for capital accumulation and driven by their financial corporations, U.S. TNCs were the first movers, but TNCs from other countries soon adopted the same cost-cutting

strategy. In 1971, U.S. TNCs had 1,337 foreign affiliates, while Japanese and German TNCs had only 13 and 80, respectively. However, by 1983, the number had rapidly increased to 1,339 (U.S), 64 (Japan), and 241 (Germany), and in 1998 the totals jumped to 2,901 (U.S), 2,296 (Japan), and 1,764 (Germany).[10]

Although Asian TNCs from China, South Korea, Taiwan, and Singapore have grown in number and strength, Western TNCs including those who are operating in Asia still dominate the global landscape in the 21st century, due to their power and exclusive network of financial firms. Acting as global agents and providing the source for investment capital, Western financial corporations have monoplised the international ownership network. In fact, TNCs do not carry out their business in isolation but are tied together in an extremely entangled web of control. Vitali S et.al. (2011)[11] found that the top ten nations with the greatest number of powerful financial corporations which hold and control a global network are headquartered in the U.S. (163), Germany (101), U.K. (59), France (53), Canada (38), Japan (35), Italy (34), China (34), Netherlands (33), and Sweden (18).

In order to make their operations run more smoothly and easily, the corporations promote bilateral agreements or investment treaties. As of 2007, there were roughly 250 free trade agreements in effect, covering more than 50 percent of world trade.[12] These Free Trade Agreements have been actively promoted by the firms to remove trade barriers for the further expansion of capital. Governments in developing nations continue to facilitate capital by maintaining low-wage policies based on export processing and supply chain models, locking their country into low-added value production.

Series of Research Papers on Capital Mobility

The research papers chosen for this publication were presented at a meeting of researchers into capital mobility, organized by AMRC and held in the Philippines, 28-29 September 2010. The meeting was part of an attempt by AMRC and other labour groups in the ATNC Monitoring Network to identify the basis for a new solidarity between workers in Asia. On this occasion we presented research papers on Japan, China, the Philippines and Thailand. The concept and impact of financialisation on the region was a new topic resulting from these studies and has given rise to additional research which will be undertaken later. However, the discussion shows general impact of financialisation in terms of the massive flexibilisation and informalisation of workers in the region as illustrated in each chapter.

Japan's Direct Overseas Investments and their Impact on Asian Workers

In their research paper entitled "Trends in Japan's Direct Overseas Investment and its Impact on Asian Workers," Kaneko Fumio and Tono Haruhi investigate Japan's overseas investment using case studies on Toyota and Panasonic as their primary research. The authors explain that the Japanese economy has remained in a slump since the 1990s, and the number of workers in the manufacturing sector has been declining. During the same period, the number of part-time and irregular workers has grown, resulting in a sharp decrease in the number of full-time or regular workers. Under these conditions, Japanese companies are steadily increasing their direct overseas investments, resulting in an increase in the number of workers working for Japanese firms in many countries.

For Japan's auto industry, China, India, and Brazil have emerged as important new markets. And as overall sales in Asia suffered the least impact from the 2008 global financial crisis, Asia has overtaken the U.S. as the principal market of Japanese automakers, allowing them to consolidate their supply and market networks in the region. On the other hand, the anti-labour strategy of these companies, including the irreguralisation of the labour force, continues. In the case of Toyota, its biggest production base is in North America, and production in Asia has decreased in 2010, except in Thailand where it has an annual production of 400,000 to 500,000 units. Toyota has also disclosed new business strategies,

including the production of eco-cars following the 2008 crisis. The crisis has caused a 54 percent decline in the quantity of car production, as the market in America could not absorb existing output. Regarding FDI, Japanese capital in the automotive sector has decreased globally. Following the 2008 crisis, Toyota announced "the planned dismissal of 3,000 regular workers," and afterward other Japanese TNCs started to dismiss workers. In Japan alone, around 7,000 non-regular workers in Toyota's main plant and domestic subsidiaries were laid-off. Workers in parts-suppliers have also lost their jobs.

Meanwhile in the electronics industry, Japan has taken more direct and immediate action, the closure of plants and dismissal of workers, in both domestic plants and abroad. Japanese makers of electronics have based their offshore production in Malaysia, Indonesia, Thailand, and Philippines. They have also expanded into China and Vietnam, and built marketing strategies to tap the newly emerging markets in the BRIC countries. However, these networks, dependent on external funding, are highly vulnerable to a capital turnaround. In 2008, the number of workers in Japanese electronics companies in Asia decreased. There has also been a decreasing number of those employed in Japan which has been referred as industrial hollowing out. Companies, such as Panasonic, suffered a sharp decline in 2007, and subsequently announced plans to shutdown its various offshore/domestic branches. Panasonic began a new strategy of focusing on eco-friendly product and the promotion of solar energy. In the region, the investment has shifted from ASEAN countries to China. Trends in Japanese FDI in Asia – both in electronics and the automotive industry – show the significant role of China in the current global economy.

China's Going Global Strategy

The second paper highlights China's going global strategy. Although China has been the recipient of huge amounts of foreign direct investment in the past 25 years, it has also begun to invest in other countries. China has been seeking new markets, securing resources, and obtaining technology as well as brands. The country commenced its overseas investments in the late 1970s, promoting its state-owned and subsidised companies around the world. Its overseas investment can be divided into three phases: The first from its beginning in 1979 until 1991; the second from 1992 to 1998; and the third from 1999 to the present. China's FDI escalated after 2001 and a steadily rising trend can be seen from 2005 onward.

However, official data on China's outward investment appears to be understated. There is also a lack of transparency and many irregularities regarding Chinese companies' overseas investment. Figures on imports by trading partners show large discrepancies with official Chinese figures on the same trade. However, what is obvious is the impact of this strategy on Chinese workers. Official government statistics show that urban household consumption in the period between 1981 and 2005 increased, while in the rural households it declined. Thus, it has added push factors for rural Chinese people to migrate as labour to industrial zones across the country.

China has become a crucial manufacturing and capital-sending/originating country in Asia and other regions. Since there is a lack of transparency, it is likely that these funds could be sourced from social security funds, in which workers have made a significant contribution. While there are cases in Africa where Chinese investors are criticised for being aggressive and extractive, at home Chinese workers are suffering from exploitation, working in sub-standard conditions for low wages and without any type of social protection. The major challenge is that the most of these migrant workers within China are not easily organised.

Capital Mobility in the Philippine Automotive Industry and its Impact on Workers

The third paper discusses capital mobility in the Philippine automotive industry and its impact on

workers. It describes the many links that the Philippine automotive industry has to the global auto assembly and auto parts industry. However, for the most part the domestic industry has been unable to benefit from trade and investment liberalisation measures, aimed at developing it over the past 60 years. At the same time, as a player at the lower end of the parts supply chain, the industry has often borne the brunt of negative trends in the global industry. The major manufacturers (OEMs) in the global auto industry, after years of unresolved overcapacity problems and heavy debt levels, were particularly vulnerable to the sharp downturn in the global economy in 2008-2009. Adding to these problems were a contraction in market demand and rising costs derived from higher energy and raw materials prices, pressures to address climate change issues, and consumer demand for the personalization of motor vehicles.

These problems were passed on to the subsidiaries of the OEMs and their parts suppliers, along with an intensification of the trend to transfer more responsibility for R&D and its attendant costs onto the balance sheets of the partners and parts suppliers. Additionally, the Philippine industry, whose only significant comparative advantage among ASEAN producers had been its low labour cost, was made more vulnerable to trends in the international economy by the adoption of the ASEAN Free Trade Agreement (AFTA) and other trade liberalisation pacts.

Despite attempts to put in place protectionist measures for the automotive industry, the local industry remained weak and underdeveloped, mainly due to limited domestic demand (due to slow growth in per capita incomes) which resulted in a diseconomy of scale among local producers. While local demand growth remained low, there was little impetus for sizeable domestic investment in the technology and supporting industries needed to make it competitive both at home and abroad. A total of 124 auto firms, both local and foreign, were surveyed and classified based on their supply chain role and ownership. Included in the sample were 14 subsidiaries of Asian auto giants, including Toyota Motor Philippines, Honda Cars Philippines, Mitsubishi Motor Philippines and Isuzu Philippines. There are also companies that only distribute CBUs (completely built-up), assembled outside the country, namely South Korean firm Hyundai Asia Resources, Inc. and Chinese company Kama Trucks. Purposive sampling was used, based on an official list of automotive firms from government agencies and major industry groups and chambers.

Based on the findings, the local automotive industry is shown to carry out low technological production processes and produce low value-added complimentary auto parts. Component specialists and integrators comprise the majority of all the auto firms sampled, with products and services ranging from stamping and molding to the manufacture of transmissions, car seats, car seat reclining adjusters, mufflers, brake discs, water pumps, carpets, molded rubber parts and other non-core automotive parts. The nature of underdeveloped production in the automotive industry is defined by foreign investments flowing into the country, which in most cases have not resulted in technology transfer. In recent years, manufacturing activities of existing Asian TNCs in the country have barely expanded, while the importation of CBUs continues to surge, especially Chinese auto imports. There had been no new investments to the automotive industry during the past decade, save for the foreign investment in motorcycle production. Should the trend continue, Filipino workers are bound for mass retrenchment and flexible labour schemes will worsen as companies downsize their operations. The final section of the report details a number of recent labour issues, including union busting action and serious health and safety issues in two companies, Toyoto Motor Philippines and domestically owned F-Tech Philippines, which produces parts for Honda and other auto firms.

Capital Mobility in Automotive Sector in Thailand

The last chapter describes capital mobility in the automotive sector in Thailand. Like many other Asian developing countries, Thailand has experienced massive trade and investment liberalisation. In particular,

since early 2000 in compliance with the World Trade Organization's Trade-related Investment Measures, Thailand has eliminated its local content requirement programme. The impact has been felt especially in motorcycle and automobile engine production. Additional moves toward further liberalisation followed, particularly the introduction of an import tariffs reduction schedule. As liberalisation in the automotive industry was enforced and coupled with investment incentives for business, major automakers from around the world established production facilities in a number of sites in the country.

As a result, Thailand has become one of the largest automakers in the region. The paper describes the map of production of the automotive industry, its international and domestic markets, production network, and the conditions faced by workers and labour unions. It also illustrates the vulnerability and precarity of outsourced and sub-contracted workers and other workers in this sector, who are vulnerable to being laid-off. As far as capital flows are concerned, this report describes foreign direct investment in the sector, portfolio investment, and lending from financial institutions such as the Japanese Bank for International Cooperation (JBIC), co-financing from the Bangkok Bank, and co-financing with Japanese and Thai banks. The author has found that the major players in the sector are multinational firms, including Honda, Toyota, Isuzu, General Motors and the Auto Alliance, a coalition of 12 car and light truck manufacturers.

Democratic Control of Capital

Analysing these reports, we have found that capital mobility and its aspect of financialisation have become the major and underlying factors of the precarity of workers. The papers in this volume illustrate that workers' collective bargaining power has declined which can be seen in the intensification of irregularisation, union busting actions, company closures, and massive dismissal of workers reported across the region. In many cases, this condition has resulted in the weakening of militancy of workers in countries that used to be dynamic actors in the labour rights movement.

Capital mobility which has been intensified by the process of financialisation has brought about greater lost of workers' control over capital. In fact, not all foreign capital will exit countries that restrict them with regulation. Risk of capital flight does not apply equally to all corporations. In many industries, including the automotive, production requires significant initial investment in dedicated capital equipment, and relocation is very costly and time consuming, therefore it would not be undertaken lightly. Nonetheless, the collusion of state and capital in the undermining of the legal mechanisms protecting the working people is obvious. The efforts to democratically regulate capital have always been impeded by the state and capital collusion for the sake of capital accumulation.[13]

Furthermore, companies have been driven to raise a maximum profit through the elimination of productive capacity and employment by strategies including restructuring and cost-cutting to reduce jobs and eliminate productive capacity. There are cases where productive capital has been invested into speculative financial capital. These strategies have been executed for the purpose of generating cash for share buy-backs to further boost share prices, which firms often have taken out loans to buy-back shares to increase shareholder value.[14] Financial markets today directly give an incentive to companies for reducing payroll through closures, restructuring and outsourcing. Needless to say, workers in virtually all sectors face the threat of rapidly changing ownership and the imposition of restructuring plans and short-term targets that are based on a financial market logic that places no value in real production, productivity or jobs.

Ways forward

The mobility of capital and the financialisation of economy are not a natural, unidentified process arising from finance and technological advancement or more rapid global information flows. Rather,

it is a political project involving the active intervention of both global corporations and national governments by imposing immense range of new legal mechanisms and regulations serving their interests. This political project, therefore, should be the first agenda for unions to be dismantled, by promoting new legal mechanism and regulations to subordinate capital to people and to the democratic requirements established in international human rights standards.[15]

Second agenda is to increase workers' collective bargaining. As employers become less tangible and employment relationship is increasingly disguised, the corporate has been much powerful *vis-à-vis* workers in generating social destruction and generalising insecurity. In this situation, unions need to enforce their collective bargaining with the employers by organising and mobilising working population in new ways to make the employer *visible*.[16]

Those efforts need to be put into perspective that the logic of capital accumulation has been extended to the level of society all over the world, in urban and rural, which was previously restricted within the factory or industrial zones in advances countries. Informalisation of labour now has been growing in all sectors, including to those who work in formal sectors. Along with informal workers, the irregular status of outsourced, casual and contract worker has been integrated into the circuit of capital. In addition, it is also important to be put into unions' perspective that the financialisation has also been extended into individual life. The financial firms have been socialising the risks by disciplining society of taking risks. This has been the global agenda of financial corporations by undertaking financial literacy programs promoted by International Monetary Fund (IMF). The primary purpose of the program is to discipline the uniformed poor how to behave in a way that makes public or state regulation obsolete and enables the solution of the problems by market forces. As IMF mentioned in its report: [17]

> "*Overall, the transfer of risk from the banking sector to non-banking sectors, including the household sector, appears to have enhanced the resiliency and stability of the financial system - mainly by widely dispersing financial risks, including throughout the household sector. Policymakers may now need to take the next logical step by helping households to improve on their financial education and to obtain quality advice and products necessary to manage their financial affairs. In fact, there is a growing consensus, in both the public sector and the financial service industry, on the importance of promoting the financial education of households*".

Given the fact, other political agenda of unions and working population would be the resistance to risk shifting: a struggle for public housing, public pensions and public education, among others. However, such stands represent not a defense of the state as states themselves are integral to the risk-shifting process, but an attack on capitals' new frontier of accumulation. The awareness of the commodification of risk should be borne in mind that all struggle against risk shifting, be they over wages and working condition or pensions, mortgage repayments and bank fees are all struggle in the site of capitalist production.[18] Above all, those efforts require a unifying element of struggles from working population so that it can contribute a global context and impact. This "unifying element in all struggles against capital," as Michael Lebowitz put it rightly, "is the right of everyone to full human development".[19]

Last but not least, by providing this publication along with other efforts in the ATNC Monitoring Network, we hope that workers are able to play a significant role in building the democratic control over the state and capital, in order to reclaim their dignity and rights. We also hope that this volume can provide workers with a better understanding, and promote further discussion among those who want to see a continual improvement in working conditions for workers across Asia and beyond.

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Endnotes

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Trends in Japan's Direct Overseas Investments and their Impact on Asian Workers

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Introduction

The Japanese economy has remained in a slump since the 1990s, and the number of employees in the manufacturing sector is decreasing. The rate of part-time, irregular workers is on the rise, sharply decreasing the number of full-time or regular workers. Under these circumstances, Japanese companies are steadily increasing direct overseas investments, resulting in an increase in the number of employees overseas as a whole. As compared with this, direct domestic investments were small in scale and did not contribute much to the increase in employment although they did show an increase.

We are going to survey the trends in Japan's direct overseas investments, and study how they are interconnected with the employment and business management situation. In particular, we will take up discussion of investments in Asia by automobile and electronics companies, which are the central industries in investments in the manufacturing sector. First, then, we will examine mid-term trends in the amount of investments, the number of employees, and sales. Secondly, we will look at their short-trends before and after financial crisis, and thirdly, at the business trends in the leading automobile company, Toyota Motor Corporation, and the big electronics company, Panasonic Corporation. Lastly, we address the financial crisis and its influence on employment.

1. A survey of direct overseas investment trends

Japan's direct overseas investments, when seen from the international balance of payments, net and flow trends, continued to increase yearly from 2004 to 2008, and the total amount of US$31.0 billion investments in 2004 jumped to US$130.8 billion investments in 2008, more than four times. In particular, increase in 2008 was noticeable (Table 1). In 2009 direct investments shifted to a decrease, which was caused by the global depression after the 'Lehman Shock' (the common Japanese term for the collapse of Lehman Brothers that provoked the following financial crisis) in September 2008.

Let's take a look at the increase in investment up to 2008 by region. Increase in Japan's direct investment was observed in all the regions, and the investments in the North American and Latin American markets recorded a remarkable increase. According to the regional ranking, the investments in Asian markets came first in 2004, followed by investments in North America, Europe and then Latin America. North America came first, however, in 2008, followed by Latin America, Asia and then Europe. By country, a lot more investments were made on the USA and the Cayman Islands. Investments in Asia by country varied year by year. Investments in China were high constantly, and Thailand had a record of steady investments. It is to be noted, however, that some countries enjoyed a soaring investment increase in a specific year, such as Malaysia in 2006, Singapore in 2007 and Korea in 2008. This may be because large-scale investment projects were set in such countries. Table 1 shows the net flow base, and withdrawal of investments might have led to a minus record, but it rarely happened. An actual minus record was found in Mexico in 2006, but as a whole, it is clear that Japan's direct overseas investments continue to increase.

Let's turn to Table 2 now and examine the trends by industry. We largely classify the industries into manufacturing and non-manufacturing sectors. Steady investments are made on the manufacturing sector while the non-manufacturing sector clearly shows a rising tendency. The core industries are finance and insurance, followed by wholesale and retail, and mining. A huge amount of investments were made in 2008 on these three industries, which must have resulted in a sharp increase in the total amount of investments. It can be said that such a sharp increase in investment in the finance and insurance industry were due to an increase in speculative and liquid investment, against the background of a financial technology boom. Investments in these businesses were heavily reduced in 2009.

In contrast to the speculative movement in the non-manufacturing sector, relatively steady investment activities are being made in the manufacturing sector, mainly in the field of transportation equipment. The industries following transportation equipment in order of size are electric machinery, chemicals and food. A sharp increase in investment was recorded in the industries of electric machinery in 2006, food in 2007, and chemicals in 2008. This could be because large-scale projects were contracted.

Combine the amount of investments by region with that of investments by industrial classification, and the actual conditions of Japan's direct overseas investments can be understood more clearly (Table 3). Investments in Asia are featured by the fact that more investments were made on the manufacturing sector than the non-manufacturing sector, as seen in 2005 and 2008. More investments in the manufacturing sector were made than any other region. With the exception of transportation equipment in North America, a large part of the manufacturing sector enjoyed the highest investments in Asia. There is a tendency that investments in the North American, Latin American and European markets were made as a rule more on the non-manufacturing sector than on the manufacturing sector. Although a lot of investment was on the transportation equipment, electric machinery and chemicals industries in North America and Europe, the scale of investments in finance and insurance, and wholesale and retail, has been high. What draws attention the most is that the scale of investments in the finance and insurance businesses in Latin America left North America both in 2005 and 2008. The fact simply reflects a recent pattern of behaviour of transnational corporations of concentrating investment funds in the Cayman Island, a tax haven, from which they distribute funds to every part of the world.

2. Trends in the number of employees and profits of Japanese companies overseas

More influence on employment by Japan's direct overseas investments is seen in the manufacturing sector than the non-manufacturing sector. According to a survey conducted by the Ministry of Economy, Trade and Industry, the number of employees of Japanese companies overseas (not including finance and insurance) came to 4.14 million in 2004 (82% of them, namely 3.4 million, working in the manufacturing sector).

The number went up in 2007 to 4.75 million (3.95 million employees in the manufacturing sector, reaching 1% higher, at 83%; Table 4).

The number of employees in the domestic manufacturing sector, in comparison, reached its peak in 1992, with 15.69 million employees. In 2007, the number decreased by 4 million to 11.65 million. This suggests that work sites were exported abroad.

Take a look at the number of overseas employees by region. The number of employees working in Asia came to 2.47 million in 2003 (accounting for 65%), reaching 3.37 million (71%) in 2007, an increase of 0.9 million employees, or 6%. The number of employees in North America and Europe is not as high as Asia, recording almost no increase. In Asia where investments are made mainly on the manufacturing sector, as investment increases, the number of employees will go up. In other regions where more

investment is made on the non-manufacturing sector, an increase in investment does not produce much increase in the number of employees.

Table 4 shows how the number of employees in Asia changes by region. China (including Hong Kong) has a large number of employees, followed by the so-called ASEAN 4 (these four members of the Association of Southeast Asian Nations: Thailand, Malaysia, Indonesia and the Philippines). As compared with this, the number of employees is low in the so-called NIEs 3 (Korea, Taiwan and Singapore) and in other Asian countries (such as Viet Nam and India). While the number of employees in ASEAN4 and NIEs 3 has stopped going up, that of employees in China and other Asian countries still continues to increase. This may be because investment is shifting from the labour-intensive to the capital technology intensive sector in ASEAN 4 and NIEs 3 as the amount of investments in each region goes on increasing. In contrast, investments in China, Viet Nam and India seem to be centring on the labour intensive sector.

The domestic economy remained in recession while Japanese companies overseas marked a high rate of profits. Table 5 shows a steady increase in ordinary profits both in the manufacturing and non-manufacturing sectors from 2004 to 2007.

By region, the highest rate of ordinary profits was recorded in Asia, followed by North America and Europe. The trends from 2004 to 2007 indicated that the rate of ordinary profits has been increasing in Asia and Europe, but has been stagnant in North America. It is certain that the rate of profits as calculated according to accumulated investments is the highest in Asia.

We can indicate that the ordinary profits by sales amounts are on the rise as a whole, that the rate of profits in the manufacturing sector is always higher than in the non-manufacturing sector, and that the rate of profits in the non-manufacturing sector has rocketed, almost catching up with that in the manufacturing sector. Nonetheless, we can say that under the world financial crisis or global slump, originating in America in and after 2008, the rate of ordinary profits of Japanese companies overseas has been reduced.

3. Mid-term trends in investments in Asia

The international balance of payments as published by the Ministry of Finance indicates that Japan's direct overseas investments in 2005 amounted to 5,045.9 billion yen, soaring in 2008 to 13,232 billion yen, i.e. by 2.6 times. Because the Lehman Shock caused the financial crisis and simultaneous global recession, however, the amount of investments was reduced in 2009 to half, that is, 6,989.6 billion yen. The investments in the manufacturing sector reduced to 3,083.1 billion yen in 2009 from 4,651.2 billion yen in 2008 while 8,580.8 billion yen in 2008 reduced to 3,906.5 billion yen in 2009 in the non-manufacturing sector, with a higher reduction rate than the manufacturing sector. Let's take a look at the main industries in the manufacturing sector. The automobile industry (including other transportation equipment) marked a sharp reduction to 64.7 billion yen from 1,132.2 billion yen, and the electronics industry (including other electric machinery) went down to 242 billion yen from 586 billion yen. The total amount of investments by region is such that Asia recorded a relatively small reduction to 1,942.7 billion yen from 2,379 billion, yen contrary to expectation. This shows that more importance has been attached to Asia.

Table 6 shows changes of direct investments from 2005 to 2009 in Asia consisting of ASEAN4, NIEs3, China (including Hong Kong) and other nations (such as India and Viet Nam). The changes from 2008 to 2009 show that the automobile suffered a rather small reduction in China and electronics met with a higher reduction, while the latter marked an increase in other Asian nations. Trends from 2005 to 2009

suggested that investments in automobiles are to be noted in ASEAN4 and China, and China came first where investments in electronics were made in Asia.

With reference to the 'Current Status of Japanese Companies Abroad' issued by the Ministry of Economy, Trade and Industry, we will follow the trends in Japanese automobile and electronics companies in Asia from 2002 to 2009.

Table 7 shows changes in the number of employees of Japanese companies in Asia. The number of employees of automobile companies in the whole Asian region has been on a constant increase from 180 thousand in 2002 to 620 thousand in 2009.

1.17 million Employees worked in 2008 in the domestic transport equipment industry, and more than half of them worked in Asia. Of the Asian nations, ASEAN4 was the most important region, but the number of employees in China has recorded a sharp increase, almost equal to ASEAN4. The number of employees in NIEs3 is of a small scale and tends to be in stagnation. The number of employees in other Asian nations is on the increase.

Take up electronics companies. A total of 190 thousand employees decreased from 2007 to 2008 in the whole Asian region, but an increase of 150 thousand employees was recorded in 2009. The financial crisis exerted more influence on employment in electronics than in automobiles. In Asia, China maintains the most important position, replacing ASEAN4. NIEs3 do not have a presence in this regard. Other Asian nations did not suffer a decrease in 2008 but continue to show an increase in the number of employees. In addition, the number of employees in the electric industry in 2008 was 1,760 thousand, and the employees in the industry in Asia accounted for more than half.

Table 8 shows sales of Japanese companies in Asia. A sharp increase in sales in automobiles was recorded, from US$20.3 billion in 2002 to US$143.8 billion in 2009 in the whole Asian region. ASEAN4 is the biggest market in Asia, but it seems that China is just behind them. Similar trends of the number of employees are seen to those of sales. Sales in NIEs3 are sluggish, but sales in other Asian nations are on the increase. Sales of electronics in the whole Asian region are on the increase as ever, but with a lower rate of increase. As to sales by region, China has marked the highest since 2005, followed by ASEAN4 and NIEs3. Sales in other Asian nations are at a low level.

To sum, Japan's recent investments in the manufacturing sector in Asia are more in electronics than automobiles in terms of the number of employees, but the difference is getting smaller and smaller. The fact that higher sales were recorded in automobiles than electronics suggests that the centre of gravity is moving from electronics to automobiles. When we synthesize the number of employees and sales by region, we can see that the centre of gravity is shifting from ASEAN4 to China. A slackening in exportation from Japan to Asia and a decrease in domestic employment, that is, a so-called industrial hollowing, is ongoing behind the scenes.

4. Business conditions before and after the financial crisis

With the above in perspective, we turn our attention to the business conditions
before and after the global financial crisis which the Lehman Shock ignited in September 2008. Let us study the changes every quarter from April 2008 to June 2010.

Table 9 shows changes in the number of employees, pointing out a little different tendency. The number of employees suffered a reduction of approximately 40 thousand in the automobile industry in the whole Asian region, that is, from 594 thousand at the end of September 2008 to 556 thousand at the

end of June 2009. After this, employees started to increase in number, reaching 647 thousand, more than before financial crisis. We see a similar tendency by nation. The number of employees in electronics in the whole Asian region recorded a reduction of no less than 250 thousand from 1.147 million at the end of September 2008 to 0.9 million at the end of March 2009. Workforce reduction has been more remarkable in electronics than automobiles. Soon after, the conditions of employment began recovering but the number of employees has not reached the level of before financial crisis. An almost similar tendency is observed by nation.

Table 10 comes next. It shows how sales have changed. Sales of automobiles in the whole Asian region amounting to $34.27 billion marked in the quarter July to September 2008 went down to $26.32 billion in the quarter April to June 2009. They recovered soon after, and in the quarter October to December 2009, they exceeded the level before the financial crisis. By nation, ASEAN4 showed intense changes, but China and other Asian nations did not see much change. The amount of sales in electronics in the whole Asian region came to $30.5 billion in the quarter July to September 2008, but decreased to $18.45 billion in the quarter January to March 2009. Although it turned better soon after, it did not reach the level before the financial crisis until the quarter of April to June 2010. Roughly speaking, an almost similar tendency is seen by nation.

To sum, the following are the points at issue: First, automobiles did not touch bottom after the financial crisis at the same time as electronics did. Automobiles reached the bottom in the quarter April to June 2009 in terms of the number of employees and sales. Electronics did so earlier, in the quarter January to March 2009.

Second, there was a difference in changes and conditions between automobile and electronics before and after financial crisis. Although automobile reduced the number of employees and sales, it has recovered strongly, recording higher results than before financial crisis. In contrast, electronics went through a sharp reduction of employees and sales, and it is recovering without much force. It has not reached the level before financial crisis until in the quarter April to June 2010.

Third, there was a difference in changes before and after the financial crisis between ASEAN4 and China. China showed a greater magnitude in the reduction of employees and sales and recovery in electronics, in particular, than ASEAN4. Such difference was not found in automobiles. Because not much capital investment was in NIEs3 or other Asian nations from the beginning, there was no big change indicated before and after the financial crisis.

5. Business trends of automobile and electronics companies

While we examined the business trend on a macro level as discussed above, we would like to consider the trend on a company-level basis, before and after the financial crisis. Japanese major automobile and electronics companies had huge internal reserves because they did not fairly distribute their profits to the workers. As of the end of March 2008, Toyota, Honda and Panasonic had reserves of 14 trillion yen, 7 trillion yen and 4.5 trillion yen respectively, which were several times larger than their annual profits.

Because of such huge internal reserves, they did not have to depend on financial capital at the height of the financial crisis. Instead, by reducing their employment and adjusting the production, they were able to hammer out the new strategies. One was to strengthen the environment-related business. The other was to expand business to newly emerging countries. We can see typical examples in Toyota and Panasonic, which are the largest in the respective industries in Japan.

5.1 Automobile companies – the case of Toyota Motor Corporation

Trends in the automobile business world

The Japanese automakers have put more emphasis on overseas production, shifting their production bases from home to overseas, achieving better business results, in the face of strong yen trends in and after the 1990s, and saturating domestic markets. Competitiveness has sharpened; however, among automakers all over the world because they needed a lot more of investments in R&D to address environmental issues, and automakers in developing countries have been marking higher profitability. Under the circumstances, they had no choice but to undergo large-scale mergers and corporate reorganization.

Corporate reorganization went on worldwide while Japanese automakers formed closer tie-ups with strong foreign automakers: Nissan with Renault, Mazda with Ford, Mitsubishi Motors with Chrysler, and Suzuki Motor and Fuji Heavy Industries with GM. In contrast, Toyota did not tie up with overseas makers but they preferred to bring Hino Motors and Daihatsu Motor under their control to expand business. Honda Motor chose to survive on its own.

Although Japanese automakers were respectively different from each other, as seen from above, they were successful in achieving an almost steady profitability till 2007. The major factors in such a higher profitability were enlarged overseas production, use of irregular workers with low wages at home, and compulsory cost reduction of parts produced by sub-contract makers. The world financial crisis or global recession triggered by the Lehman Shock which happened in September 2008 caused the automobile markets, including those of advanced countries, to decrease in size, and suffer worsened business results.

Table 11 shows the business conditions from 2007 to 2009 of the major five automakers. Each automaker marked a decrease in sales till 2009, and the operating income of each automaker except Honda went into the red in 2008. They were improving in business results gradually in and after 2009, mainly driven by the 'Eco-car subsidy' system. The system started in April 2009, ending September 2010, with an aim to bail out the automobile industry. Suppose you bought a new car which meets the environmental standards such as gas mileage; you would be subsidized by 100,000 yen. And you would be subsidized by 130,000 yen if you renew your car which has passed 13 years after registration. Car taxes are also reduced or exempted. About 600 billion yen was spent for one and a half years, which was very effective to enable the domestic car market to recover.

Another factor in recovery was the reduction of irregular workers. As shown in Table 11, many more irregular workers were dismissed than regular workers. Toyota was the first in November 2008 to lay off (due to economic or industrial environment) dispatched workers or fire them (due to personal performance), as described later. This was called the 'Toyota Shock', and it became a big social issue because it occurred in the manufacturing sector.

In addition, expanded car markets in developing countries including China influenced the recovery of domestic automakers a lot. The number of cars sold all over the world in 2010 was estimated to be about 72 million units. Of them, 34 million cars were sold in advanced industrialized countries while 38 million cars in developing countries. It was for the first time that more cars were sold in the latter than in the former. In particular, China alone marked sales of 18 million cars, almost double the market size of America.

Toyota's business trends

We would like to examine how Toyota, a leading Japanese TNC, took a new turn in their business

before and after the financial crisis. First of all, let us see Table 12, showing the business results of Toyota Motor Corporation. These data are the consolidated accounts, including those of affiliated companies. The net sales of each fiscal year (from April to March in the following year) continued to increase every year. It reached to 26,289.2 billion yen. However, the business results rapidly got worse since the latter half of the 2008 fiscal year and decreased to 18,951 billion yen in 2009. It means the net sales returned to the level of the 2004 fiscal year. The sales amount as recorded in 2010 is expected to be 19,200 billion yen, and recovery is not fast.

After the net income of the 2007 fiscal year increased to 1,717.9 billion yen, it went into the red by 436.9 billion yen in the 2008 fiscal year. In the 2009 fiscal year, it went into the black only by 209.5 billion yen. It is expected that Toyota recovers in 2010 to the extent that they mark a net income of 490 billion yen, but are still a long way off from the level prior to financial crisis.

Due to their continuous high profits in the past years, Toyota still has financial capability. They need not depend on financial institutions. Because of the huge amount of their internal reserves, they are usually called 'Toyota Bank'. Table 12 shows that the cash flows always exceed 1 trillion yen. It is noteworthy that they were able to retain more than 2 trillion yen cash flow even in 2008, when the financial crisis broke out and they suffered red in net income.

The production, both domestic and overseas, peaked in the 2007 fiscal year, but considerably decreased in the 2008 fiscal year because of the shrinkage of the world automobile market as an effect of the financial crisis. In the 2009 fiscal year, the overseas production increased while the domestic production further decreased. As a result, the ratio of overseas production exceeded 40% in 2009. On the other hand, the number of regular employees did not change very much, but rather trod on the increasing tendency. It can be analyzed that they adjusted the labour forces by reducing the number of irregular workers. The overseas regular employees have been increasing in number. The ratio of overseas employees exceeded 45% of the total employees.

Meanwhile the reduced production seriously damaged the suppliers. The subcontractors were forced to reduce their workers in a flurry, because they had just invested in the equipment and increased the number of workers in order to meet the prospective production increase of Toyota. This immediately led to the dismissal of irregular workers of subcontractors, which were in a vulnerable position.

Table 13 is the data of Toyota's production results by region and country. Due to the differences in totaling basis, the figures do not coincide with those of table 12. When it comes to production results by region, North America used to be the biggest production base, but Asia replaced it in 2008. While the production ratio of Asia was 23.6% in 2004, it increased to 41.9% in 2009. Where is the production base in the Asia region? It is Thailand that has been maintaining an annual production of 400,000 to 500,000 automobiles. Meanwhile China has been rapidly increasing its production number. It never decreased since 2004 until 2009, when China became the biggest production base in Asia by replacing Thailand. Regarding other countries, all the countries remain less than 100,000 automobiles in production, except Indonesia, where more than 100,000 automobiles have been produced annually.

The number of Toyota's overseas employees by region and country is shown at table 14. Unlike the number of production, there have been constantly a bigger number of employees in Asia than North America. In addition, the employee number continued to increase in Asia, while it has not changed much in North America. Consequently, the ratio of employees in Asia increased considerably among the total overseas employees from 33.9% in 2005 to 54.4% in 2009. In Asia, Thailand and China account for the majority. Since 2006, the number of employees in China became the biggest. The difference in number between China and Thailand has been widening since then. Regarding Indonesia and Malaysia, the number of employees rapidly increased because they absorbed subsidiaries of other companies.

How does the production trend discussed above reflect the income? Table 15 shows the change of Toyota's net revenues and operating income by region. Regarding the share of net revenues by region, Japan, earning the biggest revenue, has stayed almost the same of 40~50%, followed by North America, which has dropped from above 25% to below 25%. On the contrary, Asia increased from 7% to 11%. We can observe a clearer difference by region in the operating incomes than in the net revenues. Before the financial crisis, Japan and North America occupied 80% of the total operating incomes. However, Japan, North America and Europe got into the red in the 2008 fiscal year. Japan and Europe suffered red in the operating incomes also in 2009. On the other hand, Asia and others, including Latin America, Africa and Oceania, played the role of compensating for the loss as a whole, without incurring a loss.

Toyota's business strategy

In the process of recovering from the global recession, Toyota is gradually disclosing their new business strategies. One way is to develop environmentally considerate automobile manufacturing, such as hybrid and electric vehicles. On the other hand, Toyota attaches importance to newly emerging countries, including China, India and Brazil.

To meet the environmental requirements strategically, Toyota proceeded in developing hybrid cars equipped with a combination of gasoline engine with electric motor. They marketed 1 million hybrid cars all over the globe from 1997 to May 2007. The number of such cars sold was on a sharp increase, reaching 2 million by August 2009, and 3 million by February 2011. Of the cars sold, 185 million cars were sold overseas, mainly in the U. S. market.

Such a good record prompted Toyota to announce in November 2010 their strategy of developing diversified hybrid cars that meet the environmental requirements. The strategy shows that they double hybrid cars to 11 models by the end of 2012 to have a good selection of hybrid cars. Furthermore, they will market plug-in hybrid vehicles in the U. S. and Europe as well as Japan in 2012, which can be charged at home. They aim at selling 50,000 units per year. On top of this, Toyota is going to launch electric vehicles, which have taken them much time to be developed, on the domestic and overseas markets, such as the U.S. and Europe markets. It is aimed at achieving a sales target of some thousand units per year. Fuel cell vehicles are also being developed, and Toyota is planning to market them in 2015 at a price of not higher than 5 million yen per vehicle.

Following this strategy, Toyota officially announced in May 2009 that they would withdraw from the auto manufacturing plant New United Motor Manufacturing, Inc. (NUMMI) which was under the joint management of Toyota with GM. NUMMI was closed in April 2010. Tesla Motor, another American venture business decided to produce electric vehicles jointly with Toyota at the NUMMI site. Toyota invested $50 million to purchase the site. Hybrid vehicles are being produced not only in the U.S. and China, but also in Australia, where they started production in December 2009, and in Great Britain, where they started production in June 2010. Toyota did a technical supply to Nissan, Ford, Mazda, and Daimler as well, intending to gain the initiative in the field of environmental technology.

What is their strategy for developing or newly emerging countries like? Toyota temporarily froze in December 2008 the plant construction being planned in China and Brazil to carry out production adjustment when they were faced with financial crisis. They resumed the construction of the plant in China in December 2009 soon after production adjustment came to the end of the first stage. They also resumed the construction of the plant in Brazil in June 2010. In May 2010, they disclosed a new business policy to make much of newly emerging countries, in particular, China, India and Brazil, revising their production system which put too much emphasis on North America.

In China Guangzhou Toyota Motor Co. (GTMC) began production of the 'Camry Hybrid' in April 2010. Sichuan FAW Toyota Motor (SFTM) has announced the construction of a second factory in Changchun City, Jilin Province, scheduled to begin operation in 2012. The new factory constructed by SFTM in Chengdu began operations the following May. It is planned to increase their production capacity to approximate 1 million vehicles by 2012.

Toyota started production and sales of Etios, a low-priced sedan at a price of lower than 1 million yen, at the end of 2010 in India. They started the construction of the second plant as planned in Sorocaba to the west of San Paulo Brazil. The plant is going to start operations later in 2012, producing vehicles of the same model as Etios. They are planning to export such vehicles from India to Middle East and Thailand and from Brazil to other Latin America countries.

Under such circumstances, the President Mr. Toyoda Akio announced on March 9, 2011 their 'global vision' for the first time after his assumption of presidency of the company. The vision says that Toyota aims at increasing the rate of sales in developing countries from 40% at the moment to 50% by 2015, by delegating some power to its overseas production basis and reinforcing development and production. It also shows that Toyota sets a strategic vehicle per market. They do not divert car models for advanced countries to markets in newly emerging countries, but develop regionally unique strategic models. Along with this line, Toyota already started to produce and market Etios in India. This is the starting point of their strategy to exploit markets in newly emerging countries through common use of platforms and reciprocal supply of parts.

For this strategic purpose, IMV (Innovative International Multipurpose Vehicle) strategy has already proceeded. The IMV strategy is to develop multipurpose vehicles to be exported to newly emerging countries, and to promote common parts and effective production & adjustment. Thailand, Indonesia, South Africa and Argentina were designated as the global manufacturing bases for finished vehicles. At the same time, Toyota has established the manufacturing bases for major parts and the system making it possible to effectively supply them to the plants located in different countries, such as diesel engine in Thailand, gasoline engine in Indonesia, manual transmission in the Philippines and India. Such a cross-border trade of parts became feasible after the entry into force of the ASEAN Free Trade Area (AFTA). Among the ASEAN members, Thailand, in particular, accommodates many parts makers, and the finished vehicles are also exported. Since Toyota placed Thailand as a hub in Southeast Asia, they set up a regional production centre and workers' skill training centre.

The mutual parts distribution network symbolized by IMV is not only practiced by Toyota's overseas subsidiaries. More parts are supplied by main Toyota group companies and their overseas subsidiaries, such as DENSO and Aisin Seiki, resulting in establishing the consolidated supply chain. The number of overseas subsidiaries in main Toyota group companies increased from 213 companies in 2005 to 244 in 2010. Many of the subsidiaries are located in different Asian countries. The number in China has been remarkably increasing among Asian countries. Since these main Toyota group companies also produce different kinds of parts in their overseas subsidiaries, they export those parts by taking advantage of AFTA.

5.2. Electronics companies– the case of Panasonic

Trends in the electronics industry

We would like next to examine the business trend of electronics companies. After the bubble economy burst, Japanese electronics companies which were enjoying their golden days in the 1980s have declined in the international status, because of the cool-down of the domestic market and the revival of American companies, in addition to the intensified competition with Korean and Taiwanese companies in overseas

markets. Big Japanese electronics companies recorded a great loss without exception in 2001 and 2002 after the IT bubble collapse, and have been trying to reorganize the production structure by transferring plants producing mass-produced products which are low-value added to other countries, and recruiting middle-aged and elderly workers for voluntary retirement. They also reorganized the semi-conductor and liquid crystal sections for structural reform. After this, partly thanks to weak yen, the companies recorded a continuous increase in profit, not so high though, till they suffered a big loss in and after the second term of 2008, adversely affected by the global recession. Table 16 indicates that the sales of the major manufacturers went down in 2008 and 2009 as well, and got into the red except Mitsubishi Electric Corp. Following the Lehman Shock, the U.S. dollar and the euro suddenly dropped because of creditability, while the yen became strong. This was another blow to the electronics industry.

Considering the data, we can easily imagine that they must have reduced the workers. However, we cannot confirm the remarkable decrease only with table 16, which shows only the number of regular employees. As a matter of fact, media reports suggest that after the 'Toyota Shock', each company enforced the closure of plants in addition to reduction of the workers, particularly targeting irregular workers, as counter-recession measures. For example, in December 2008, Sony announced that they would close five to six production bases in Japan and overseas, and would reduce its workforce by 14,000 workers, of whom 8,000 workers were working in Japan. In January 2009, Toshiba disclosed that it was planning to dismiss 4,500 irregular workers. In February 2009, Panasonic announced that it had a plan to reduce 15,000 workers by March 2010. The total number of workers to be reduced among the major electronics companies reportedly exceeded 66,000 workers at that time.

Such a reduction will cause the reduction of workers and the closure of plants in the electronics parts sector. We have no data to know how employment adjustment was actually made in the sector, including domestic and overseas supply chains. However, newspapers repeatedly reported the conditions of the local economy where supply chains were established. The current large-scale closure plants have seriously damaged the local economy. In the rural areas of Japan, the closure increased the number of the unemployed because there are only few employment opportunities. To make matters worse, many local companies providing the plants with various goods and services are also damaged. As a result, local governments suffer a big loss because they are no longer able to receive tax from the plants. Some of the local governments which subsidized to invite them to set up the plant started to demand the return of the subsidies to those companies which closed the factories contrary to the incentives provided by the local governments.

According to newspapers, seven leading companies posted a consolidated net profit in the black from April 2010 to December 2010. This owed much to the restructuring, 'Eco-point' for home appliances, and demand from newly emerging countries. The 'Eco-point' system was a subsidy system sponsored by the Japanese government like 'Eco-car subsidy'. The system started in May 2009, ending in March 2011. Suppose you buy an air conditioner, refrigerator or television set which is regarded as energy-saving product, and you will be given a gift coupon or local promotion coupon in the amount of 5 to 10% of the product you purchase. Subsidies paid reached approximate 600 billion yen at the end of March 2011. The system helped each electronics company mark a prompt increase in sales.

As we discussed above, each electronics company first reduced the employment of workers and closed the unprofitable factories under the global recession. As the next steps in their management strategies, the first one is to strengthen the environmental and energy sector, and the second is to attach importance to newly emerging countries. Those strategies have been clearly reflected in Panasonic, the largest company in the industry. They also accelerated business tie-ups with leading electronics companies in Korea, Taiwan and China for production. What they aim at is to have higher cost competitiveness and collect their business resources into their favourite fields such as highly value-added products.

Panasonic's business trends

Matsushita Electric Industrial Co., Ltd. (predecessor to Panasonic) had been in a slump in the 1990s. Mr. Nakamura assumed the presidency and took the initiative to carry out a structural reform in and after 2001. The company closed domestic and overseas production bases and cut off 13,000 workers. They also affiliated seven companies belonging to their group, and switched Matsushita Electric Works, Ltd. (predecessor to Panasonic Electric) to a consolidated subsidiary for the reorganization of the group. This was the first time that Matsushita did such employment adjustment. They had kept lifelong employment, deemed as the embodiment of Japanese-style management. This shocked Japanese society a lot. Because of this restructuring which was followed by the payment of retirement allowance, Matsushita got into the red in the amount of 427.8 billion yen for the first time in 2001 after foundation. They made a rapid recovery in business after this, and some even said, 'Matsushita is a symbol of revival in the electronics industry.'

As is seen from Table 17, Panasonic recorded sales of nine trillion yen in 2006 and 2007 with an increase in net income. They disclosed in October 2008 the business result of the first term of 2008, which was the highest one in the black. Mr. President Nakamura was replaced with Mr. Otsubo in 2006, and the new president launched a three-year project, 'GP 3 Project', starting in 2007 for Global Panasonic. Their target was to increase sales to 10 trillion yen or more and raise the rate of overseas sales to 60% or higher in three years. According to the plan to increase sales by one trillion yen, 70% depends on overseas business, mainly in newly emerging countries. It was also planned to continue restructure domestic and overseas production bases.

Matsushita mobilized capital in March 2007 from home to overseas unprofitable AV equipment sections and white goods appliances sections, and requested not less than 5,000 middle-aged employees to retire voluntarily. In addition, they closed unprofitable overseas production bases. No details of actual capital mobility are known due to lack of data, but Table 17 shows that the number of employees decreased by 30,000 (domestic: 10,000; overseas: 20,000) from 2005 to 2007. Matsushita Electric Industrial Co., Ltd. was at the middle point of their GP 3 project in October 2008, when they celebrated their 90th anniversary. They unified three company brands, Matsushita Electric, National and Panasonic, to Panasonic. Ironically, they were attacked by the global financial crisis immediately before such unification.

Panasonic's profitability, which was high till summer 2008, took a turn for the worse. As seen from Table 16, with the sales amounting to 7,766 billion yen, they recorded current net income of 379 billion, getting into the red, and the number of employees decreased to 290,000. In February 2009, Panasonic announced that they planned to close 13 plants in Japan and 14 plants overseas by March that year. They added that they would close a total of 50 plants within and outside Japan, and reduce 15,000 workers (7,500 at home and another 7,500 overseas) by March 2010. As of 2008, Panasonic had 230 production bases or plants at home and overseas, so 50 plants accounted for 20% of them.

It is not clear how restructuring was actually carried out. Newspapers reported, however, that a restructuring plan of laying off 15,000 employees was announced in February 2009 at the electronic parts plant in Beijing, and 600 employees shut three executives into the plant for six hours in opposition to the plan, while in Japan, the semi-conductor production plant located in Kumamoto was closed, to shift production to China and Malaysia. This is just an example. Panasonic closed and integrated some more domestic plants. It was reported that 21,000 domestic and overseas regular workers were laid off by the end of March 2009. In addition, it is assumed that a lot of irregular workers and other workers working in the supply chains were laid off. They constructed a plant in Amagasaki City, on the other hand, to produce panels for plasma display TVs and another plant to produce liquid crystal panels in

Himeji City in response to higher demand for thin-screen TVs, as the 'Eco-point' system served as a tail wind. The plants are supposed to be the centrepiece of increase in production of thin-screen TVs.

Table 16 shows that sales in 2009 amounted to 7,418 billion yen, with a current net loss of 103 billion yen. It also shows that the number of workers employed by Panasonic increased to 380,000 in spite of restructuring on a large scale. This is because Panasonic made Sanyo Electric one of their subsidiaries, which had been weak in management capability, and remained in the red. The company in 2008 asked three big financial companies, the Mitsui Sumitomo Bank, Goldman Sachs and Daiwa Securities, to purchase preferred stock, which made them lose their virtual right of management. After the global financial crisis, these financial institutions needed cash, and they approached Panasonic for acquisition. Panasonic offered to Sanyo a takeover bid (TOB) in December 2009, and made the company a subsidiary.

At the same time, Panasonic made Panasonic Electric one of their wholly owned subsidiaries, which had been one of its consolidated subsidiaries. They reportedly spent 1,200 billion yen on making them wholly owned subsidiaries. Although Panasonic had been strong in financing - it used to be called 'Matsushita Bank' since the time of Matsushita Electric - they have issued commercial paper because they needed a huge amount of money for a wave of restructuring, TOBs and construction of new plants.

Panasonic went into the red for two consecutive years, 2008 and 2009, but as shown in Table 17, their sales reached 6,653 billion yen, a 27.5% increase over the previous year with a final profit of 115 billion yen in the black during the term from April to December 2010. The consolidated settlement of accounts including Sanyo Electric's shows us clearly their recovery in business. The factors of such recovery include restructuring at home and abroad, the 'Eco-point' system supporting higher demand, and a sharp increase in sales of home appliances in newly emerging countries.

Panasonic's business strategy

Panasonic announced in May 2010 an interim plan covering 2010 to 2012, where they intend to increase sales to 10 trillion yen in 2012. Of the sales, it is expected that environment-related business accounts for 840 billion yen. In addition, it is aimed at expanding overseas business which markets screen TV and white goods, and upping the rate of overseas sales to 55% over the whole sales amount. By January 2012, they intend to integrate or close production bases of the three companies, and reorganize their group business by dividing it into three fields, 'Consumer' which handles home appliances, 'Devices' including solar batteries, and 'Solutions' which proposes energy-saving plans.

Panasonic spent a tremendous amount of expense on making Panasonic Electric and Sanyo Electric their wholly owned subsidiaries because they had to hasten to expand business in the energy and environment sector and unify management, to get markets in newly emerging countries in order to survive fierce competitiveness among rival companies in Korea, Taiwan and China. Panasonic is planning to take Sanyo Electric's solar cell and battery sections and make use of Panasonic Electric's solar energy utilization section and combine them with its energy-saving home appliances to implement an energy-saving system business, proposing optimal power consumption in houses and buildings.

As to the markets in newly emerging countries, Panasonic makes much of not only China, India, Brazil and Russia, but also Indonesia and Vietnam. In particular, they presume that people belonging to the middle-class layer of each country are gaining a higher purchasing power, and they are in the course of developing products targeting at the middle layer. They disclosed in November 2010 a plan to construct a new plant to produce white goods in Brazil and in India, expecting to put each plant into operation in 2012. They are planning to build a plant in Minas Gerais, Brazil to produce refrigerators and washing machines, while in Haryana, India, they plan to build a plant to produce air conditioners and washing

machines. In addition, Panasonic markets white goods and AV equipment including thin-screen TVs, and has participated in a large-scale energy-saving housing project in Tianjin, Dalian and Shenzhen, China.

Panasonic started tie-up businesses with leading manufacturing companies. For the production of high-performance car batteries, they entered into a capital tie-up with Tesla Motors, a U.S. electric vehicle venture business, in November 2010. They agreed to jointly develop cells for EVl. Panasonic also established a jointly invested company with Toyota, which invested on Tesla, and started to produce cells for EV. Panasonic announced in September 2010 that they would cooperate to create an IT-based 'Smart Grid' business, a next-generation power transmission network to realize more efficient use of electric power, along with Hitachi. To dominate global races to get orders, Hitachi is engaged in building infrastructure such as power lines connecting power stations with houses and office buildings, and Panasonic is to build home energy control systems for illumination devices, home-use electric appliances and solar power generators.

The strategies of environment-related business and emphasis on newly emerging countries are common in the automobile and electronics companies. Based on these strategies, reorganization of global production bases has been initiated. At this moment, we should keep in mind that compared to the automobile industry, the electronics industry is smaller in the investment of factory facilities and the size of products, in addition to having a shorter development cycle for new products with more kinds of products. Due to this circumstance, the electronics industry is prone to higher possibility of plant closures and transfer of production bases. The mobility of capital is higher in the electronics industry than in the automobile industry.

6. The Financial Crisis and Toyota workers

In Japan the first response to the financial crisis by Japanese TNCs was to dismiss the most vulnerable of irregular workers, dispatched workers. On November 6, 2008 Toyota announced 'the planned dismissal of 3,000 fixed-term workers as a response to decreasing profits.' This came to be known as the 'Toyota Shock'. Following this announcement, automobile and electronics TNCs carried out a storm of 'hakengiri', firing dispatched workers with little or no notice, often in the midst of their contracts. The national government released an estimate stating that by June 2009, 216,408 irregular workers and 26,602 regular workers were to lose their jobs, whereas industry group reports estimated that 400,000 dispatched and sub-contracted workers would be fired.

To understand how workers in the automobile and electronics companies were affected by the financial crisis, we shall look at the case of Toyota workers in domestic plants and overseas subsidiaries as well as the resistance constituted by the respective workers movements. Toyota already began cutting down on the number of domestic irregular employees in the face of decreasing exports to North America, prior to the financial crisis. From confirmed reports alone, approximately 7,000 irregular workers were let go by the end of 2008 in Toyota's main plant and domestic subsidiaries such as Toyota Motor Kyushu. It is known that a substantial number of workers at parts-suppliers also lost their jobs but the exact numbers remain unclear.

Overseas subsidiaries also either cut down or stopped production temporarily, but when the consolidated financial results for 2010 fiscal year reported in the black in business profits in two years, Toyota initiated a new strategy as outlined above.

Let us first examine the cases of Toyota subsidiaries in Europe and North America. In both regions, sales had remained low for a considerable period. In the aftermath of the financial crisis, Toyota Motor

Manufacturing UK (TMUK) cut down production to a single shift. Workers who had lost their work did 'work-sharing' or performed tasks voluntarily for local government. In March 2010 TMUK ended production adjustment and called on workers in both factories in the UK (3,500 employees) to accept voluntary retirement, eliminating 750 jobs. In addition, Toyota Motor Europe (TME) in Belgium which supervises Toyota companies in Europe implemented in 2011 an early retirement program targeting 1,200 employees working in a sales managerial position from among 2,000 employees in the head office. In response to the program 160 employees retired.

Apart from such labour reduction, Toyota Motor Manufacturing France (TMMF) had been steadily reducing work days. In response, 400 workers, most of whom were members of the CGT (General Confederation of Labour) and FO (Workers' Force), respectively the first and the third of the five major confederations of trade unions, went on strike demanding 100 percent compensation for the days cut. The strike lasted from April 6 to 20, 2009 stopping production in parts of the plant. The event marked the first large-scale strike at Toyota France and was covered extensively by the media. In the end the workers succeeded in winning large concessions from TMMF.

Likewise, there had been no dismissals at the Toyota subsidiary in North America, where the company had chosen instead to adjust production levels by stopping production and reducing the number of shifts to a single shift. However in June 2009 GM made its decision to withdraw from NUMMI, which was then a joint operation with Toyota. Toyota decided the following month to also end production at the plant by 2010 and to dismiss 4,500 employees. NUMMI was the single Toyota subsidiary plant in North America where the UAW had been successful at organizing. Because the plant had produced a larger number of Toyota vehicles compared to GM vehicles, the UAW continued protesting the closure of the plant. In January 2010 the union held a demonstration and rally in front of the Japanese embassy in Washington D.C. protesting the closure of the plant.

This coincided with the massive recall of Toyota vehicles which had made daily news headlines throughout the U.S. On February 24, the president of Toyota Motor Corporation Toyoda Akio appeared before Congress for questioning. On March 3, Toyota announced it would pay a total of $250 million (an average of fifty thousand dollars per person) in special benefits towards its employees. Following a vote by union members, Toyota made a final agreement with UAW to close the plant, thus ending the 26-year history of NUMMI, on April 1. Toyota closed the NUMMI plant, which was a unionized workplace, and switched to taking part in the production of Green Cars. Two Japanese parts suppliers located in California also decided to end operations following the closure of NUMMI. The total number of workers dismissed from related firms is estimated at 25,000. The UAW issued a statement declaring that organizing efforts targeting Japanese automobile companies such as Toyota would be initiated.

Toyota started early in 2011 to look for those employees working for sales companies who retire early, and adjustment of the workforce is still going on.

As already mentioned above, there has been no change in the number of workers at Toyota subsidiaries in Asia. Thai Auto Works (TAW) stopped production in May of 2010 however, and approximately 960 employees were transferred to other Toyota subsidiaries. Production facilities have been maintained in order to resume operations when demand shifts favorably. At Toyota Motor Philippines (TMP) there have not been layoffs although production was decreased from six days a week to five without overtime. However in August 2010 four TMPCWA activists including the vice-president were given punitive dismissals. The reason given was that supervisors were forced to stop the final segment of the production line for eighteen minutes when TMPCWA approached the line to discuss a grievance. This was presumably a way of getting rid of union activists before the next certification election scheduled

for 2011. TMPCWA is holding a campaign to protest the recent repression in addition to the illegal dismissal of 233 workers in 2001.

It was in May 2010, as Toyota was aggressively expanding into China, when workers at a Honda components factory went on strike demanding wage increases. In June, workers at two factories of Tianjin Toyota Gosei, a Toyota sub-contractor's plant located in Tianjin, went on strike. This was followed by strikes at Denso Guangzhou Nansha, a subsidiary of Denso Corporation (DENSO). The strikes lasted only briefly but caused a delay in production at both SFTM and GTMC factories. The strikes were caused by wage disparities between components factories and assembly factories. Japanese components manufacturers carried out a raise in wages following the strike. Toyota Chairman Cho Fujio stated that wage increases are part of a natural development. The rise in labour costs will not deter us from continuing local production. This indicates that Toyota is willing to respond flexibly to strikes in China due to the importance of the Chinese market.

As demonstrated above, the individual struggles being carried out in Toyota subsidiaries are each divided by geography, language, the fact that unions are lacking altogether or that there are only company-side unions. These are among the many difficulties faced by workers struggling for justice and to overcome division to form a global coalition against Toyota, a TNC whose movement of capital crosses national borders freely. And yet such a global coalition against Toyota is indeed emerging.

7. Postscript

A great earthquake attacked Japan on March 11, 2011 with a magnitude of 9.0, once in 1,000 years. The earthquake gave heavy damage to the infrastructure such as roads and electric power, and plants such as Kashima Ironworks, Sumitomo Metal Industries and Kamaishi Ironworks, Nippon Steel. Many a plant in the automobile and electronics industries and a lot of parts makers were also tremendously broken and damaged. It will take them many months or years to resume production activities. For example, the Tohoku district is Toyota's third production base after Aichi and Kyushu. It will be inevitable for Toyota to suffer a great reduction of their production capacity, not to mention the state-of-the art Miyagi plant of Central Auto, a subsidiary of Toyota. Panasonic is not an exception. Their Fukushima plant and Sendai plant are left inoperative. Japan's manufacturing sector which has been on the way to recovery from the Lehman Shock may slump again.

Tables

Table1: Japan's Direct Investment Abroad by Region and Country ($ million)

	2004	2005	2006	2007	2008	2009
Asia	10531	16188	17167	19388	23348	20636
China	5863	6575	6169	6218	6496	6899
Hong Kong	491	1782	1509	1131	1301	1610
Taiwan	473	828	491	1373	1082	339
R.Korea	771	1736	1517	1302	2369	1077
Singapore	138	557	375	2233	1089	2881
Thailand	1867	2125	1984	2608	2016	1632
Indonesia	498	1185	744	1030	731	483
Malaysia	163	524	2941	325	591	616
Philippines	6	442	369	1045	705	809
Viet Nam	128	154	467	475	1098	563
India	139	266	512	1506	5551	3664
North America	7601	13168	10188	17385	46046	10889
U.S.A.	7559	12126	9297	15672	44674	10660
Central & South America	3120	6402	2547	9482	29623	17393
Mexico	191	629	-2603	501	315	211
Brazil	-65	953	1423	1244	5371	3753
Cayman Islands	2726	3915	2814	5838	22550	12903
Oceania	1856	943	723	4204	6060	7629
Australia	1651	640	466	4140	5232	7136
Western Europe	7097	7509	18029	20456	22418	17073
Germany	645	270	1128	880	3905	2089
U.K.	1649	2903	7271	3026	6744	2126
France	25	541	842	479	1703	1161
Netherlands	3337	3315	8497	12440	6514	6698
Belgium	664	-195	133	796	2196	423
Luxembourg	-82	25	-478	2291	527	3279
Eastern Europe	439	721	367	509	650	757
Middle East	-63	542	242	958	1138	575
Africa	378	25	899	1101	1518	-301
World	30962	45461	50165	73483	130801	74650

Source: JETRO, Website
Note: Based on international balance of payments, net, flow

Table 2: Japan's Direct Investment Abroad by Industry (¥ 100 million)

	2005	2006	2007	2008	2009
Manufacturing (total)	28866	40166	46722	46512	30831
Food	1873	1189	15246	3717	8257
Textile	455	212	440	751	452
Lumber & pulp	953	488	859	761	1145
Chemicals	3755	5134	4410	11815	6831
Petroleum	552	3404	-283	675	35
Rubber & leather	925	1288	987	797	421
Glass & ceramics	270	3174	999	1470	1926
Iron & metals	1480	2092	2582	3261	3493
General machinery	1454	1935	3102	3801	4114
Electric machinery	4809	8220	5538	5860	2420
Transportation equipment	9461	10022	10172	11312	647
Precision machinery	1552	1649	1507	950	572
Non-manufacturing (total)	21593	18293	39885	85808	39065
Farming & forestry	25	48	108	62	9
Fishery	-51	33	76	120	34
Mining	1507	1835	4780	10720	6036
Construction	166	-69	572	403	467
Transportation	916	1757	2467	2363	2707
Communications	1954	-3937	-400	1697	3614
Wholesale & retail	5340	6353	5688	13395	7838
Finance & insurance	10145	6533	22826	51978	14564
Real estate	-936	-946	184	170	419
Services	1194	226	1630	2775	2054
Total	50459	58459	86607	132320	69896

Source: Ministry of Finance, Website;
Note: Based on international balance of payments, net, flow

Table 3: Japan's Direct Investment Abroad by Region and Industry (¥ 100 million)

2005	Asia	North America	Latin America	Western Europe	Total
Manufacturing (total)	12170	9642	1400	4011	28866
Food	1042	356	206	91	1873
Textile	418	60	89	-117	455
Lumber & pulp	724	52	13	25	953
Chemicals	1504	1073	56	690	3755
Petroleum	-384	117	-30	642	552
Rubber & leather	412	391	*	83	925
Glass & ceramics	421	-159		-245	270
Iron & metals	855	299	-39	300	1480
General machinery	893	289	70	200	1454
Electric machinery	2007	1298	-2	1433	4809
Transportation equipment	2350	5299	811	224	9461
Precision machinery	948	272	10	321	1552
Non-manufacturing (total)	5810	5145	5633	4234	21593
Mining	-8	33	364	565	1507
Construction	49	24	28	80	166
Transportation	-3	1	833	-29	916
Communications	1347	559	-247	570	1954
Wholesale & retail	780	3645	-175	642	5340
Finance & insurance	2821	347	4792	1464	10145
Real estate	110	-536	-9	-336	-938
Services	551	825	-124	283	1194
Total	17980	14788	7032	8245	50459
2008					
Manufacturing (total)	16676	14483	1831	10071	46512
Food	671	289	113	1830	3717
Textile	106	314	13	80	751
Lumber & pulp	198	154	70	26	761
Chemicals	5548	5374	125	77	11815
Petroleum	16	11	*	464	675
Rubber & leather	391	288	14	125	797
Glass & ceramics	593	815		42	1470
Iron & metals	1091	933	284	584	3261
General machinery	1375	853	164	1226	3801

	Electric machinery	2546	1006	84	2230	5860
	Transportation equipment	3063	4026	873	2276	11312
	Precision machinery	371	40	-6	559	950
Non-manufacturing (total)		7114	31562	28139	12801	85808
	Mining	260	2202	3127	1901	10720
	Construction	18	111	72	75	403
	Transportation	416	56	1507	283	2363
	Communications	899	214	90	492	1697
	Wholesale & retail	1628	8130	417	2820	13395
	Finance & insurance	2268	19657	22550	5446	51978
	Real estate	363	-108	6	-4	170
	Services	513	636	236	1340	2775
Total		23790	46045	29970	22872	132320

Source: Ministry of Finance, Website
Note 1) Based on international balance of payments, net, flow
2) * means less than 3 cases.

Table 4: The number of employees of Japanese companies abroad (ten thousand)

	2003	**2004**	**2005**	**2006**	**2007**	**2008**
North America	67	65	63	65	67	63
Asia	247	277	306	318	337	321
ASEAN4	108	119	124	124	125	120
NIEs3	22	23	23	24	24	25
China, H.K.	104	119	141	148	161	150
others	13	16	18	23	27	26
Europe	41	44	44	49	45	42
other region	22	27	24	25	26	26
World	377	414	436	456	475	452
(Manufacturing)		340	362	379	395	357

Source: METI, Basic Research on Japanese Business Abroad

Table 5: Profits of Japanese companies abroad (¥ 10 billion, %)

	2004	2005	2006	2007	2008
Ordinary profit					
Manufacturing	356	395	471	552	270
Non-manufacturing	256	366	489	583	459
All industries	612	761	960	1135	728
North America	208	241	276	240	53
Asia	220	250	312	381	296
Europe	78	94	119	167	75
Ratio of ordinary profit to net sales					
Manufacturing	4.9	4.8	5	5.2	3
Non-manufacturing	2.9	3.7	4.5	4.7	4.2
All industries	3.9	4.2	4.7	4.9	3.6

Source: METI, Basic Research on Japanese Business Abroad

Table 6: Japan's FDI in Asia (¥ 100 million)

	2005	2006	2007	2008	2009
Automobile					
Asia total	2,350	3,144	3,402	3,063	2,218
ASEAN 4	847	1,358	1,661	1,087	638
NIEs 3	42	35	188	67	23
China, HK	1,147	1,340	890	1,023	913
Others	314	410	662	887	645
Electronics					
Asia total	2,007	5,721	3,695	2,546	1,651
ASEAN 4	286	3,218	598	426	243
NIEs 3	338	647	1,296	488	411
China, HK	1,398	1,736	1,065	1,423	755
Others	(16)	128	785	208	242

Source: Ministry of Finance, Website
Note 1) Based on international balance of payments, net, flow
2) Automobile includes other transportation equipment industry.
3) Electronics includes other electric machinery.

Table 7: The Number of Employees of Japanese Companies in Asia (person)

	2002	2003	2004	2005	2006	2007	2008	2009
Automobile								
Asia total	179,217	236,124	283,189	365,535	445,474	538,038	558,385	618,843
ASEAN 4	109,837	127,659	155,233	171,784	203,512	227,306	241,372	270,136
NIEs 3	11,192	12,914	16,335	17,539	15,986	16,063	13,997	13,779
China, HK	29,346	58,369	68,380	123,258	157,670	212,591	219,264	242,841
Others	28,842	37,182	43,241	52,954	68,306	82,078	83,752	92,087
Electronics								
Asia total	646,524	842,168	930,758	1,044,782	1,050,990	1,091,325	899,743	1,052,490
ASEAN 4	331,039	383,172	398,753	419,950	408,628	401,781	331,612	386,236
NIEs 3	54,040	63,663	62,031	64,207	61,866	64,774	54,059	56,300
China, HK	251,928	375,595	446,289	531,536	548,193	580,173	465,495	557,226
Others	9,517	19,738	23,685	29,089	32,303	44,597	48,577	52,728

Source: METI, Current Status of Japanese Companies Abroad

Table 8: Sales of Japanese Companies in Asia ($ 10 million)

	2002	2003	2004	2005	2006	2007	2008	2009
Automobile								
Asia total	2,035	3,568	4,774	6,305	7,969	11,262	12,865	14,385
ASEAN4	1,320	1,990	2,684	3,521	3,963	5,377	6,057	6,237
NIEs3	318	368	477	565	489	523	368	454
China, HK	80	661	946	1,530	2,566	4,047	5,159	6,031
Others		548	666	788	952	1,315	1,281	1,663
Electronics								
Asia total	5,515	7,409	8,599	9,153	9,408	10,372	10,402	11,076
ASEAN4	2,532	3,188	3,543	3,687	3,674	3,852	3,992	4,194
NIEs3	1,313	1,601	1,619	1,545	1,588	1,711	1,352	1,584
China, HK	1,637	2,552	3,348	3,819	4,035	4,676	4,907	5,136
Others		67	89	102	111	133	152	161

Source: METI, Current Status of Japanese Companies Abroad

Table 9: The Number of Employees of Japanese Companies in Asia (2008-2010) (persons)

	6/2008	9/2008	12/2008	3/2009	6/2009	9/2009	12/2009	3/2010	6/2010
Automobile									
Asia total	576,539	594,459	580,007	558,385	556,262	567,672	598,561	618,843	646,804
ASEAN4	259,142	263,756	254,895	241,372	243,506	249,368	262,054	270,136	282,780
NIEs3	14,725	14,905	14,526	13,997	13,526	13,673	13,615	13,779	13,224
China, HK	220,440	229,986	225,790	219,264	221,383	223,175	236,058	242,841	249,032
Others	82,232	85,812	84,796	83,752	77,847	81,456	86,834	92,087	101,768
Electronics									
Asia total	1,137,532	1,146,567	1,019,468	899,743	975,347	1,019,764	1,023,925	1,052,490	1,103,345
ASEAN4	409,843	418,954	373,656	331,612	349,827	366,629	369,922	386,236	406,553
NIEs3	64,995	63,964	60,503	54,059	54,020	58,287	57,145	56,300	57,408
China, HK	605,178	602,436	530,086	465,495	520,542	542,439	544,594	557,226	578,946
Others	57,516	61,213	55,223	48,577	50,958	52,409	52,264	52,728	60,438

Source: METI, Current Status of Japanese Companies Abroad

Table 10: Sales of Japanese Companies in Asia (2008-2010) ($ 10 million)

	4-6/2008	7-9/2008	10-12/2008	1-3/2009	4-6/2009	7-9/2009	10-12/2009	1-3/2010	4-6/2010
Automobile									
Asia total	3,379	3,427	3,313	2,746	2,632	3,333	4,037	4,383	4,572
ASEAN4	1,712	1,686	1,529	1,130	1,158	1,399	1,754	1,926	2,061
NIEs3	119	89	81	79	90	101	131	132	128
China, HK	1,203	1,323	1,415	1,217	1,048	1,436	1,711	1,835	1,903
Others	345	330	288	320	336	396	441	490	479
Electronics									
Asia total	2,935	3,050	2,573	1,845	2,372	2,851	3,023	2,831	3,204
ASEAN4	1,133	1,161	982	715	881	1,056	1,147	1,111	1,225
NIEs3	344	442	335	231	300	400	451	433	394
China, HK	1,418	1,401	1,217	870	1,156	1,353	1,381	1,247	1,532
Others	40	45	38	28	36	42	44	40	54

Source: METI, Current Status of Japanese Companies Abroad

Table 11: Business Results of Japanese Major Automobile Companies (¥ 1 billion, persons)

		2007	2008	2009
	Net Revenues	26289	20530	18951
Toyota Motor	Operating Income	2270	-461	148
	Number of Employees	316121	320808	320590
	Number of irregular Workers	87597	80244	59160
	Net Revenues	12003	10011	8579
Honda Motor	Operating Income	953	190	364
	Number of Employees	178960	181876	176815
	Number of irregular Workers	23794	23464	18666
	Net Revenues	10824	8437	7517
Nissan Motor	Operating Income	766	-173	208
	Number of Employees	159227	155659	151698
	Number of irregular Workers	21308	20107	17600
	Net Revenues	3476	2536	2164
Mazda Motor	Operating Income	148	-19	5
	Number of Employees	39364	39852	38987
	Number of irregular Workers	na	na	na
	Net Revenues	2682	1974	1446
Mitsubishi Motors	Operating Income	86	-15	13
	Number of Employees	33202	31905	31003
	Number of irregular Workers	6376	1436	4385

Source: Financial Reports

Table 12: Business Results of Toyota Motor Corporation

		2004	2005	2006	2007	2008	2009
Net Sales	¥ 100 million	185,515	210,369	239,481	262,892	205,296	189,510
Net Income	¥ 100 million	11,713	13,722	16,440	17,179	(4,369)	2,095
Cash Flows	¥ 100 million	14,838	15,694	19,004	16,285	24,443	18,657
Domestic Production	1000 units	4,534	4,684	5,100	5,160	4,255	3,957
Overseas Production	1000 units	2,697	3,027	3,080	3,387	2,796	2,852
Production Total	1000 units	7,232	7,711	8,180	8,547	7,051	6,809
Ratio of Overseas Production	%	37	39	38	40	40	42
Number of Employees	persons	265,753	285,977	299,394	316,121	320,808	320,590
Number of Irregular Workers	persons	59,481	73,701	81,906	87,597	80,244	59,160
Number of Overseas Employees	persons	89,986	98,808	124,137	137,634	146,343	145,522
Ratio of Overseas Employees	%	34	35	42	44	46	45

Source: Toyota Motor, Financial Results, Annual Reports
Note: Consolidated Base

Table 13: Toyota's Production Results by Region and Country (1000 units)

	2004	2005	2006	2007	2008	2009
North America	1,444	1,535	1,519	1,637	1,405	1,189
Latin America	80	139	178	183	195	182
Europe	583	638	809	807	688	507
Africa	109	121	144	146	179	103
Oceania	110	109	112	149	141	97
Asia	717	1,029	1,138	1,387	1,590	1,501
Overseas Total	3,043	3,571	3,899	4,309	4,198	3,579
Ratio of Asia %	24	29	29	32	38	42
China	95	134	275	446	547	599
Taiwan	127	140	97	99	66	91
Indonesia	139	154	117	153	198	179
Malaysia	47	90	80	65	74	61
Philippines	19	18	14	19	23	21
Thailand	270	412	464	499	573	435
India	48	45	44	52	54	51
Pakistan	25	25	34	36	29	38

Source: Toyota in the World Data Book

Table 14: Number of Toyota's Overseas Employees by Region and Country (Persons)

		2004	2005	2006	2007	2008	2009
North America		26,589	25,111	28,251	28,851	30,864	26,929
Latin America		4,865	7,002	8,819	11,060	9,049	9,317
Europe		14,156	19,623	19,225	20,601	18,867	17,941
Africa		7,764	9,050	10,117	9,868	10,008	7,597
Oceania		4,693	4,497	4,610	4,903	4,776	4,586
Asia		31,919	33,525	53,115	62,351	72,779	79,152
Overseas Total		89,986	98,808	124,137	137,634	146,343	145,522
Ratio of Asia	%	36	34	43	45	50	54
	China	7,129	7,780	19,239	24,451	26,006	26,682
	Taiwan	2,903	2,502	2,545	2,793	2,473	3,361
	Indonesia	4,459	3,895	5,143	5,332	14,354	12,859
	Malaysia	1,781	3,236	2,992	3,270	2,748	9,699
	Philippines	1,775	1,868	2,324	2,974	3,072	2,796
	Thailand	9,132	8,763	14,083	16,082	16,174	14,902
	India	2,890	3,178	3,955	4,450	5,770	5,483
	Pakistan	1,190	1,634	1,695	2,079	816	1,879

Source: Toyota in the World Data Book

Table 15: Toyota's Revenues and Income by Region (¥ 100 million)

		2005	%	2006	%	2007	%	2008	%	2009	%
Japan	Net Revenues	131,115	48.3	148,153	47	153,158	44.9	121,867	46.8	112,203	48
	Operating Income	10,759	57.3	14,572	65.1	14,403	63	(2,375)	-46.8	(2,252)	-253.9
North America	Net Revenues	76,879	28.3	90,297	28.6	94,232	27.6	62,229	23.9	56,705	24.3
	Operating Income	4,956	26.4	4,496	20.1	3,053	13.3	(3,902)	-76.9	854	58.4
Europe	Net Revenues	27,274	10	35,421	11.2	39,934	11.7	30,131	11.6	21,470	9.2
	Operating Income	939	5	1,373	6.1	1,415	6.2	(1,433)	-28.2	(330)	-122.6
Asia	Net Revenues	20,428	7.5	22,256	7.1	31,209	9.1	27,194	10.4	26,554	11.4
	Operating Income	1,455	7.7	1,176	5.3	2,564	11.2	1,761	134.7	2,036	139.2
Others	Net Revenues	16,017	5.9	19,227	6.1	22,941	6.7	18,829	7.2	16,738	7.2
	Operating Income	672	3.6	835	3.7	1,439	6.3	876	117.3	1,155	78.9
Total	Net Revenues	271,713	100	315,354	100	341,474	100	260,250	100	233,670	100
	Operating Income	18,783	100	22,386	100	22,874	100	(5,073)	100	1,463	100

Source: Toyota Motor, Financial Results

Table 16: Business Results of Japanese Major Electronics Companies (¥1 billion, Persons)

		2007	2008	2009
	Net Sales	11,227	10,000	8,969
Hitachi	Net Income	(58)	(787)	(107)
	Number of Employees	347,810	361,796	359,746
	Net Sales	9,069	7,766	7,418
Panasonic	Net Income	282	(379)	(103)
	Number of Employees	305,828	292,250	384,586
	Net Sales	8,871	7,730	7,214
SONY	Net Income	369	(99)	(41)
	Number of Employees	180,500	171,300	167,900
	Net Sales	7,665	6,655	6,382
Toshiba	Net Income	127	(344)	(19)
	Number of Employees	197,718	199,456	203,889
	Net Sales	4,050	3,665	3,353
Mitsubishi	Net Income	158	12	28
Electric	Number of Employees	105,651	106,931	109,565
	Net Sales	3,418	2,847	2,756
SHARP	Net Income	102	(126)	4
	Number of Employees	53,708	54,144	53,999
	Net Sales	2,018	1,771	1,595
SANYO	Net Income	29	(93)	(49)
Electric	Number of Employees	99,875	86,016	104,882

Source: Financial Reports

Table 17: Panasonic's Number of Employees and Sales

	2005		2006		2007		2008		2009		2010	
Number of Employees	334,402		328,645		305,828		292,250		384,586		na	
Japan	144,871	43.3%	145,418	44.2%	135,563	44.3%	132,144	45.2%	152,853	39.7%	na	
Overseas total	189,531	56.7%	183,227	55.8%	170,265	55.7%	160,106	54.8%	231,733	60.3%	na	
Sales (¥100 million)	88,943		91,082		90,689		77,655		74,180		66,534	
Japan	46,114	51.8%	46,165	50.7%	45,448	50.1%	40,822	52.6%	39,944	53.8%	33,901	51.0%
Overseas total	42,829	48.2%	44,917	49.3%	45,241	49.9%	36,833	47.4%	34,236	46.2%	32,633	49.0%
N. & S. America	13,874	15.6%	13,811	15.2%	12,507	13.8%	9,967	12.8%	9,179	12.4%	8,414	12.6%
Europe	11,136	12.5%	12,180	13.4%	12,129	13.4%	9,630	12.4%	7,713	10.4%	6,711	10.1%
Asia	11,065	12.4%	10,681	11.7%	11,188	12.3%	8,683	11.2%	8,309	11.2%	8,323	12.5%
China	6,754	7.6%	8,245	9.1%	9,417	10.4%	8,553	11.0%	9,035	12.2%	9,185	13.8%

Source: Panasonic, website
Note: 2010 shows the data from April to December 2010.

Preliminary Report on China's going Global Strategy: A Labour, Environment, and Hong Kong Perspective[1]

By Au Loong Yu and Kevin Li
Globalization Monitor, Hong Kong

Introduction

Since the turn of the century China has already become a significant player of out-flowing FDI (Foreign Direct Investment), FPI (Foreign Portfolio Investment) and an international world lender. This is against the background of China's proclamation of seeking a 'peaceful rise'. It is followed by more than 20 years of huge FDI inflow, which for many years was second only to the USA and then for three consecutive years, beginning from 2002, surpassed it.

For some years the think tanks of the Chinese government saw the relationship between *Yinjinlai*, literally meaning 'inviting in' (inflow FDI), and *Zouchuqu*, or 'going global' (outflow FDI), as supplementary to the course of modernization. According to this discourse, in the first phase of modernization, a country tends to accept more inflow FDI, without, the surplus capital for export. Then the inflow FDI, after interacting with the domestic market, necessarily modernizes the country to a point where it is both possible and necessary for the country to build its own TNCs (Transnational Corporations) and conduct overseas investment.

In 2004 the head of the Research Centre for the study of TNCs, Wang Zhile, edited a report on China's TNCs with funding from the state. The Research Centre is a branch of the Research Institute of the Ministry of Commerce. Wang noted that

> "Both the 'inviting in' and 'going global' strategies are ways to integrate into economic globalization. 'Inviting in' is the base for 'going global', and 'going global' is the necessary result of 'inviting in'. The former strategy enables our country to get necessary economic resources like capital, technology and raw materials, but the initiative does not lie in the hands of our corporations. In fact, China's accession to the WTO (World Trade Organisation) not only implies that she has domestic obligations to fulfil, but also that she is entitled to her legitimate rights beyond China. Only when we enhance our strategy of 'going global', of trans-national operation, can we balance our obligation with our rights'[2]

Another professor from the think tank further elaborates the relations between 'going global' and the WTO:

> "Now that China has become a WTO member state, we on the one hand need to fulfil our domestic obligations, while on the other we can also enjoy the privilege of national treatment (under WTO terms) afforded to Chinese enterprises, when they enter the markets of WTO member states." [3]

China began her overseas investment in 1980 following the course of market reforms that were kick started in 1979. Generally we can divide the last 28 years into three periods.

The preparatory phase: 1979-1991

Although the amount of over seas investment in this period is small, it helped Chinese firms to accumulate the necessary experiences and to cultivate partnerships and contacts for more overseas investment in the following years. In this period the place for overseas investment was first and foremost Hong Kong.

The second phase: 1992-1998

Deng Xiaoping's tour to the South marked his attack on the 'Conservative' and the inauguration of full scale integration to global capitalism. It also began a period when China's overseas investment increased dramatically. Again HK remained the most important destination, although it also started to diversify.[4]

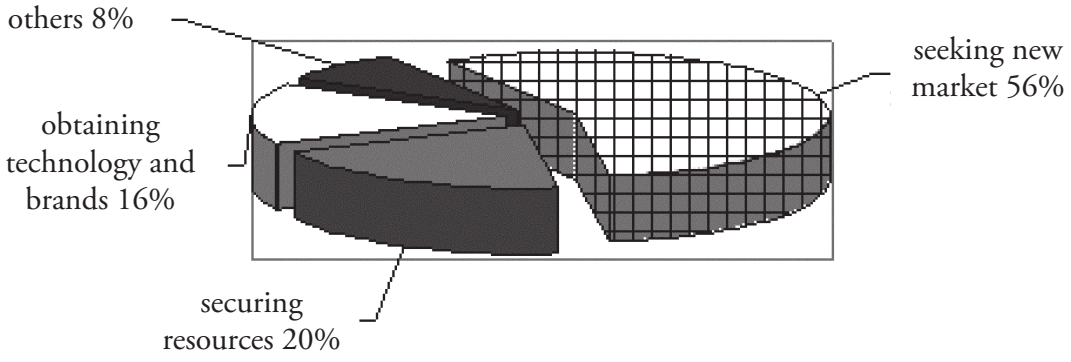
The third period: 1999- present

In early 1999 the State Department adopted a new document to promote overseas investment with special emphasis on processing industry. In 2001 Premier Zhu, in his policy address to the People's Congress, officially used the term "going global" strategy for Chinese firms. In this period there is not only a dramatic increase of out flowing FDI, but also FPI (Foreign Portfolio Investment), including financial investment and international lending.

Motivation of Overseas Investment

There are various reasons why Chinese TNCs are investing abroad, as figure 1 may show. We do not consider the motives listed here to be adequate. We also think that it is beneficial to look at motives in accordance to the different phases of China's economic and political development.

Figure 1: Motivations of Chinese Outward FDI



(Source: Survey of China's "Top 50 Industry-leading Firms," Roland Berger Strategy Consultants, 2003. Quoted from "The Globalization of Corporate China", by Friedrich Wu.)

There are mainly five types of Chinese TNCs:

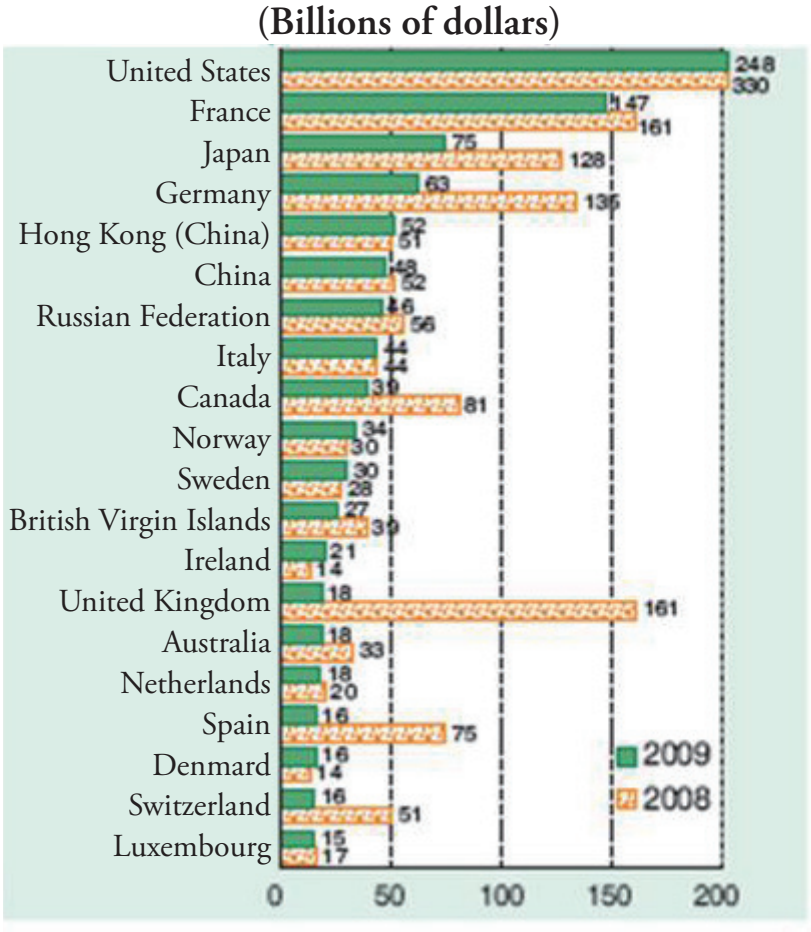
1. Trading companies;
2. Manufacturing enterprises;
3. Oil and Mining companies;
4. Financial institutions;
5. Construction companies.

Generally the development of these five types of company is related to the different phases of the 'going global' strategy. In the earlier period overseas investment was chiefly trade. One source reported that trade made up as much as 60% of all overseas investment.[5] A typical Chinese trading company, for example, was the China National Textiles Import and Export Corporation. In the later period China's overseas investment began to move to manufacturing and natural resources, and then even to high end products. This was a response to the increasing short supply of domestic energy and also to intensified competition at home and abroad. For the former period, for instance, there is Petro China, which has enormous overseas investment. For the latter, we have Lenovo, ZTE etc. It was only when China had accumulated huge foreign reserves and when the domestic financial markets had experienced both further liberalization and a boom since 2000, that we witnessed the rapid growth of overseas investment by financial companies. In 2001 the four Chinese commercial banks ranked between 7 and 29 in the top 1000 banks in the world. It was also in this period that Chinese FPI becomes significant.[6]

The Scale of China's Outflowing FDI

In 2002, China's out-flowing FDI only amounted to 2.85 billion US dollars ranking 22nd in the world. This is much smaller than Hong Kong, whose out-flowing FDI amounted to 17.69 billion. China's figure has experienced leaps and bounds since then, reaching 48 billion in 2009 and ranking sixth, up from thirteen in 2006, according to the Chinese official figures.[7] She is behind a dozen developed countries but is top amongst developing countries. (See Figure 2)

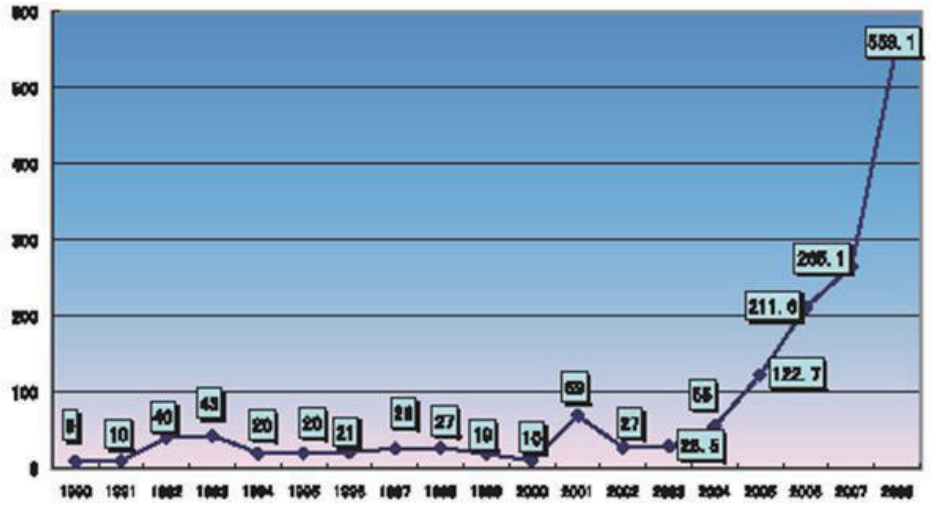
Figure 2: Global FDI outflows, top 20 home economies, 2008–2009a



World Investment Report, UNCTAD, 2010

According to calculations with official figures, throughout the 1980's the average FDI outflow was only 1 billion dollars.[8] In the 1990's growth was relatively stable, then, from 2001 onwards it became more dramatic. Table 1 also shows that there was an investment boom in 1992 and 1993, surges again in 2001, and a dramatic increase since 2004.

Table 1: China Outward FDI, 1990-2008

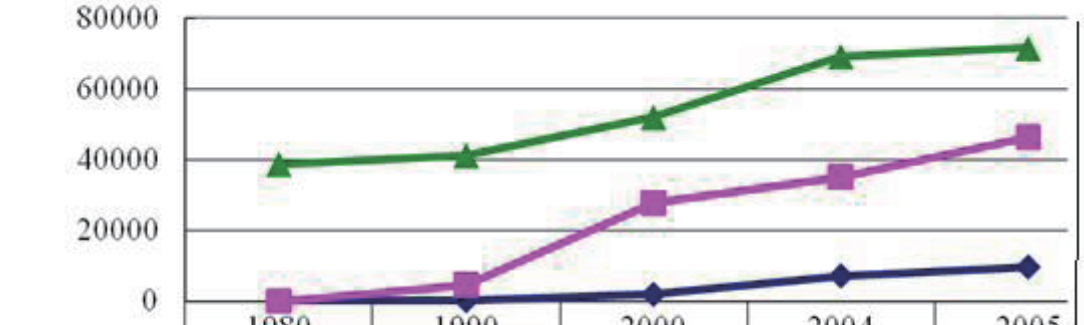


(Source: 2008 Statistical Bulletin of China's Outward FDI.)

In stock terms China's outward FDI was negligible in 1990. It then began to pile up and reached 46.3 billion dollars in 2005. This is higher than the outward FDI of South Africa (38.5 billion) and Korea (36.4 billion), and significantly surpasses India, although it still remains behind Brazil. (See Table 2)

Table 2: Outward FDI of Selected Countries by Stock

(Millions of dollars)

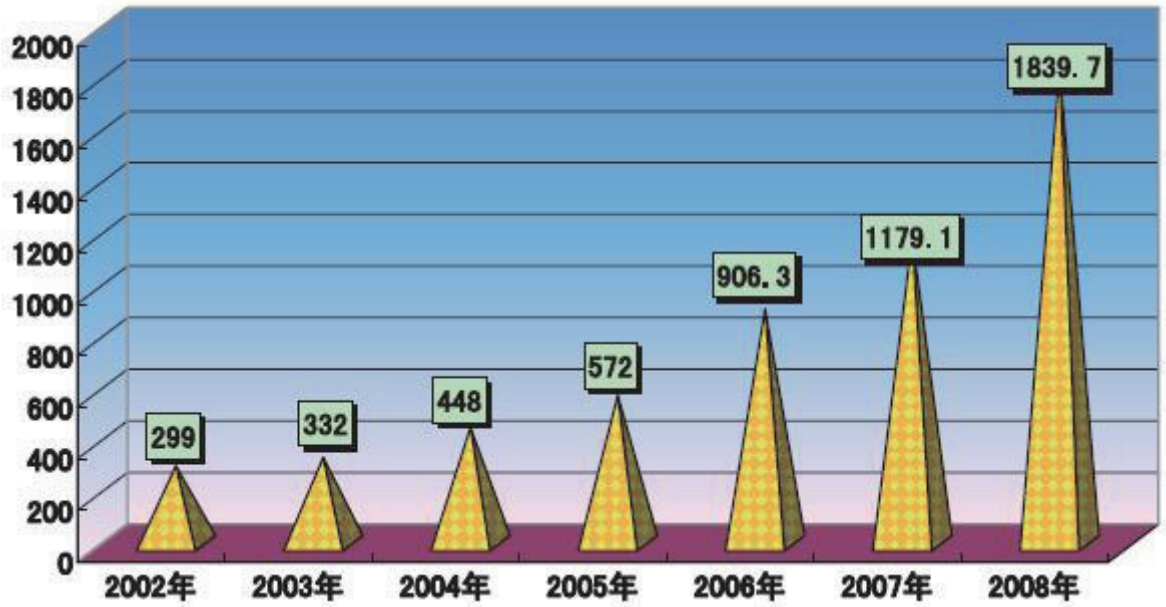


	1980	1990	2000	2004	2005
India	78	124	1859	7080	9569
China	0	4455	27768	35005	46311
Brazil	38545	41044	51946	69196	71556

(Source: World Investment Report 2006, UNCTAD)

Since then China's outward FDI by stock has risen rapidly. Table 3 below updates the figures to 2008:

Table 3: China Outward FDI by Stock, 2002-2008
(100 million US$)

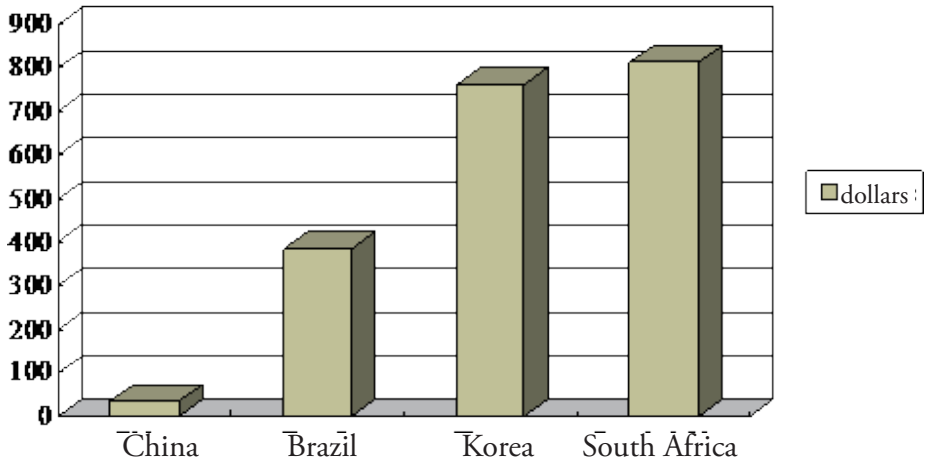


2008 Statistical Bulletin of China's Outward Foreign Direct Investment, p.9

(Note that the figures given here for the year 2004 and 2005 is slightly different from the World Investment Report by UNCTAD)

In per capita terms, however, China's outward FDI is still very low (it is only 35 US dollars), in contrast to the much higher figures of South Africa (812) and Korea (763) (see table 4). It simply mirrors the same discrepancy in GDP terms. China's GDP ranked fourth in the world in 2006, but in per capita terms it ranked beyond 100, reflecting both her strength and weakness --- one of the deep contradictions of China.

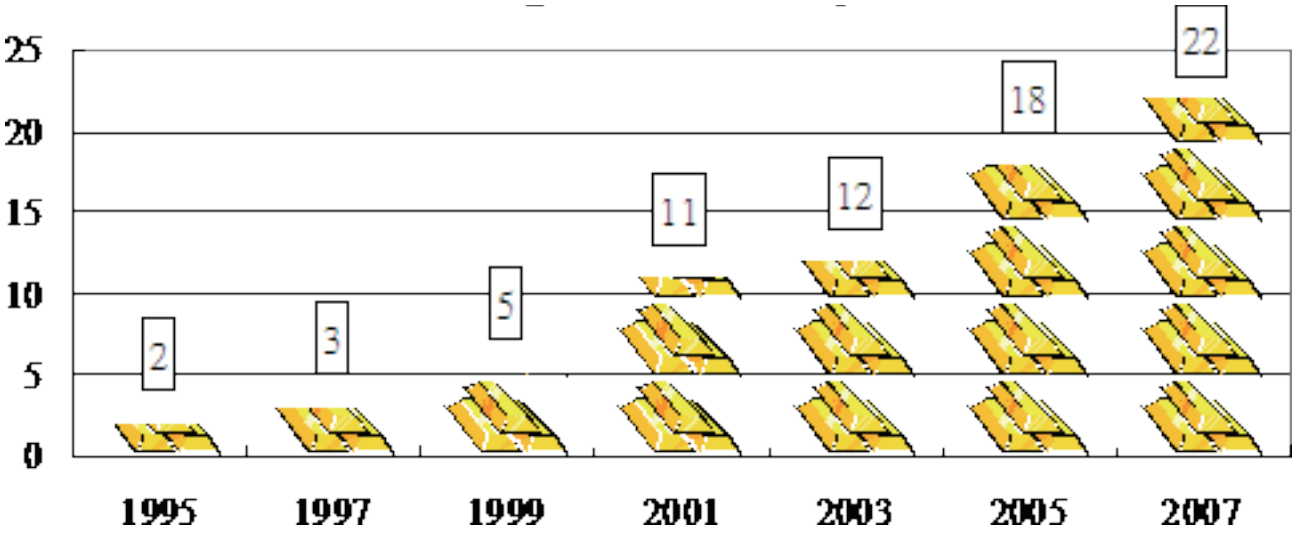
Table 4: China's Outward FDI per capita, 2005



(Source: World Investment Report 2007, UNCTAD, p.115.)

The policy of 'going global' resulted in the rapid growth of Chinese TNCs. In 1995 there were only two Chinese TNCs listed in the Fortune 500. In 2007 this rose to 22. (See Table 5)

Table 5: Number of Chinese TNCs listed in the Fortune 500 giants in various years

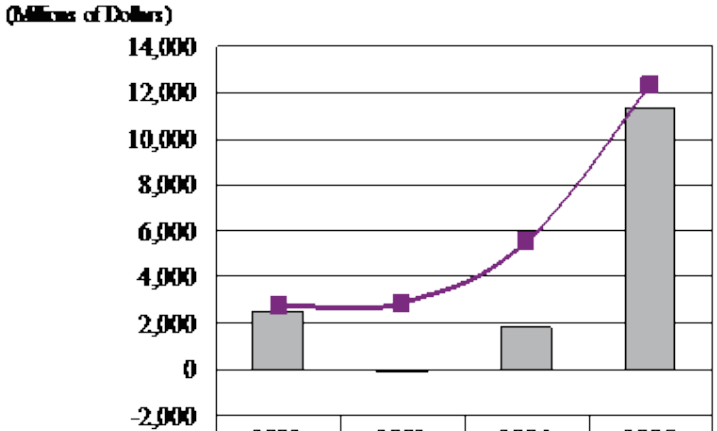


For 1995 - 2001 figures, see Tan Xiao p. 538-9.
For 2003-07 figures, visit http://economy.enorth.com.cn

Are the statistics reliable?

It is difficult, however, to make precise evaluation of China's outflowing FDI because of discrepancies in statistics. In the past, statistics on outward FDI were more or less considered to be a state secret. One could only make rough estimations by referring to statistics about the balance of payments, which had serious limitation as an effective tool for analysis. Things only began to change in recent years when some of the statistics were released, although they were still very much incomplete. In December 2006 the Chinese government released the first comprehensive report on China's outward FDI. The Chinese official figures for outward FDI were quite different from UNCTAD's figures, as table 6 below shows:

Table 6: China's Outward FDI according to two different sources of figures



	2002	2003	2004	2005
UNCTAD figures	2,518	-152	1,805	11,306
China's official figures	2,700	2,850	5,500	12,260

According to the official explanation, the 1990-2001 figures come from UNCTAD, while the 2002-06 figures are from Ministry of Commerce (MoC). Before the turn of the century, MoC figures tended to be lower than UNCTAD figures. After that they become higher than the latter. The Singapore scholar Friedrich Wu remarked that "China's Ministry of Commerce (MoC) has consistently reported significantly lower outward FDI value figures in comparison to UNCTAD statistics, which adopt the more inclusive data based on the balance of payments statistics from the People's Bank of China. By failing to capture the amounts invested abroad by firms using earnings from exports or loans raised in international capital markets for instance, MoC has grossly underestimated the total value of China's outward FDI." [9]

On 24 March 2004, the Research Centre for the study of TNCs held a seminar where top officials from different chief think tanks of the government attended. Some of the participants complained that

"(Concerning the outflow FDI figures) there are statistics released by the Ministry of Commerce, and those released by the Administration of Foreign Exchange, and also the World Investment Report put out by UNCTAD….. All of them could be used, but all of them are different from each other, so that there are discrepancies. It is chaotic. I made a comparison and found out that the figures released by the Administration of Foreign Exchange are closer to those released by UNCTAD, but still there are discrepancies….The third source (Ministry of Commerce) is not using a standard measurement at all."

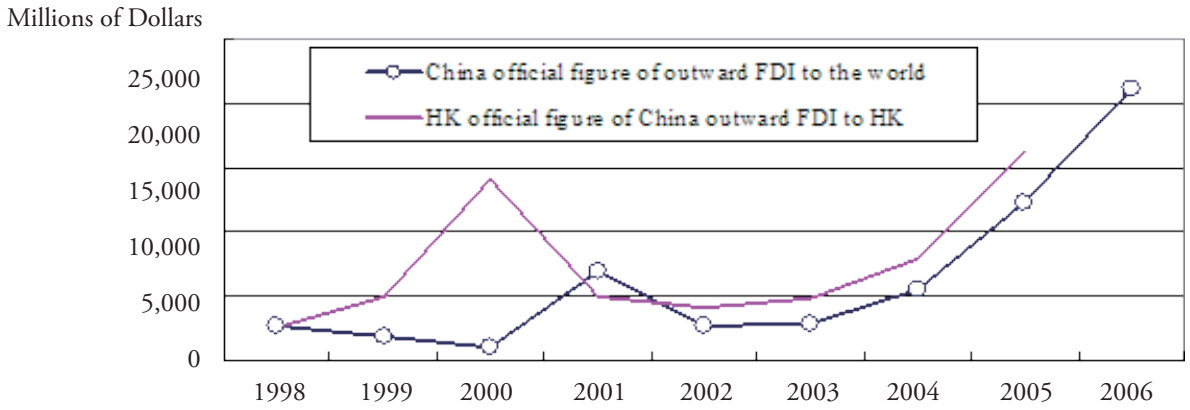
Another professor, Lu Tong, added that:

"When I go to conferences outside China, the foreigners always ask me the same questions; which figures are real? I respond that I do not know. We are told that every year the amount of outflowing foreign exchange is equal to inflowing foreign investment, which is 4-50 billion US dollars. The figure of FDI provided by the Administration of Foreign Exchange is just 7 billion, which is far too low. You cannot say that all these (the missing sum of capital outflow) are asset drains. Certainly there must be lots of investment. I am confused; all these statistics are very bad."[10]

Professor Lu mentioned 'asset drain' (*zichan liushi*) in passing, a term which in the Chinese context means state asset misappropriated by corrupt officials and business people. In 1998 a popular book was published in Beijing with the title 'The Drain of China, A study on the draining of state assets'[11], which reported the misappropriation of state assets. Many of these stolen monies became the main source of capital flight.

Perhaps these complaints finally worked. On December 2006, the Ministry of Commerce, the Administration of Foreign Exchange, and the National Bureau of Statistics jointly published the first report on China's outflowing FDI, taking common responsibility on the issue.[12] Instead of clarifying the mystery around China's outward FDI, however, the report raises further questions. Table 7 compares China's official figures for outflowing FDI to the world with the Hong Kong official figure for China's outflowing FDI to Hong Kong alone. It is common sense that the former figure must be bigger than the latter, or, in the extreme case, equal to the latter, which would mean that China had only invested in Hong Kong and nowhere else in the world. However, in the seven year period of 1998-2004, there were five years when Hong Kong recorded much more FDI outflow to Hong Kong than China did to the whole world. Then in 2000 Hong Kong experienced an inflowing FDI from China amounting to 14 times the amount of China's outflowing FDI to the world. This is entirely nonsensical. Might the Hong Kong figures all be wrong? We must say that we are more confident in Hong Kong's figures because Hong Kong's government has no past record of forging figures. Surely we must make an allowance for the fact that, since Hong Kong is a free port and has no control over outflow and inflow capital, China's investments might not be being recorded by the authorities. If this was the case, however, then Hong Kong's figure would have been even larger than they are now, which makes the discrepancy between the two sets of statistics even more nonsensical.

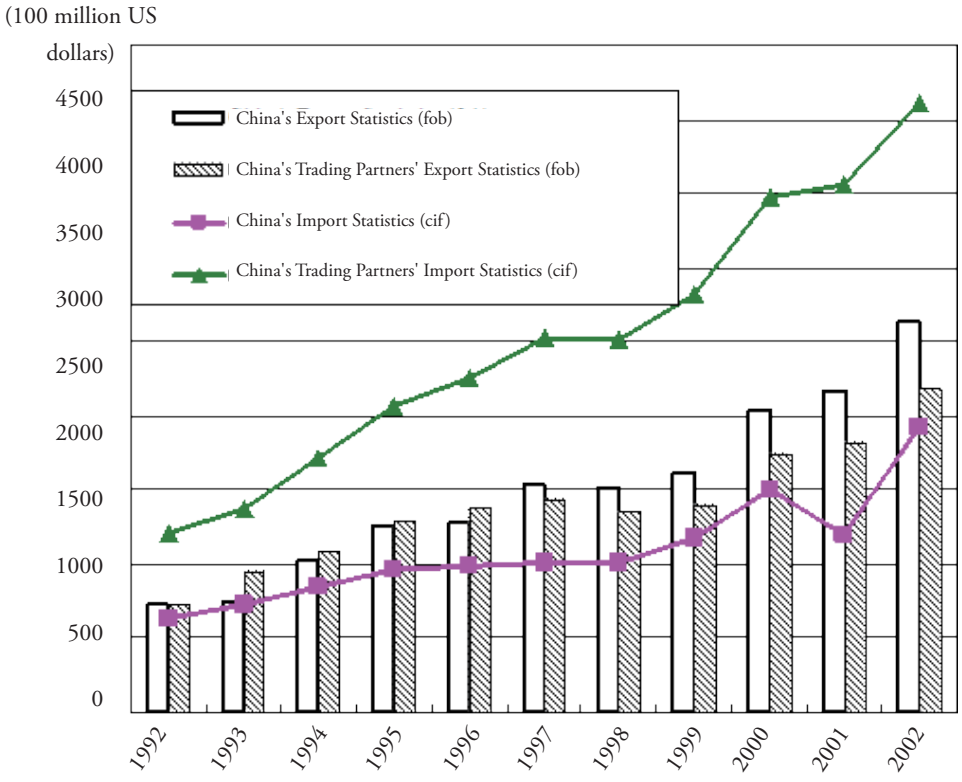
Table 7: China's Outward FDI to the world and to HK



(Source: 2006 Statistical Bulletin of China's Outward FDI and HK Annual Digest of Statistics, 2005 & 2006.)

Yang Haizhen, the assistant professor at the Graduate University of the Chinese Academy of Science in China, wrote a book on the subject of capital flight. She tells us that capital flight may be done through 'trade mis-invoicing', which means either the under-invoicing of exports or the over-invoicing of imports. These techniques enable firms to keep overseas revenue which is supposed to flow to the home country abroad. Then she reported that there have been huge discrepancies between trade figures released by the Chinese government and those released her trading partners (see table 8), which she argues may become the main source of capital flight.[13]

Table 8: Trade figures of China and her trading partners



Yang Haizhen, p. 152

Table 8 shows that for many years in import terms the statistics of China have consistently been more than twice as low as her trading partners.. One must take into account, however, that the role of HK as an entrepot, together with the ways that China and the US record their trade figures, creates significant discrepancies. So in practice the discrepancies are less than what the figures may suggest. Furthermore due to the fact that huge discrepancies only exist for imports and not exports, these factors can only partially explain the discrepancies. Evidence suggests that trade mis-invoicing is quite common among Chinese traders. Another reason for the huge import discrepancy, which Yang has not covered, is smuggling. It is common knowledge in Hong Kong that there has always been serious smuggling between HK and Mainland China, hence the imports to China, as recorded by her trading partners, tend to be dramatically greater than those recorded by China.

The Hong Kong scholar Feng Guochao wrote in his book about smuggling between HK and Mainland China:

"By comparing trade statistics between the two countries, one will understand how significant the amount of smuggling is. For instance, between January and April 1991, Korea exported 26,688 cars to China, yet on the Chinese side only 166 cars imported from Korea were recorded in the same period. It is commonly understood that the cars which went astray were in fact smuggled into Mainland China without ever passing through customs…..According to the Semiconductor Industry Association, US, one third of semiconductor imports to China are smuggled." [14]

The revenues from smuggling often end up in money laundering in Hong Kong and Macau, and then become clean money for overseas investment.

Feng continues: "Hong Kong becomes a safe destination for illegal money coming from the Mainland. Some of this money is for long term investment in HK, and some of it will flow to other regions via HK." [15]

"In the transition from a planned economy to a socialist market economy", Yang said, "China has encountered the typical problem of corruption among transitional economies, which result in huge state assets being drained. Money ends up in the hands of the privileged (management of SOEs, or State Owned Enterprises, and government officials etc), and when they have accumulated great amounts of illegal assets they see moving it abroad as a way to legalize it.

"In 1982-85, there was almost no capital flight. In the period 1985-88, there was some capital flight, which was quite stable and not significant. It was around 3-4 billion US dollars annually. In 1989-91 there began a big increase in both the amount and growth rate of capital flight, with an annual growth rate of 65%. In 1991 the amount of capital flight reached 22.6 billion US dollars. Between 1992 and 1994, the growth rate of capital flight slowed down, to an annual amount of 27 billion US dollars. Beginning in 1995, capital flight entered a new period of rapid growth, and in 2000 it reached its peak, namely 106 billion US dollars, which is equal to 518% of the inflowing foreign capital from the same year, or 646% of foreign debt. We can say that much of the capital inflow in 2000 was turned into outflow by means of capital flight. " [16]

The author of the 1998 book 'The Drain of China, A study on the draining of state asset', Chen Jian, has this to say concerning capital flight:

"There have been large amounts of irregular overseas investment, and this has been rising in recent years. Thus domestic capital resources, already scarce, keep on flowing out in large quantities. Many enterprises, including State Owned Enterprises (SOEs), have tried their very best to evade governmental monitoring and control and so have founded branches overseas. According to an incomplete

estimation, in one of the cities of the Jiezhang Province, there were more than 50 firms which were involved in overseas investment, but only 14 of them went through proper procedures with the City Foreign Exchange Administration. Most of the firms have conducted overseas investment without any permission…..A significant portion of them have used different methods to keep their goods or foreign currency outside of China so as to make their overseas investment an accomplished fact.

Some of the SOEs claimed that the purpose of their overseas investment was to become players on the international stage, although in practice it is a way for the managers, their children and their relatives to immigrate to overseas. For instance, the former Director of the Wuhan Changjiang Power Group, Yu Zhian, before his defection to a foreign country, had misappropriated a large amount of state asset and invested it overseas in his own name, resulting in a huge amount of state property being drained." [17]

We learnt from Professor Lu that much of the outflow 'capital drain' will end up in overseas investment. This suggests that if we take capital flight into consideration, then all of the outward FDI figures released by aforementioned institutes may have been seriously under-estimated. We are not able to make an assessment of the amount of China's un-accounted for overseas investment. Our purpose here is to raise our concerns over this issue. If civil society does not even know the exact amount of China's outward FDI, what is the purpose of talking about their transparency and social accountability?

Secondly, the aforementioned facts shows that moving suspicious revenues earned at home to abroad is undoubtly one of the important 'push' factors for China's overseas investment --- a factor often neglected by studies on the subject.

Round tripping of investment

What makes China's figures on inflowing and outflowing FDI problematic is the phenomenon of round-tripping of investments. This refers to Chinese capital that first goes to HK and then re-enters China in the form of FDI so as to enjoy preferential treatment provided to foreign capital in China. According to UNCTAD's World Investment Report in 2006, in the case of inward FDI in China, round-tripped inflowing FDI is estimated from 25% to about 50%.[18] This has a significant meaning for outflowing FDI, because this fake 'foreign' capital, after making a profit in China, can officially or unofficially be repatriated to overseas 'mother' companies. It also makes the official figures for both inward and outward FDI look incredible.

The First Phase of 'Going Global' and the HK Experience

According to China's official statistics, China's out-flowing FDI mainly goes to Asia. In 2003 it accounted for 80%, and then 55% in 2004 and 71% in 2005.[19] Table nine shows 2008 China FDI to the top 20 countries by stock. Hong Kong was the top recipient of China's FDI by stock, and far out striped all other countries/region. In fact back in 2003 HK already received 40% of China's total outward FDI. According to Chinese official figures, the net outward FDI (non-financial sector) to Hong Kong up until 2005 accounted for 90% of her FDI stock in Asia.[20] Hong Kong is the most important host region for China's FDI.

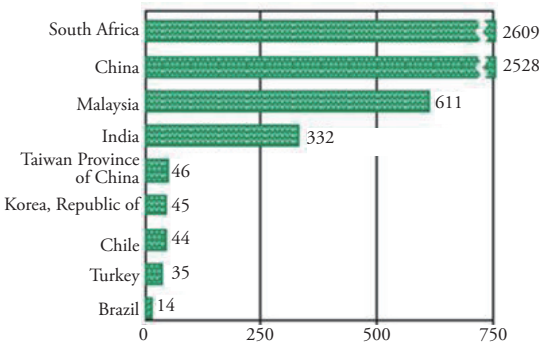
Table 9: China FDI to the top 20 countries by stock, 2008

rank	Countries or region	Stock (100 million US$)
1	Hong Kong	1158.45
2	Cayman Islands	203.27
3	British Virgin Islands	104.77
4	Australia	33.55
5	Singapore	33.35
6	South Africa	30.48
7	US	23.9
8	Russia	18.38
9	China, Macau	15.61
10	Kazakhstan	14.02
11	Pakistan	13.28
12	Canada	12.68
13	Mongolia	8.96
14	Korea	8.5
15	Germany	8.45
16	UK	8.38
17	Nigeria	7.96
18	Zambia	6.51
19	Saudi Arabia	6.21
20	Indonesia	5.43

2008 Statistical Bulletin of China's FDI

Meanwhile, in 2006-8 China became the second most important foreign investors among developing countries in Africa (see figure 2 below). China's investment in Africa has been quite controversial both among governments and the social movements.

Figure 3: Major developing economy investors in Africa, 2006–2008 (Millions of dollars)



Source: UNCTAD. FDI/TNC database.

World Investment Report 2010, UNCTAD

Table 7 above shows that China's official figure for her out-flowing FDI to HK is seriously under-estimated, which means that HK's position as a recipient economy of China's out-flowing FDI is much more significant than the statistics may suggest. Indeed, HK has always acted like a platform for China's going global strategy. It began in 1979 when China first promulgated her market reform. In the first half of the 1980's, China began to export small amounts of capital, the purpose of which was first and foremost political. Xu Jiatuan, the defected head of the Hong Kong New China News Agency, who was also a *de facto* top diplomat representing China[21] , revealed China's capital export plans, against the background of the transition of the return of HK sovereignty to China. In this period of time China's top priority was to win over HK Chinese capitalists and gain their support for the sovereignty return.

Thus

"We instructed the HK branch of the Bank of China and all of China's firms to work to stabilize the Chinese capitalists, to cooperate with them, to do business with them. It means to give them help both in terms of trade and the raising of capital."[22]

Another motive for capital export to HK was to make use of HK experiences in helping Chinese firms to learn Western skills in management, trade and technology. It is the strategy of so called making HK as a window for China's reform. For instance, the giant company CITIC was founded in the early 1980's for this purpose.

Tan Xiao in his book *China Strategy of 'going global'*, gives the aggregate figure of China's outward FDI between 1979 and 1983 as 45.7 million US dollars, and then between 1984 and 1988 it is 665 million. However, various sources indicated that China's capital exports to Hong Kong alone in these periods far exceed the aggregate figures provided by Tan.[23] Xu Jiatuan estimated that in this period (the first half of 1980's) China's aggregate investment in HK was 2-3 billion US dollars, and if reinvested earning from China's firms and their loans were included, then it might reach 10 billion. No one knows the exact figure because it was considered a state secret.

According to Xu, until 1983 the Central government was still unfriendly towards the idea of investing abroad, therefore everything was under its control. One of the top leaders, Chen Yun, who was the only old cadre who were able to challenge Deng Xiaoping, hated the idea of investing abroad, seeing this as a road to corruption under capitalist influence. In the latter half of the 1980's, however, following the increasing doses in domestic market reform, central control was gradually relaxing, which also implies that a political agenda no longer occupied top priority in Chinese firms' overseas investment. Rather, for many of them, making money, and making it fast, became the top priority. Guo Guochan, a Chinese scholar, wrote in a new book:

"In 1985, basically all the Ministries and all the provinces and all the cities had already set up 'window companies' in Hong Kong. Then in 1986 and after, the government officials from the County, the Rural Township, and then even Village and Township Enterprises followed in their footsteps. In 1989 the number of Chinese firms was more than 2500, and irregularities became a problem. The State Department spent the subsequent three years (1989-91) trying to clean the house. In 1991 it only kept 1500 firms."[24]

Xu Jiatuan reported that…

"In 1987 and 1988 ….some Chinese firms set up mother companies, subsidiaries and sub-subsidiaries, which made them greatly over-sized. Some of the management was corrupt, accepting brides, and involved in irregularities. It became out of control…. It was reported that the CITIC was involved in the illegal trading of foreign currency and there were lots of complaints about this." [25]

The reason for us to go into some detail about things that happened more than 20 years ago is that a significant portion of Chinese overseas investments are from the very beginning connected to capital flight, irregularities and corruption, hence the absence of transparency in social accountability which civil society needs. It is also obvious that the motives of moving 'grey revenues', resulting from the misappropriation of public money, has always been one of the important considerations of the management's overseas investment. In the subsequent sections we will continue to use HK experiences as a reference point for our study of China's 'going global' strategy.

Phase II 1992-98: the Birth of Chinese TNCs

SOEs reform and 'going global'

After defeating the 1989 democratic movement, which was not just a student movement but a movement where millions of workers also joined the protest, the Party under Deng Xiaoping then felt secure in making a great leap forward to harmonize with global capitalism. In 1992 the 14th Congress of the CCP inaugurated the construction of a 'socialist market economy', which amounts to giving the green light to privatization or the commercialization of SOEs (State-Owned Enterprises). It also amounted to the proclamation of the end of the command economy, implying that both investment and consumption were to be left increasingly to the 'market'. The next year when the 14th Party Convention of the Central Committee was convened, it passed a resolution endorsing 'Modern Enterprises' as a model for SOE reform. By 'Modern Enterprises' it meant transforming big SOEs into joint stock companies which would draw in private share holders and see maximization of profit as their top priority. It also meant that they were giving the green light for their eventual floating at home or overseas. For big SOEs, even when they remained in state hands, they have been restructured as commercial entities whose ultimate purpose is to make a profit.

Already in 1991 the State Council decided to start the experiment of building 100 giant SOEs through mergers.[26] For instance, six big power companies were founded through mergers, and they accounted for nearly half of the national electricity generated. In the car industry, six giants were created which accounted for 70% of national car production. Oligopoly has been formed quickly in many key industries. In order to hasten the pace, in 1996 the CCP launched the policy of 'retaining the large (SOEs), letting go of the small'. It was in practice a signal for nation wide privatization, in the course of which even many medium SOEs were 'let go' as well, i.e., privatized. There then started a great tide of dismissals. The tide of dismissals by medium and small firms was followed by dismissals by big firms when the latter underwent reform to become 'modern joint stock companies'. Although the laws on the Workers Congress --- which were to a certain extent similar to the German's co-determination model, at least on paper --- entitled workers to share power with the management, they were simply put aside and therefore workers' legitimate rights were never respected. The fundamental reforms in SOEs resulted in 40 million workers being sacked with little or no compensation. In the meantime, a new working class of 150 million, composed mainly of rural migrants, arose as a result of a policy which allowed the free development of the private sector with special emphasis on attracting FDI.

The 'going global' strategy is closely related to SOE reform:

1. If China has to open up her market to foreign capital, then only after immense downsizing could the big Chinese SOEs be able to compete domestically and then, later, internationally, with foreign capital.
2. Transforming SOEs into joint stock companies provides them with the necessary legal and economic conditions to float first in the domestic market and then in Hong Kong and New York. It is their

floating in HK first which provides them with huge amounts of capital for further expansion both domestically and globally.
3. The creation of SOE giants, and hence the oligopoly of key industries, not only enables them to enjoy the economy of scale, but also to a considerable extent allows them to acquire monopoly rent, which enhances their ability to invest overseas.
4. The growing oligopoly in key industries means that medium size firms rapidly lose their market share and have to look to overseas markets as compensation. For example, in the oil industry, because of the three giants' dominant position, medium size firms like the Sinochem, have been forced to invest overseas.[27]
5. The immense privatization of medium and small SOEs resulted in a concentration of state assets going to cronies of the officials, and this is one of the main sources of capital flight and overseas investment.

The "push" factors for FDI in this period

There are three "push" factors for FDI in this period, namely:
1. Over investment resulting in the need to export surplus productive capacity.
2. The waves of privatisation and corruption.
3. The rush to invest in the HK market which was very bullish because of the "1997" effect.

I. Over Investment and Export of Capital

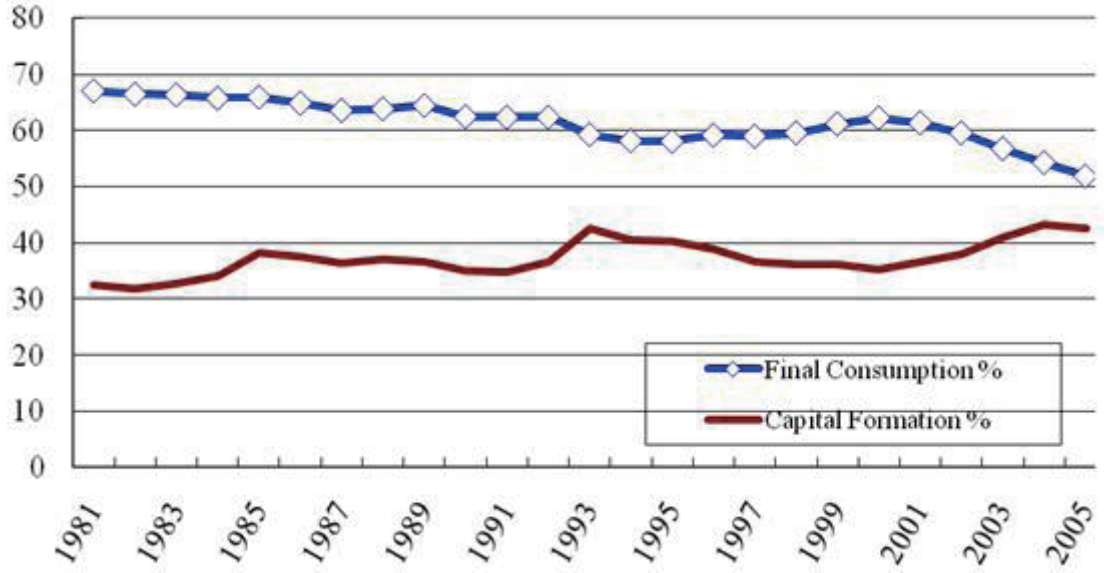
Deng's tour to the South encouraged all level of governments to engage in a rush to invest. Between 1993 and 1995 there was a domestic investment boom as is shown in table 9 below. The provincial governments saw this as a chance to develop their regions. Although another factor was that the promotion of provincial officials became directly linked to the economic growth under their jurisdiction.

The rapid rise of investment inevitably squeezes consumption. There are three main components in the calculation of GDP, namely final consumption, capital formation and net export. In the period 1950-1979, capital formation had been excessively high in order to rapidly industrialize China, and very much at the expenses of people's livelihoods. Wages were frozen for nearly thirty years in order to accumulate more capital goods, resulting in capital formation as high as 35-40% of GDP. This became one of the main criticisms of the Mao's era after the fall of Gang of Four. The first half of eighties witnessed a rise in people's consumption to average 66.4% against a capital formation of 33.9%. (See Table 10.0) It was the result of the government's policy "*huanzhang*", or paying back what was owed to the people.

Then beginning from the second half of the eighties the trend reversed again: people's consumption continued to fall, and in 2005 it was down to the historic low point of 51.9%. In contrast, capital formation has never been lower than 35% since 1985, and in the periods of 1993-96 and 2003-05, periods of mad investment boom, the annual average reached 40.4% and 42.3% respectively. Table 10.1 further breaks down the category of final consumption and the trend is unmistakable: government expenditure continued to rise against a falling households' consumption. The table unmistakably speaks for the fact that, despite the government's repeated call for cutting government expenditure, it continued to grow at the expenses of the people. Table 10.2 shows that there is also growing inequalities in the final consumption of 'households'. Rural households' consumption continued to fall against rising urban households' consumption. When rural households still account for over half of the population, it is terrifying to see their weight of consumption dropping to merely 26.8%. If we take into consideration the continuously rising Gini coefficient, reaching 0.49 several years back, then the picture is very clear: the share of national output for common people is declining at an uninterrupted rate, particularly so for the rural poor, while the share of the rich keeps on rising, either for capital formation or for luxurious consumption. This is the combined result of the immense scale of privatization, sacking of

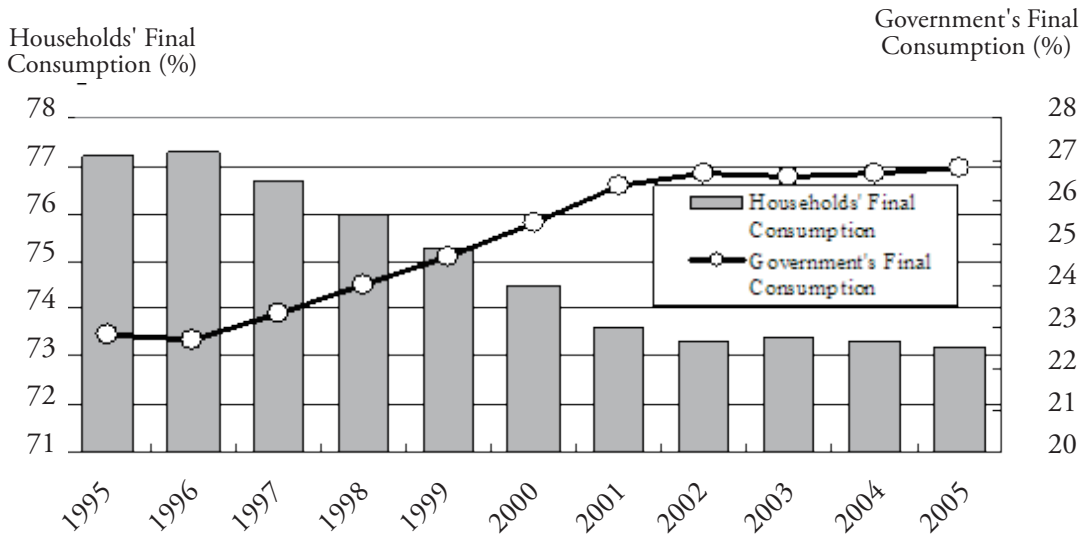
SOEs workers and the mis-appropriation of land from the peasants by local officials. A vast rural area is bankrupt and the peasants earn little cash from tilling the land. They are virtually marginalized in the money economy. Over investment and under consumption for common people creates a problem for the sustainability of China's economy: inadequate domestic demands of the people make them unable to buy all that China produces. It exacerbates the problem of over capacity of the rapidly growing industries. Although the new rich and the new middle class are willing to spend, in the final analysis it is mass consumption, not the consumption of luxuries by the rich, which is crucial for a more balanced development of capitalism.

Table 10.0: Weight of Final Consumption and Capital Formation As a Percentage of GDP (%)



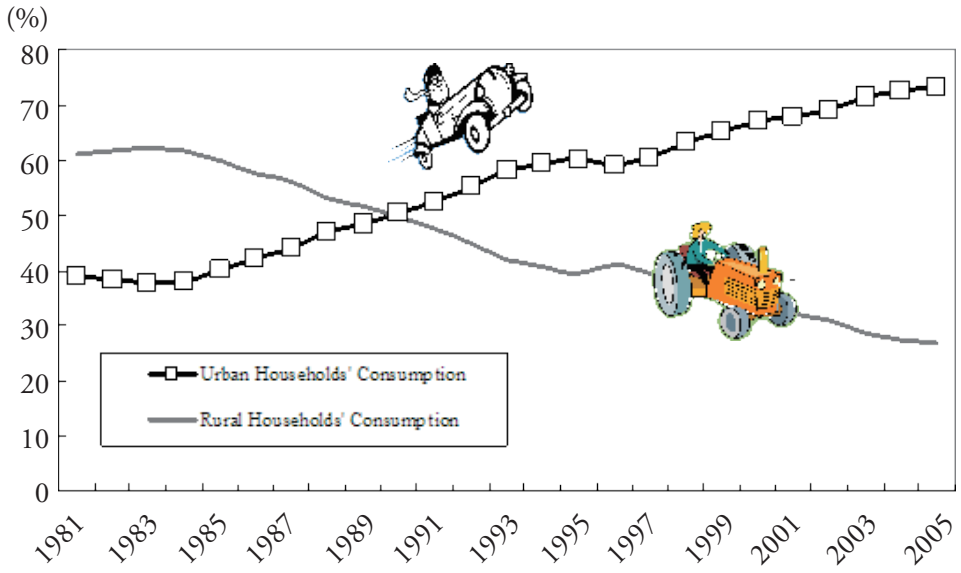
Sources:http://www.stats.gov.cn/tjsj/ndsj/2006/indexch.htm

Table 10.1 Breakdown of Final Consumption



Sources:http://www.stats.gov.cn/tjsj/ndsj/2006/indexch.htm

Table 10.2 Breakdown of Households' Final Consumption



Sources:http://www.stats.gov.cn/tjsj/ndsj/2006/indexch.htm

Exporting overcapacity

The de-centralization of economic decision making, unleashed by the market reforms, resulted in fierce competition between provinces as they over invested in the same industries, which in turn resulted in overcapacity. In 1995, 14 provinces planned to prioritize the development of metallurgy and machinery; 16 provinces planned to prioritize the petro chemical industry; 22 the car industry; 23 bicycle and washing machines; 27 of them chose TV production as a key supporting industry; 28 chose synthetic fibres; 29 of them chose steel and fertilizer and plastic, and so on and so forth. Another consequence of this competition to invest was the fragmentation of investment funds, which often ends up leading to small scale production in industries where only large scale production is efficient. Hence, in the car industry, there were 751 car plants all over the country, but they were only able to put out 1.5 million cars, which was only a fraction of the annual car production of GM.(General Motors) In 1997 the number of car plants dropped to 115 after restructuring but the numbers were still considered to be too big, and so all the plants remained inefficient.[28]

> "Since the 1990's, the Chinese economy has shifted from a seller's market to a buyer's market. … According to a survey on industry in 1998, with the exception of energy and raw materials, all other industry experienced general overcapacity. The utilization rate of productive capacity for TVs was 46.1%, washing machines 43.3%, refrigerators 50.5%, air conditioners 33.5%, bicycle 54.5%, textiles 70%."[29]

In 1998 the now dissolved State Economic and Trade Committee released a policy document: Index of Over-Invested Products for Moving Abroad. The title of the document is self explanatory. It wants to export China's excessive capacity to solve the domestic problems. It was particularly urgent as many firms were not able to pay back their loans to the bank because of poor performances; a consequence of inadequate domestic demand and over investment. The document stressed that "the third national industrial survey showed that the country had 500 types of product whose capacity utilization rate was below 60%." It then reminded the officials that "many of these products are on the one hand more advanced in technology and quality than many developing countries; on the other hand, compared to advanced countries our products enjoy the advantages of competitive prices, therefore our products are internationally competitive." It then targets the first batch of industries and products that need to move

abroad: the light industry, machineries and electronics, motor cycles, refrigerators and TVs etc. [30]

According to official documents, moving over invested productive capacity abroad is not only beneficial because it turns idle capacity into revenue, but also because it is a way of earning foreign currency. The official standpoints reiterate the urgency to earn more foreign currency, especially so during and after the Asian Crisis, when exports experienced a downturn. It is no wonder that Chinese firms see 'acquire foreign market', 'earn foreign currency', 'realize the firms' strategic goal' and 'make use of available (idle) machineries' as the four most important motivations for overseas investment. (See Table 11)

The destinations of the exports of China's excessive capacity are chiefly developing countries.

"Our country possesses a whole range of relatively mature industry technology. To move these industries abroad in general and to developing countries in particular will, apart from solving the problem of overcapacity, enable us to improve our national industrial structure. We now encourage the export of our overcapacity industries to developing countries, especially to emerging markets like the Middle East, Southern region of Africa, Latin America, Far East Asia etc. [31]

While TNCs in the China's Eastern region are increasingly interested in investing in developed countries, those in the Western region, which are less advanced in technology than the East, see South East Asia and other poor developing countries as their natural destination for capital export.

"The firms in the Western Region with overseas investment chiefly invest in the former USSR, Vietnam, Laos, Burma, and those countries in Central Asia and South East Asia. ……These are firms which mostly face overcapacity. ,Their technology is comparatively lower (than the Eastern Region). They chiefly export capital to relatively backward developing countries. The Guiyang Hisense, for instance, invested in trading networks of TVs in Burma, while the Guangxi Province invested in Vietnam." [32]

Table 11: Survey of Chinese TNCs' motives for overseas investment

Motive	points
Acquire overseas market	9.38
Earn foreign currencies	7.75
To realize the firms' strategic goal	7.50
Make use of current machineries or to export more	6.75
Earn more profit than in domestic market	6.0
Making use of overseas capital market	5.86
Diversification of products or expanding the scope of business	5.85
To maximize advantages in management and trading	5.50
Motive	points
Overcome import restriction of the host countries	4.50
Expand overseas market	4.25
Overcome domestic restriction	3.71
Acquire overseas natural resources	2.14

Note: The most important motive is 10 points. The least important is Zero points.
Source: Tan xiao, p. 144

II. Corruption

For a considerable section of the officials, there was also the hidden agenda of corruption in their drive to invest abroad.

"Because of the fact that SOE reform has not been completed, their ownership is not clear, and both the mechanism of incentives and control for SOEs are far from complete, overseas investment often ends up losing control. Some of the investing companies are not even aware of their own strengths and weaknesses; they are blind to the investment environment of the host countries, and fail to understand the traps prepared for them by crooks. Some companies have violated the national laws and set up overseas branches without prior permission, hence the rise of 'couples companies', 'single person companies' etc. Some companies engage in financial irregularities in their overseas projects, and the problems of 'double accounts books' are rampant, creating problems for the security of state assets, for keeping their value intact and appreciation. Some corrupt elements have used overseas investment as a means to transfer state property into their own names and so have drained the state's assets."[33]

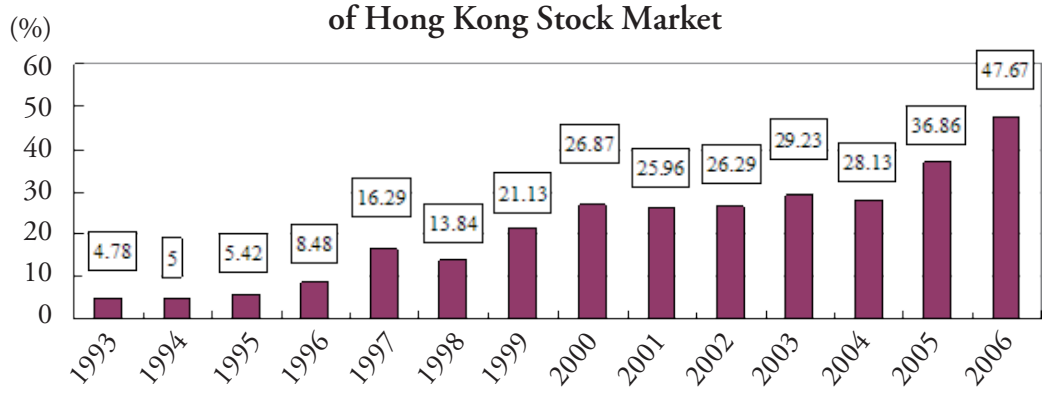
We continue to discuss this issue in the following section.

III. The rush of investment to Hong Kong and the Asian Crisis

In 1992 Deng Xiaoping toured the south and it was regarded as a signal of his support for more overseas investment, particularly in Hong Kong --- because at that time China was still being sanctioned by the West for her crackdown on the democratic movement, and also because HK remains the most accessible place for China's investment. Now setting up windows companies on their own by the provincial governments is no longer enough. Buying shell companies and then floats in the HK stock market is becoming more common. The CITIC group is famous for this practice. According to the Chinese scholar Yasheng Huang, "the number of Chinese firms investing in HK rose from 400 in 1991 to 2,000 in 1994 and their cumulative investments reached US$20 billion by 1993. By 1993, China had surpassed Japan as the number one investor in HK. Most of the Chinese firms in HK are unlisted." [34]

The rush to invest in HK peaked again in 1996 and 1997, because many provincial governments and their window companies were eager to set foot in the HK stock market before, or at least immediately after, the handover in July 2007. Table 12 shows that in 1993 Chinese companies' stocks only accounted for 4.78% of the total value of the stock market. It rose to 8.48% in 1996 and jumped again to 16.29% in 1997. One must note that apart from the big Chinese companies flocking to float in HK, there were also immense numbers of medium and small window companies coming too, bringing a huge amount of money into HK. Mainland Chinese money was one of the chief factors which fed the bubble in real estate and the stock market in the 1990's.

Table 12: Chinese Companies Share of Total Market Value of Hong Kong Stock Market



Source: Guo Guocan, p. 208

In this period there was still Mainland capital control over outflowing capital, therefore much of the Chinese money did not arrive in HK via the official channel. It came to HK via a growing network of 'underground banking'. It is this 'underground banking' which provides an effective channel for Chinese capital flight. The 1990's witnessed the immense growth of this network which continues to the present. According to the book Investigation on China's Underground Banking, written by a Chinese scholar, in 2004 alone, the amount of money which went through the underground banking network between Mainland China and HK reached 100 billion yuan, or 13.4 billion dollars. [35]

While Hong Kong becomes a financial centre for Chinese companies to raise capital there, Macau plays the role of money laundering from suspicious Chinese origin through its casinos. The twin cities of China proved to be paramount as a platform in facilitating both inward FDI to China and China's outward FDI and capital flight, official or unofficial. Any discourse on 'Rise of China' cannot afford leaving out the role the twin cities has played and will play.

The continuous flow of Chinese money into HK fed the bubbles in real estate and the stock market. The Hong Kong scholar Feng Guochao reported that

> "China's investment in HK is chiefly in the non-manufacturing sector, especially in real estate. China's huge investment in this sector brings about its high speed development. In 1992 and 1993, HK real estate prices went up by more than 100 percent. The prices have already surpassed those in Tokyo. Even Chinese officials from the Hong Kong and Macau Office came out to criticize Chinese companies for being too involved in speculation in the real estate market. Landlords benefit from rising real estate prices, but it also results in the re-distribution of income, meaning that common people are unable to pay for their houses and their living standards are affected.
>
> "Certain kinds of Chinese investments are worrying. First and foremost, the SOEs use government funds for investment, and they face the issue of moral hazard. The investors may get involved in high risk speculation because they believe that even if the investment turns sour the state will come to their rescue; and if it reaps profit then they again will be benefited as individuals. This makes….the market exceedingly volatile." [36]

The stock market boom was suddenly halted by the Asian Crisis. In October 1997 it hit HK and the stock market crashed. Many Chinese companies found themselves in trouble. Then came the bankruptcy of Guangdong International Trust and Investment Corporation (GITIC), the window company of the Guangdong Provincial Government. It could not pay back its debt, and it was only then that the public became aware of the hidden debt and all the secret borrowing practices of this company. Many local and foreign investors and lenders were furious over GITIC's bankruptcy. They were angry because these window companies had always used their government background as their proof of credibility in luring for loans, leading many investors to believe that they could not go bankrupt. The investors were wrong. What made things more unacceptable was that the scandal exposed the irregularities and even corruption of these window companies. Very soon the Guangdong Investment Ltd, another Guangdong's window company, was in big trouble. This time it was saved by the public money of the Guangdong government, which simply gave the asset of Dongjiang's fresh water supply to HK to the company [37], fearing that if it were to go bankrupt again it might trigger off a meltdown for Mainland Chinese firms. Eventually the crisis was contained. According to the Chinese scholars Guo Guocan, the crisis of these window companies were the result of:

1. Misuse of government support - borrowing too much and accumulating debt;
2. Being over ambitious in seeking the expansion of their assets;
3. Irregularities of accounting.[38]

Although the crisis was contained, it was followed by wave after wave of arrests and trials of CEOs (Chief Executive Officers) and high-up officials in the Chinese companies, both in HK and in Mainland China, reflecting the terrible scale of corruption. Guo hinted that

"Prior to their IPO [Initial Public Offering] in Hong Kong, the management of these Stock H companies (Chinese listed companies which registered in HK) know too little about the Laws of HK, and their thinking and modes of actions tend to remain the Mainland's, therefore they often breach the laws without knowing it." [39]

What is 'the Mainland thinking and modes of actions' anyway? In the context of China it means many things: no ideas about the rule of law, corruption, accountability to no one, incompetence, and so on and so forth. But there is also one thing which is beyond dispute: despite the official propaganda of 'respecting the law of the market', the fact is that arbitrary government interventions or even collusions between officials and business people are still common. Inside information and insiders-trading are rampant in the Chinese stock market. A Chinese scholar wrote that "US companies' prices are much more related to their balance sheets than government policy." In China "research proves that the correlation between the (Chinese) government's policy and the stock market is as high as 80%, while in the US it is only 8-10%." [40]

Phase III 1999-present: the global offensive

The Asian Crisis sent those Chinese companies which heavily invested and borrowed in Hong Kong into crisis. It did not spread to China, thanks to her capital control regime – though eroding gradually, it was still in place. The fact that China was not seriously affected by the Asian Crisis enabled her Central and provincial governments to come to rescue their 'windows companies'. China's export oriented economy continues to enjoy a high growth rate in the post Asian Crisis period, and this creates new "push" factors for overseas investment.

I. Looking for overseas investment in energy and raw materials

To sustain rapid growth it is necessary for China to import more energy and raw materials. For instance, since 1993 China has become a net oil importing country and today half of her consumption relies on imports. Sourcing from overseas pushes up the prices of primary products and so they become increasingly costly to Chinese firms, which mostly have a low profit margin, especially so in the export sectors. To get around this problem, China increasingly relies on acquiring overseas energy and raw material resources.

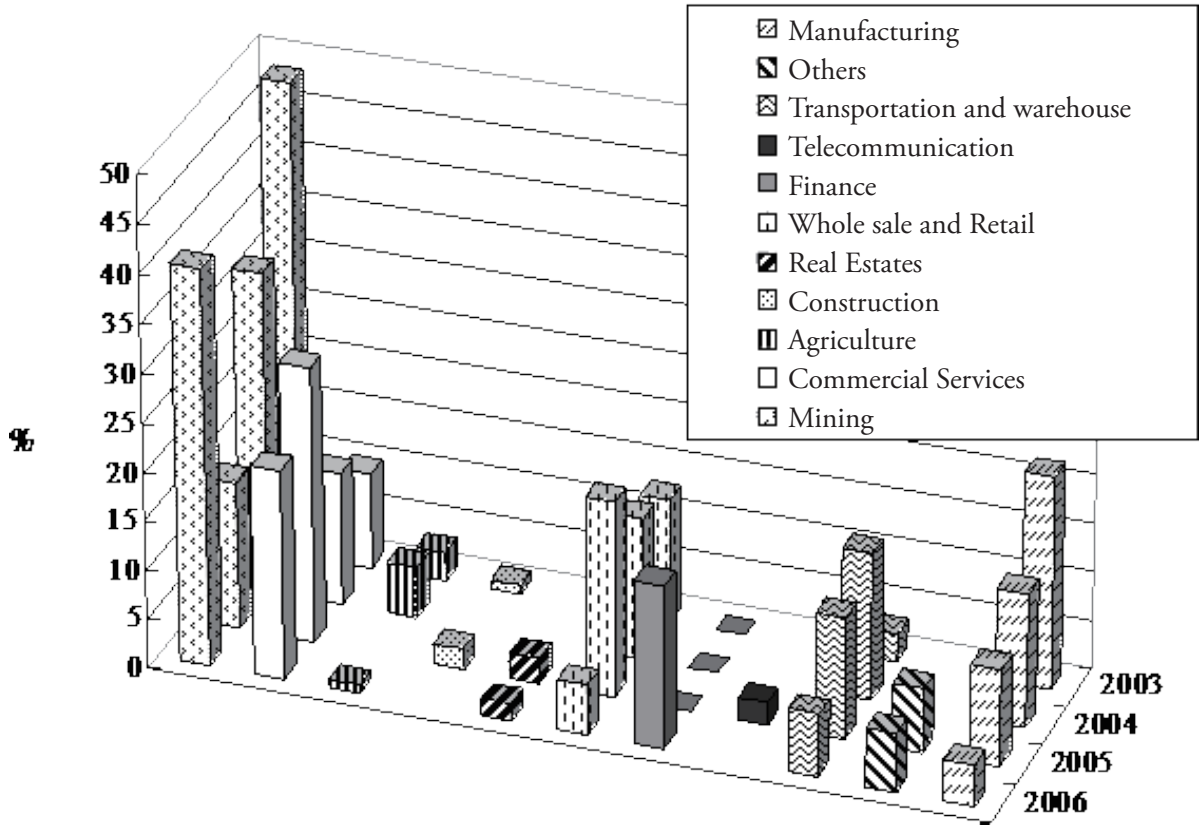
Table 13 shows that trade has become less important in China's outward FDI, while mining (with oil as the most important element) accounts for a much higher proportion. China has become the world's second largest oil consuming country after the US. [41]

The oil industry is also one of the model industries which have undergone the 'inviting in' and 'going global' transformation. At the turn of the century the oil industry was restructured and made into three giant companies: Sinopec, Petro China and CNOOC. This was to prepare the industry to face direct competition from the world's three main oil giants (Exxon Mobil, BP Amoco, Shell) when the domestic market opened up under the conditionality of China's accession to WTO. In order to raise the competitiveness of the Chinese oil giants, 600,000 oil workers were sacked with miserable compensation. Their legitimate rights were also denied. The oil workers staged a 50,000 strong one month long demonstration in Daqing Oilfield in March 2002, but subsequently they were repressed. Meanwhile, the three Chinese giants, on one hand compete with the three world giants; while on the other hand they closely collaborate with them in joint projects all over China – from oil stations to oil

pipe construction to oil and gas extraction. It is not astonishing to see that when CNPC, the mother company of Petro China, encountered opposition to its attempt to float in New York in 2000 because of its involvement in Sudan's operation, it was saved by BP Amoco when the latter bought 20% of CNPC's shares. All three world oil giants have bought a significant amount of shares in the three Chinese oil giants. Both sides share the same interests, albeit both sides also compete with each others.

The three Chinese oil giants raised billions of dollars after listing in HK and New York, and are now able to acquire more overseas assets than in the previous period. Table 17 below shows that in the top ten overseas acquisitions by Chinese TNCs, half of them are for oil. After the failure to acquire the US oil company UNACO, China's oil giants seems to be more interested in looking for oil and gas assets in developing or smaller countries. In March 2007, China announced that she has targeted nine countries as suitable for investment by the nation's oil companies. The nine countries are: Bolivia, Ecuador, Kuwait, Libya, Morocco, Niger, Norway, Oman and Qatar. [42]

Table 13: Composition of China's outflowing FDI in relation to industry



(Source: For 2003-5 figures, see Wang Zhile, 2007, p. 4.
For 2006 figures, see the 2006 Statistical Bulletin of China's Outward FDI, p.7)

II. Accumulating huge amounts of foreign reserves

The export drive has enabled China to accumulate a huge amount of foreign reserves, reaching 1.43 trillion US dollars in October 2007. It is estimated that two thirds of the reserves are US bonds and security. China has now become a major player in the global financial market, her outflowing Foreign

Portfolio Investment (FPI) and foreign aid, which in the former period was negligible, now becomes ever more prominent.

Table 14 below gives some idea of the proportion of financial FDI in relation to China's total outward FDI. It includes the acquisition of foreign financial assets and the setting up of overseas branches. A word of caution is needed here. Given the scale of capital flight, Table 14 may not be as accurate as the official figures suggest. Nevertheless, the more China is integrated into global capitalism, as illustrated by the export oriented growth and rising Chinese overseas investment, the more it is necessary for Chinese banks to set up overseas branches to provide import and export credit to the Chinese TNCs. There is another aspect of financial overseas investment apart from FDI, however. Following the 'going global' strategy, China has also increasingly needed to provide private and public loans to, for instance, aid recipient countries for importing Chinese goods or for the financing of construction projects. On top of this is China's outward Foreign Portfolio Investment (FPI), which is also becoming more significant.

Table 14: Composition of China's FDI outflow, 2006 (Millions of dollars)

	2006 Outflow		2006 stock	
	amount	(%)	amount	(%)
Total	211.6	100.0	906.3	100.0
Non financial FDI	176.3	83.3	750.2	82.8
Financial FDI	35.3	16.7	156.1	17.2

Source: 2006 Statistical Bulletin of China's Outward FDI, p.2

The banking sector is one of the best illustrations of China's twin strategy of 'inviting in' and 'going global'. In the late 1990s the Chinese banks were technically bankrupt because of bad debt and non-performing loans, a result of the investment boom which later turned sour. The ratio of bad debt for the four commercial banks was 13.2%, if we believe the official figures. As a matter of fact, few serious observers and bankers believe it. More respectable sources put the figure at 25%, and others have speculated that it may be as high as 40%. Nevertheless the government came to the banks' rescue. Within a few years as much as 1,700 billion yuan of bad debt, or 227 billion dollars, was shifted from the four banks to state run companies. On top of this, the Central government handed them 98 billion dollars to help them to raise their reserves and to transform themselves into joint stock companies. This was not enough, however, to make them competitive without sacking hundreds of thousands of bank workers. After these reforms the Chinese banks became attractive to investors. Under the conditions of China's accession to WTO, China had to open up her financial sector, including banking, to foreign capital in 2007. For the last few years the foreign banks have been in a rush to become strategic shareholders of the Chinese banks. As ofl October 2005 17 Chinese banks had accepted foreign strategic partners. [43]

After the 'inviting in' then comes the 'going global'. There are two aspects of 'going global'. One is floating abroad to raise more capital. Today all four commercial banks have already been floated in Hong Kong and New York. The second aspect of 'going global' is overseas investment. There were Chinese banks investing overseas decades ago, of course. The Bank of China, given its history, has been the most internationalized Chinese bank, and its operation in Hong Kong is decades old. The total sum of Chinese banks' overseas investment before the 1990s was small however. Things have changed rapidly since the turn of the century. Previously the Industrial and Commercial Bank, the Construction Bank and the CITIC group bought several small and medium banks in Hong Kong. According to the China Finance Net, in the first half of 2007, China's commercial banks had up to 110 branches in thirty countries, with a total asset of 2000 billion yuan, or 133.6 billion dollars. [44] The rapid rise of

their overseas investment is the outcome of a strategy of increasingly relying on acquisition and mergers as a way to expand. Table 15 shows that, in little more than a year there were already six acquisitions of foreign banks. The recent acquisition of the Standard Bank of South Africa by the Industrial and Commercial Bank of China is quite significant because the former is the biggest African bank.

In terms of ownership, 81 percent of Chinese outward stock FDI belongs to SOEs, while private enterprises only accounted for 1% in 2006. [45] It has been government policy since 1998 to encourage private overseas investment. In October that year the Ministry of Foreign Trade and Cooperation released a document granting private enterprises and research institutes the privilege of export. [46]

Table 15: Chinese Banks' recent acquisitions of overseas assets

	Chinese banks	Foreign Banks
Oct 2007	Industrial and Commercial Bank	Bought 20% of shares in Standard Bank of S.A. for 5.46 billion dollars
Oct 2007	China Minsheng Banking Corp.	Bought 9.9% of San Francisco-based UCBH Holdings Inc. for 200 million dollars
Aug 2007	Industrial and Commercial Bank	Bought 79.9% of Seng Heng Bank, Macau for 4.4 billion yuan
Jan 2007	Industrial and Commercial Bank	Bought 90% of HALIM Bank of Indonesia
Dec 2006	Bank of China	Bought 100% of a Singapore aircraft renting company for 965 million dollars
Aug 2006	Construction Bank	Bought 100% of Bank of America (Asia) for 9710 million HK dollars

(Source: Ming Pao, 26 Oct 2007)

The huge foreign reserves of China enable her state banks to evolve into big international lenders as well, and a considerable part of their loans act as aid to developing countries. Comprehensive statistics are lacking, though. One report quoted Professor Deborah Brautigam who used data from the China Statistical Yearbook and estimated that Chinese aid worldwide in 2005 was $970 million, rising from $650 million in 2002. World Bank officials suggest that Chinese aid to Africa alone might amount to $2 billion, implying that the Chinese figures may be under-estimations. The author of the report estimated that Chinese aid worldwide totals somewhere between $1.5 and 2 billion. [47]

The China Export and Import Bank has evolved in a short time (established in 1994) into China's main lending agency. Its accumulated loans in 2005 amounted to 20 billion US dollars.[48] According to a Chinese report, its' accumulated loans to Africa reached 50 billion yuan (about 6.6 billion dollars) in the first half of 2006.[49] Peter Bosshard quoted a Chinese researcher who gives a slightly lower figure --- 44.4 billion yuan. He then quoted a World Bank report which reported 12.5 billion dollars in mid-2006 in African infrastructure investment alone, which may suggest that the Chinese figure is under-estimated.[50]

China's export oriented growth enables her to accumulate huge foreign reserves, which have amounted to 1430 billion US dollars this year, and represents the world's largest reserves. A big portion of the reserves has been used to buy US bonds. Although the amount of which is declining, in 2007 it still amounted to 400 billion dollars.[51] Sovereign funds have become one of the main sources of this global financial actor. China, although a late comer, has drawn the world's attention because of the size of her reserves and her ambitious buying practices in recent years. In late September 2007 the Chinese government officially founded the China Investment Corp (CIC), with a registered capital of 200 billion dollars. Prior to its official founding, CIC had already bought 3 billion dollars worth of the shares of

Black Stone in May 2007. It is expected that the CIC will be more aggressive in its investment strategy than common governmental reserves funds, because CIC's capital is raised through the issuing of special public bonds which require the corporation to pay an interest. Due to its close relation with the Chinese government, it is also thought that its mission is to take concerted action regarding the government's economic and political policy. Another source of Chinese sovereign funds is the Social Security Fund. Founded in 2000, it has a total asset of 282.7 billion yuan, or 37.8 billion dollars.[52] It began investing overseas in 2006.

The UNCTAD's World Investment Report 2006 expects that China's outward FDI will surge because of the ever-increasing amount of 'China dollars'. It has made "the promotion of outward FDI an imperative for the Chinese Government, leading it to adopt a 'going global' strategy and take concrete measures to promote the internationalization of Chinese companies." [53]

III. The rich lack of investment opportunities in the real economy

Today China's savings amount to 15,000 billion yuan, and private funds have a total net asset of 3,000 billion yuan. The narrowing of domestic markets means that there is simply a lack of profitable investment opportunity, hence the fierce speculation in both the stock market and real estate market. There are lots of investors who are also looking to overseas investment. In 2006 the government implemented the QDII (Qualified Domestic Institutional Investors) regime to allow banks and private funds to invest overseas. Again, it is HK which becomes the most active platform for China's outward hot money. In the second half of 2007, 15.6 billion HK dollars flowed into HK from Mainland China under the QDII regime to take advantage of the booming stock market there. The market expects that in the foreseeable future the amount of outward portfolio investment from Mainland China may reach 140 billion HK dollars. [54] The Wall Street Journal reported that "by encouraging the movement of funds out of the country, Beijing is seeking to tackle those inflationary forces and alleviate pressure on the yuan to appreciate. 'Steadily pushing forward the yuan's convertibility on the capital account is the longer term goal of changes in the system of foreign-exchange management,' the People's Bank said Wednesday." [55]

There is now serious concern that the hot money flowing into HK from Mainland China is feeding a stock market bubble again.

IV. Over capacity may become serious again

In the period 2003-07 there began another round of investment boom, and a high official from the think tanks, Wang Jian, anticipated that it would be followed by a new round of over capacity after 2007. [56]

The official proclamation of 'going global' strategy

At the turn of the century the Chinese government felt itself at a crossroad. The China growth model of export oriented and low value added had attracted criticism from various corners, including from the nationalists, who saw this as a net outflow of revenues for the advantage of foreign capital. This outcry against foreign capital is in fact part of the new trend since the turn of the century. It is a period when the concern over the threat of 're-colonization' becomes more intense, as foreign capital begins to increase its market share rapidly. In 2000 foreign capital accounted for 24% of gross industrial output, and for half of export value.

The response of the Party to these problems is not to roll back the neo-liberal reforms, nor impose any administrative restrictions on the inflow of foreign capital, but rather to embrace corporate led

globalization more enthusiastically in order to become the winner of the same old game. It very much coincides with the remarks of the CEO of Haier: Western TNCs are all wolves. If we are to compete with them we must also turn ourselves into wolves (who will be the sheep then?). It looks like a game of using the devil to hit the devil.

When the Chinese government were assured that the Asian crisis would not hit China, it became more confident about becoming a winner as a late comer in the game of corporate led globalization. It kicked started a new round of more ambitious projects with the implementation of the 'inviting in' and 'going global' strategies, mixing more capital market reform and more state support for Chinese TNCs at one and the same time:

1. More emphasis on the need for Chinese industry to undergo 'self-reliant renovations' and the need for more state support for big firms in their competition in both domestic and international markets;
2. More ambitious state plans regarding the building of giant Chinese firms in key industries, through acquisition and mergers and through various sorts of economic incentives;
3. Acquire more overseas oils, minerals and raw materials to sustain China's growth;
4. Further liberalization of the capital market and capital control, which simultaneously enhances both 'inviting in' and 'going global' – allowing more foreign capital to acquire Chinese market while encouraging more Chinese TNCs, small and medium firms, or even individuals to invest abroad, which is seen as an effective way to direct the hot money in China towards outward overseas investment;
5. Continue to maintain an iron hand over the potential growth of social protests and social movements, so as to give the ruling elites entirely free hands in implementing the bold policy and in crushing any possible opposition.

When the CCP convened their 15th Congress in 1997, the General Secretary Jiang Zemin already spoke about the strategy of 'encouraging those overseas investments where our nation enjoys comparative advantages'. It was not until 2001, when Premier Zhu, in his policy address to the People's Congress, officially used the term "going global" strategy for Chinese firms. The following year the Central Committee report to the 16th Party Congress stressed the need to "build our own strong TNCs and our own brand".

In 2001 the government released its Tenth Five Year Plan. Regarding overseas investment it said:
1. Strive to raise the ratio between inflow and outflow FDI to 10:1.
2. The National Development and Reform Commission shall compile a list of the overseas investment of those resources which China is in short supply of, for instance, oil, gas, wood, ferrous and nonferrous metal etc. The objective of which is to ensure the sustainability of our country's economic development and our economic security as well.
3. Support the growth of overseas processing manufacturing.
4. Encourage overseas investments which aim at expanding global market share and high tech.
5. Strive to develop a batch of competitive TNCs in five years, and 50 Chinese TNCs big enough to enter into the 500 global giants in 2015.
6. Set up overseas research and development centers.
7. Expand overseas construction projects and the export of labor. [57]

In his speech to the recent 17th Party Congress in Oct 2007, General Secretary Hu Jintao reiterated the need to:

1. Support the growth of Chinese TNCs and the building of Chinese Brands;
2. Develop international cooperation over energy resources;
3. Implement the strategy of Regional Free Trade Agreement FTA; [58]

What concerns us here is Hu's point on building Regional FTA. China is already committed to the building of ASEAN + China FTA in 2010, apart from the dozens of FTA agreements with many other countries. It is again a reflection of the Chinese government's overall strategy in its response to the neo-liberal agenda of the US Empire and the EU --- endorse the agenda and try to make itself the winner of the same old game. This is the essence of 'inviting in' and 'going global'.

Features of China's Current Overseas Investment

More Acquisitions and Mergers as a form of overseas investment.

There are reports that Acquisitions and Mergers (A & M) accounted for an average of 20% of all overseas investment before 2002. [59] Table 16 shows that Chinese outward FDI increasingly takes the form of A & M. The taking over of important overseas assets by Chinese TNCs, as is shown in Table 17, increasingly attracts world attention and occasional criticism. Why are Chinese TNCs inclined towards A & M? As a late comer, it is the quickest way to expand globally. For instance, the CITIC group chiefly takes the form of A & M to transform itself into a global player, by buying up several dozen companies across Hong Kong, USA, Canada, Australia and Thailand etc. Many other big Chinese TNCs, especially those with government backing, like the three oil giants, follow the path of CITIC.

It is worth noting that 70% of China's overseas investment consists of joint ventures or foreign-China collaboration projects. While solely owned companies account for 20%. Most productive projects and oil projects are joint ventures; trading firms are mostly solely owned. [60]

Table 16: Breakdown of China's outward FDI in terms of new investment and A & M

Year	New Investment	A & M
2003	82.0%	18.0%
2004	68.2%	31.8%
2005	47.0%	53.0%
2006	63.3%	36.7%

Source: Wang Zhile, 2007, p. 100. For 2006 figures, see http://news.xinhuanet.com/fortune/2007-09/11/content_6700685.htm

Table 17: Top Ten Chinese Cross-Border Deals (until July 2005)

Date	Target	Nationality	Acquirer
Dec 2004	IBM /PC business	US	Lenovo Group
Jan 2005	PCCW (20%)	HK	China Network Communications
Oct 2003	Oil & Gas Assets (Gorgon Liquefied Natural Gas Field)	Australia	China National Offshore Oil Corp (CNOOC)
June 2001	Hyundai Display Technology Inc (80.1%)	South Korea	Beijing Orient Electronics Group Cando Corp
Jan 2002	Repsol-YPF SA (Indonesian assets)	Indonesia	CNOOC
July 2004	Ssangyong Motor Co Ltd (48.92%)	South Korea	Shanghai Automotive Industry Corp - SAIC

June 2005	PetroChina International Ltd	Indonesia	China National Petroleum Corp (CNPC), PetroChina Co. Ltd.
Sept 2002	Hyundai Display Technology Inc.	South Korea	BOE Technology Group Co. Ltd.
Aug 2002	Woodside Petroleum Ltd	Australia	CNOOC
Sept 2002	BP Pic (Tangguh LNG Project)	Indonesia	CNOOC

Source: Dealogic, quoted from The Observer, 24 July 2005.

Floating abroad as a means to raise capital

To finance their overseas investment and acquiring of expansive assets, the Chinese TNCs cannot rely on government credit or international lenders alone. Hence they increasingly look to floating in HK, London and New York stock markets. Table 18 shows that there are three Chinese TNCs' IPO (Initial Public Offering) listed in the top ten IPO in the world. HK remains the most important platform for Chinese TNCs' IPO. Hence they now account for half of the total market value of the HK stock market, whereas in 1993 they only accounted for 4.78%, and in 1998 only 13.84%. (See Table 12) In 1996, only one Chinese TNC entered the top ten listed companies in HK. In 2006 this number rose to four. [61]

Table 18: The World's Biggest IPO until 2006

Rank	Company	Country origin	Business	Year of IPO	Amount of IPO (millions of dollars)
1	Industrial and Commercial Bank of China	China	Finance	2006	191
2	NTT DoCoMo	Japan	Telecommunication	1998	184
3	Enel Spa	Spain	Power	1999	170
4	Detsche Telecommunication	Germany	Telecommunication	1996	130
5	Bank of China	China	Finance	2006	111
6	OAO Rosneft	Russia	Oil	2006	106
7	A T & T Wireless	UK	Telecommunication	2000	106
8	Telstra	Australia	Telecommunication	1997	100
9	China Construction Bank	China	Finance	2005	92
10	Kraft	USA	Food	2001	87

(Source: Guo Guocan, p. 213.)

Undertaking Overseas Contracts

Another aspect of the 'going global' strategy is the undertaking of overseas contracts, from infrastructures like roads and dams to telecommunication. Table 19 shows that in recent years the value of overseas contracts has increased significantly. According to the same source, in 2005 the accumulated sales value

of China's undertaking of overseas contracts reached 135.8 billion dollars, which is more than the 57.2 billion dollars worth of FDI (non-financial parts), and accounts for 59% of all overseas investment (excluding portfolio investment). [62] Accompanying this trend is a growth in the exportation of workers, which in 2005 reached 565,000. This figure will rise if un-documented Chinese workers are included.

China considers this aspect of overseas undertaking as an important component of its 'going global' strategy. A Chinese scholar noted that

> "Beginning from 11th Dec 2006, the transition period of our construction industry under the conditions of China's accession to WTO will have ended. Our construction industry will face direct competition at the same level on both the domestic and international playing field. Shall we simply remain on the defensive, or shall we go over to the offensive? That is the problem…. Our construction industry….is more urgent than ever to the implementation of the 'going global' strategy." [63]

> "Involvement in overseas contracts enables our country to improve employment (through exporting labor) and also enhances the exportation of domestic machinery and raw materials. For a long period ahead of us, we will face very serious employment problems. We must not forget the fact that our huge quantity of cheap labor is one of our comparative advantages which enable us to compete in the international market."[64]

Table 19: Sales value of China's undertaking of overseas construction projects

Year	Sales value (in billions of dollars)	Annual growth rate (%)
2001	8.9	--
2002	11.19	25.8
2003	13.84	23.6
2004	17.50	26.0
2005	21.76	24.6

(Source: Wang Zhile, 2007, p. 75)

The Giant Chinese Companies

The tremendous market reforms successfully transformed big SOEs into profit seeking corporations and then into TNCs in a very short time. Table 4 shows that whereas in 1995 there were only 2 Chinese firms listed in the Fortune 500, in 2007 there were 22. Table 20 below shows the ranking of these 22 TNCs.

Table 20: The ranking of Chinese TNCs in the Fortune 500, 2007

Rank	Logo of Company	Name	Industry	Revenues ($ millions)
17	中国石化 SINOPEC	SINOPEC	Petroleum Refining	1316.36
24		China National Petroleum	Petroleum Refining	1105.20

29	国家电网公司 STATE GRID CORPORATION OF CHINA	State Grid	Utilities	1071.85
170	中国工商银行 INDUSTRIAL AND COMMERCIAL BANK OF CHINA	Industrial & Commercial Bank of China	Banks	368.32
180	中国移动通信 CHINA MOBILE	China Mobile Communications	Telecommunications	359.13
192	中国人寿 CHINA LIFE	China Life Insurance	Insurance	337.11
215	中国银行 BANK OF CHINA	Bank of China	Banks	307.50
230	中国建设银行 China Construction Bank	China Construction Bank	Banks	285.32
237	中国南方电网 CHINA SOUTHERN POWER GRID	China Southern Power Grid	Utilities	279.66
275	中国电信 CHINA TELECOM	China Telecommunications	Telecommunications	247.91
277	中国农业银行 AGRICULTURAL BANK OF CHINA	Agricultural Bank of China	Banks	244.75
299	中国中化集团公司 SINOCHEM CORPORATION	Sinochem	Trading	231.09
307	宝钢	Baosteel Group	Metals	226.63
342	中铁工程 CREC	China Railway Engineering	Construction	205.20
384	CRCC 中国铁建	China Railway Construction	Construction	187.35
385	第一汽车	China FAW Group	Motor vehicles and Parts	187.10

396	中国建筑工程总公司 CHINA STATE CONSTRUCTION ENGRG. CORP.	China State Construction	Construction	181.63
402	SAIC	Shanghai Automotive	Motor vehicles and Parts	180.10
405	COFCO	COFCO	Trading	179.53
435	中国五矿集团公司 CHINA MINMETALS CORPORATION	China Minmetals	Metals	169.02
469	中国海洋石油总公司 CHINA NATIONAL OFFSHORE OIL CORP.	China National Offshore Oil Corp.	Petroleum Refining	160.38
488	中远集团 COSCO	China Ocean Shipping	Shipping	154.13

The problems of 'going global'

The weakness of Chinese TNCs

Table 20 shows that, although more Chinese TNCs are now big enough to be listed in the Fortune 500, they are chiefly monopolistic companies or primary productive companies like the power industry, oil, banks, telecommunication and foreign trade etc. Their present position owes more to strong government support than effective management or innovations. In fact, most of them are government owned.

Peter Nolan, an expert on China at Cambridge University, remarked in one of his books that

> "A closer look at these (Chinese) firms reveals that they typically benefited from a protected domestic market, and from state support through soft loans, state procurement and protected marketing channels. Despite their enormous achievements, these firms were without exception far behind the global leaders in terms of revenue, R & D expenditure, marketing expenditure and global market share. Without continued state support, they were most unlikely to be able to build on their considerable entrepreneurial achievements, and mount a serious challenge to the global giants in the respective sectors."[65]

High overseas failure rate

Chinese firms are eager to invest overseas but many of them fail to conduct prior feasibility studies, or make investigation into the laws and market situation of the host countries, resulting in losses. A study shows that amongst overseas branches of Chinese firms, only 55% are profitable, and they are mostly non manufacturing firms. Firms which are neither profitable nor experience losses account for 28%. 17% are losing money; most of these are manufacturing firms.[66] Another survey shows that only 30% of overseas investment is profitable, 30% experience losses, and 40% barely make ends meet.[67]

In April 2000, the Hangzhou city government conducted a survey and found that there were a total of 53 non trading firms which conducted overseas investment in 20 countries. 14 of the firms, (26.4%) never really started overseas production at all; 15 of them (28.3%) terminated their operations. The two figures imply a failure rate of 54.7% for these Hangzhou firms. According to one official, successful firms only account for 10%.[68]

With regards to Chinese overseas portfolio investment, the case of the Singapore branch of China Aviation Oil Corp Ltd is quite telling. In 2004 the company raised 180 million dollars in the Singapore stock market, and it announced that the money was for acquiring new assets. It turned out that the company used the money for portfolio speculation, resulting in the loss of 550 million dollars. The company was simultaneously under investigation by the Singapore government for irregularities, and compensation demands from investors as well.

It is reported that 60-70% of A & M have failed. A study shows that after merging, one fourth of companies have experienced more than a 20% drop in their share prices; only 36% maintain income growth. In order to compete for oil resources, for instance, the Chinese oil companies tend to pay a high price to get it, resulting in unbearably high costs to run the projects. [69]

Exporting scarce resources

Unlike the West, China's huge capital export is not the result of a fully developed domestic economy --- where the market is relatively saturated, producing increasing amounts of surplus capital which is unable to find profitable investment at home. In contrast, China is still very poor in terms of GDP per capita and as such capital is a scarce resource. In the Western Region, a vast rural area remains under-developed and is capital-hungry. In the rural areas there are 360 million peasants who do not even have a pipe water supply. Millions of their children have no access to secondary education. Affordable medical care is basically absent. There is little mechanization in agriculture, forcing the peasants to till the land in the way their ancestors have been doing for thousands of years. Any government which claims to work for the benefit of common people should first and foremost use available capital to develop infrastructures and basic social services in the western and rural regions, rather than exporting this scarce resource in huge amount. It is especially troubling when China has to acquire overseas oil and mineral resources, much of which are used just to produce for export --- China's foreign trade is now equal to 70% of its GDP, which is abnormally high --- and then the foreign currency earned is invested abroad again. This export led growth along with the capital export strategy does not really serve the interests of common people. A more sensible development strategy is to prioritize the full and balanced development of the domestic market, with a special emphasis on the state supporting rural development.

More volatility in the Hong Kong market

Huang comments on China's investment in HK:

> "Many in China believe that HKMC (HK and Macau) FDI is overly speculative, i.e., it is driven highly by the changes in the Chinese Government's policies rather than by China's long-term economic fundamentals. One manifestation of the speculative nature of the HKMC FDI is its high volatility. The standard deviation value of the HKMC FDI growth was 67.7 percent between 1984 and 1994, as compared with 47.9 percent for the Japanese FDI growth. However, once the effect of the round-tripping FDI is netted out, HKMC FDI growth becomes much smoother. The standard deviation value is reduced from 67.7 percent to about 47 percent, quite similar to the Japanese FDI growth (49 percent). This finding suggests that the Chinese firms, not HK firms, typically engage in speculative investments that respond quickly to changes in Chinese Government policies rather than to more long-term economic fundamentals." [70]

Hong Kong has already experienced mad speculation prior to the Asian Crisis. We are probably now going through the same bubble economy and volatility as we had in the 1990's. This time it is even more obviously driven by Chinese policy --- chopping and changing, though --- and hot money rather than economic fundamentals. In August 2007 The Administration of Foreign Exchange announced the Pilot Program for Domestic Individual Investment in Overseas Markets without limitations on amounts invested. It sent the HK stock market into crazy speculation, especially as those Mainland investors who received inside information had already put a lot of money into the HK stock market via unofficial channels. Then when the Chinese authorities took a sudden turn in November, announcing that the policy would be shelved, the market dropped violently.

While it is true that with or without Chinese hot money the boom and bust cycle in a money economy is inevitable, it is no less true that this hot money magnifies the scale of the cycle, increasing its volatility, and making it much more difficult to contain when a crisis breaks out. On top of this, the benefits and pain during a commercial cycle is not evenly spread. Even in boom periods the poor do not necessarily get proportional benefit. In Hong Kong whenever there is boom it also implies high rents which the poor cannot afford. It goes without saying that the poor are also the hardest hit in a crisis. It is not just Chinese investment's fault, of course. It is the problem of the system, the system of casino capitalism. The problem is: why does China join this corrupt system when she has other choices?

Lack of Transparency for Chinese overseas investment

The problem with China's overseas investment lies beyond issues of EIA and CSRs. First and foremost, there is the question of secrecy and irregularities, to the extent that no one knows the exact figure of it. One cannot monitor, let alone manage, something one does not even know. When Chinese funds, much of them with a strong government background, emerge as important sources of outward FPI, the secrecy of their movements may be reinforced by the legal protection of 'commercial secret', although it is quite disputable as to the question of whether companies like the CIC (China Investment Corporation) are really commercial institutions or not. For instance, in September 2007, a mysterious Mainland Chinese fund --- some speculated that it was CIC, some said that it was the Chinese Social Security Fund --- bought a great amount of shares in Hong Kong Exchange and Clearing Ltd, the mother company of the HK Stock Exchange. This move raised concern about an increase in the Chinese government's influence on the Hong Kong financial market. Some see this as a move to manipulate the HK financial market. We are not able to pass judgment on the issue. Our purpose here is to reiterate our concern: there is no transparency in Chinese overseas investment. To be fair, Chinese officials are now more willing to release news prior to making decisions on policies, but it is chiefly the domestic and foreign TNCs, or their lobbying companies, which are granted the privilege of sharing information. In a report in the Washington Post, a scholar who wrote the book "The Business of Lobbying in China," was reported as saying "a few years ago foreign companies would grumble that they heard about new policies only after they were announced. That is increasingly no longer the case. Today, even if they don't agree with the final result, they know it's on the horizon."[71] Ironically, worker activists who simply tell foreign reporters their story will be charged for 'maintaining illicit relations with foreign country'.

The absence of basic democracy, of civil liberties, of rule of law and so on and so forth, make both the Chinese officials and the government backed corporations unaccountable to common people, and this breeds corruption. Due to HK's relative credibility in being a clean society, the contrast between HK and Mainland China is especially glaring. Top level management of Chinese firms directly involved in corruption and being charged by ICAC (Independent Commission Against Corruption), are frequently at events in Hong Kong. The case of Liu Jinbao and Zhou Zhengyi is terrifying. Liu was the head of the Hong Kong branch of the Bank of China. Zhou is a company CEO. Liu granted 2 billion yuan of suspicious loans to Zhou and both men misappropriated millions of yuan. The news of Liu's misconduct was first leaked in the US and Hong Kong. Subsequently the two were arrested in the Mainland and were sentenced to jail.

No one can deny that corruption in China is rampant. In the 2007 Corruption Perception Index (CPI) issued by Transparency International, Hong Kong's index is 8.3 and ranks 14th, while China's index is 3.5 and ranks 72nd. We are concerned that in exporting her capital China may export her corruption as well. We have already witnessed this in Hong Kong. Now there are overseas reports which suggest that China's companies are involved in corruption. Lately the Chinese TNC the ZTE Corp, allegedly bribed close associates of President Arroyo of the Philippines in order to bid for a telecommunication project. We are not able to verify the allegation, or any other related reports. One thing is for sure though: without democracy, rule of law, freedom of speech and of association, it cannot be possible to keep corruption among Chinese companies, inside or outside China, in check.

Political interests in Chinese investments

Chinese projects in many authoritarian countries are always controversial. The most remarkable examples are of course the oil exploration in Sudan, and the dam building and gas exploration in Burma (Myanmar), which draw international attention and criticism from human rights and environmental activists. Most recently, as the humanitarian crisis in the Democratic Republic of Congo (DRC) broke out due to the civil war, the interests of the foreign mining companies behind it are again mentioned.

Le Monde Diplomatique reported that Canadian mining companies Barrick and Banro had been "funding military operations [in the DRC] in exchange for lucrative contracts." A report in Z Magazine in 2006 said Barrick still "operates in the town of Watsa, northwest of the town of Bunia, located in the most violent corner of the Congo. The Ugandan People's Defence Force (UPDF) controlled the mines intermittently during the war. Officials in Bunia claim that Barrick executives flew into the region, with UPDF and RPF [Rwanda Patriotic Front] escorts, to survey and inspect their mining interests."[72]

The situation is now further complicated by the presence, in the south-eastern province of Katanga, of the Chinese companies -- China Railway Group (SHSE: 601390, HKSE: 0390), Sinohydro and China Exim Bank. In April 2007, the Chinese investors formed a joint venture with the DRC government, and beat off intense competition and paid Gécamines, the DRC's state-owned mining company, $9 billion for an interest in a series of mining projects worth $80 billion. The controversial agreement has been attacked for being unconstitutional, too advantageous to the Chinese, a risk to public debt, and for its lack of transparency.

In September 2007, China Exim Bank agreed to provide some $8.5 billion for infrastructure to support the country's mining industry. In return China was granted rights to copper and cobalt reserves that were said to be worth $14 billion. In October, the DRC government signed a loan accord with the China Development Bank to finance development of the promised resources.[73] In November 2007, General Laurent Nkunda, the rebel leader in North Kivu of DRC, demanded the renegotiation of all the contracts signed between the DRC government and Chinese companies.

In East Timor, the Chinese investors have even been involved in a tendering process that may have violated the country's law.[74] It was announced in October 2008 that the Chinese Nuclear Industry's 22nd Construction Company had been awarded the tender to build two power generating stations and an electricity grid, with the project budgeted over four years.

The deal probably revealed the close ties between China and East Timor's ruling government, as China was the first country to establish diplomatic relations with the country after it achieved independence in 2002 and has since been a major donor to the oil-and-gas rich nation, providing everything from food to military equipment.

But the project was dealt a legal blow when the Court of Appeal, on October 27 2008, upheld a

petition submitted by 16 members of parliament, many from the opposition Revolutionary Front for an Independent East Timor (FRETILIN) party. The court ruled in line with their complaint that the budget was unconstitutional and illegal because the money for the China-tendered deal would entail a withdrawal beyond the amount permitted by existing laws governing the country's oil revenue-financed sovereign wealth fund, known as the Petroleum Fund.

Environmental and social problems

Apart from political conflicts, Chinese companies are also involved in environmental and labour disputes, and industrial safety problems. In 1998, the state-owned China Non-ferrous Metal Industry's Foreign Engineering and Construction Company Limited (NFC, Shenzhen Stock Exchange: 000758) acquired the Chambishi mine, which first began operation in 1965 amid the privatisation of Zambia's copper mine operations. In 2000, the China Ex-im Bank approved a loan of 470 million yuan for the acquisition deal. No Environmental Impact Assessment was required for loan disbursement until the enforcement of the Development Agreement between NFC and the Zambian government in 2006.

Since then, two major incidents have damaged Chinese investors' reputations. More notoriously, in April 2005 in the single biggest disaster in the history of Zambian mining, there was an explosion at the BGRIMM (Beijing General Research Institute of Mining & Metallurgy) explosive plant that killed 52 Zambian workers. None of the management or Chinese staff at the plant were injured. Secondly, in 2006, during a two-day strike over delays in payments, mine workers protested near the living quarters of the Chinese management. Two of the protestors were shot. No prosecutions followed. The incident enhanced the idea that Chinese bosses were uniquely brutal and exploitative, and that the Zambian government's relation to Chinese was too close.

In March 2008, it was reported that Chambishi mine workers, who complained of low wages, union busting and poor working conditions, had launched a violent assault on the NFC's management. As a result, 500 mine workers were reportedly sacked, seven union members were arrested and a Chinese manager was admitted to hospital.[75] After the riot, NFC announced new investments of US$150 million in April to develop the west ore body and create 1,000 new jobs as part of measures to increase profitability in view of the raised mineral and royalty taxes.

NFC chief executive officer, Luo Xingeng, said the company was seeking assistance from the ministry of labour and social security to help it understand the country's labour laws. He said it took the mining firm three years for managers to start understanding the labour laws.[76]

In another case, Chinese companies are also active in Lao's hydropower boom. The Nam Tha 1 Hydropower Project in the mountainous far northwest of Laos was first proposed in the early 1990s, but has only recently been taken forward by the China Southern Power Grid (CSG). Nam Tha 1 would require the resettlement of almost 8,000 people from 1,379 households in 34 villages, most of whom are ethnic minority people. The local terrain will make it impossible to provide new rice paddy fields for resettled villagers, and the main alternative livelihood option appears to be growing rubber and upland rice after extensive forest clearance. Villagers' basic food security would be compromised, and they would be likely to suffer impoverishment in the resettlement villages.

Nam Tha 1's environmental and social impact assessments underestimate the scale and magnitude of the impact that can be expected from such a major dam project. The documents' findings and conclusions are flawed and biased. At local consultations, participants are presented with a pro-project argument which basically asserts "the project has clear benefits to the economy, society and environment" and claims that any environmental impacts are minor and can be mitigated.

Is China's overseas investment helping the developing countries?

China has yet to pose serious threat to the commercial interests of the US Empire. That does not mean, however, that its investment there will always be welcomed. As Chinese TNCs are becoming more ambitious, they may face more obstacles in investing in developed countries. For the moment China's outward FDI still mainly goes to these countries. The initial obstacles which CNPC faced in its first trial of IPO in the US, and the unsuccessful acquiring of UNACO by CNOOC, however, make Chinese TNCs realize that nationalist feelings, or Western government's consideration of 'national security', may make things difficult for them. On top of this, are local laws, social movements, the trade unions etc, all may hamper their ambitions there. Cui Zhicheng, the manager of the Beijing No. 1 Machine Tool Plant, told the story of his hard bargain with the German Work Council in the course of acquiring the German plant. He negotiated with the Work Council for half a year with little progress and was becoming desperate, because the Work Council demanded a 35 hour week but Cui could only agree to a 38 hour week. "We told them the East German works for so and so hours, and the Czechs, and the Americans, and the Japanese, so on and so forth."[77]

We do not know if Cui was finally successful or not. Chinese TNCs are now, however, coming to understand that Western trade unions, although much weaker than thirty years ago, still pose problems to their grand strategy of 'going global' to the West.

These problems may not really deter China's TNCs' interests in investing in developed countries. After all, there are many other factors at work other than the aforementioned. Still it speaks for the fact that China may need to diversify her overseas investment. The probable alternative is poorer developing countries. Tan Xiao, the Chinese scholar, advised the authorities that

> "China is not able to directly compete with developed countries, but she can dominate small or medium size developing countries." He then gives the example of Guangzhou's First Cigarette Factory: its three main brands now have market coverage of 90% in Cambodia.[78]

If China's investment in developing countries seeks 'dominance' there then it is quite alarming. It is also in line with the Haier CEO's remarks on wolves --- where, according to this logic, those poor developing countries might be the sheep? We can perhaps relax because Tan is only speaking in his personal capacity as a scholar. We have also demonstrated above, however, that there are disturbing signs about China's direction as far as her relations with developing countries are concerned. According to the section on exporting over capacity in this paper, it is clear that China's intention is not about helping developing countries. It is about exporting China's problem. It is not necessarily bad for the host countries, though. It depends on whether the people of the host countries really need these capital goods, and whether they can pay reasonable prices for them. When the host countries are absent of democracy and rule of law, however, it implies that common people have no way to influence the government's economic decisions or the 'market', and of course they have no way to raise any opposition to overseas investment when it harms rather than benefits local people. Unfortunately this situation is common in developing countries like Burma and Sudan. Chinese companies moving to these countries make the threat quite real.

In Africa there is serious concern among civil society over China's economic activities. Dot Keet wrote that:

> "Chinese imports and Chinese traders on the ground are ousting small local traders; and this, in turn, is resulting in pronounced anti-Chinese xenophobia. Construction – many of which rely on imported Chinese workers, skilled and unskilled, and therefore do not create much local employment and do not transfer production/management skills…..Manufactured goods which are flooding into African countries are wiping out small, and even relatively larger producers which do not enjoy the direct and indirect subsidies that industries receive from Chinese authorities." [79]

The Chinese government is well known for its hostility towards the labour rights of free association and the right to strike. There is growing concern over whether China's investments overseas – most of them are state enterprises funded – are also exporting China's anti-labour regime as well, particularly so when the host countries are keen on providing an excessively pro-business environment to foreign investors at the expense of their own fellow workers' interest. Three researchers from the Ghana Trade Unions Congress wrote that

> "There is popular perception [that] Chinese investors/employers are notorious for their disrespect for labour rights…For the construction union (CBMWU), it believes that the gains it has made over the years in the areas of collective bargaining and social dialogue are being threatened by the Chinese and that if it does not act quickly both foreign and local construction firms may follow the bad example of the Chinese in a 'race to the bottom'. The General Secretary describes the entry of the Chinese in the construction industry as a 'direct threat to social protection' in Ghana. According to the General Secretary, the Chinese do not hesitate to sack workers who show any inclination towards unionism even though they (the Chinese management) claim that they are not against unionisation.
>
> "The Chinese do not want to accept the five working days that prevails in Ghana. They indirectly force workers to work every day of the week. They also prefer to hire workers on temporary basis even for permanent jobs." [80]

There are necessarily areas where China's investment in developing countries works in a more positive way. For instance, China is more willing than the Western investors to invest in infrastructure, in addition to bringing in a lot of cheap consumer goods and capital goods. The balance sheet has yet to be drawn. It is difficult to make a correct and objective balance sheet, however, first and foremost because of the fact that much of China's operation is not transparent.

The Chinese government, as usual, reiterates her policy of 'non-interference' and her loan does not have strings in the cases of Western lenders. Yuza Maw Htoon and Khin Zaw Win responded that

> "Its loans do have strings, in the form of ties to the use of Chinese companies, guarantees of access to future oil production and, internationally, to African states toeing the Chinese line not only on Taiwan, but also in the forums of global governance institutions." [81]

Another researcher Ali Askouri wrote that

> "African states are still dominated by tribalism, elitism, and regionalism. To these characteristics one can add the weak institutions and administrative structures of African states, which limit their ability to solve internal disputes and conflicts…China's open-door lending policy does not appear to take these complexities into account. It is not surprising then if China's financial aid to African countries end up fuelling ongoing internal conflicts or nurturing new ones. Indeed, the open-door lending policy has brought China nothing but defamation, particularly among ordinary African people…China's recent experiences of pursuing its 'no conditions policy' have shown that many African governments who turned up at China's door were not qualified for any assistance by moral, ethical, humanitarian or any other acceptable standards." [82]

Aids for whom and what?

Chinese overseas loans in Africa have been criticized in the west for supporting military regimes and environmentally destructive projects. For instance, the British international development secretary, Hilary Benn, warned in 2007 that China offering billions of dollars in unconditional aid and cheap

loans to African governments risks driving back into debt countries that have only just benefited from debt relief, and undermines efforts to create democratic and accountable administrations.[83] This is hypocritical since it has been the British government's neo-colonial policy towards Africa which has been responsible for the latter's indebtedness.

There are attempts to defend China, for instance:

> "China seems a lesser evil than the West on key issues in Africa's development and African dignity…A Nigerian official has also noted that 'the Western world is never prepared to transfer technology – but the Chinese do [and] while China's technology may not be as sophisticated as some Western governments', it is better to have Chinese technology than to have none at all… For many Africans then, there is a 'Chinese model'… an image of a developing state that does not fully implement Washington consensus prescriptions, does not impose onerous conditions on African states' policies and is more willing than the West to help develop predicates of industrialism in the global South, including by opening many factories in Africa…This perception is now part of an image often labeled 'the Beijing consensus'." [84]

Before commenting on the lesser evil argument, let us first put the whole debate within a context of the qualitative changes of China's policy in foreign aids and investment since the reform. In February the Beijing Review carried an article to come to the defence of China's role in Africa. In responding to the accusation that China's role in Africa is colonialist, the author has this to say:

> "Though China is not a colonialist, it is a successful capitalist in Africa. The path it has taken on that continent is consistent with the logic of market capitalism-liberal trade based on fair contracts…..Although capitalism implies exploitation to many, China's capitalists have to limit their exploitation within the framework of the WTO and abide by local laws……To some extent, Chinese people's influence on African society may include environmental pollution, excessive development of resources and collusion between them and local officials. But these phenomena can be removed by the rule of law." [85]

The interesting point here is the honest recognition that Chinese overseas investments and lending are nothing but 'successful capitalist' practices, rather than 'socialist' which until today is the state religion that every Chinese citizen has to adhere to. These lines would not have been published if it was written in Chinese. Anyway, the essence of the comment here is absolutely in line with a 2000 State Council document on foreign aid, which includes the following point:

> "Through foreign aid policy and our funds, we shall be able to make the most of our overseas manufacturing projects and extraction projects. We shall look into the common needs of both the aid recipient countries and our country, and conduct accordingly a whole range of big projects which can bring high investment returns and also a big political impact. This will in turn give an impetus to the launching of more medium and small projects. Foreign aid has to be linked to the export of our machinery and high tech products." [86]

These practices are no doubt in alignment with 'capitalist' practices and have been quite common in many aid giving countries. China's present practices, however, are quite different from what she proclaimed in 1964.

In 1964 the Chinese government announced the Eight Principles Concerning Foreign Aid:

1. The PRC (People's Republic of China) considers that her foreign aid is granted in accordance to equal and mutual benefit, and never regards it as a unilateral favour.

2. The PRC grants aid with the utmost respect to the sovereignty of the aid recipient countries and never seeks any privileges for herself.
3. Aid recipient countries can request deferred payment of loans when necessary.
4. The objective of the PRC's aid is to make sure that no aid recipient country ends up relying upon more aid and is instead enabled to become self reliant, and independent with regards to development.
5. The projects which the PRC gives priority to are those which can quickly increase the revenues of the aid recipient countries.
6. The PRC provides the aid recipient countries the best of her own machinery and products, and the prices are negotiated in accordance to international prices. If the machinery and products delivered are defective, the PRC guarantees a return of the goods.
7. When the PRC provides aid recipient countries with a certain kind of technology, she guarantees the latter are trained until they can handle it.
8. Experts sent by the PRC shall enjoy the same level of benefits as those experts from the aid recipient countries. They shall not be privileged. [87]

The 1964 policy guidelines were in line with the overall foreign policy of China at that time, which was supportive of national liberation movements and more self-reliant growth models in developing countries; she was also fiercely against the US Empire. On the other hand, the guidelines mentioned nothing about 'high investment return', and the spirit of the guidelines shows no evidence of seeking China's commercial interest. The going global strategy, hence, represents a regression of the Chinese policy and foreign aids policy of relative progressive third-worldism to one which prioritizes Chinese companies' commercial interests, within a broader context of neo-liberalist strategy of seeking free trade agreements with countries in the world. This should be of concern for any people who support the people in the third world in their rights to development, because even if China's performance in developing countries is not as bad as the Western countries (and we believe they are not), this qualitative change itself is alarming. For all progressive social movement activists, especially those in the poor countries, they are just too familiar with the logical consequences of 'the logic of market capitalism-liberal trade': unscrupulous exploitation of labour and the environment, hostility towards social movements and serious attempts at capital control etc. What is striking here, however, is that this kind of 'lesser evil' discourse carries little criticism on China's tremendous regression in its foreign aids and investment policy. All the justified scepticism among progressives about unequal exchanges between more developed and less developed countries, about foreign investment and about 'developmentalism' as practised by the Western countries, is dropped here.

In the above mentioned paper it admits that "the commonalities of Chinese and Western approaches are now fundamental", but add that "but important distinctions also exist." Further on the paper says that "it is not clear whether the differences outlined here will persist over the long-term[88] While the concrete outcome can never be predetermined, one must point out the fact that, as a late comer, China's entering into global competition with the West for market and resources necessarily results in a race to the bottom in relation to global labour rights and environmental protection.

There may be a grain of truth for the 'China as lesser evil' discourse, especially for any particular African country when hard pressed by the IMF or World Bank or any other Western commercial banks, now it can turn to China for loans or investment. While it is always possible for progressive movements to render tactical support to China's aids or investment in well defined circumstances, it has to be judged case by case, and always bearing in mind that a tactical support should never imply giving up on a general criticism of the Chinese government's, or any government, for their uncritical acceptance of 'the logic of market capitalism-liberal trade' and the WTO regime, or this tactical support may degenerate into wholesome and un-principled support for the latter. Therefore our criticism of the Chinese government is not singling out China; rather, we are just extending our criticism of the unjust international trade and investment regime – a regime which the Western governments and their

corporations have been trying hard to underpin – to the Chinese government. Failing to uphold a principled criticism of this regime and to extend it to the Chinese government, may risk turning a blind eye to the negative impacts that China's foreign projects have on labour and the environment of the host countries, or their long term interest in autonomous development. This also implies possible failure to give support to the labour and environmental movement of the host countries which are resisting exploitation by unscrupulous foreign investors, including Chinese companies.

In 2005, China's Ministry of Commerce suggested that the OECD and China cooperate on issues of corporate social responsibility.[89] The Export Import Bank has issued its document on environmental policy, reiterating China's commitment to safeguarding the environment in her overseas project. One scholar, however, has this to say about the evaluation mechanism of Chinese aid:

> "How do the Chinese program their aid? Do they do strategic country planning like the US? Do they manage by results? Do they evaluate the outcomes and impact of their aid? 'No' appears to be the answer to all of these questions though they do apparently check to make sure their aid monies were spent in the way planned…. They do not, according to the senior MOFCOM (Ministry of Commerce) official I recently interviewed, yet have an evaluation system though they recognize the need for such a system and are planning to create one soon." [90]

In October 2007 it was reported that China had decided to lend 5 billion dollars to the Congo for infrastructure and mining projects. The IMF representative in the Congo warned that the debt ridden country should not borrow more. It is sort of ironical, if not hypocritical, for the IMF to concern itself with the un-payable debt of poor countries, for the IMF, along with the World Bank, have been responsible for the piling up of the debts of these poor countries. Putting aside the IMF representative's remarks, the indebtedness of poor countries is a real issue which cannot be discarded. How are we going to make sure that China's loan really works for common people there without making the country become sucked into the trap of loans, and without damaging the environment? How are we going to make sure that the mineral projects will not eventually only benefit the Congo ruling elites and the Chinese companies, leaving local people displaced and exploited? Is there any mechanism which ensures that these things will not happen? Unfortunately, there is no such mechanism.

There are discourses which expect China to act as a counter force to the US Empire. Being a huge country and one with a strong manufacturing base, China, to a limited extent, can take this role if she wants it. But the problem is, does she want it? And how far will she go? More importantly, for whose sake? Though there is political disagreement or even competition between the two countries, one must not lose sight of the fact that both share the same socio-economic agenda of neo-liberalism, and the same agenda of making profits through the close collaboration between TNCs from both sides. The complete opening up of China's market under the terms of her accession to the WTO, the gradual erosion of her capital control, and the great waves of privatization and down-sizing, the commercialization of medical care and tertiary education, the ban on independent trade union initiatives, all speak for this. Indeed they constitute the premises of the 'inviting in' and 'going global' strategy. If China rises along this neo-liberal path, even if it clashes with the US in its way, can one seriously argue that these clashes are necessarily beneficial to the working people and the environment of developing countries? If the answer is yes, then it follows that neo-liberalism and corporate led globalization is necessarily beneficial to the latter as well. Can anyone who opposes neo-liberalism seriously argue for that? There are of course possibilities that in certain scenarios China's rise as a strong neo-liberal capitalist state may act to the advantage of certain developing countries, or at least certain sections of their population. This aspect of matters is just one small piece of a big puzzle whose names are neo-liberalism, deregulations, privatizations etc, and it is important for us to refer to the whole picture even when we can identify some positive elements in the picture.

Or we may narrow the debate to a more concrete issue: does China's rise to the status of important international lender, to a certain extent challenge the hegemony of the International Financial Institutions (IFIs), and thus give some space for developing countries? Our response is that it is possible. It is also possible, however, that things work in the opposite direction. One must not forget that in this scenario China is only acting in accordance with her own commercial or political interests, which may or may not intersect with the interests of the developing countries. Even if the answer is 100 percent beneficial to the developing countries, the question remains as to whether these benefits can trickle down to working people and the environment. Governments always claim that they do, but when there is no transparency regarding aid, no democratic mechanism to allow both the Chinese people and the people of the aid recipient countries to assert control over the aid, how on earth are we able to verify these claims?

We aware that in dealing with this vast subject there is no simple answer, and that linear thinking is of no help to us. Multiple responses in accordance to the complex and multiple facets of the issues are probably required.

Corporate Social Responsibility to be developed

In fact, Chinese government policies appear to support the view that Chinese standards should inform the conduct of Chinese businesses overseas. In September 2008, the Chinese Academy for Environmental Planning, the Global Environmental Institute, and the University of International Business and Economics announced plans to create environmental guidelines for Chinese companies investing overseas.[91] The recent China Exim Bank guidelines explicitly instruct lenders to follow Chinese or international policies when the host country's standards are inadequate. The State Council's Nine Principles on Encouraging and Standardizing Foreign Investment,[92] as well as the Guidelines on Fulfilling Social Responsibility by Central Enterprises[93] promulgated by the State-owned Assets Supervision and Administration Commission both encourage Chinese companies to behave responsibly when operating in other countries.

China has included EIA (Environmental Impact Assessment), public participation, and resettlement benefits in its own laws. Since 2003, the Environmental Impact Assessment Law has required EIA for all major development projects; the process also includes public participation, and the public release of the EIA. These standards were further clarified in the 2006 "Provisional Measures on Public Participation in Environmental Impact Assessment."[94] Also in 2006, the State Council implemented Order No. 471 "Regulations on Land Requisition Compensation and Residents Resettlement in Construction of Large and Medium-sized Water Conservancy and Hydroelectric Projects," which stated that affected people must be given compensation, and that resettlement plans must be developed to include economic development plans, the creation of jobs, and plans for new farmland.[95]

As China is not a member of the OECD (Organisation for Economic Co-operation and Development), Chinese companies are also not parts of the OECD Guidelines for Multinational Enterprises. There are a few notable exceptions, however. China Southern Power Grid Co. has general environmental policies, while Sinohydro is a member of the International Hydropower Association, which has general guidelines instructing its members to conduct EIA, avoid or mitigate displacement, and consult affected communities. Perhaps the most comprehensive guidelines were adopted by China Exim Bank. These guidelines encourage EIA as well as social impact assessment (SIA), and require lenders to conduct EIA, consult the public, and "properly handle resettlement problems" when completing overseas projects. The guidelines further instruct lenders to follow the host country's laws, but when those laws are lacking to refer to Chinese or international policies as a benchmark.[96]

The international community has increasingly recognized the need for corporate responsibility, as exemplified in the draft UN Norms on the Responsibility of Transnational Corporations, the UN Global Compact, and the OECD Guidelines for Multinational Enterprises. All three of these guidelines instruct corporations to avoid harming people affected by their projects, while the UN Norms and the OECD Guidelines further encourage corporations to conduct EIA and consult affected communities. China's Ministry of Commerce even recommended that the OECD and China cooperate on issues of corporate social responsibility.[97] The Equator Principles encourage similar commitments in the financial industry. In early 2008, China's State Environmental Protection Administration (now the Ministry of Environmental Protection) announced plans to bring the Equator Principles to China's banks.[98]

On top of this is the need for the world labour movement to fight for an enforceable International Labour Convention and a series of international conventions on the protection of indigenous people and the environment. From a Chinese perspective, however, nothing is more important than the need to win political freedom for all Chinese citizens so that they can develop social movements to put the Chinese government and all its policies, including its foreign policies, under democratic control and monitoring. Only with this can Chinese working people be united with the international movement in checking the corporations and their government's predatory agenda at home and abroad. It looks impractical now but we should not lose hope. Though suppressed, the hope for a democratic and egalitarian China among common Chinese has never died.

Endnotes

1. The report was first prepared for a Bangkok meeting: Grassroots Strategies for Sustainable Chinese Investment, on 3-6 November 2007, convened by Friends of the Earth-US, Earth Rights International, Focus on the Global South, Globalization Monitor and International Rivers Network. The information and statistics mainly belong to the period before or immediately after the meeting, with minor exceptions. The purpose of the report is to provide an overview on China's overseas investment from a labor and environmental perspective, and to stimulate debate on the issue among social activists. It was presented at Capital Mobility Researchers' Meeting on 28-29 September 2010 in the Philippines, organized by Asia Monitor Resource Centre and the Asia TNC Monitoring Network (ATNC)
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19. *Zouxiang Shijie de Zhongguo Kuaguo Gongsi*, (Chinese TNCs going out for the world), edited by Wang Zhile, China Economic Publishing House, 2007, p 8.
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22. *XuJiatun huiyi lu* (Memoirs of Xu Jiatun), Hong Kong United Daily News Co. Ltd, 1984, P. 235
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24. Guo Guocan , p. 172
25. Ibid, p. 257-9
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27. Wang Zhile, 2007, p. 12
28. Tan Xiao p. 540
29. Tan Xiao, p. 129
30. China International Economic Consultants Co. Ltd, http://www.chinavista.com/business/ciec/ch/chciec19981013.html#cn00006
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32. Ibid, 545-6.
33. Wang Zhile, 2004, p. 33
34. *FDI in China, An Asian Perspective*, Yasheng Huang, Chinese University Press, HK, 1998, p. 57
35. *Zhongguo dixia jinrong diaocha* (Investigation on China Underground Banking), edited by Li Jianjun, Shanghai People Press, 2006, p. 260. There is also the same underground banking between Taiwan and Mainland China. On 31 Oct 2007 it reported that Taiwan authority uncovered an underground bank which undertook money laundering between Mainland and Taiwan, amounting to 5 billion yuan in just 2 years.
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37. HK's fresh water relies on the Dongjiang river of the Guangdong province, and HK pay million of dollars annually to Guangdong government for the supply.
38. Guo Guocan, p. 201.
39. Ibid, p. 215.
40. Tan Xiao p. 172
41. It is projected that in 2015 China oil consumption will reach 3600 million tons, which is twice of her domestic production. SeeTan Xiao p. 255
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64. Tan Xiao p 542
65. *Transforming China --- Globalization, Transition and Development*, Anthem Press, 2004, p. 221.
66. Tan Xiao 535
67. Wang Zhile, 2007, p. 78
68. Tan Xiao, p.172
69. Wang Zhile, 2007, p. 78 and 119

70. Huang, p.63
71. Washington Post, 2 October 2007. It also reported that foreign companies successfully lobbied Chinese officials to remove conditions on hiring temporary workers in the new labor laws and also water down the language in the early drafts of the anti-monopoly law. http://www.washingtonpost.com/wp-dyn/content/article/2007/10/01/AR2007100101672.html
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Capital Mobility in the Philippine Automotive Industry and its Impact on Workers

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Introduction

After almost six decades since the set-up of the first assembly line in the Philippines, the local automobile industry, as well as its contribution to the domestic economy, has remained small over the years. Despite vigorous attempts to liberalize the industry through various free trade agreements, tariff adjustments, and investment incentives to encourage more players, the industry has failed to develop and maximize the supposed benefits and so called opportunities brought about by globalization's promises. This raises questions as to what is the role of capital in the current state of the industry, what is government's part in bringing the industry to this predicament, and finally, how are the workers in the automotive industry affected.

This research paper aims to address these questions by analyzing capital mobility in the Philippine automotive industry. This objective is achieved by examining the role and nature of the investment capital of Asian transnational companies (TNCs) in shaping the current state and general characteristics of the Philippine automotive industry, and in dictating the role of the Philippine automotive industry in the global supply chain.

This paper is presented in six sections. The first section briefly describes the global trends and challenges in the automotive industry during the global economic crisis, i.e., since 2008. The second section gives a brief history of the automotive industry in the Philippines up to the current state of affairs. The third part discusses present government programs, policies and free trade agreements and their impact on the development of the industry. The fourth part gives a detailed insight on the industry through mapping the current automobile companies owned and operating in partnership with Asian transnational companies (TNCs) in the Philippines. The fifth part covers some case studies of workers' situations in four major automobile companies. The last section presents our analysis, some conclusions, and recommendations for further research.

Data and information were gathered from industry researches, reports from associations of automobile companies, and interviews with unionists, and members of relevant government agencies. The study focused on automobile companies with Asian capital, or those companies which are either subsidiaries of Asian TNCs, joint ventures of local and Asian auto firms, or purely Filipino-owned.

I. Global Trends and Challenges in the Automotive Industry

The global automotive industry was one of the most severely affected sectors in the real economy by the global economic and financial crisis in 2008. Due to the exposure of many major players in the automotive industry to various financial derivatives, the industry immediately initiated massive retrenchments of autoworkers worldwide, from vehicle assembly line workers to parts manufacturers and retailers, the entire *supply* chain was affected. To prevent a total collapse of the industry in the US, the auto giants immediately received bailout funds from the U.S. government.

While global economic performance indicators show that economic recovery still has a long way to go, automotive industry analysts have reported relative growth in the industry in the emerging markets of China, India and Eastern Europe. Established markets in Western Europe, meanwhile, continue to show no growth due to contraction in demand for automobiles.[1] Meanwhile, vehicle sales in North America saw a temporary bounce brought about by fleet purchases from rental car agencies, corporate buyers and government in the United States, and increasing purchases by households in Canada.[2] Overall global car sales increased by 6 percent from 2009 to mid-2010, lead by Asia with 15 percent growth, North America with a 9.5 percent increase, South America 9 percent, and Eastern Europe 5 percent; Sales in Western Europe contracted by 10 percent during the period. (Please see Table 1 below).

Numerous industry research reports have been released on current supply and demand trends and challenges in the global automotive industry. These trends can be grouped in two categories: The first are trends that were brought about by pressures from the market, and the second, trends in the production and the restructuring of the global supply chain.

Table 1: International Car Sales 1990 to mid-2010

International Car Sales Outlook

	1990-99	2000	2001-07	2008	2009	2010f
			(millions of units)			
TOTAL SALES	**39.20**	**46.64**	**49.53**	**52.17**	**50.91**	**53.96**
North America*	**16.36**	**19.77**	**19.36**	**15.85**	**12.68**	**13.88**
Canada	1.27	1.55	1.61	1.64	1.46	1.53
United States	14.55	17.35	16.71	13.19	10.40	11.50
Mexico	0.54	0.87	1.04	1.02	0.82	0.85
Western Europe	**13.11**	**14.75**	**14.57**	**13.54**	**13.62**	**12.25**
Germany	3.57	3.38	3.29	3.09	3.81	3.18
Eastern Europe	**1.18**	**2.38**	**2.54**	**4.01**	**3.01**	**3.16**
Russia	0.78	1.03	1.42	2.73	1.47	1.55
Asia	**6.91**	**7.85**	**10.82**	**15.07**	**17.68**	**20.39**
China	0.33	0.61	2.56	5.04	7.31	8.77
India	0.31	0.60	0.81	1.20	1.46	1.72
South America	**1.64**	**1.89**	**2.24**	**3.70**	**3.92**	**4.28**
Brazil	0.94	1.17	1.40	2.23	2.48	2.77

*Includes light trucks.

Source: Global Auto Report, Scotiabank Group, July 2010.

Global trends from the demand-side

In addition to the overall unfavourable macroeconomic and financial circumstances resulting from the impact of the global economic crisis, other fundamental market-driven trends are shaped by the following pressure factors according to Schwarz:

1. overcapacity of markets and high cost of energy and raw materials;
2. pressures arising from global efforts to address climate change; and
3. consumer demand for increasing personalization of vehicle models.

The overcapacity in the industry is actually the manifestation of the inherent structural problem of the global capitalist system of production, that is, the crisis of overproduction, where massive production of commodities outpaces the capacity of markets to buy these commodities resulting in falling rates of profit for companies. This is clearly seen in the huge gap between global vehicle production and global vehicle sales. With rising global unemployment and the decreasing value of real wages, the crisis of capitalist production will only worsen the problem of overcapacity of industries.

This problem is aggravated by the increasing global demand on limited resources of energy and raw materials. Increasing global demand had caused a continuous upward trend in commodity prices in the global market, raising the cost of production for the automotive industry in general. Volatile fluctuations in currency exchange rates and interest rates contribute to this unfavourable market environment.[3]

Pressures created by multilateral efforts to address climate change, such as emission-level targets among countries, are forcing the industry to focus its production on research and development to meet these targets. This environmental or "green" movement, together with the customer demand for personalization (using the right product for a specific use) and original equipment manufacturers' (OEM) building of new customer segments is encouraging more fragmentation (vehicle models) in product offerings. This industry response --creating more models of vehicles to adapt to consumer personalization-- calls for measures to control incremental costs resulting from this fragmentation. One response has been manufacturing universal platforms, modules, and components that can be shared across models and brands.

Likewise, the uneven growth in demand of different regions necessitates OEMs redefine global supply chain strategies, layouts and operations. OEMs and their tier-1 suppliers must establish their local presence in these emerging economies to benefit from the new growth opportunities. According to industry analysts, OEMs and tier-1 suppliers must tap into the local supply base of these emerging economies to take advantage of cost levels and fulfil local content requirements.

Global trends on the supply-side

On the supply side, global trends in production are primarily dictated by the perennial need of automotive companies to reduce production costs and increase production efficiency. Decisions on how to meet this need are influenced by numerous factors. Some of these are consumer preferences, as discussed above, that determine current styles, reliability and performance standards of vehicles. Government trade, safety and environmental regulations furnish the environment for the automotive industry in a country. Finally, a highly competitive marketplace pushes automotive companies to engage in research and design innovations and update manufacturing processes. The implications of these factors are immense and are spread along the entire supply chain of the automakers. [4]

Production in the global automotive industry can be classified into two (2) major categories: the assemblers (OEMs), and the suppliers. The operations of assemblers include designing and assembling cars while suppliers manufacture the various auto parts and components needed in the assembly. Traditionally, the suppliers were further organized in multiple tiers. First tiers would manufacture and supply components directly to the automaker. Second tiers would produce simpler individual parts that would be included in the component manufactured by first tiers. The third and fourth tiers were mostly suppliers of raw materials.

But due to the restructuring of the global supply chain and the changing roles of suppliers in the industry, a new categorization among auto parts and component manufacturers emerged. The four tiers were replaced by 1) raw material supplier; 2) standardizer; 3) component specialist; and 4) integrator. The illustration below shows the focus and responsibilities of each category, their required market presence and capabilities, and types of components manufactured.

Table 2: OEM Supplier Characteristics

	Raw Material Supplier	Standardizer	Component Specialist	Integrator
Focus	A company that supplies raw materials to the OEM or their suppliers	A company that sets the standard on a global basis for a specific component or system	A company that designs and manufactures a component tailored to a platform or vehicle	A company that designs and assembles a whole module or system for a car
Market Presence	•Local •Regional •Global	•Global	•Global for 1st tier •Regional or local for 2nd, 3rd tiers	•Global
Critical Capabilities	•Material Science •Process engineering	•Research, design, and engineering •Assembly and supply chain management capabilities	•Research, design, and process engineering •Manufacturing capabilities in varied technologies •Brand image	•Product design and engineering •Assembly and supply chain management capabilities
Types of Components or systems	•Steel banks •Aluminum ingots •Polymer pellets	•Tires •ABS •Electrical Control Unit	•Stampings •Injection molding •Engine components	•Interiors •Doors •Chasis

Source: *The Automotive Supply Chain: Global Trends and Asian Perspectives*, Asian Development Bank, 2002.

According to a study conducted by the Asian Development Bank (ADB), "The Automotive Supply Chain: Global Trends and Asian Perspective," the direction of the global automotive industry is characterized by a change in the role and responsibilities between the assemblers and suppliers. The trend towards outsourcing is still likely, with OEMs designating more responsibilities on the production side to suppliers. The rationale behind this change is that overall revenues from distribution and after-sales service have exceeded the revenues collected in the assembly business. For the OEMs, the car is evolving from being a product to being more of a service. Therefore, it is more profitable for OEMs to focus more on car-related services and distribution and less on manufacturing and assembly. This is also an effective way of coping with the huge costs associated with manufacturing an ever growing number of new modules and systems. Since the late 1980s, OEMs have gradually passed on the responsibility of developing, manufacturing, and assembling important sections of the car to their suppliers, increasing suppliers' responsibilities over production.[5]

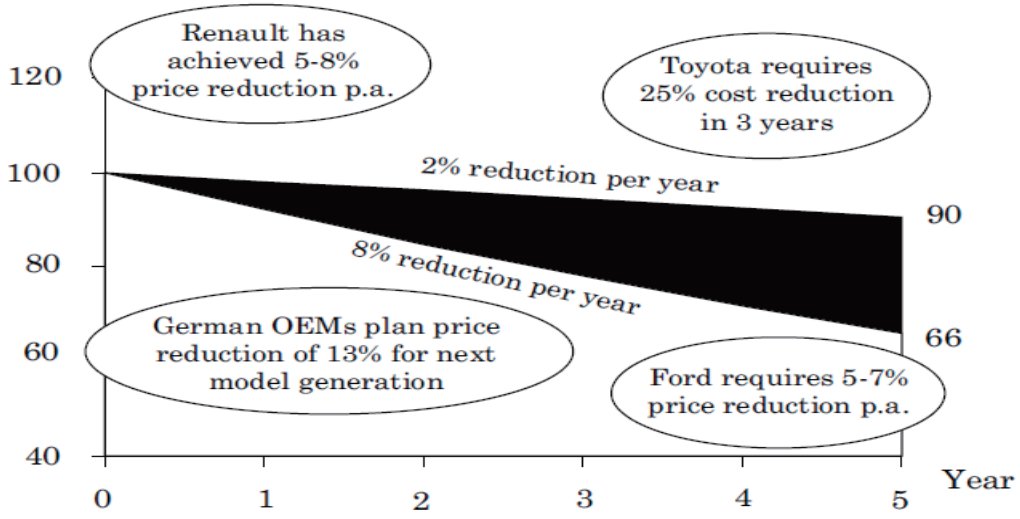
Research and development costs for components and modules have also been passed on to suppliers. Cost-wise, outsourcing is only efficient for the OEMs if the supplier does all the engineering work, in complex components such as the automatic braking system (ABS) where the development cost is assumed to be distributed to all of the supplier's clients (assemblers). Knowledge sharing has also been redefined due to this reversal of roles. In the past OEMs were concerned with transferring best practices in manufacturing to their suppliers. Now, they are hoping to learn from them. With this, the large supplier companies have become the key actors in the global automotive industry.

While a vast control over manufacturing has been given to the large supplier companies, OEMs still exercise power over them since they are the suppliers' clients. In addition, among the OEMs, there is a clear strategic goal towards lessening their number of suppliers. For a single vehicle to be produced, the

number of companies, both suppliers and assemblers, engaged in its production is estimated to be 5,000. The direction nowadays, is to lessen the number of suppliers. Renault, for example, reduced the number of its suppliers to 350 from 400 in the year 2000.

OEMs have also demanded price reductions from their suppliers by putting it explicitly in their contracts. This passes on the pressure of reducing high production cost to suppliers. The following figure shows price reductions as dictated by OEMs to their suppliers.

Figure 1: Price Reductions Demanded from Assemblers



Source: The Automotive Supply Chain: Global Trends and Asian Perspectives, ADB, 2002.

Technology is another factor that determines the course of the auto industry. Cars nowadays have become more reliant on electronics and less reliant on mechanics. Electrical systems, electronic sensors, and actuators are integral in the control and monitoring of car performance. They are used to troubleshoot and perform diagnostics, serve in navigational systems, and function in the entertainment components. The number of electronic functions and devices in vehicles manufactured today has more than tripled compared to vehicles manufactured two decades ago. At least 35 percent of a vehicle's cost can be attributed to its electronic components. New technologies are also shaping the way the automotive industry does business. For example, with e-commerce being more accessible to consumers, the Internet is used by buyers to obtain information about the car they want to buy, and assemblers and suppliers conduct their transactions on-line.

New business services related to the automotive industry have also emerged. The research and engineering services for the development of models and components, and roles as aggregator and intermediator for firms to systematize supply relationships are some of the services that are also outsourced in the automotive industry. Additionally, the burden of supply chain management is outsourced by the OEMs.

Ultimately, assemblers still retain the decisive role in setting the direction of the global automotive industry. The ADB study, "The Automotive Supply Chain: Global Trends and Asian Perspectives in 2002 discussed the various strategies adopted by the assemblers. These include continuing their global perspective in their operations. New models are launched at the same time in different locations. They have been trying to replicate supply chain structures in locations where they infused new investment and demand that suppliers also be present in these new regions where they are located. Another strategy is the reorganization of their vehicle portfolio around product platforms and car modules and systems, focusing on common platforms and interchangeable modules. This would lower the cost of production while responding to increasing fragmentation due to consumer preferences. For the suppliers, the path to growth is to advance from their current tier into the next higher tier.

Automotive production and market in Southeast Asian Region

Automotive giants look at the region as one market and not on a country-by-country basis. This is because investing in any country in the region gives the investor access to neighbouring markets under the ASEAN Free Trade Agreement (AFTA) which took effect in January 2003. The region is also seen as a whole as none of the economies in this region is large enough for an automotive industry. Thailand and the Philippines, even with combined sales of 1.5 million vehicles in 1996 (the region's peak performance pre-Asian Financial crisis in 1997), is insufficient to support two to three efficient plants. And while restrictive policies prevalent among ASEAN members were blamed for this limitation in scale of production in the past, most of the assembly units in the region have not been competitive on an international level.

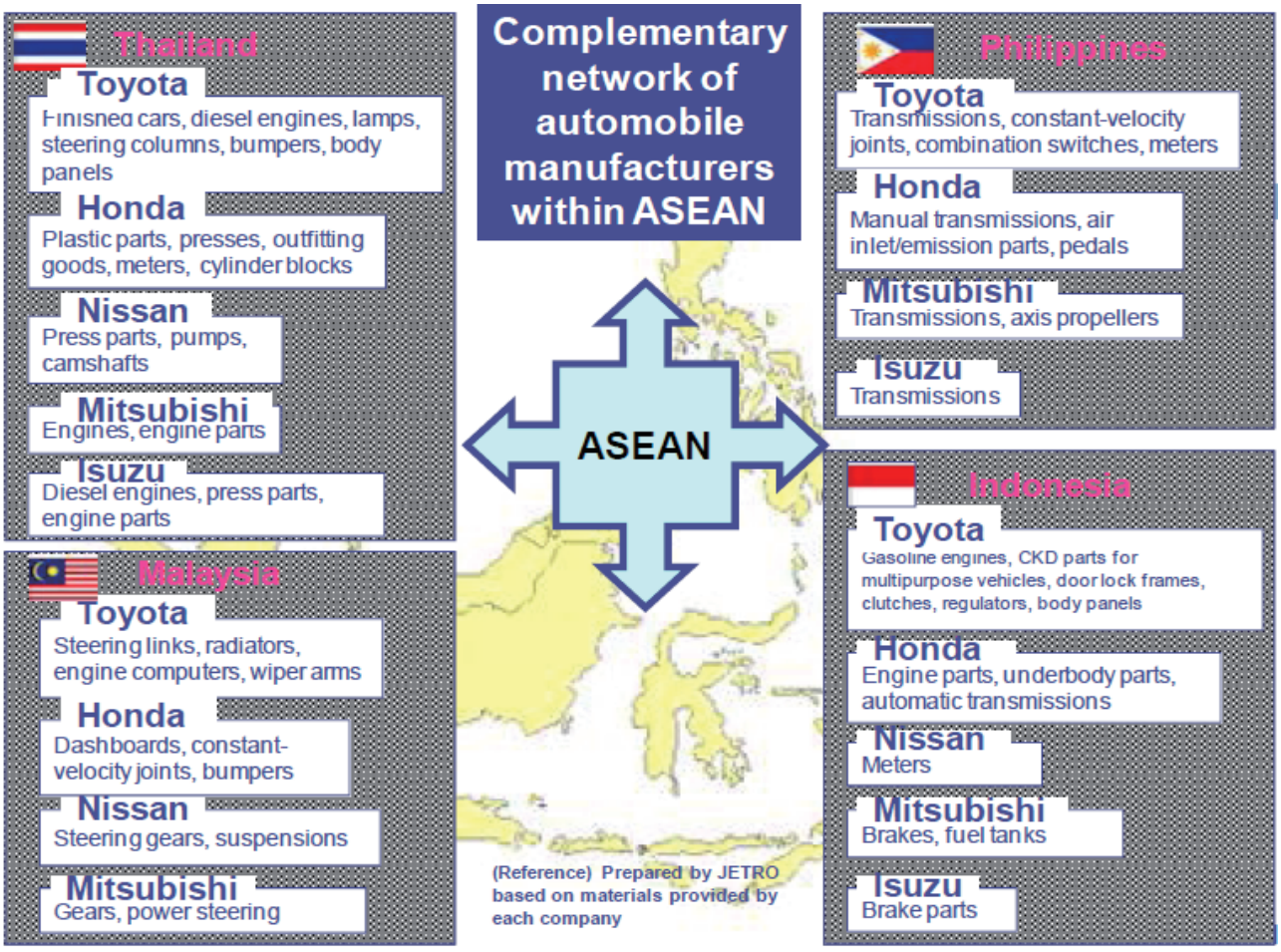
Perspectives for the evolution of the auto industry in the Asian region will mostly depend on the development of the auto parts sector. The OEMs' trend to increase outsourcing to local markets means that location decisions will be determined by the ability of local suppliers to provide low-cost quality parts, and to take responsibility for development. Recommendations are therefore geared towards upgrading the local auto parts industry as the core of the policy of any of the Asian governments. With limited capital and resources and less advanced technology, few Asian firms outside Japan will be able to compete at the realm of auto parts production according to the ADB study.

The impact of AFTA on the automotive production in the region

A close study of the impact of free trade agreements on automotive production in the region would show that around 2003, when AFTA was beginning to be practically utilized, there was a restructuring of the production and procurement system in the automotive industry.[6]

Before 2003, Japan-affiliated automobile manufacturers in ASEAN countries were obligated by tariff barriers to produce components, regardless of their production volume. However, with AFTA, these manufacturers have been able to concentrate the production of automobile parts in countries that are good at producing them, and to complement each other among the area, which resulted in increased cost-competitiveness. Under ordinary circumstances, it would have been more efficient to produce an entire vehicle at a specific base, such as in Thailand, and to supply them to the region. However, because the withdrawal of automobile manufacturers, which have a very broad base, would have made a considerable impact on the community, these manufacturers decided to start concentrated production and exchange of certain components.

Figure 2: Complementary network of automobile manufacturers within ASEAN under AFTA



Source: Presentation on the impact of Free Trade Agreements, Ibon Foundation, (December 2010).

The automotive production in the Philippines, in particular, was affected by the implementation of AFTA, because it signalled the approval of a series of government policies to facilitate liberalization and tariff reductions under AFTA as discussed later in this paper (See Chapter III).

II. The Philippine Automotive Industry

The current status of Philippine automotive industry is no different from the general characteristics of the manufacturing sector in the country. It is generally characterized by small-scale vehicle assembly plants, the manufacturing of low value-added components of local content auto parts, high production costs relative to international levels, and a high rate of importation of raw materials, components and completely built up units (CBUs). On the demand side, the industry servest a small and slow growing domestic market.

The Philippine automotive industry produces a full range of vehicles: passenger cars, light commercial vehicles (LCVs), Asian utility vehicles (AUVs), trucks, and buses. There are also imported cars and car parts, classified as completely-knocked-down (CKD), semi-knocked-down (SKD), and completely-built-up (CBU) vehicles. SKDs are semi-assembled cars without tires and batteries. CKDs are completely knocked-down units of parts and components which may include not only parts and components but also sub-assemblies and assemblies like engines, transmissions, axle assemblies, chassises, and body-assemblies.[7]

Business players in the Philippine automotive industry can be classified into three categories: the assemblers, the manufacturers of auto parts, and the distributors of completely built units or CBUs. The assemblers are the leaders in the automotive industries and are usually subsidiaries of global automotive giants. They are engaged in the assembly of completely knocked down (CKD) vehicles with local content materials. Some are also engaged in manufacturing of local content and in distributing CBUs in the local market. The manufacturers of auto parts are engaged in low value-added manufacturing of raw materials and components that are used to assemble vehicles. The majority of them are categorized as small and medium-sized enterprises, while the leading auto parts manufacturers are companies with direct foreign partnership. The distributors are mostly local subsidiaries of the automotive giants which are not engaged in any form of manufacturing in the country. They only import vehicles into the country for sale.

Table 3: Top 1000 Corporations in the Philippines, 2009
(Manufacturers of Motor Vehicles)

	Gross Revenues			
	PhP Million	Rank	%change	Net Income
Manufacture of Motor Vehicles				
Toyota Motor Philippines Corp.	45088	19	3.8	2644
Mitsubishi Motors Philippines Corp.	12758	87	18.4	446
Isuzu Philippines Corp.	9715	122	5.9	410
Hyundai Asia Resources, Inc.	7813	148	20.1	88
Ford Motor Co. Philippines, Inc.	7685	150	35.5	61
Ford Group Philippines, Inc.	7584	153	-2.1	27
Universal Motors Corp.	4532	247	32.2	81
Columbian Auto Car Corp.	2481	457	62.3	71
General Motors Automobile Phils., Inc.	2211	502	24.9	-16
Nissan Motor Philippines, Inc.	2143	512	-6.5	-251
Pilipinas Hino, Inc.	1625	636	31.9	196
Total/ Average	103635		10.8	3759

Source: Business World Top 1000 Corporations, 2009.

The auto parts and components sector consists of companies operating in metalworking (48 percent), rubber (15 percent), seats and trims (10 percent), plastics (9 percent), electrical (8 percent), and others (10 percent). Some of the parts that are manufactured here include:

1. Suspension systems: tires, steel rims, aluminium wheels, leaf and coil springs
2. Interiors: carpets, seats
3. Electrical systems: wiring harnesses, batteries, lamps, relays
4. Pressed components: mufflers, radiators, seat frames, seat adjusters, oil and air filters, pedals
5. Rubber and plastic components: fan belts, rubber hoses, small plastic parts
6. Mechanical parts: transmissions
7. Cast and forged components: gear blanks, brake disks, brake drums

The leading manufacturers of auto parts and accessories listed in the Philippines Top 1000 corporations for the year 2009 are shown in the table below:

Table 4: Manufacture of Parts and accessories for Motor Vehicles and their Engines

	PhP Million	Rank	%change	Net Income
Takata (Philippines) Corp.	7871	146	-14.2	1111
Continental Temic Electronics (Phils.), Inc.	7208	163	-8.6	117
Toyota Autoparts Philippines, Inc.	5709	201	35.3	313
Philippine Auto Components, Inc.	5215	218	-2.7	498
Isuzu Autoparts Manufacturing Corp.	4179	276	263.5	374
Mitsuba Manufacturing Batangas Corp.	4104	282	33	-123
Mitsuba Philippines Corp.	3905	295	-0.7	-134
Asian Transmission Corp.	3221	364	8.3	128
Honda Parts Manufacturing Corp	3114	373	-21.9	-65
Laguna Auto-Parts Mfg. Corp.	2634	439	-15.9	71
Visteon Phillipines, Inc.	2555	446	-1.4	368
Yutaka Mfg. (Philippines) Inc.	2063	526	-25.1	35
Furukawa Electric Autoparts Phil. Inc.	1968	554	6.5	57
Ryonan Electric Philippines Corp.	1481	678	-7.5	3
Imasen Philippine Mfg. Corp.	1336	748	15.9	61
TS Tech Trim Philippines,Inc.	1317	758	43.7	185
Keihin Philippines Corp.	1155	853	-24.7	98

Source: BusinessWorld Top 1000 Corporations, 2009.

Brief Background of the Philippine Automotive Industry

After World War II, there was no car industry in the country. All vehicles were imported by government offices. Importation of cars for commercial purposes was prohibited up to the year 1950. A year later, the assembly phase for the Philippine car industry was opened with minimal local content requirements. Foreign exchange allocation was granted only for the importation of CKD units for assembly. By1960, twelve (12) local vehicle firms were operating, assembling 30 brands from Western Europe, the United States, Japan and Australia. By 1968, the number of players in the industry had risen to 29 firms which assembled 60 models. However, there was insufficient demand in the local market with only 10,000 units per year sold at that time. With this oversupply situation and dwindling foreign exchange reserves in the late 1960s, the Central Bank refused to allocate additional foreign exchange to the automotive industry.[8]

In 1971, the government finally drafted a national development plan for the automotive industry. Under the first "Progressive Car Manufacturing Program", the Board of Investments implemented the country's local content requirement program. Key objectives of the program were to achieve foreign currency savings through the domestic manufacture of automotive components, establish manufacturing activity in various small to medium-sized enterprises for the domestic manufacture of automotive components, and the surge of exports of manufactured products under the ASEAN automotive complementation program. The program prohibited the importation of CBU vehicles and limited the number of registered firms allowed to import CKD parts. Unfortunately, the program failed to develop the industry into a major exporter. This prompted the government to lessen prioritization for this program. This situation was aggravated by the 1983 economic crisis when the government enforced a foreign exchange ban on imports whose value was greater than an individual company's exports. This resulted in a near collapse of the industry, such that in 1984, only two firms remained-- PAMCOR-Mitsu and Nissan.[9]

The government initiated subsequent car development programs, but the results have been mixed at best. The table below summarizes each car development program launched by the government from

1973 to 2004. According to a series of studies on the Philippine automotive industry's performance, conducted by Rafaelita Mercado-Aldaba of the Philippine Institute for Development Studies (PIDS), under these programs, the automotive industry developed within a system of protection, regulation and promotion through high tariffs, a high local content requirement scheme, and import restrictions. This resulted in an industry that had one of the highest levels of protection in the manufacturing sector. The package failed to promote an efficient industry capable of competing internationally. It performed poorly in comparison with assemblers in other Southeast Asian countries.[10]

Table 5: Government Programs and Policies on the Philippine Automotive Industry

Year	Program/ Policy	Objectives
1973	• Progressive Car Manufacturing Program (PCMP) • Progressive Truck Manufacturing Program (PTMP)	- increase local assemblers domestic content from 10 percent in 1973 to 60 percent in 1976 - promote horizontal integration in the industry by the creation of new manufacturing activities among small and medium scale enterprises through subcontracting and transfer of technology - build up exports of manufactured products in a regional (ASEAN) automotive complementation program
1987	• Car Development Program (CDP)	- increase local assemblers domestic content from 32.26 percent in 1988 to 40 percent in 1990 - develop a viable automotive parts manufacturing industry - facilitate technology transfer and development - generate employment, make available reasonably priced passenger cars, and earn and save foreign exchange for the country
1990	• People's Car Program (PCP)	- include the assembly of smaller cars, named as people's car, or passenger cars with gasoline engine displacement of not more than 1200 cc - meet the minimum local content usage from 35% in 1991 to 51% in 1993
1992	• Luxury Car Program	- allow the entry of high end passenger cars defined as passenger cars with engine displacement greater than 2800 cc
1994	• ASEAN Industrial Joint Venture (AIJV) Scheme	- allow the entry of new assemblers under the ASEAN Industrial Joint Venture (AIJV) Scheme
1996	• Memorandum Order Number 346 • Car Development Program • Commercial Vehicle Development Program	- open up the closed vehicle categories to new participants and removed restrictions on the number of models and variants - terminate the foreign exchange and local content requirements under the CDP and CVDP in the year 2000

2002	• New Motor Vehicle Development Program (EO 156)	- ban the importation of all types of used motor vehicles and parts and components, except those that may be allowed under certain conditions - restructure the Most Favored Nation (MFN) tariff rates for motor vehicles and their raw materials and parts and components at such rates that will encourage the development of the Philippine motor vehicle industry. - restructure the current excise tax system for motor vehicles with the end view of creating a simple, fair and stable tax structure - continue the application of AICO scheme as maybe adopted by the Association of Southeast Asian Nations (ASEAN) - give incentives to assemblers and parts and components makers for the export of CBUs and parts and components
2003	• EO 262 • EO 244	- modify the tariff rates on motor vehicle parts and components - provide special incentives to certain CBU exports
2004	• EO 312	- modify EO 244 to expand coverage of CBU exports and provide special incentives for the export of certain CBUs

Source: PIDS, Mercado- Aldaba, Micro-Studies: Philippine Car Assembly Sector, 1997.

Problems of the sector: 'Diseconomy' of Scale and High Production Cost

Based on the PIDS study, the fundamental obstacle that prevented the Philippine automotive industry from developing production efficiencies and thereby global competitiveness was the 'diseconomy of scale' in production. This is associated with production that is oriented towards an internal market that is very limited in size. This problem is also integral to high production cost issue. The government-dictated local content program required assemblers to source at least 40 percent of components and auto parts of Philippine car parts (PCP) from domestic manufacturers in 1990, decreasing it towards the next two years, which will be raised again to 51% by 1993.

Table 6: Philippine Car Parts (PCP) Local Content Requirement, 1991-1993

Year	Local Content Requirement
1991	35
1992	30
1993	51

Source: Aldaba, PIDS

This scheme indirectly imposed a cost penalty on assemblers where they were forced to buy lower quality auto parts and components from local suppliers, but ones which were priced higher than imported ones. This naturally increased their production costs. Trade and investment policy reforms to address this did not remove the protective measures, failed to contribute to improve efficiency, and did not succeed in reducing the cost. The following table compares the cost of production in the Philippines to Japan. A vehicle made in the Philippines is 300 percent more expensive than the same model and brand manufactured in Japan.

Table 7: Production Cost comparison of automotive units produced in the Philippines and Japan

Car Type	Pd: Ex-Factory Price		Pb:Price of Imported Counterpart (Japan)		Pd/Pb Ratio	
	1994	1995	1994	1995	1994	1995
Passenger Car 1.2L	348,687	389,468	110,500	105,818	3.16	3.68
Passenger Car 2.0 L	686,995	802,022	231,496	240,558	2.97	3.33
LCV: Aluminum Van (diesel)2500cc	476,846	616,333	201,623	157,084	2.37	3.92
LCV: Pick-up 2500cc	435,744	499,914	168,564	209,622	2.59	2.38

The information on prices was provided by one of the firms in the survey. The firm had 41% local content in 1994 and 44% in 1995.

Source: Aldaba, PIDS, 1997.

Table 7 shows the comparison of production cost of vehicles assembled in the Philippines (Pd) to comparable vehicles manufactured in Japan (Pb). This table clearly shows that cars assembled in the Philippines were 3 times costlier than those in Japan, at 41 percent local content in 1994. For light commercial vehicles, production costs in the Philippines range 2.37-2.58 times more than those in Japan, at 44 percent local content in 1995.

The small-scale production and high production costs in the Philippine automotive industry reflects the overall underdevelopment of the Philippine economy. The auto parts and components sectors are dominated by small and medium enterprises. They have limited access to capital and technology. The auto parts and components sector is also highly import-dependent, as raw materials are also sourced outside the country. The economy lacks well developed locally based supporting industries and basic industries such as steel that would supply raw materials to the auto parts and components manufacturers. Due to these factors, production costs in the industry remained high and it failed to establish its comparative advantage in the automotive global supply chain. The table below gives the distribution of average production costs and clearly shows the cost of raw materials consuming 85 percent of total production cost, of which 48.6 percent are directly imported raw materials. The high level of import content in the average production cost highlights the lack of a local supply base for raw materials production. On the other hand, the high cost of raw materials sourced locally can be due to the high cost of production resulting from low technological levels and small-scale manufacturing.

Table 8: Distribution of Average Production Costs (%), 2007

Item	Average Share
Raw materials	84.9
Direct Raw Materials Used (local)	36.3
Direct Raw Materials Used (imported)	48.6
Direct Labor	1.6
Manufacturing Overhead	13.5
Total unit cost	100.0

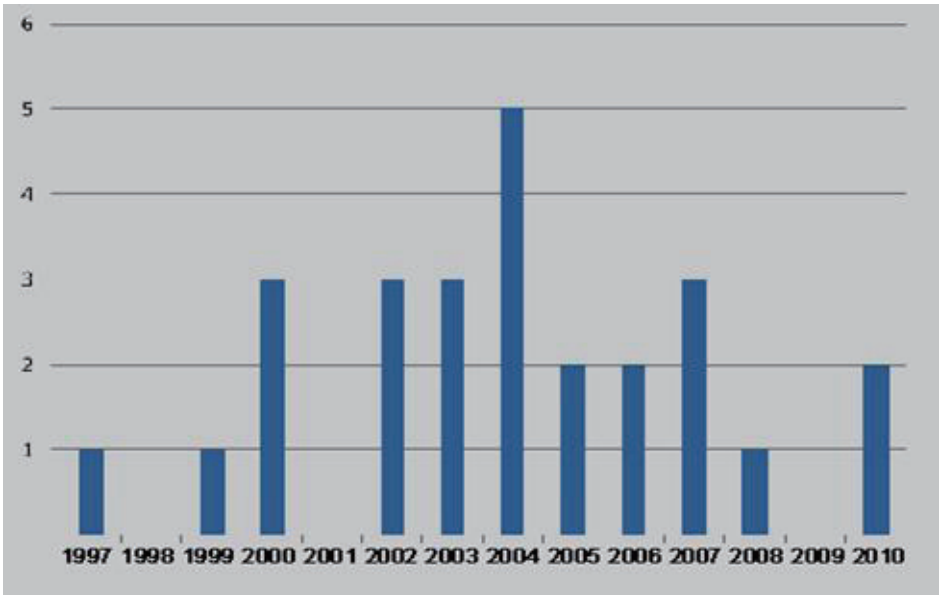
Source: Aldaba, PIDS (2008)

III. Current Government policies and agreements related to the automotive industry

The liberalization of the Philippine automotive industry under past administrations has been facilitated through a combination of the executive issuances and a number of free trade agreements (FTAs) signed by the government with other countries, mostly from ASEAN. Indeed, the national government did not simply take a back seat as far as opening up the auto industry to foreign trade and investment. It had a grip on the steering wheel.

Of all the previous administrations, it was during former President Gloria Arroyo's term that full-scale liberalization of the auto assembly and parts manufacturing industry was pushed through In fact, Arroyo signed 18 auto-industry related Executive Orders (EOs) between 2002 and 2010. But these acts only defined the trade routes of certain car parts in the ASEAN region. (See appendix for a list of auto-related EOs from 1997 to 2010). For instance, Arroyo's EO 87 merely contained the government's approval of the importation of certain auto parts from Indonesia and Thailand for the local assembly of Toyota's Corolla model.

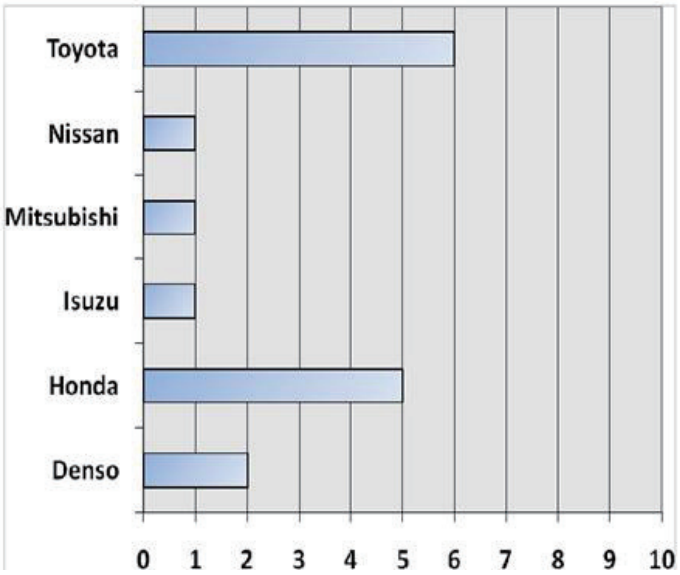
Figure 3: Number of automotive industry-related Executive Orders per year (1997-2010)



Source of basic data: Executive issuances as published in the government's Official Gazette, www.gov.ph

Six EOs referred to Toyota Motor's trade operations and objectives in the region as guaranteed under the ASEAN Industrial Cooperation (AICO) scheme,[11] while five EOs referred to Honda Motor Co.'s. The rest of the EOs referred to Denso, Mitsubishi, Nissan and Isuzu.

Figure 4: Executive orders per Japanese company under the AICO scheme



Source of basic data: Executive issuances as published in the government's Official Gazette, www.gov.ph

In 2002, Arroyo signed EO 156, the Motor Vehicle Development Program (MVDP), which essentially phased out local content requirements in domestic car assembly and affirmed the Philippines' commitment to the World Trade Organization (WTO). And with that EO, a flood of imported CKDs and CBUs from neighbouring countries as well as Japan swamped the domestic industry.

The country also entered into a number of FTAs that liberalized its trade with other Asian countries including automotive parts. Among these FTAs were the ASEAN-Korea Free Trade Agreement, ASEAN-China Free Trade Agreement, and the controversial Japan-Philippines Economic Partnership Agreement (JPEPA).[12]

Days before President Benigno "Noynoy" Aquino took office, Arroyo signed Executive Order 887 (EO 887), the new Motor Vehicle Development Program. The order was very similar to the previous version of MVDP, except for the provision on the establishment of a council which would oversee the automotive trade and industry.

These numerous executive orders and free trade agreements facilitated the building of a complementary network of automobile manufacturers in the region as shown earlier in Figure 2 and served to facilitate the entry of foreign capital and setup of cost-competitive regional production system at the East Asian region.

IV. Analyzing the local auto supply chain in the global context

Sampling and framework of analysis

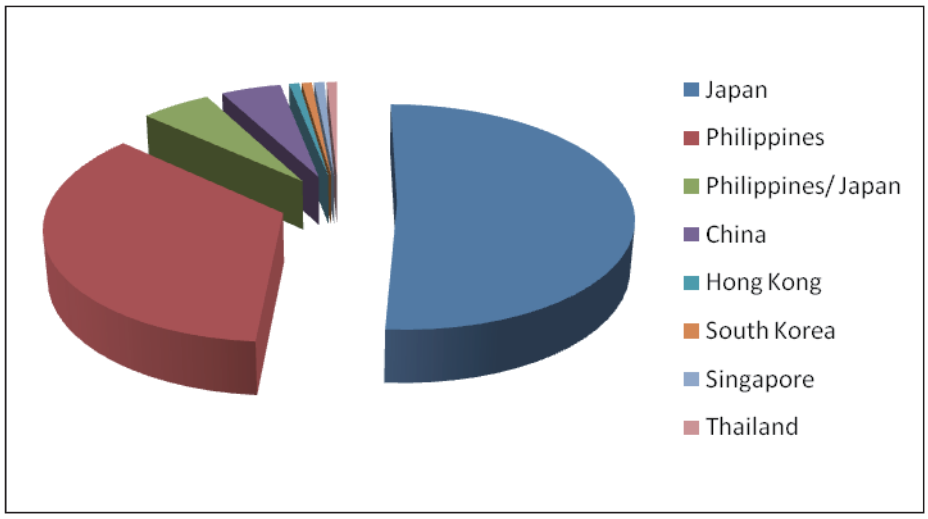
A total of 124 Asian companies engaged in the manufacture of automotive parts and/or assembly of automotive vehicles (passenger cars, trucks, motorcycles, etc.) were purposely chosen as samples for our analysis of local auto firms in relation to the local and global production system. Since the focus of the study is the auto supply chain of Asian TNCs and their capital flows in the region, American and European auto firms were not included in the sampling. While the 124 companies do not represent the total number of Asian auto firms operating in the Philippines, their sales represent around 80 percent of the automobile and car parts sales.

The Asian auto firms were chosen from the directory of the Philippine Economic Zone Authority (PEZA), an agency attached to the trade and industry department; from the Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI), the largest association of auto assemblers in the country; and from the directory of the Motor Vehicle Parts Manufacturers' Association of the Philippines (MVPMAP).

Samples were classified based on the following: 1) by country of origin; 2) by plant location; 3) by sub-industry; and 4) by supply chain role.

1. By country of origin

Figure 5: Auto firms in the Philippines by country of origin



Source of basic data: PEZA, CAMPI and MVPMAP

Japanese automotive companies producing various auto parts and cars dominate the list, comprising 51.61 percent (64 out of 124) of the total auto firms sampled. Philippine companies ranked second at 36.29 percent, while joint ventures of Philippine and Japanese firms made up 5.65 percent. Chinese auto assemblers and distributors – relatively new players in the local auto industry – came in a close fourth at 4 percent, with products ranging from motorcycles to mini vans, buses and trucks. The rest are subsidiaries of companies based in South Korea, Hong Kong, Thailand and Singapore.

While Japanese firms continue to top the assembly and distribution of passenger cars, commercial vehicles and Asian utility vehicles with brands like Toyota and Honda, Chinese companies are cultivating their niche in the Philippines by focusing on the local assembly and distribution of buses, minivans and trucks. An example is Foton Motor Philippines, which has sold hundreds of pickup trucks to various government agencies and local government units.

2. By plant/office location

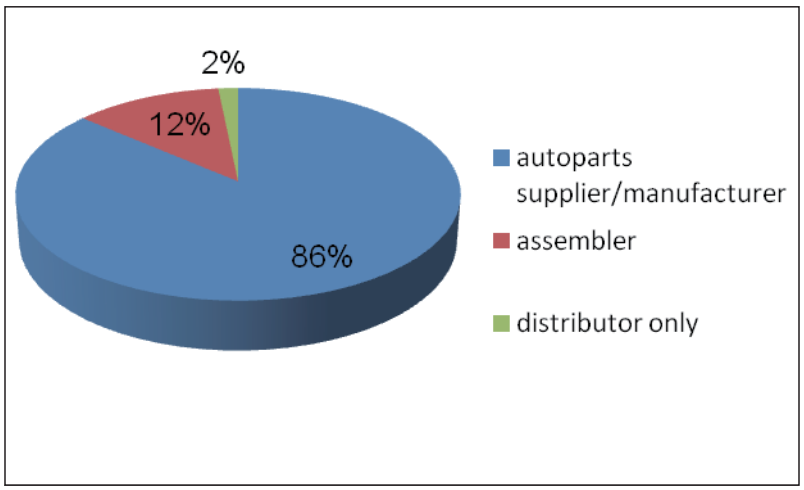
Save for two companies based in Cebu,[13] all the sampled automotive firms are concentrated on the major island of Luzon, with 77 companies based in southern Luzon, mainly in the provinces of Laguna and Cavite. Other Luzon-based companies can be found in the National Capital Region (41 companies) and in central Luzon (5 companies).

A total of 64 automotive firms are located in special economic zones and industrial parks. This concentration can be attributed to the national government's policy to provide incentives to operations in special economic zones and industrial parks under the Special Economic Zone Act of 1994. Among the host of fiscal incentives is 100 percent exemption from corporate income tax.

It should be noted that Toyota Motor Philippines Corp., the biggest auto manufacturer and distributor in the country, has its own 39,144-square-meter special economic zone () in Laguna, designated by the national government under the chief executive's Proclamation No. 525. [14]

3. By sub-industry

Figure 6: Auto firms by sub-industry



Source of basic data: PEZA, CAMPI and MVPMAP

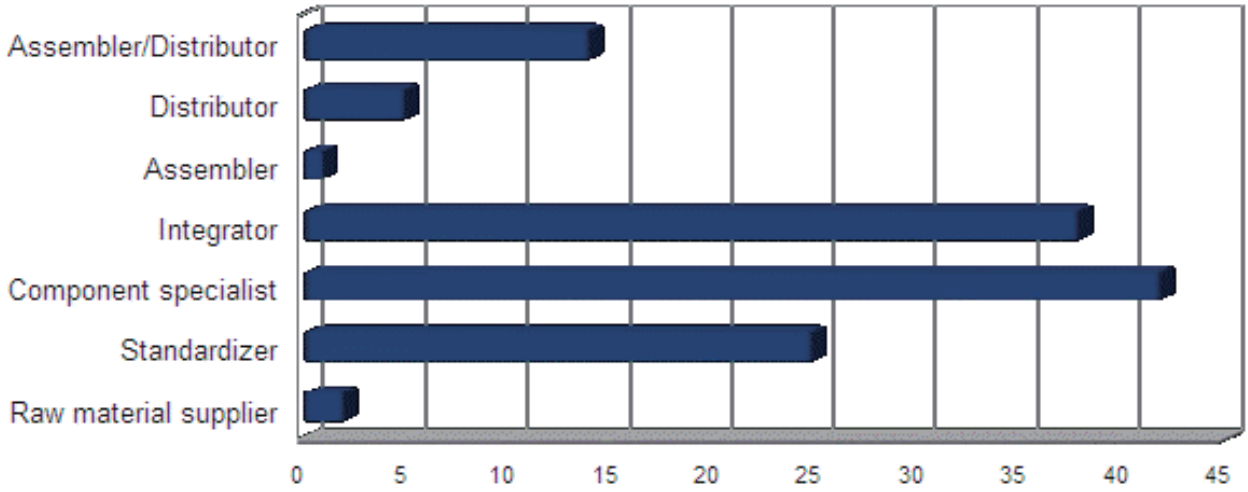
Eighty-six percent of the sampled auto firms are automotive parts suppliers, mostly owned by Japanese and Filipinos. The rest are classified as assemblers, distributors and assembler-distributors, which are dominated by Japanese firms.

4. By supply chain role

In describing the supply chain role of the sampled auto firms, the following categories were used based on the tier classifications[15] by the Asian Development Bank (ADB) with the addition of assembler, assembler-distributor and distributor categories:

Raw materials supplier – first tier (aluminium sheets, steel bars, etc.)
Standardizer – second tier (tires, electrical units, anti-lock brake systems)
Component specialist – third tier (stamping, molding, injection)
Integrator – fourth tier (doors, chassis, car seats, aircon units, audio systems)
Assembler (truck and van bodies)
Distributor (limited to dealership)
Assembler/distributor (companies with assembly plants and local dealership)

Figure 7: Auto firms by supply chain role



Source of basic data: PEZA, CAMPI and MVPMAP

Fourteen Asian companies that assemble and distribute motor vehicles ranging from passenger cars, commercial vehicles, trucks and motorcycles are identified in the samples. Subsidiaries of global auto giants top this sub-industry, such as Toyota Motor Philippines, Honda Cars Philippines, Mitsubishi Motor Philippines and Isuzu Philippines. There are also companies that only distribute CBUs assembled outside the country, namely South Korean firm Hyundai Asia Resources, Inc. and Chinese company Kama Trucks.

Six of the fourteen assembler-distributors produce motorcycles, brands such as Honda, Yamaha, Suzuki and Kawasaki. A Chinese firm, Sinski Motorcycle Philippines, Inc., joins Japanese companies in the subcategory as it distributes motorcycles and tricycles assembled in China. The presence of motorcycle and tricycle assembler-distributors in the country cannot be ignored as more Filipinos shift to cheaper modes of travelling. Data from the Department of Trade and Industry reveals that aggregate motorcycle sales climbed to 636,792 units in 2009 from 200,000 in 2000.[16]

Filipino-owned Centro Manufacturing Corp. stands as the lone assembler among the sampled firms, assembling truck and van bodies for Mitsubishi and Isuzu which will in turn complete the production process and distribute the finished unit.

Component specialists and integrators comprise the majority of all the auto firms sampled, with products and services ranging from stamping and molding to the manufacture of transmissions, car seats, car seat reclining adjusters, mufflers, brake discs, water pumps, carpets, molded rubber parts and other non-core automotive parts.

Twenty percent of the sampled firms, meanwhile, are standardizers, producing tires, brake system components and electrical parts. Most companies under this category manufacture wiring harnesses for both domestic assemblers and for export, such as the International Wiring Systems Corporation Philippines in Central Luzon.

Most of the standardizers, component specialists and integrators in the country carry out low technology auto production processes (such as stamping and manual painting) to produce low value-added complimentary auto parts for OEMs' plants outside the Philippines. As Aldaba puts it, there is "a large number of parts manufacturers consisting mostly of small and medium-sized enterprises that have low technology levels and are faced with a lack of capital, low productivity, and a lack of worker skills.

Aldaba also points out that most of the auto parts manufacturers "operate as mom-and-pop style suppliers with varying capabilities and some real quality problems," failing to develop due insufficient capital and technology that are necessary to improve their products.

These firms hardly make it to the export scene due to the problems pointed out. Exception is major players such as Asian Transmission Corp., Honda Parts Manufacturing Corp., Toyota Auto parts Philippines Inc., F-Tech Philippines Manufacturing, Inc., and International Wiring Systems Philippines Corp, all of which are Japanese-owned firms.

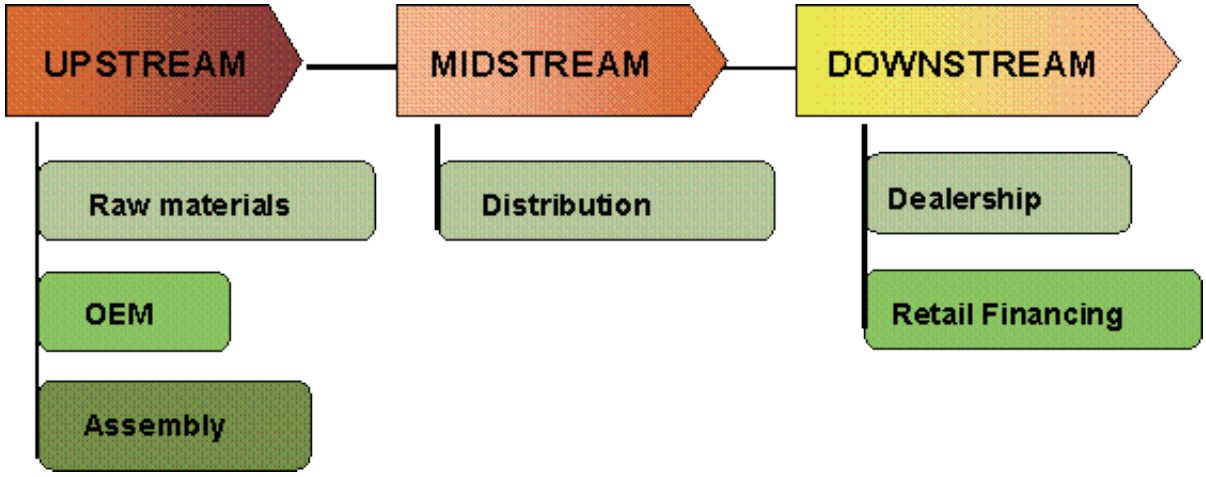
Only two automotive suppliers, Regal Metalcraft Corp. and Steel Corp. of the Philippines, produce raw materials for the auto production system. Steel Corp. remains entangled in a tussle with Banco de Oro, the company's major creditor which is owned by tycoon Henry Sy, and who reportedly wants to take over the steel company through a debt-equity swap.

With essentially no domestic raw material supply base, the Philippine automotive industry relies heavily on imports from other Asian countries, such as Thailand, Malaysia, Indonesia and Japan. High value-added auto parts are also imported since there are also no advanced domestic assembly plants capable of manufacturing engines and other core parts.

Mapping the production system

To effectively illustrate the Philippine automotive supply chain and its links to the global auto production and trade, a framework for analysis was taken from a unit report[17] of Mitsui & Co., Ltd., a global trading partner with notable links to major automakers, as guide.

Figure 8: Framework for mapping the auto supply chain



The upstream production phase includes the sourcing of raw materials, complimentary automotive parts, as well as the assembly of the target vehicle. The midstream phase refers to the distribution of the finished unit (whether for domestic market or for export), and the downstream phase factors in dealership, retail financing (extending car loans, etc.) and other strategies to bridge production with the target market.

In order to analyze the supply and production chain of automobiles in the Philippines, the production processes of locally assembled vehicles of Toyota and Honda were mapped. Interviews with workers in the two companies, alongside desk research were carried out to arrive at an overall picture of the entire production process.

Table 9: Mapping of the production process of Toyota models Innova and Vios (2010)

Model		UPSTREAM		MIDSTREAM	DOWNSTREAM	
TOYOTA	Innova	Wiring harness: International Wiring Systems **(C. Luzon)**	ASSEMBLY: Toyota Motor Philippines **(S. Luzon)**	DISTRIBUTION: Philippines	DEALERSHIP: Philippines	RETAIL FINANCING: Metrobank, Toyota Financial Services Phils.
		Engine: Japan	car audio system: Fujitsu Ten Corp. **(S. Luzon)**			
		Bracket, exhaust pipe, tube Sub-assembly: **Toyota Indonesia** /a	Car seats: Toyota Boshoku **(S. Luzon)**			
		Other OEMs: **Toyota Malaysia** /b	automotive clock: Jeco Autoparts Phils, Inc. **(Manila)**			
	Vios	Wiring harness: International Wiring Systems **(C. Luzon)**	ASSEMBLY: Toyota Motor Philippines **(S. Luzon)**	DISTRIBUTION: Philippines	DEALERSHIP: Philippines	RETAIL FINANCING: Metrobank, Toyota Financial Services Phils.
		Engine: **Japan**	car audio system: Fujitsu Ten Corp. **(S. Luzon)**			
		Other OEMs: Malaysia	Car seats: Toyota Boshoku **(S. Luzon)**			
			automotive clock: Jeco Autoparts Phils, Inc. **(Manila)**			

/a Executive Order 677, signed by former President Gloria Arroyo in 2007
/b Executive Order 479, signed by former President Gloria Arroyo in 2005

Table 10: Mapping of production process of Honda models Civic, City and Accord (2010)

Model		UPSTREAM		MIDSTREAM	DOWNSTREAM	
HONDA	Civic	Wiring harness: International Wiring Systems (C. Luzon)	ASSEMBLY: Honda Cars Philippines (S. Luzon)	DISTRIBUTION: Philippines	DEALERSHIP: Philippines	car loan for OFWs: Honda CAREmittance via RCBC, BPI
		Engine: Japan	pedal and suspension: F-Tech Phils. (S. Luzon)			
		Wheel assembly: Indonesia /c				
		Front, rear bumper: Thailand /c				
		Lever assembly, damper assembly: Thailand /d				
		shaft assembly: Malaysia				
	City	Wiring harness: International Wiring Systems (C. Luzon)	ASSEMBLY: Honda Cars Philippines (S. Luzon)	DISTRIBUTION: Philippines	DEALERSHIP: Philippines	car loan for OFWs: Honda CAREmittance via RCBC, BPI
		Engine: Japan	pedal and suspension: F-Tech Phils. (S. Luzon)			
		Other OEMs: Indonesia, Malaysia				
	Accord	Wiring harness: International Wiring Systems **(C. Luzon)**	ASSEMBLY: Honda Cars Philippines **(S. Luzon)**	DISTRIBUTION: Philippines	DEALERSHIP: Philippines	car loan for OFWs: Honda CAREmittance via RCBC, BPI
		Engine: Japan	pedal and suspension: F-Tech Phils. **(S. Luzon)**			
		Cylinder: Indonesia				
		Other OEMs: Malaysia				

/c Executive Order 92, signed by former President Gloria Arroyo in 2005
/d Executive Order 92, signed by signed by former President Gloria Arroyo in 2002

A number of similarities can be spotted in the production chains of locally assembled Toyota and Honda models. 1) Both companies source the engines for local assembly from Japan and import core auto parts from Malaysia, Indonesia and Thailand. 2) Non-core automotive parts, such as pedals and car seats, are sourced from domestic auto parts companies located within the same special economic zone as

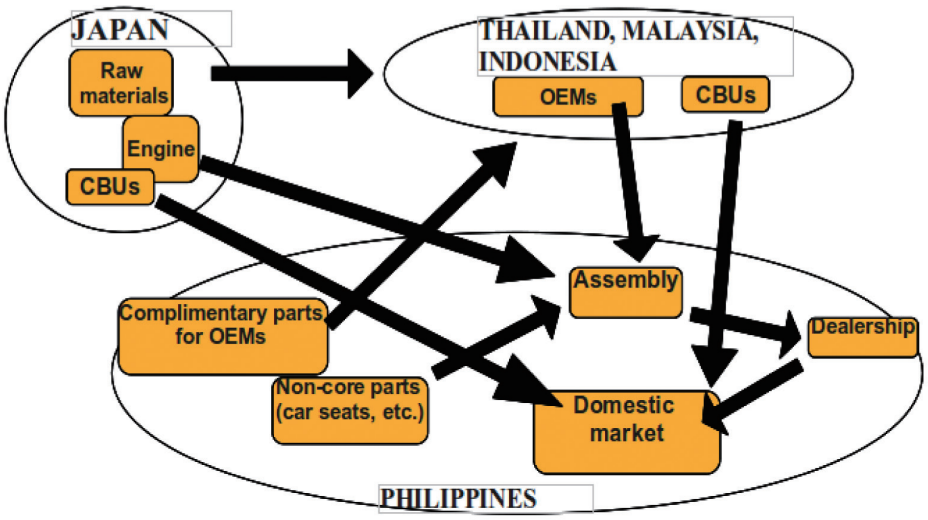
the assembly plant. 3) All assembled vehicles are distributed solely to the domestic market; there are no assembled units for export 4) the two subsidiaries have set in place mechanisms to increase domestic car sales by extending loans and other forms financial assistance to target buyers.

Imported auto parts from Indonesia and Thailand for the assembly of the Honda Civic, for instance, actually have low value-added complimentary parts sourced from the Philippines (not shown in the mapping). This auto trade relation, as agreed by the contracting parties under the ASEAN Industrial Cooperation (AICO) scheme, essentially limits local auto parts makers to merely production of complimentary parts for imported car parts.

Quite predictably, Filipino fourth-tier companies are singled out in the final phase of production of local Toyota and Honda models. Similar subsidiaries of Japanese auto firms (like F-Tech Philippines) with a higher level of technology than these SMEs are the ones engaged in the final phase, presumably in keeping with certain vehicle standards.

Since production is limited due to poor domestic demand for automobiles, local models are generally less competitive in the market due to their higher cost. This is aside from the fact that the local car assemblers have to contend with the massive importation of cheaper, completely built units (CBUs) of the same brands. Currently, imported CBUs outpace the sales of locally assembled vehicles.

Figure 9: Visualizing the Philippine auto trade



In 2002, to facilitate sales of locally assembled vehicles, the financial service unit of Japan's Toyota Motors established a subsidiary in the Philippines, Toyota Financial Services Phils. (TFSP). As for Honda Cars Philippines, it launched a car loan program, Honda CAREmittance, to finance car purchases by Overseas Filipino Workers (OFWs).

As shown in the mapping of the supply chain of locally assembled models, it becomes clear that the local auto industry lies outside the major auto supply chain in the Asian region, acting as a mere importer of CKDs from other Asian countries like Japan and Thailand that will be used for the assembly of autos solely for local distribution. This highly disadvantaged position in the regional production belt can be attributed to the lack of basic industries in the country (such as a national steel industry) and to the very low level of technological development. In addition, declining living conditions do not make the Philippines a viable export destination of motor vehicles.

Ironically, the national government, under pressure from industrialized countries, is further undermining the position of the auto industry by affirming lopsided trade agreements. Government policies, particularly executive orders issued by the president, permits importation of specific autoparts from select Asian countries as an official trade policy in compliance with the AICO scheme.

The ratification of the Japan-Philippine Economic Partnership Agreement (JPEPA) in 2008 eliminated tariffs on imported motor vehicles and auto parts, effective January 2010 and paved the way for the increased importation of cheaper CBUs and auto parts which are more competitive that locally produced ones. Local car assemblers and part makers have already sounded the alarm by demanding the deferment of JPEPA's tariff-elimination scheme until 2013.

V. Analyzing financial flows in the auto industry

In today's age of monopoly-finance capital,[18] wherein financial activities bear enormous consequences to the real economy (as demonstrated in the global financial crisis), it would be remiss to analyze the state of the Philippine automotive industry without understanding its relation to capital flows and to the prevailing financial trends in the Asian region.

In this section, the research study will seek to establish an overview of capital mobility in Asia and financial flows to the Philippines before proceeding to the discussion of finance capital's movement along the automotive supply chain and within the market.

• Trends in financial flows to developing countries

Indeed, measuring and tracking cross-border financial flows in the highly liberalized global economy is a very difficult endeavour. What is clear is that the volume of capital circulating in the global financial economy has surged dramatically over the years despite a number of financial crises.

In a G-24 discussion paper, C.P. Chandrasekhar stated that during the East Asian crisis (mid-1997), the international asset position of banks resident in 23 countries reporting to the Bank of International Settlement (BIS) stood at $9.95 trillion, involving $8.6 trillion in external assets after adjusting for local assets. “By June 2007, when 40 countries were reporting, this had risen to $33.71 trillion.”[19]

Apart from this, Chandrasekhar said non-financial firms – pension funds, insurance companies and mutual funds – have emerged as “important intermediaries between savers and investors,” with the total financial assets of institutional investors standing at $46 trillion in 2005.[20]

In developing countries, net external financing flows have risen sharply to $173.5 billion in 2002 since 1997. Foreign direct investment (FDI) and portfolio investments increased from $153.8 billion in 2002 to $446.7 billion in 2006, while net external borrowing rose from $10.9 billion in 2001 to $294.5 billion in 2006. [21]

As regards FDI, firms from industrialized countries are the main investors in East Asia. However, Japanese companies appear to be the largest investor group in middle-income ASEAN countries, particularly Thailand and Indonesia.[22] According to ADB Institute Director for Research Mario Lamberte, intra firm trade between Japanese multinationals’ affiliates in East Asia accounted for 59 percent of their total trade within the region.[23] (Mixing trade numbers and FDI numbers?)He added that many corporations of Asia's newly industrialized economies “are setting up similar production networks in the PRC and ASEAN countries, thereby contributing to the growing intra-regional trade and investment.”

It should be noted, however, that in many instances, FDI does not necessarily result in a net movement of capital, as it is financed in the host country. A case in point is Toyota Motor Philippines Corp., which had a significant portion of its capitalization in 1988 financed by Metropolitan Bank and Trust Co., a local bank. This prevailing trend partly explains why there is very little capital flowing from rich to poor countries. [24]

Interestingly, financial flows to developing countries indicate that there is a blurring of the line between FDI and portfolio flows or hot money flows with the relaxation of regulations on portfolios in recent years, the dramatic increase in acquisitions motivated by "portfolio investment" has followed.[25] According to Chandrasekhar, these acquisitions (whether through stocks or equities) have not been "necessarily driven by long run investment considerations but by the desire to garner larger returns from capital gains."

The recent surge in capital flows to developing countries has also implied the accumulation of larger speculative positions by investors. Morgan Stanley estimates about $700 billion in speculative money is parked in Asia — three times the amount that left the region in the Asian financial crisis in 1997 and far higher than Asia's $200 billion annual trade surplus.

As East Asian economies liberalized their financial systems, they also became part of a growing regional financial cooperation and integration. Lamberte pointed out four areas under which initiatives for regional cooperation can be grouped: 1) policy dialogue and surveillance (as shown in the set up of ASEAN Surveillance Process); 2) liquidity support facility (shown in the launch of the Chiang Mai Initiative in 2000); 3) financial system strengthening (as manifested in ASEAN's Hanoi Plan of Action); and the 4) Asian bond market (marked by the launching of the Asian Bond Fund in 2003).

- **Financial flows to the Philippines**

Despite the surge in financial flows in the Asian region, net flows to the Philippines fell sharply between 1998 and 2007, i.e., the period after the East Asian financial crisis[26] and before the 2008 global financial crisis. According to the Philippine Institute for Development Studies (PIDS), the only exceptions were in 1999 when there was a fairly large amount of foreign investment in debt securities, and in 2005 when there was a surge in portfolio investments.[27]

Based on data from the Department of Trade and Industry, total approved foreign direct investment plunged to P80.37 billion in 2000 from P262.15 billion in 1997: [28]

Table 11: Total Approved Foreign Direct Investments by Promotion Agencies 1996-2009 (in million pesos)

Agency	1996	1997	1998	1999	2000
BOI	73,152.7	184,530.4	119,642.0	70,723.1	15,529.4
CDC	15,681.7	938.3	419.0	1,102.0	1,767.6
PEZA	9,443.4	73,517.2	48,108.2	32,060.6	61,089.2
SBMA	3,150.6	3,166.7	3,401.2	2,853.8	1,988.0
Total	**101,428.4**	**262,152.6**	**171,570.4**	**106,739.5**	**80,374.2**

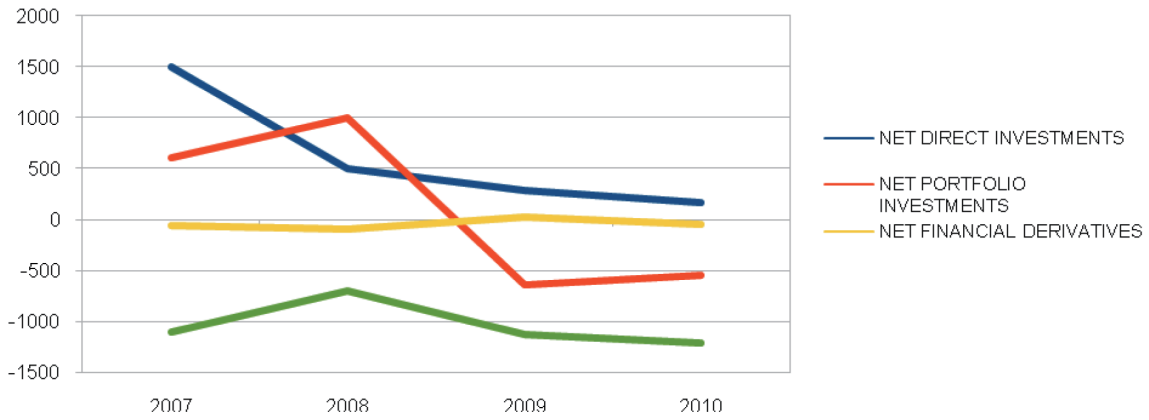
By the end of 2003, the Philippines had only US$3 billion of the total foreign equity holdings of major economies in East Asia worth US$819.57 billion.

Table 12: Foreign equity holdings in East Asia, End-2003 (in million dollars)

Host	United States	Europe	Japan	East Asia including Japan	Total	*Memo: % of host GDP*
China	13,064	8,944	2,094	19,625	45,788	*3.2*
Hong Kong	36210	35,223	5,594	7,901	92,889	*59.3*
Indonesia	4,406	2,542	89	922	12,597	*6.0*
Japan	255,496	175,975	-	5,569	493,763	*11.5*
Korea	49,121	27,702	708	3,579	92,822	*15.3*
Malaysia	4,075	4,862	296	3,258	14,544	*14.0*
Philippines	1,634	683	158	325	3,027	*3.8*
Singapore	21,932	12,579	1,280	4,096	42,857	*46.9*
Thailand	6,477	6,746	393	4,759	21,291	*14.9*
Total	392,415	275,256	10,612	50,034	819,578	
Total ex JP as host	136,919	99,281	10,612	44,465	325,815	
Memo: %	*42.0%*	*30.5%*	*3.3%*	*13.6%*	*100.0%*	

Contrary to the claims made by the government that the Philippines were not affected by the global financial credit crunch, the countries financial accounts alone revealed otherwise. (Notwithstanding the mass retrenchments) which plagued Filipino workers from 2008 to 20009. External financing from the same countries which were severely hit by the crisis predictably dropped, worsening the overall downtrend in capital flows since 1998. For instance, net direct investments dropped to US$166 million in the first quarter of 2010 from US$1.5 billion in the same period in 2007. Meanwhile, portfolio investments, which are generally flighty, plunged to a net outflow of US$542 million in the first quarter of 2010.

Figure 10: Net capital flows to the Philippines (2007-2010, Q1), in million US dollars



Source of basic data: Special Data Dissemination Standards of the Bangko Sentral ng Pilipinas (BSP), www.bsp.gov.ph

- **Sparse foreign investments in the Philippine automotive industry**

Despite the liberalization of the country's financial sector, investments have been flowing sparsely to major economic sectors. In 2006 for instance, there was no new foreign investment in agriculture and manufacturing even as US$258.8 million in FDI (mostly from the US) flowed to the business process outsourcing (BPO) industry, roughly 70 percent of the total FDI in that year. Other investments went to software development and other IT services according to a BSP report.

In the case of the automotive industry, there were no new investments from 2001 to 2010 even though the number of participants to the government's Motor Vehicle Development Program (MVDP) increased from 23 in 2002 to 47 in 2009.[29] This trend is consistent with the general decline in investment from 1974 to 1994 (Figure 10). From $84.3 million in 1974, total foreign investment to car manufacturing dropped to only $2.6 million in 1988 then slightly inching up to $8 million in 1994.

Figure 11: Foreign investments in the Philippine car market, 1974-1994 (in millions of dollars)

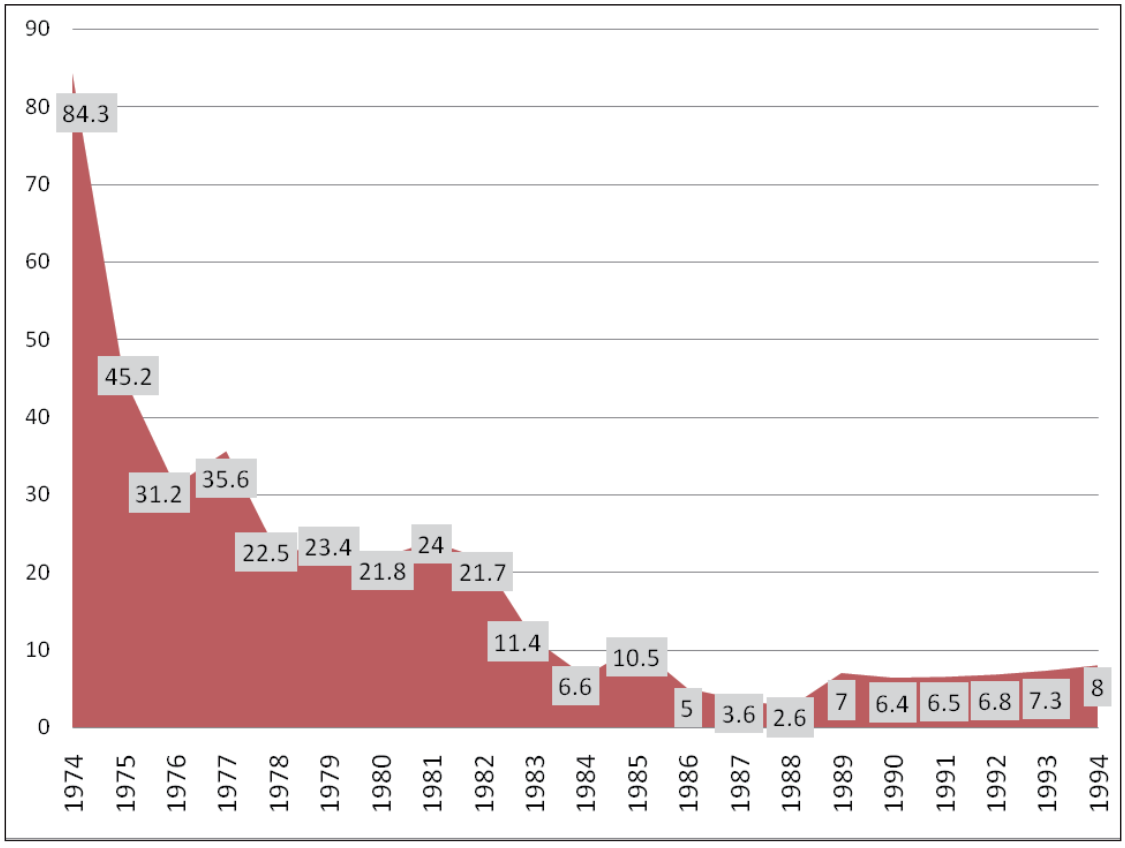


Table 13: Investments in the Philippine auto industry

Year	No. of New of MVP participants	Investments (in Billion pesos)
2002	3	0.29
2003	1	0.12
2004	1	0.15
2005	2	3.41
2006	3	2.65
2007	8	4.29
2008	3	5.95
2009 /a	2	0.19
TOTAL	23	17.06

/a partial

It should be noted, however, that new participants to the MVDP were mostly motorcycle assemblers and distributors, whose capitalization was generally lower than auto assemblers and auto parts manufacturers. Under the MVDP, US$2 million is the minimum required investment for motorcycle assemblers, compared to US$8 million and US$10 million for commercial vehicle assemblers and passenger car assemblers, respectively.

A look at how the Philippines fares in terms of car sales in comparison with other ASEAN countries will partly explain why the local auto industry is not that attractive to investors. Domestic car sales stood at 132,444 units in 2009, a far cry from Thailand's 313,442 and Indonesia's 352,172 units, even as the global crisis hit their auto industries. This level of local car sales is not surprising, considering that 45 percent of the population lives on US$2 a day, resulting from government policies that depress wages in order to attract foreign investment.[30]

It remains to be studied whether additional investment in the local auto industry mentioned in Table 13 was financed externally or through local banks. Determining this, however, can be a difficult exercise, since some local banks are themselves direct shareholders of in-country subsidiaries of the auto TNCs.

- **Banks as stockholders in auto firms**

Indeed, Toyota Motor Philippines Corp. (TMPC) is the only Toyota subsidiary in the world that is "locally-controlled."[31] When TMPC was established in 1988, 51 percent of its capitalization was financed by Metropolitan Bank and Trust Corp. (Metrobank), a leading commercial bank in the Philippines, while 34 percent came from its parent company, Toyota Motor Corp. The remaining 15 percent was financed by Japan-based Mitsui Corp.

Metrobank has a universal banking license with significant equity ownerships inside and outside of the country. It is also a major player in the Philippine Stock Exchange.

A closer look on TMPC's recent breakdown of shares (as of 2010) will show that Metrobank opted to divide its 51-percent share between itself (30 percent) and Titan Resources Corp. (21 percent), a Filipino company which has the same address as that of Metrobank but which is not owned by the latter. Similarly, Mitsui retained its 15 percent by dividing it between itself (6 percent) and Filipino company Maximus Management Holdings (9 percent) which is linked to Mitsui Japan. Obviously, such breakdown of shares is only meant to make it appear that TMPC is majority owned by Filipino.

Another domestic commercial bank, Rizal Commercial Banking Corporation (RCBC), is entrenched in at least two major automotive companies in the country. RCBC owns 12.87 percent of Honda Cars Philippines and 15 percent of Isuzu Philippines Corporation as of 2010 filing to the Securities and Exchange Commission.

With banks controlling significant shares of major auto TNCs in the country, assessing the nature of additional or new investment by parent companies to their subsidiaries in the Philippines becomes more complex.

- **Greasing car sales through loans**

Aside from controlling stocks in major auto companies, local banks are also active in goading car sales through auto loans. Based on central bank data, auto loans disposed by universal, commercial and thrift banks grew by 38.29 percent from P68.44 billion in 2006 to P94.65 billion in 2009.

Table 14: Auto loans, Philippine banks, 2006-2010 (in billion pesos)

2006	59.38	61.881	64.603	68.44
2007	70.94	75.08	78.791	81.804
2008	76.58	79.084	77.171	78.618
2009	81.752	86.22	90.627	94.646
2010	99.799	105.797	111.449	n.a.

Source: Bangko Sentral ng Pilipinas, www.bsp.gov.ph

The share of auto loans in the banking industry's total loan portfolio increased from 3 percent in 2009 to 4 percent in 2010. Meanwhile, the combined auto loans of universal, commercial and thrift banks have generally increased since 2006 save for the 16.55 percent drop in 2008. From January to September in 2010, total money lent to consumers seeking to buy cars totalled P111.4 billion, or 17.8 percent higher than the combined auto loans for the entire year of 2009. The central bank attributed this growth in car loans to the aggressive marketing strategy of banks and other car financing firms.

Focusing on Toyota Motor Philippines

To obtain a closer picture of how capital moves along and within the production processes of automobile firms, the researchers analyzed the financial statement of Toyota Motor Philippines Corp. (TMPC) for the financial year ending in 2009. Obviously, a conclusive analysis on major capital movements towards and outwards TMPC and the different forms and modes of transfer of capital is not feasible with only the FS as unit of analysis. At the very least, the exercise will shed light on the company's priorities and some notable changes in the balance sheet in relation to the global economic crisis.

Among the key points that were examined were: 1) assets 2) liabilities and equity 3) cost of sales and 4) revenues and net income.

1. Assets

Comparing the current and non-current assets, it can be gleaned that TMPC focuses more on the short-term investments (which jumped from P21.92 million in 2008 to P601.72 million in 2009). These investments refer to assets that can be readily liquidated whenever the need, real or imagined, arises. Presumably, the focus on deposits with maturities of three to 12 months was a move to put a fraction of the company's assets in a liquid position amid the turbulent global financial system at that time.

The company's savings and time deposits grew by 160 percent (from P2.41 billion to P6.92 billion in 2009), resulting in P209.38 million in interest income in 2009.

It should also be noted that there was a huge jump in the inventories sub-item, most especially in raw materials in transit (which increased by 43.75 percent). This can be assumed as part of Toyota Japan's plan to increase its auto parts subsidiary's production of manual transmissions year-on-year starting 2007.[32] This could also be the company's build-up to the removal of all tariffs on imports of raw materials and CKDs in 2010 as stipulated under the Japan-Philippines Economic Partnership Agreement (JPEPA).

2. Liabilities and equities

TMPC's liabilities skyrocketed to P 8,428,024,236 in 2009 from P 6,929,718,541 in the previous year. In terms of equity, the company's appropriated retained earnings (which should be 5 percent of the parent company's net income for the year) did not change at all from 2008 to 2009 despite obvious changes in the net income of Toyota Japan during the same period. Its unappropriated retained earnings meanwhile slid down.

3. Cost of sales

Apparently, the company's cost-cutting measures at the height of the global crisis were reflected in the cost of sales, which covers wages and benefits of rank-and-file employees, repairs and maintenance, and stockyard and operational costs.

For instance, the cost of direct labour (wages of rank-and-file employees) was slashed by 24 percent from P135.78 million to P103.68 million. Stockyard and operational costs (which is surprisingly far below direct labour) fell by 53 percent. The cost of repairs and maintenance also decreased by 33 percent. It can be assumed that significant decreases in maintenance and operational costs were due to the company's reduction of workdays for the first six months of 2009.

4. Revenues and net income

TMPC's net income slid to only P1.6 billion in 2009 from P2.89 billion in 2008. The sizable drop was mainly due to the steep decline in gross profit from manufacturing activities, which decreased from P1.517 billion to P486.9 million. It can be inferred that TMPC's locally assembled models are being outdone by imported CBUs of the same brand that are generally cheaper, thus the higher profits from trading than from manufacturing activities. Revenues from trading and services reached P32.22 billion in 2009 from P31.6 billion, far higher than revenues from manufacturing activities which stood at P14.36 billion in 2009. Should the trend continue, the company would predictably downsize manufacturing operations and retrench assembly line workers.

VI. Labour issues in the auto industry: Inside Toyota and F-Tech Philippines

1. Toyota

Renowned as the world's largest automaker, Toyota Motor Corp. has graced the pages of record books after coming out with one blockbuster model after another. Since the Toyota Corolla hit the road in 1966, it has become the best-selling automobile[33] in the world, reaching the 35-million sales mark in 2010. That represents 2,179 Corolla sales every day, or 90 units every hour. Toyota also leads car makers in terms of environment-friendly autos with Prius – the first and best-selling mass-produced hybrid vehicle which hit one million sales worldwide in 2008.[34]

Much attention has also been paid to Toyota's Production System[35] (TPS), which is regarded as the development of the Ford mass production system. Behind the company's global success and prestige, Toyota workers at home and abroad toil under unjust working conditions.

In 2002, a 30-year-old quality control inspector who worked for a Prius plant in Japan's Toyota City died from overwork.[36] The worker routinely undertook 14-hour shifts day, often six days a week, as demanded by his work schedule. Worse, there was no overtime pay.

CorpWatch, a non-profit investigative research initiative, said that almost a third of the assembly line workers at Toyota City are temporary employees who earn an average of $12.13 an hour, almost half of the wages of regular workers earning $20.49 an hour plus bonuses. The group added that Toyota's supplier plants in Japan also make extensive use of guest or "trainee" workers, mostly from China and Vietnam "under conditions that in some respects qualify as human trafficking."

In the Philippines, Toyota Motor Philippines Corp's (TMPC) have earned not just the criticism of workers' organizations nationwide but also workers' groups and independent bodies worldwide for its gross violation of labour rights.. In the words of Toyota Motor Philippines Corporation Workers' Association (TMPWA), the company has waged a war against them. (no quotation marks?)

Retrenchments, union busting

On March 16, 2001, the company illegally dismissed 227 workers in its Sta. Rosa, Laguna plant, arguing that they failed to explain their absence on February 22 and 23. But members of TMPCWA, which comprised half of the 948-strong workforce, said the dismissal was "sheer union busting, unparalleled in its magnitude and severity."[37] The union launched a week-long protest action which culminated in a strike on March 28. Prior to the mass retrenchment, Toyota workers were also protesting the company's refusal to recognize TMPCWA and enter into a collective bargaining agreement (CBA) with the union.

Apart from retrenching workers, 300 on-the-job trainees (OJT) were admitted by the company to replace the regular workers it retrenched. Up to now, the company continues to employ OJTs, and rotates a new group in every six months.[38]

The labour issue turned into a court battle which reached the Court of Appeals and the Supreme Court. In November 2007, the high court affirmed the dismissal of workers, because it deemed the strike illegal.

At the time the decision which favored the company came out, TMPCWA had already exposed the anti-worker schemes of the automaker to the world.

TMPCWA, led by its president Ed Cubelo, filed their complaint (Case No. 2252) with the International Labour Organization (ILO) in February 2003. In November, the ILO recommended the reinstatement of all 227 workers as well as the commencement of the collective bargaining agreement. It pointed to TMPC's suppression of freedom of association as "an illustration of how a multinational company, apparently with little regard for corporate responsibility, has done everything in its power to prevent recognition and certification of the Toyota Motor Philippines Corp. Workers Association."

But neither the national government nor TMPC budged upon receiving ILO's recommendation. The company continued to deny workers their jobs and bargaining rights.

The following year, TMPCWA filed a complaint against TMPC and Toyota Motor Japan for violating OECD's Guidelines for Multinational Enterprises. In the course of the struggle, Cubelo met with

representatives of various workers' organizations worldwide which gave their support to the campaign, including the International Metalworkers' Federation (IMF). [39]

'Market-driven scholarships'

In its effort to sustain good brand reputation, TMPC has engaged various socio-civic activities and has participated in environmental projects such as tree-planting and coastal clean-ups through its corporate social development arm (Toyota Motor Philippines Foundation, Inc.). The company has also offered donations to schools and universities, including a P100-million donation to the University of the Philippines (UP) Asian Centre for the construction of the GT-Toyota Asian Centre Auditorium.

Among its CSR undertakings, TMPC's Toyota Automotive Education Program (TAEP)[40] stands as one of the most systematic – not only in sustaining good PR but in recruiting future workers for its operations and in boosting sales. TAEP's thrust is "to sustain a pipeline of globally competitive Toyota Technicians by recruiting young talent to the Toyota Network".

In selecting prospective partner schools, the school must be located near Toyota dealerships. Toyota Technology Centres will then be established in chosen partner schools. Full scholarships will be awarded to five students within the area of the dealership. With better sales, more students will be supported by Toyota within the locality, thus the set up of a "market-driven scholarship'.[41]

Effects of the global crisis

When the global financial and economic crisis materialized in 2008, TMP implemented cost-cutting measures in the form of reducing the number of workdays. Operations at the Sta. Rosa, Laguna plant, which assembles Vios and Innova for the domestic market, were halted at least one day per week to save on electricity, water and other resources. This scheme took effect for six months, significantly reducing the production output of the company.

Continuing the war against workers

Despite the widespread campaign mounted against its unfair labour practices, TMPC yet again exposed its gross anti-worker character when it terminated four union officers on charges of production sabotage on August 2, year, a day before the company's week-long anniversary celebration.

Among the dismissed workers was Wenecito Urgel, TMPCWA vice president for internal affairs who worked as a car painter for the company for 18 years. According to him, they were dismissed because they were the ones active in opposing the demotion of one of their co-workers to contractual status.

Urgel and other union officers sought for grievance process on the issue on May 28. A week later, nine workers – including Urgel – were held responsible for the two-minute production interruption and were sanctioned with preventive suspension.

"We were charged as guilty even though there was no investigation yet," he said, adding that it was their supervisor who intentionally turned off the switch of the machine to justify the company's alleged plan to retrench more workers.

"Toyota wants to create a climate of fear among us. It wants workers to equate the failure to meet the daily production target with dismissal," Urgel.

The daily production target of Toyota's local assembly plant, which employs 1,600 regular workers and more than 500 contractual in 2010, is 110 units of Vios and Innova cars. This daily target must be produced during two eight-hour shifts, which means every shift must produce 55 units.

Urgel added that the targeted time to assemble one vehicle is 7.53 minutes. "Every 7.53 minutes an assembled vehicle comes off the assembly line after going through different processes like welding, painting, and integration of doors and air conditioning units."

"The workload in our factory is strenuous and dangerous as well. Ironically, the company's concept of safety is just for the finished vehicles, not for us workers," he said.

2. F-Tech Philippines Manufacturing, Inc.

Inside the plant of auto parts manufacturer F-Tech Philippines Manufacturing, Inc. in Laguna Technopark, workers face the same repression of labour rights repression and health and safety concerns.

F-Tech Philippines, a producer of pedals and suspension parts and a subsidiary of Japan-based F-Tech Inc., produces 4,000 pedals and 1,500 suspension parts daily for Honda's assembly plants in the country and in Japan and Thailand, as well as for other auto brands. More than half of its 576 workers are contractual: For every five regular workers on a production line, there are seven contractuals on the same line.

Literally back-breaking

Most of the processes inside F-Tech's plant are manually done despite the high daily production target and the strenuous processes involved. In an eight-hour shift, the company churns out both pedals and suspension parts which have passed through stamping, welding, painting and assembly processes When the plant fails to produce its daily target within eight hours (which often occurs), workers are forced to work overtime to meet the target.

F-Tech worker Edgar Hilaga said some of them even work 11 hours a day for seven straight days, especially those in the stamping department since they are ones who carry out the first process.

"Workers who fall ill or acquire a disease are simply told by F-Tech Philippines to resign because they are useless to the company. In fact, one of our co-workers got a fractured back from years of hard work in the company, only to be pressured by the company to resign," he said.

Black propaganda against the union

Before the certification election of the union in the first quarter of 2010, Hilaga said the company embarked on different forms of black propaganda against the union that they are trying to establish.

"F-Tech launched seminars with free food to gather workers for its lecture against unionism. Those of us who actively campaigned for the recognition of the union were called 'Reds' for simply advocating genuine trade unionism," the worker said.

For Hilaga, this kind of labour rights repression is not new. In March 2001, he was one of the 227 workers laid off by his former employer Toyota Motor Philippines for actively pushing for a collective bargaining agreement.

The union failed to muster the majority vote in the certification election. The organizers attributed this failure to the management's anti-union rhetoric and threats of dismissal for workers. But Hilaga pointed out that unlike in other factories, they were able to reach the voting process as F-Tech's management failed to file a certification for cancellation of union registration.

Effects of the global crisis

At the height of the global economic slowdown in the first quarter of 2009, F-Tech Philippines imposed flexible work arrangements, reducing the regular six-day workweek to three or four days by forcing workers to use their sick and vacation leave. This"forced leave" scheme was one of the recommendations of labour department to supposedly avert more layoffs at that time.

VII. Conclusion

Various associations of automotive companies in the country have been applauding the increase in vehicle sales in the first half of 2010. Official forecast by the Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI) on annual vehicle sales for 2010 stands at 147,000 units, buoyed by optimism from the 67,000-unit sales in the first five months of the year. This optimism was even hyped up after a recent study on the prospects for the Philippine Automotive industry was released stating that the Philippines can be the 2nd regional hub for the Southeast Asian region in the coming years.

The rising growth rate of the economy, increased remittances from Overseas Filipino Workers (OFWs), and high hopes for the new administration are among the factors being cited for the anticipated surge in sales in 2010. The bullish outlook for the automotive industry is also coupled with the new administration's efforts to review the current Motor Vehicle Development Program (MVDP).

These conditions and indicators, however, are insufficient to spur auto industry growth and bring the Philippines onto the radar of the global auto production system. From our research it is clear that a favourable business climate plus a new car development program (MVDP) cannot undo the current problems of the auto industry which are linked to the structural weaknesses of the Philippine economy. The domestic economy remains predominantly backward and pre-industrial, while the level of technology remains very low. There are no basic industries that serve as a foundation for a local automotive industry. With these features, auto production will remain small-scale and costly, yielding low value-added products and relying on imported raw materials.

Furthermore, continuing trade liberalization via free trade agreements (JPEPA, AFTA), government-issued executive orders, and reduction and removal of tariffs will further weaken the Philippine automotive industry as it points to massive importation of CBUs and CKDs which are cheaper than locally manufactured vehicles. Under the neoliberal rationale, it is not wise for auto giants to continue their assembly and manufacturing operations in the Philippines where the cost of production is high compared to international levels. Instead of engaging in manufacturing, it would be more profitable for auto giants to import and distribute CBUs in the local market while maintaining production of very non-essential auto parts in-country This is reflected in the decreasing investments of auto giants in manufacturing in recent years. Predictably, scaled-down manufacturing operations in the country will lead to massive retrenchments of workers and/or worse flexible labour arrangements in the workplace.

Even domestic auto parts and components manufacturers will be seriously hit by the trajectory of national and regional policies towards further liberalization since they have no competitive advantage against major international global suppliers who are also subsidiaries and affiliates of TNCs.

It is worth noting that capital mobility in the auto industry has in part defined the current state of auto manufacturing and trade in the country. Based on the findings, Asian auto TNCs confined domestic vehicle assembly and auto parts manufacturing to small-scale production, low value-added products and high cost of production through the amount of investment it brought into the country and the mode of capital flows. Foreign capital brought to the Philippines focused only on the lowest end and lowest value-added production. Bilateral and multilateral trade agreements have been instrumental in cementing the disadvantages.

Significantly, key players in the automotive industry also control financial capital through their tightly knit relationship with the banks, with the latter nestled in major auto companies as stockholders. Decisively, banks in automobile companies extend influence in the mobility and restriction of financial capital, which is not designed to finance manufacturing but domestic vehicle sales via aggressive auto loan disbursements. In effect, banks are directly and indirectly supporting this strategy of small-scale and low value production while artificially increasing car purchases through loans for profit.

Aside from constricting the growth of the automotive industry, the sparse inflow of foreign capital in the country spells out worse exploitation and more pronounced flexibilization of labour. Without new investments for expansion or technology transfer, automobile companies are raising production targets without tapping new production facilities and machinery. Instead, companies are imposing new forms of flexible labour arrangements like compressed workweek (as in the case of Toyota workers) and prolonged hours of work (as in the case of F-Tech workers) to extract a higher surplus value from workers.

The conditions of auto workers in the workplace and the issues they are facing are determined also by the direction and stress of capital mobility of Asian automotive TNCs. That means the daily production and projection of production in each companies are in line with the regional blue print for the complementary regional production of the Asian automotive TNCs. Cost-cutting measures, the level of production, and plans for expansion are based on the direction set by Asian TNCs.

Since capital mobility within and along Asian automotive TNCs significantly shapes the current status of the local automotive industry and its prospects, Asian automotive TNCs are also decisive in influencing the fate of workers in the local automotive industry. Filipino workers remain vulnerable to the caprices of capital mobility, being on the brink of mass layoffs or more exploitative work arrangements in the workplace in the face of sparse capital investments.

As for other countries favoured by capital flows, their auto workers are victims of the highly strenuous automotive production and exploitation. Thus, it is important for workers and their organizations to conduct regular analysis and monitoring of capital mobility and its trends, to effectively lay down concrete and clear counteractions and lessen their vulnerability to the negative impacts of capital mobility. Regional and global labour actions among unions in the automotive sector should be forged to consolidate labour's response to the ill-effects of global and regional integration of production.

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13. Cebu-based firms Philippine HKR Inc.,manufacturer of gear sleeves and universal joints, and British Armor Manufacturing International Inc.,manufacturer of armor for armored vehicles, areboth Japanese firms.
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28. Refers only to investment pledged by foreign corporations or governments within a given year
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39. For the complete timeline of Toyota workers' struggle, see International Metalworkers' Federation's (IMF) Web site: www.imfmetal.org
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41. Ronald Gaspar, "Toyota Automotive Education Program," (December 2009)

Appendix

EO.1997-99

EXECUTIVE ORDER/ TITLE	COVERAGE	MAIN CONTENT	EFFECT ON AUTO INDUSTRY
Executive Order 453 **of 1997** MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED FOR UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE 1997-2003 PHILIPPINE SCHEDULE OF TARIFF REDUCTION OF PRODUCTS TRANSFERRED FROM THE TEMPORARY EXCLUSION LIST TO THE INCLUSION LIST UNDER THE NEW TIME FRAME OF THE ACCELERATED COMMON EFFECTIVE PREFERENTIAL TARIFF SCHEME FOR THE ASEAN FREE TRADE AREA (CEPT-AFTA) (See also EO 71 s.1999)		> legal enactment to implement the schedule of tariff reductions from 1997 to 2003 (ASEAN)	
Executive Order 168 **of 1999** MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE PREFERENTIAL TARIFF RATES ON CERTAIN PRODUCTS UNDER THE ASEAN INDUSTRIAL COOPERATION (AICO) SCHEME MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE PREFERENTIAL TARIFF RATES ON CERTAIN PRODUCTS UNDER THE ASEAN INDUSTRIAL COOPERATION (AICO) SCHEME	> Thailand > Isuzu diesel engines & transmission	- Philippines will import diesel engine from Thailand - Thailand will import transmission from the Phils - imported engines will have a tariff of 3%	

EO.2000

EXECUTIVE ORDER/ TITLE	**COVERAGE**	**MAIN CONTENT**	**EFFECT ON AUTO INDUSTRY**
Executive Order 198 **of 2000** > Honda AICO > Toyota AICO	> from Indonesia and Malaysia, OEM parts of Honda Civic, City and Accord; from Philippines components of Honda Civic, City and Accord > from Malaysia, OEM parts of Toyota Corolla and TUV	-Philippines will import various component parts from Indonesia and Malaysia for the OEM of Civic, City, and Accord -Indonesia will import certain automotive component parts from the Philippines for OEM of Civic, City and Accord Under the Toyota AICO Arrangement -Philippines will import from Malaysia the OEM of Corolla and TUV light commercial vehicles for the transport of persons and goods. -tariff is 0-5%	
Executive Order 215 **of 2000** > Toyota AICO	> from Indonesia, Malaysia and Thailand, OEM parts for Toyota Corolla and Camry > from Philippines, complementary components for Kijang, Corolla, Camry, Unser, Hilux and Soluna	-Philippines will import from Indonesia, Malaysia and Thailand OEM for Corolla and Camry -Indonesia, Malaysia and Thailand will import complementary component parts for the OEM of Kijang, Corolla, Camry, Unser, Hilux and Soluna - 0-5% tariff	
Executive Order 319 **of 2000** MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE PREFERENTIAL TARIFF RATES ON CERTAIN PRODUCTS UNDER THE ASEAN INDUSTRIAL COOPERATION (AICO) SCHEME >Toyota AICO agreement > Mitsubishi AICO	> from Indonesia, Malaysia, Thailand (Toyota Corolla) OEM auto parts/ components in exchange for electrics fans and other parts	- Philippines will import from Indonesia, Malaysia, and Thailand OEM automobile parts/ components for Corolla - Indonesia, Malaysia and Thailand will import electric fans and complementary components/parts for the electric fans - 0-5% tariff Mitsubishi Motors Philippines & Asian Transmission Corporation AICO -Philippines will import from thailand OEM automotive parts/components for Lancer and L200. -Thailand will import complementary part/ components for L200 - 0-5% tariff	

EO.2002

EXECUTIVE ORDER/ TITLE	**COVERAGE**	**MAIN CONTENT**	**EFFECT ON AUTO INDUSTRY**
Executive Order 87 **of 2002** > Toyota AICO	> from Indonesia and Thailand, OEM parts for Toyota Corolla > from Philippines complementary components for Toyota Corolla and Kijang	-Philippines will import from Indonesia and Thailand certain OEM automotive parts/ components for Corolla. -Indonesia and Thailand will import complementary component parts for the OEM of Corolla and Kijang.	
Executive Order 89 **of 2002** > Honda AICO	> from Thailand, OEM parts of Honda Civic > from Philippines, complementary parts of Honda Civic	-Philippines will import from Thailand OEM automotive/ components for Civic -Thailand will import complementary parts for the OEM of Civic -0-5% tariff	
Executive Order 156 **of 2002** Motor Vehicle Development Program	> Passenger Cars: four-wheel drive vehicles used to transport persons > Commercial Cars: transport persons and/or goods - motorcycles	-the assembly of motor vehicles shall be completely knocked down condition only. CKD: locally produced or imported for assembly purposes by a registered participant Imported CKDS: subparts/ parts and sub-assemblies/ assemblies/components minus local parts and components as may be determined by the BOI -only brand-new OEM CKD parts and components for assembly purposes shall be allowed for importation under the program -any foreign-owned or Filipino-owned companies organized under Philippinhe laws that will engage in the manufacture/ assemble of motor vehicles shall qualify as participant. -each new participant, over a period of 1 year, shall invest and/or bring in investments in the manufacture of motor vehicle parts and components for both export and domestic markets equivalent to USD 10 million for passenger cars or USD 8 million for commercial vehicle or USD 2 million for motorcycle.	

		Investments shall be in any of the following schemes: 1. Equitiy investment, either minor or major stockholdings in new or existing motor vehicle parts company 2. Investments in in-house motor vehicle parts manufacturing or 3. Cost sharing schemes with existing companies in terms of toolings and/or modernization/ upgrade of facilities or 4. other investments that BOI may consider for the development of the motor vehicle industry. -there shall be no limitation in the number of models that participant may assemble/ manufacture provided the same are registered with the BOI. A participant may register multi brands or motor vehicles -The BOI shall not register the same model under 2 participants - the participants shall continue to avail of CKD tariff rate under the CKD tariff lines as may be determined by BOI. The BOI will issue a Certificate of Authority. -the DTI shall monitor all importations of used motor vehicles through a monthly report. -excise taxes system will be restructured.	

EO.2003

EXECUTIVE ORDER/ TITLE	**COVERAGE**	**MAIN CONTENT**	**EFFECT ON AUTO INDUSTRY**
Executive Order 162 **of 2003** > under the Philippine Auto Components AICO Arrangement	> from Thailand, fan assy and shroud assy; evaporators for air conditioning machines, upper/ lower thanks AI radiators, subassy, lower tanks for AI radiators, and core subassy (AI radiators) > from Philippines, fuel pump mode assembly	-Philippines will import from Thailand fan assembly and shroud assembly; evaporators for air conditioning machines, upper/lower thanks AI radiators, subassy, lower tanks for AI radiators, and core subassy (AI radiators) -Thailand will import fuel pump mode assy. - 3% tariff	
Executive Order 243 **of 2003** > under the Nissan AICO Arrangement	> from Thailand certain OEM parts for Nissan Sentra > from Phils., complementarty components for Nissan Sentra	- 3% tariff	
Executive Order 244 **of 2003** MODIFYING THE RATES OF DUTY ON MOTOR VEHICLES, AS PROVIDED FOR UNDER THE TARIFF AND CUSTOMS CODE OF 1978 (PRESIDENTIAL DECREE NO. 1464, AS AMENDED), IN ORDER TO IMPLEMENT PREFERENTIAL RATES THEREON UNDER THE AUTOMOTIVE EXPORT PROGRAM.			

EO.2004

EXECUTIVE ORDER/ TITLE	COVERAGE	MAIN CONTENT	EFFECT ON AUTO INDUSTRY
Executive Order 312 of 2004 PROVIDING AMENDMENTS TO EXECUTIVE ORDER 244, S. 2003, "MODIFIYING THE RATES OF DUTY ON MOTOR VEHICLES, AS PROVIDED FOR UNDER THE TARIFF AND CUSTOMS CODE OF 1978 (PRESIDENTIAL DECREE NO. 1464, AS AMENDED), IN ORDER TO IMPLEMENT PREFERENTIAL RATES THEREON UNDER THE AUTOMOTIVE EXPORT PROGRAM > pursuant to E.O. 156, series of 2002, establishing a Comprehensive Industrial Policy and Directions for the Motor Vehicle Development Program > amendment of whole Annex "B" of EO 244 (Conditions for the Automotive Export Program), see EO 244	> special incentives for the export of certain completely built-up units (CBUs) of motor vehicles	> NEW: categorization of CBU exports w/ their minimum annual volume of exportation & respective minimum FOB value per unit (i.e., regular, developmental, niche, high value-low volume) > Automotive Export Program calls for the availment of preferential tariff rates by participants in their importation of CBUs on the basis of equivalent foreign exchange earnings from their exports of CBUs (open to all participants of Motor Dev't Program) > A qualified participant will be allowed to import CBUs under the Program at an annual volume equal to or less than the sum of 1,000 units per model and/or variant that it seeks to import. A Program participant shall be allowed to import a combination of models and variant provided the annual volume does not exceed the aforementioned limit. The net foreign exchange earning (NFEE) chargeable against imports (CIF basis) on a per unit basis shall continue until the credit is exhausted after which the Program participant shall pay the normal tariff rates on its imports. > imported CBUs must not be locally assembled (model and/or variant importations are less than 1,000 units per year in Year 2003) and the participating company owns the brands. > Department of Trade and Industry (DTI)/Board of Investments (BOI) during the effectivity of	*accordingly, expansion of exports of motor vehicles translates to improved economies of scale leading to increased global competitiveness of the automotive industry *and the recent and on-going developments on regional integration of the automotive sector, especially in the ASEAN, create an environment opportune for the manufacture of other CBUs of motor vehicles in the country primarily for export, provided incentives under E.O. 244 are extended to these types of activities

		the Program may modify the minimum volume and FOB value per unit as the need arises upon consultation with industry and concerned government agencies. > Net Foreign Exchange Earnings (NFEE) phased down every 5 years starting at $400 in 1st and 2nd year in increments of $100/ year. Miminum value must be followed, otherwise, no NFEE credited	
Executive Order 337 of 2004 MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE PREFERENTIAL TARIFF RATES ON CERTAIN PRODUCTS UNDER THE ASEAN INDUSTRIAL COOPERATION (AICO) SCHEME, IN FAVOR OF HONDA CARS PHILIPPINES, INC (HONDA) - (COE NO. HONDA/2004/36 > in consonance with Articles 5 and 7 of the Basic Agreement of the AICO (ASEAN Industrial Cooperation) Scheme of Apr 1996; Honda AICO scheme of 2004	> Philippines (Honda Cars Philippines, Inc. and Honda Parts Manufacturing Corporation) will import from Thailand (Honda Automobile (Thailand) Co. Ltd.) certain original equipment manufacture (OEM) automotive parts/ components for Honda Civic. Thailand (Honda Automobile (Thailand) Co., Ltd. will import from the Philippines complementary parts/ components for the OEM of Honda Accord, City, Civic, Jazz and CR-V >implementation of the preferential tariff rates on certain products under the Honda AICO scheme	> in consonance with Articles 5 and 7 of the Basic Agreement of the AICO (ASEAN Industrial Cooperation) Scheme of Apr 1996, participating companies in the approved Honda AICO Arrangements shall qualify for 0 – 5% preferential tariff rates to be extended by Thailand and the Philippines as participating countries>> amended to 3% on parts/components	* Honda as Japanese company (AICO schemes existing are that of Japanese companies – Honda, Toyota, Isuzu, Denso, Nissan, Mitsubishi)
Executive Order 338 of 2004 AMENDING EXECUTIVE ORDER NO. 87, SERIES OF 2002, ENTITLED "MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE PREFERENTIAL TARIFF RATES ON CERTAIN PRODUCTS UNDER THE ASEAN INDUSTRIAL COOPERATION (AICO) SCHEME, IN FAVOR OF HONDA CARS PHILIPPINES, INC. (HONDA) - (COE NO.	> under the Honda AICO Arrangement, the Philippines (Honda Cars Philippines) will import from Indonesia (P.T. Honda Prospect Motor) and Malaysia (Honda Malaysia Sdn. Bhd. and Honda Autoparts Manufacturing [M] Sdn. Bhd.) certain OEM automotive parts/ components for Honda Civic passenger cars. In exchange Indonesia and Malaysia will import from the Philippines other complementary parts / components for the OEM of Honda Civic. > from Malaysia: various Parts/Components Face, Front	> applicable AICO Preferential Tariff on OEM automotive parts/ components amended to 3%	* Honda as Japanese company (AICO schemes existing are that of Japanese companies – Honda, Toyota, Isuzu, Denso, Nissan, Mitsubishi)

HONDA / 2000 / 10 / A)"	Bumper, Face RR BPR > From Indonesia: Various Parts/Components: Wheel Assembly, Steering, Pad Comp Strg Wheel		
Executive Order 396 of 2004 REDUCING THE RATES OF IMPORT DUTY ON COMPRESSED NATURAL GAS MOTOR VEHICLES AND NATURAL GAS VEHICLE INDUSTRY-RELATED EQUIPMENT, PARTS AND COMPONENTS UNDER SECTION 104 OF THE TARIFF AND CUSTOMS CODE OF 1978 (PRESIDENTIAL DECREE NO. 1464), AS AMENDED > Natural Gas Vehicle Program for Public Transport (NGVPPT), which was launched on 16 October 2002, aims to enhance energy supply security in the transport sector through fuel for transport	> articles for the conveyance or packing of goods, of plastics; stoppers, lids, caps and other closures, of plastics; containers for compressed or liquefied gas, of iron or steel (e.g, seamless steel cylinders, except for LPG); aluminium containers for compressed or liquefied gas; spark-ignition reciprocating or rotary internal combustion piston engines (and parts thereof); air or vacuum pumps, air or other gas compressors and fans; ventilating or recycling hoods incorporating a fan, whether or not fitted with filters; centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases; taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing valves and thermostatically controlled valves; motor vehicles for the transport of ten or more persons, including the driver (motor buses); instruments and apparatus for measuring or checking the flow, level, pressure or other variables of liquids or gases (for example, flowmeters, level gauges, manometers, heat meters); gas, liquid or electricity supply or production meters, including calibrating meters thereof; automatic regulating or controlling instruments and apparatus	> said articles shall be subject to the Most-Favoured-Nation (MFN) import duty for the period in accordance with the schedule indicated opposite each article (*sched not indicated online*)	
Executive Order 397 of 2004 REDUCING THE RATES OF IMPORT DUTY ON COMPLETELY-KNOCKED-DOWN PARTS AND COMPONENTS FOR ASSEMBLY OF LOW ENGINE	>"hybrid" or partly-electrical vehicles which are deemed more powerful and more fuel efficient > completely-knocked down (CKD) parts and components for assembly of low engine	> said articles shall be subject to the rates of import duty MFN and ASEAN - Common Effective Preferential Tariff (CEPT) in accordance with the schedule indicated in	

DISPLACEMENT AND HYBRID VEHICLES > in accordance to Executive Order No. 472, series of 1998, institutionalizing the Committee on Fuel Conservation and Efficiency in Road Transport, and which targets 5% reduction in fuel consumption by road transport users	displacement and hybrid vehicles (Motor vehicles for the transport of ten or more persons, including the driver; motor cars and other motor vehicles principally designed for the transport of persons, including station wagons and sports/ racing cars; motor vehicles for the transport of goods e.g., lorries, vans, pick-up trucks) including CBU for said vehicles > Components, parts and / or accessories imported from one or more countries for assembly of motor vehicles by in the motor vehicle development program	Columns 4 and 5 opposite each article > EO effective through 1 year, subject to review * MFN - Most Favored Nation – 1-3% ** CEPT - Common Effective Preferential Tariff – 3% *** Duty free for the assembly of hybrid motor vehicles and motor vehicles with engine displacement not more than 1,000 cc	

EO.2005

EXECUTIVE ORDER/ TITLE	COVERAGE	MAIN CONTENT	EFFECT ON AUTO INDUSTRY
Executive Order 419 of 2005 TEMPORARILY INCREASING THE RATES OF IMPORT DUTY OF HIGH ENGINE DISPLACEMENT COMPLETELY BUILT UP VEHICLES UNDER SECTION 104 OF THE TARIFF AND CUSTOMS CODE OF 1978 (PRESIDENTIAL DECREE NO. 1464, AS AMENDED) > see EO 397 >connected to Republic Act No. 8749 otherwise known as the Philippine Clean Air Act of 1999	> Motor vehicles for the transport of ten or more persons, including the driver; motor cars and other motor vehicles principally designed for the transport of persons, including station wagons and sports/ racing cars; motor vehicles for the transport of goods e.g., lorries, vans, pick-up trucks; motorcycles (including mopeds) and cycles fitted w/ an auxiliary motor with or without side cars; sidecars; including CBU for said vehicles?	> said vehicles shall be imposed the Most Favored Nation (MFN) rates of import duty in accordance with the schedule indicated opposite each article (20-35%) > Executive Order shall be effective for a period of one (1) year subject to review (*what happened?*) > Registered participants under Executive Order No. 244 as amended by Executive Order No. 312, otherwise known as the "Automotive Export Program," are exempted from this Executive Order (*see 2004 EOs*)	> supposedly to promote the judicious conservation and efficient utilization of energy resources thereby adopting the most cost-effective options toward the wiser and efficient use of energy
Executive Order 479 of 2005 MODIFYING THE RATES OF IMPORT DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED IN ORDER TO IMPLEMENT THE PREFERENTIAL TARIFF RATES ON CERTAIN PRODUCTS UNDER THE ASEAN INDUSTRIAL COOPERATION (AICO) SCHEME, IN FAVOR OF TOYOTA MOTOR PHILIPPINES CORPORATION AND TOYOTA AUTOPARTS PHILIPPINES, INC. (TOYOTA) - COE NO. TOYOTA / 2005 / 31 > Toyota AICO	> Philippines (Toyota Motor Philippines Corporation and Toyota Autoparts Philippines, Inc.) will import from Malaysia (Assembly Services Sdn. Bhd.) certain original equipment manufacture (OEM) automotive parts / components for Toyota Innova. In exchange, Malaysia (Assembly Services Sdn. Bhd.) will import from the Philippines complementary component parts for the OEM of Toyota Innova, Vios, Camry and Corolla > from Malaysia, for Toyota Corolla Passenger Cars >> mudguards (quarter panel rr rh lh), lamp assy,license plate (rh lh), front wiper (arm, blade, rh lh), amplifier assy, air conditioner, computer, engine control, relay > from Malaysia, for Toyota Camry Passenger Cars>> link assy (power steering), moulding for front/ rear bumper and front/ rear door rh lh, inserts for respective doors, front wiper arm and blade rh lh, computer engine control relay	> said articles shall be accorded 0% tariff (but subject to qualification under the Rules of Origin for the CEPT)	* sub-compact/ compact/ mid-size cars * Toyota as Japanese company (AICO schemes existing are that of Japanese companies – Honda, Toyota, Isuzu, Denso, Nissan, Mitsubishi)

EO.2006

EXECUTIVE ORDER/ TITLE	COVERAGE	MAIN CONTENT	EFFECT ON AUTO INDUSTRY
Executive Order 488 of 2006 MODIFYING THE RATES OF IMPORT DUTY ON COMPONENTS, PARTS AND ACCESSORIES FOR THE ASSEMBLY OF HYBRID, ELECTRIC, FLEXIBLE FUEL AND COMPRESSED NATURAL GAS MOTOR VEHICLES UNDER SECTION 104 OF THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED > connected to Executive Order 472 (s. 1998) targeting a 5% reduction in fuel consumption by road transport users; and Executive Order 156 (s. 2002) establishing a "Comprehensive Industrial Policy and Directions for the Motor Vehicle Development Program" provides for the development of the Philippines as the manufacturing hub for certain motor vehicles, parts and components	> Motor vehicles for the transport of ten or more persons, including the driver; motor cars and other motor vehicles principally designed for the transport of persons, including station wagons and sports/ racing cars; motor vehicles for the transport of goods e.g., lorries, vans, pick-up trucks >>CBUs/ components, parts and/or accessories imported from one or more countries for assembly of vehicles* by participants in the commercial vehicle development Program * hybrid (electric and gasoline/ diesel), electric, flex-fuel (bioethanol and bio-diesel) and Compressed natural gas (CNG) vehicles.	> said products shall be subject to the rates of import duty [Most-Favoured-Nation (MFN) and Association of Southeast Asian Nations (ASEAN) - Common Effective Preferential Tariff (CEPT) * hybrid (electric and gasoline/diesel), electric, flex-fuel (bioethanol and bio-diesel) and Compressed natural gas (CNG) vehicles.are accorded ZERO tariff but others -- MFN 1-3%, CEPT 3%	* emphasis on hybrid
Executive Order 526 of 2006 MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE PREFERENTIAL TARIFF RATES ON CERTAIN PRODUCTS UNDER THE ASEAN INDUSTRIAL COOPERATION (AICO) SCHEME > Basic Agreement on the AICO Scheme signed in Singapore on 27 April 1996; Protocol to Amend the Basic Agreement on the AICO Scheme signed in Singapore on 21 April 2004 > Denso AICO	> Philippines as a participating country in the approved AICO Arrangement of Philippine Auto Components, Inc. (PACI) along with Thailand > intermediate (motor assembly w/ fan, shroud assembly, fan assy, cooling unit assy, evaporator, core condenser, pulley assy idle, lower and upper tank, core sub-assy) and final (magneto, starter, glow plug) OEM parts from Denso Thailand	> the Philippines (Philippine Auto Components, Inc.) will import from Thailand (Denso (Thailand) Co., Ltd.) certain original equipment manufacture (OEM) parts/components for motor vehicles, as specified in Annex "A". In exchange, Thailand (Denso International (Thailand) Co., Ltd.) will import from the Philippines complementary parts/ components for the OEM of motor vehicles under the aforementioned AHTN headings > amendment specified articles to be accorded 0% preferential tariff rate	* Denso as Japanese company (AICO schemes existing are that of Japanese companies – Honda, Toyota, Isuzu, Denso, Nissan, Mitsubishi)

EO.2007

EXECUTIVE ORDER/ TITLE	COVERAGE	MAIN CONTENT	EFFECT ON AUTO INDUSTRY
Executive Order 617 of 2007 MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED FOR UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE COMMITMENT TO REDUCE THE COMMON EFFECTIVE PREFERENTIAL TARIFF RATES OF CERTAIN PRODUCTS TO ZERO PERCENT UNDER THE ASEAN FRAMEWORK AGREEMENT FOR THE INTEGRATION OF PRIORITY SECTORS > ASEAN Framework Agreement for the Integration of Priority Sectors (Nov 2004 at Vientiane), automotive industry being 1 of the 11 priority sectors	> *articles under Annex A not available*	> articles Granted Zero (0%) AFTA-CEPT Concession > articles specifically listed in Annex "A" hereof (Articles Granted Zero (0%) AFTA-CEPT Concession under the ASEAN Framework Agreement for the Integration of Priority Sectors), as classified under Section 104 of the Tariff and Customs Code of 1978, as amended, shall be subject to the ASEAN CEPT rate indicated in Column 4 of Annex "A". The ASEAN CEPT rates so indicated shall be accorded to imports coming from ASEAN Member States applying CEPT concession to the same products pursuant to Article 4 of the CEPT Agreement and its Interpretative Notes.	
Executive Order 677 of 2007 MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE PREFERENTIAL TARIFF RATES ON CERTAIN PRODUCTS UNDER THE ASEAN INDUSTRIAL COOPERATION (AICO) SCHEME, IN FAVOR OF TOYOTA MOTOR PHILIPPINES CORPORATION; TOYOTA AUTOPARTS PHILIPPINES, INC. (COE NOS. TOYOTA / 2006 / 35 AND TOYOTA / 2006 / 36) > Toyota AICO	> Philippines (Toyota Motor Philippines Corporation) will import from Indonesia (PT. Toyota Motor Manufacturing Indonesia) certain original equipment manufacture (OEM) automotive parts/ components for Camry and Corolla. In exchange, Indonesia (PT. Toyota Motor Manufacturing Indonesia) will import from the Philippines complementary parts/ components for the OEM of Kijang Innova > from Indonesia, OEM automotive parts/ components for Toyota Corolla passenger car, Camry passenger car, and Innova (see EO 677 annex xcl) >intermediate parts of Honda Civic passenger cars (*see EO 679 annex xcl*)	> said articles shall be accorded the AICO rate of 0% > said OEM parts/ components shall be accorded the AICO rate of 0% on parts/components of Honda Civic as specified in Column 7 thereof	

Executive Order 679 of 2007 MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE PREFERENTIAL TARIFF RATES ON CERTAIN PRODUCTS UNDER THE ASEAN INDUSTRIAL COOPERATION (AICO) SCHEME, IN FAVOR OF HONDA CARS PHILIPPINES, INC. (COE NO. HONDA / 2007/ 48) > Honda AICO	> the Philippines (Honda Cars Philippines, Inc.) will import from Thailand (Honda Automobile (Thailand) Co., Ltd.) certain original equipment manufacture (OEM) automotive parts/ components for Honda Civic. In exchange, Thailand (Honda Automobile (Thailand) Co., Ltd.) will import from the Philippines complementary parts/components for the OEM of Honda Civic and CR-Vs		

Capital Mobility in Automotive Sector in Thailand

By Woradul Tularak

Introduction

The automotive sector in Thailand had been built under the government's industry protection policy. In early 1960s the industry was protected by an import substitution and industrialization strategy which included a local content requirement programme. In response to this policy, Japanese auto companies expanded into Thailand, led by Toyota Motor Co. which established its assembly plant in the country in 1962, followed by Nissan Motors Co. in the same year.

In the mid-1980s, the overvalued Japanese yen pressured Japanese companies to find investment locations aboard in order to competitively export their products, especially to Southeast Asian markets. Japanese companies chose Thailand as their export base. This period saw of the peak in capital inflows to the sector since 1960ss, a trend which was dominated by Japanese companies.

1. Production Mapping

In early 2000, in compliance with the World Trade Organization's Trade-related Investment Measures, Thailand eliminated its local content requirement programme. The impact was felt especially in motorcycle and automobile engine production. Additional moves toward further liberalization followed; in particular the import tariffs reduction schedule was introduced.

This was in line with the Board of Investment's extension of investment incentives, which included tax exemptions to attract foreign investment, especially from multi-national companies (MNCs). As a result, since the late 1990s, the major automakers from the West, especially European and US firms, have expanded their production activities in the country. The arrival of Western automotive manufacturers in Thailand can be seen as direct competition for the Japanese MNCs.

By 2008, the major automakers in the world, including Ford, General Motors, BMW, Daimler Chrysler, Mitsubishi, Mazda, Isuzu, Honda, Nissan and Toyota, had all established production facilities in a number of sites. The position of the local industry in the global network has shifted from a parts and component producer and assembler to the major automotive production centre in Southeast Asia.

The sector's share of manufacturing output in value terms is quite significant. In 2009, it contributed 210,000 million baht to the manufacturing sector, accounting for 12 percent of total manufacturing value and contributing around 8.1 percent to GDP.

Regarding the capacity of auto production in the country, currently more than one million completely built-up units (CBUs) are produced annually. In 2009, Thailand produced around 330,000 passenger cars, 690,000 trucks and buses, and 1.7 million motorcycles.

a. International Trade

In 2009, exports of automotive parts and vehicles accounted for 9.3 percent of the total value of the exports of the country. The major export product was completely built-up units (CBUs). The total

value of vehicle and parts exports was 379,486.62 million baht. The value of CBU exports accounted for 63 percent of the total value which was 251,342.94 million baht. CBU exports have also been on an upward trend. This is to say that industry had become more export oriented in completely built-up units than in the past.

For destinations of automotive exports, passenger cars were exported to the following: 9.5 percent to ASEAN countries, mainly Indonesia and the Philippines; 15.2 percent to Australia; and 14.3 percent to the Middle East. (Ministry of Commerce website, www.moc.go.th)

For trucks and pick-up trucks, the major export destinations were Australia, Chile and Indonesia. And for motorcycles, 36 percent of the total production was exported mainly to Indonesia, Vietnam, the United Kingdom (UK) and the Philippines. (Ministry of Finance report, 2010)

For automotive components and parts, the major export destinations were Japan, Malaysia, Indonesia and US which accounted for 15.9 percent, 11.6 percent, 10.4 percent and 6.3 percent, respectively. For automobile engines, the major export destinations were Indonesia, Japan, India and Malaysia which accounted for 15.4 percent, 12.0 percent, 9.6 percent and 9.3 percent, respectively. For the motorcycle parts, the major export destinations were Indonesia, Vietnam, Philippines and Cambodia which accounted for 26.5 percent, 17.0 percent, 9.9 percent and 8.8 percent, respectively. (Export-Import Bank of Thailand (EXIM) 2010 report and author's calculations)

Thailand's major export competitors in the components and parts sectors in 2009 were China, Mexico and South Korea and in CBU exports, China and India were the major competitors. In this regard, China and India have lower costs of production, while Thailand depends heavily on raw material imports, in particular steel for automotive production which is around 50-60 percent of the production cost in the industry. In addition, Thailand can be seen as the less attractive export base for MNCs.

b. Domestic Market

In 2009, the total number of domestic vehicle sales was 548,871 units, of which 238,773 units were passenger cars and 310, 098 units were commercial vehicles including trucks, vans, buses and pick-up trucks. Sales declined by about 10.6 percent from the previous year, mostly due to the decrease in sales of commercial vehicles.

From 2006 to 2009, the domestic market was quite stable. Total sales were around 5000-650,000 units per year, except in 2005 and 2006 when sales exceeded 650,000 units.

The major player in the domestic market with the greatest market share was Toyota with 42 percent of total sales in 2009, followed by Isuzu (20 percent), Honda (17 percent), Nissan and Mitzubushi (together 9 percent), GM and Ford (together 4 percent) and others (9 percent).(Thailand Automotive Institute, 2010 and author's calculations).

c. Production Network

In the global supply chain, there are three tiers of suppliers in Thailand with 1,815 plants. The automotive suppliers can be classified into two groups. The first group, Tier 1 suppliers (direct OEM suppliers) produce automotive parts and supply their products directly to car makers. Currently, there are 709 companies in this group; around 50 percent of the companies are foreign-owned company or joint venture companies and the remaining 354 companies are Thai-owned company. Among the foreign companies, 40.5 percent of them are units of Japanese MNCs.

The second group, Tier 2 and 3 suppliers, includes raw material suppliers and replacement equipment manufacturer (REM). This group supplies raw material, parts and equipment to Tier 1 suppliers. Most companies in this group are small and medium-sized Thai companies. Currently, there are around 1,110 companies in the second group.

The auto parts companies supply their products to the car makers, sometimes under a global supply agreement. For example, LEAR Company produces auto seats and supplies to Ford motor company under a global supply agreement.

Some of global suppliers are joint ventures with the local suppliers. For example, the Thai Summit Group, the largest supplier company in Thailand, is a joint venture between a Thai company and a Japanese partner. This company supplies its products to various car makers in the country.

d. Workers in the automotive sector

In 2008, the automotive sector employed around 350,000 workers. The 189 MNCs and their affiliates employed 136,339 workers. Around 50,000 of the 350,000 workers in the sector were sub-contracted, other outsourcing contract or were employed on a fixed-term contract. Both the MNCs and the local companies usually reduced the number of regular workers on the staff payroll and recruit other workers via agencies to replace them.

In a surveyed done by the unionists in 2009, the average wage of agency workers in the industry was lower compared to those with permanent staff positions. Most of them received the minimum wage of 178 baht with few other benefits, except for housing and some medical support in the case of a work-related accident. But most importantly, they had no job security.

Furthermore, sub-contracted workers were vulnerable to being laid off when the sector experienced a contraction or other financial difficulties. In the period following the global recession in 2008, General Motors laid off 780 workers that year, according to an interview with unionists in the Eastern Industrial Estate. More than half of them were sub-contracted workers. On the other hand, in the same year, Toyota laid off hundreds of permanent workers and then re-employed most of the same workers but under new employment contracts with a fixed-term of employment of 11 months.

The large company uses subcontracted workers not only to cut long-term labour costs but also to weaken the power of the unions to negotiate a collective agreement. Workers hired through sub-contractors are non-unionized and the least protected by the labour laws. To bring these contract workers into the unions is sometimes difficult and depends on the union's policies and effort.

e. Labour Union in the Sector

In general, labour unions in Thailand have formed a very small number of workplace-based labour unions. In 2008, there were 1,258 labour unions in the country with 331,853 members which accounted for 3.73 percent of the total of 8,886,681 insured workers eligible to be members of labour unions according to the Labour law 1975. The unionization rate in the automotive sector is low but moderate if compared to other sectors. There were 114 unions in the sector with 17,946 registered union members in the sector.

To deal with the core issue, sub-contracted employment, with the small number of labour unions and their low membership, labour unions in Thailand found it difficult to delay or abolish the practice of sub-contracted employment.

However, we have found some unions that have discovered ways to cope with this problem. For example, the group of unions in the automotive industry in the Eastern Industrial Estate negotiated in their collective agreement to limit the number of subcontracted and agency workers to not more than 50 percent of the total number of workers. Some of the unions negotiated further requiring that those recruited as sub-contracted workers be made permanent worker in the certain period of time, i.e. after three years of work.

However, these union policies are still not fully effective because firstly, the number of subcontracted workers has increased substantially and become more wide-spread in terms of the number of workers as well as factories. And with the various forms thus the unions are overwhelmed by too many issues. Secondly, these issues and union policies are still not the first priority for most of unions, even though they are aware of the problems. Thirdly, regular workers are not considering contract workers as their fellow workers. This makes it problematic for unions to target their organizing on these workers and seek to enrol them in the union. Lastly, the company-based union structure in Thailand is not only an obstacle to organizing the contract workers, but it also weakens the power of the union itself. Thus, to cope with the sub-contracting issue industrial action is also required.

2. Mapping of capital flows

In the non-bank sector, private capital inflows into Thailand consist of foreign direct investment (FDI), loans, portfolio investments (PI) and non-resident bank account (NRB). In general, capital inflows in form of FDI are longer term than PI and the others.

During the Asian financial crisis in 1997-1998, Thailand's FDI was not affected and even grew remarkably after the currency was allowed to float. In this regard, the fixed exchange rate system, which overvalued the baht, seemed to discourage FDI the most, because it raised the potential costs of a Thai export base for the MNCs. This was similar to the 1980s when the overvalued yen and the cheaper Thai baht attracted Japanese FDI to Thailand.

a. FDI in the Automotive Sector

Since 2000, FDI in automotive sector has increased over time. In 2009, the value of FDI in the sector was US$1,443.97 million, the first of all industries. It increased from US$1,407.78 million in 2008 and US$1,248.81 million in 2007. During the period, others sectors, such as petroleum products, financial institutions and mining sectors, experienced a decline. Within the manufacturing industries, FDI in automotive sector had a share of 38.6 percent of the total invested in manufacturing and 26.1 percent of the total FDI invested in all sectors including services, construction, real estate, agriculture sectors and others.

The majority of FDI into Thailand has come from Japan, the US and the European Union (EU), in that order. More than half the FDI in the automotive sector has been the direct investment of Japanese MNCs.

b. Portfolio investment in automotive sector

There are 471 listed companies in the total of eight industry groups classified by the Stock Exchange of Thailand (SET). These are resources, financials, property & construction, technology, services and agro & food industry. The industrials group comprises petrochemicals & chemicals, packaging, paper and printing materials, automotive, and industrial materials and machinery.

In 2009, the net profits of all companies in the resources group on the SET were 158,547 million baht, the most profitable sector. It is followed by financials (101,348 million baht), property & construction (68,240 million baht), technology (37,373 million baht), services (35,872 million baht), agro & food industry (29,622 million baht), consumer products (6,948 million baht) and lastly, the industrials, the lowest of the 8 groups (6,170 million baht).

This is to say that using the channel of the stock market in Thailand is not the major financing channel for the industrials groups, including automotive sector, since its profitability is low compared with other sectors.

In 2009, the industrials group, comprised of 69 listed companies. Within the group, the automotive sector earned a slim profit of 149 million baht while the some sector incurred losses, especially the industrial materials and machinery sector which had losses of 13,366 million baht in 2009.

Currently, there are 19 listed companies in the sector on the SET. In 2009, seven out of the 19 companies incurred losses.

All of the companies are parts suppliers, not car makers, and are majority Thai owned. Their core businesses are components and parts production. Two of them are assemblers, producing vans and buses and motorcycles namely, ThaiRung Plc. and Suzuki Thailand Plc. (Stock Exchange of Thailand, 2010 Report)

c. Loans from Financial Institutions

Japanese Bank for International Cooperation (JBIC)

One of the important roles of JBIC in the automotive sector in Thailand is to provide financial support to Japanese affiliates and subsidiaries through various financial instruments and methods.

Co-financing with Bangkok Bank

In 2010, JBIC signed the loan agreements with Bangkok Bank Plc. to provide loans in the amount of US$30 million to Japanese MNCs focusing on the automobile industry, the electric appliance sector, and the electronics industry in Thailand. The loan is provided through the Bangkok Bank Plc.

Co-financing with Japanese banks and Thai Bank

In 2007, JBIC signed a 26 billion yen unsecured loan to support industries for local Japanese subsidiaries and affiliates, especially in the automobile, home appliance and electronics industries. JBIC signed a syndicated loan with one of the top local Thai banks, Kasikorn Bank, for co-financing with eight private financial institutions (Sumitomo Mitsui Banking Corp (lead bank), Bank of Tokyo-Mitsubishi UFJ, Mizuho Corporate Bank, Bank of Kyoto, Higashi-Nippon Bank, Sumitomo Trust & Banking Co and Nomura Trust and Banking Co, with JBIC providing a guarantee for their co-financing portion.

Local currency-denominated bond guarantee

In 2004, JBIC signed an agreement providing a guarantee for a baht-denominated debenture issued by Tripetch Isuzu Sales Co. ltd., a joint venture between Mitsubishi Corporation and Isuzu Motors and Tripetch of Thailand in the amount of 3.5 billion baht. (www.jbic.go.jp)

Financing by Thai banks

In 2009, the total amount of loans from Thai commercial banks in the automotive sector was around US$15,028 million and accounted for around 7.2 percent of the total amount of loan issued by banks to the manufacturing sector. (BOT statistics, 2010)

For a big project, in 2010, Bangkok Bank, Siam Commercial Bank and Tisco Bank joined in the syndication of a 13.5 billion baht (US$417.2 million) credit facility for General Motors (Thailand) to finance two vehicle programmes and the construction of a diesel-engine plant in Rayong.

In addition, recently, Ford Motor (Thailand) expected to secure a syndicated loan, with Bangkok Bank as the lead bank with the funds to be used to open a new factory. (The Nation, June, 24, 2010). The new factory will be run by Mazda Motor Corp and the Ford Motor Company's joint venture, AutoAlliance (Thailand) Co. Ltd. (AAT). A total of US$350 million is to be invested in a pickup truck plant. The investment will enable production of the new compact pick-ups to commence in 2011. (www.mazda.com)

Looking at the sources of financing in the sector, the amount of financing from Thailand's banks was much greater than that from FDI and other sources. In fact, there has been an upward trend in the financing by banks of the major automotive MNCs. This is also reflected in the fact that Thailand's banks are the major player in automotive sector and the finance sector has been the most profitable sector in Thailand since it recovered from the crisis in 1997-1998.

3. MNCs mapping

Reportedly in 2008, there were a total of 1,185 MNCs (parent companies with and affiliates) in the country which employed around 800,000 employees. In automotive sector, there were 186 parent companies with affiliates employing around 152,113 employees. More than half of them are Japanese MNCs with affiliates. (www.investmentmap.org)

The major players in the sector are multinational firms, including Honda, Toyota, Isuzu, General Motors and Auto Alliance company, the Ford- Mazda joint venture.

In 2008, the top parent companies, together with their affiliates, in terms of number of employees were as follows: Toyota employed 18,749 workers;, Honda 15,346 workers; Mizubishi 6,070 workers; Isuzu 4,500 workers; and General Motors 1,500 workers.

Toyota was the first Japanese automaker to establish a plant in Thailand. Over the years it has expanded its business line and operates many sites within the country. Currently, it has 6 affiliates, namely Toyota Motor (Thailand) Co.Ltd., Thai Auto Wheel Co. Ltd, Siam Toyota Manufacturing Co. Ltd., Hino Motor (Thailand) Manufacturing Co. Ltd., Hino Motor (Thailand) Ltd. and Cateler (Thailand) Ltd..

The largest factory in this group is run by Toyota Motor (Thailand) Co. Ltd. employing around 12,000 workers. It produces car bodies, while the other affiliates produce trucks and buses, engines and parts, internal combustion engines, aluminium die-castings, parts and accessories, car bodies, industrial inorganic chemicals.

Honda, the second largest MNCs in terms of the number of employees in the sector has eight affiliates, namely Honda Manufacturing (Thailand) Co.Ltd, YS. Tech Co.Ltd, Siam Yashiro Co.Ltd, Siam Goshi Manufacturing Co. Ltd, Honda Lock Thai Company Ltd, Honda Automobile (Thailand) Co.Ltd, Asian Honda Motor Co. Ltd. and Honda Southeast Asia Co. Ltd.

This group of companies produces automotive stampings, motors and generators, motor vehicle parts and accessories, plastics products, blast furnaces and steel mills, products of purchased glass, car bodies.

4. Conclusion

The global crisis resulted in a sharp contraction of 54 percent in vehicle production in Thailand in the first half of 2009 when compared to the same period of 2008. On the other hand, the global crisis does not appear to have affected FDI.

The reason for the contraction is due to the fact that there is a high degree of connection of production in the automotive sector. The sector is also highly dependent upon exports and the financial situation of MNCs in the parent countries.

Importantly, the crisis also affected the workers and large numbers were laid off, particularly contract and agency workers in Thailand

At the same time, the automotive sector recovered quite rapidly, thus employment has picked up. Large companies have announced plans to increase production. Ford Thailand increased investment in new plants with the prospect of 11,000 new jobs. Another 2,200 workers are to be employed directly by the parent company. Another 8,800 workers will be recruited through local parts suppliers. Employment in the automotive sector is estimated to be maintained at around 300,000 until 2012.

Based on a report by the Office of Industrial Economics in 2010, there is shortage of labour and companies, especially those in the automotive sector, are looking for up to one million subcontract workers.

There is a tendency in the sector to employ workers on short-term contracts, andduring the recovery period, contract workers were employed in large number. But it remains to be seen how long these workers are employed in the industry.

In the aftermath of the global crisis, MNCs turned to local banks for loans rather than seek financial sources in their home countries. This was true of Ford Motor Thailand and GM Thailand. Both companies needed loans for business expansion and the construction of new plants.

Major MNCs investing in Thailand in the automotive sector come with their own affiliates or subsidiaries. These subsidiaries are in the business of auto parts. This helps to ensure timely production for the MNCs. When there is disruption in the parts business, the assembly plants are also affected.

Given the facts, there are challenges for labour unions:

1. Labour unions should develop a policy to bring contract workers into the same union
2. Once workers are organized, the union shall initiate national collective bargaining covering both regular and contract workers
3. As MNCs are utilizing local bank loans, the labour movement in the country should develop a strategy so as to set conditions for the MNCs receiving these loans. For instance, one condition should be to promote decent work and labour union rights. In the same manner, the labour movement shall engage in a dialogue with the principal companies and request that guidelines on labour practices be imposed on supplier companies.

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