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How Three-party Institutional Arrangements Benefit MNCs and State Development

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Abstract

This study argues that economic relations between Japan and Southeast Asia have been moving towards greater interdependence as a result of the creation of regional deliberation councils. These maintain the interests of the members within a three-party economic interdependence system, namely the Japanese government, governments in Southeast Asia, and Japanese MNCs. Under such institutional arrangements, the Japanese government, in association with Japanese MNCs, has been facilitating economic development in Southeast Asia that benefits Japanese MNCs as well as the regional economy. The establishment of the AEM–METI Economic and Industrial Cooperation Committee (AMEICC) and the Vietnam-Japan Joint Initiative will be examined as case studies at the multilateral and bilateral level, respectively.

Keywords
Institutionalists, Deliberation Councils, Southeast Asia
Japanese MNCs, AMEICC, Vietnam-Japan Joint Initiative

1. Introduction

The issue of economic relationships between governments and multinational corporations (MNCs) in the field of international development, international political economy, and international business studies has been one of controversy over the last four decades. The national governments, in general, aim to enhance economic development and MNCs are keen on expanding their business activities across borders. Consequently, economic development in less advanced host countries has been facilitated by the interaction between MNCs and governments. With regards to this relationship, neoclassical theorists have advocated pro-MNC policies, with an emphasis on their positive influence on an economy (Balassa 1988, Kruger 1978).[1] In contrast, some scholars of MNCs (such as Hymer 1976, Vernon 1966), as well as dependency theorists in the past (such as Baran 1957, Frank 1967), have asserted that MNCs could be harmful for less advanced countries. However, the recent international business literature has argued that the nature of economic relationships between government and business is becoming more interdependent (Dunning 1998, Luo 2001). Furthermore, institutionalists argue that an 'embedded coordination structure' has a created favourable competitive collaboration between the government and industry in East Asian countries, which enhances economic development in the region (Evans 1995, Weiss 1998).

The aim of this study is to examine the Japanese state's involvement in the creation of an interdependent economic relationship between Japanese MNCs and nation-states in Southeast Asia. I shall argue that the Japanese government, in association with Japanese MNCs, has been facilitating economic development in Southeast Asia: development that

[1] Kruger and Balassa originally argued for trade liberalisation. Other neoclassical economists such as Bengoa and Sanchez-Robles (2003) and De Haan and Sturm (2000) further developed the concept in association with foreign direct investment (FDI) within the perspective of a *laissez-faire* regime through the use of the term 'economic freedom', claming that economic freedom enhances FDI, and subsequently leads to economic growth.

benefits Japanese MNCs as well as the regional economy. In particular, the cooperative relationship between MNCs and host governments is strengthened as a result of the establishment of formal institutional networks, such as deliberation councils (and committees), which involves a three-party structure, such as Japanese MNCs, the host governments and the Japanese government. The latter, in cooperation with the business community, has constructed institutional networks at multilateral and bilateral levels in Southeast Asia. In this paper, I will analyse the establishment of the AMEICC [ASEAN Economic Ministers (AEM) – Ministry of Economy, Trade and Industry (METI) Economic and Industrial Cooperation Committee] at a multilateral level, as well the case of the Vietnam-Japan Joint Initiative at a bilateral level. The article is organised as follows: Section 2 reviews the economic relationship between MNCs and both host and home governments. Section 3 examines the three-party economic interdependence in Southeast Asia at the multilateral level. Section 4 analyses the case study of Vietnam at the bilateral level, with conclusions following in Section 5.

2. The Economic Relationship between MNCs and Government

Relationships between MNCs and Host Governments

The economic development and environment of a State can be improved as a result of economic negotiations between governments and MNCs. Governments are constantly aiming to improve their state's economic position. At the same time, MNCs are keen on expanding their business activities across borders. Therefore, it stands to reason that governments and firms should enter into various types of agreements with one another, such as in relation to the level of ownership, technology transfer, and the provision of incentives (Kremenyuk *et al.* 2000). Strange described the economic relations between government and business as follows:

> *"[T]here has been a fundamental change in the nature of diplomacy:*

> *Governments must now bargain not only with other governments, but also with firms or enterprises, while firms now bargain both with governments and with one another. As a corollary of this, the nature of the competition between states has changed, so that macro-economic management and industrial policies may often be as or even more important for governments than conventional foreign policies as conventionally conceived"* (Strange 1992, pp.1-2).

Economic relationships between government and business have been rapidly evolving into a more complex, three-party type of structure, involving MNCs, the host government and the home government of the MNCs. For instance, Ramamuriti argued that MNC-host government relations can no longer be viewed as a static, two-party negotiation, but rather as a dynamic, two-tier multi-party bargaining process. He classified bargaining relationships into two stages. Tier-1 relates to the bargaining between host developing countries and home industrialised countries, while Tier-2 relates to the bargaining between individual MNCs and host governments. He concludes that the bargaining relationship between a host government and the home government of the MNCs has become important in shaping a host country's FDI policies in recent years (Ramamutri 2001).

The role of MNCs in the world economy has been expanding rapidly, particularly with the rise of globalisation. One the one hand, MNCs are deemed to play a crucial role in enhancing the international transfer of various resources, technology and management skills from a home country to a host country, which facilitates economic development for the host country. On the other hand, there have been widespread concerns that MNCs have had negative economic and social influences on host countries, and there are various theoretical approaches that have been used to explain the relationship between the MNC and the host government. The first theoretical approach is the textbook neoclassical explanation, which asserts that inward foreign investment from MNCs provides external finance, technology and management skills to compensate for inadequate local capacity in the host countries. Neoclassical economic theory advocates a free trade and investment regime for a host country. The theory assumes that countries have different factor endowments, with the flow of their foreign investment varying according to interest rate differences, as well as being a substitute for trade.[2] Actually, with regards to foreign investment, no particular attention is paid to investments made by MNCs in pure neoclassical theory (Krugman 1983, p.57). Each country in the world efficiently produces goods and services in harmony with its comparative advantage, and as such, it is assumed that they can then be exchanged through international trade, rather than foreign investment. In this context, foreign direct investment may be the second best theoretical explanation (Bishop 1997, p. 10).

With regards to the issue of an MNC and its FDI, the first major challenges to the neoclassical approach came from scholars of American MNCs such as Stephen Hymer, Charles Kindleberger, and Raymond Vernon. Hymer and his PhD dissertation supervisor, Kindleberger argued that MNCs make foreign direct investment, not because of a higher marginal rate of return in perfect markets (which the neoclassical theory assumes), but because of monopolistic advantages in imperfect markets (Hymer 1976, Kindleberger 1969). Furthermore, Vernon advocated the ‘product cycle’ theory, claiming that MNCs are oligopolistic by nature and can control price environments wherever they choose to invest strategically. Consequently, the increasing power of MNCs threatens national sovereignty (Vernon 1966 and 1971). In addition, the old dependency school had further

[2] The neoclassical explanation has evolved from the Hecksher-Ohlin (H-O) trade theory, which assumes that countries have different factor endowments and foreign investment flows according to market demand signals, specifically the relative prices of immobile factors. The H-O explanation normally assumes production takes place in a vertically integrated fashion, thus excluding trade in intermediate products, which has been an important aspect of the trade-creating effects of FDI.

asserted that MNCs prevent developing countries from achieving local economic development, because the benefits of foreign direct investment are unequally distributed between MNCs and the host governments (Baran 1957, Frank 1967).

A number of business as well as political studies over a period of years have suggested that the impact of MNCs on the host countries is neither as positive as the neoclassical explanation nor as negative as the dependency explanation. The economic relationship between MNCs and the host government can be viewed as a contest of 'bargaining power' between MNCs and the states. The bargaining power literature postulates economic resources owned by firms and governments as the result of interactions between the two. MNCs' bargaining power derives from the resources they contribute, or from owner-specific advantages such as marketing skills, productions skills and brand names.[3] By contrast, a host governments' bargaining power relies on its control of market access or location specific advantages. Therefore, this perspective emphasises the importance of arrangements between host governments and MNCs, identifying the strengths of MNCs and the host governments, which enable each to obtain more favourable results (Behrman and Grosse 1990, Blake and Walter 1987, Farge and Well 1982, Grosse, 1996, Kim 1988, Strange 1992, Vachani 1995).

However, bargaining power studies seem to lack an explanation of the cooperative relationship between MNCs and host governments. Luo pointed out the weakness of the bargaining power literature, stating that bargaining results, such as ownership levels and regulatory stances, which were emphasised in the bargaining power literature, only help in explaining the market entry of MNCs or the treatment of their investments. In reality, MNCs move on in their business strategies from initial entry to subsequent operations,

[3] Refer to Dunning (1988) for the eclectic paradigm.

and thus these bargaining results are unable to explain adequately these later outcomes (Luo 2001, p.402).

The most recent studies on the economic relationships between MNCs and host governments revealed that the very nature of those relationships has been shifting from predominantly adversarial and confrontational to non-adversarial and cooperative (Dunning 1998, Stopford 1994, Luo 2001). John Dunning pointed out two principal reasons for this. Firstly, there has been a deceleration of economic growth in many parts of the world, China being a major exception. Adding to this, many countries are feeling increasing pressure to attract FDI in order to procure newer technologies that enable them to implement labour-saving measures and cross-border communications. Secondly, the opening up of new regions, such as East Asia, has enabled corporations to seek out the most cost-effective locations for their value-added activities (Dunning 1998, pp. 282).

Therefore, the economic relationship between a host government and MNCs has begun to play an important role in creating national competitiveness and fostering the economic development of the host country. MNCs and host governments can be seen as the best of partners, and this relationship is becoming more mutually beneficial. From the perspective of the MNCs, their business operations increasingly rely on the educational, technological, and industrial infrastructures provided by host governments. On the other hand, the host governments increasingly depend on MNCs for fostering their economic development, due mainly to the globalisation of the world economy, in particular the promotion of the free trade and investment regime. In response to this new regime, host governments in developing countries are now being required to readjust their development strategies in association with MNCs. Consequently, FDI-led development strategies have become commonly employed among developing countries, particularly in Southeast Asia (Felker 2003, Lauridsen 2004). In practice, host governments started to pay attention to increasing or restructuring the domestic value-adding activities of MNCs, rather than simply seeking to benefit from a maximum share of the rent generated by MNCs (Dunning 1998).

One of the most important means for MNCs to increase this domestic value-adding is through a growing interdependence, which is largely facilitated by the establishment of cooperative structures between MNCs and host governments. As cooperation proceeds, MNCs will be able to access various benefits from institutional support from the host government (Luo 2001). Kostova and Zaheer's study noted that high levels of organisational legitimacy (or acceptance by the host country's institutional environment) enhances an MNC's local credibility, as acknowledged by political groups and the business community, which in turn provides a better institutional environment for improving the relationship between MNCs and the host government (Kostova and Zaheer 1999). From this perspective, building institutional networks between MNCs and host governments seems to be a key element for interdependence between the two.

MNCs and Home Government Relationships and Institutions in East Asia

Since the 1980s, there has been much debate in East Asia over the role of the (home) government in economic development, particularly between the neoclassical school and the revisionists. The neoclassical school - exemplified in the neoliberal 'Washington consensus'[4] - makes the presumption that growth occurs in a *laissez-faire* economic regime; that is, growth is accentuated by economic liberalisation (the removal of restrictions on trade and investment) and appropriate macroeconomic policies. This

[4] See Stiglitz (1998) for a sustained criticism of these policy prescriptions.

school therefore advocates a policy of free trade, market liberalisation and minimal government intervention. The theory assumes that the market should not be distorted by any intervention by the state, and thus the role of the government is limited to market correction.

From the neoliberal perspective, little credence is given to the distinction between host and home governments and their potential to provide market assistance; instead it relegates them to the sole role of market corrector, and only then in circumstances of market failure. This, at least in theory, also entails the prohibition of any home-government assistance to MNCs in the case of a host government market failure. However, in practice, and certainly within the negotiations of many free trade agreements, home governments play a vital role in securing favourable conditions for their MNCs in a host government's market. For example, the home government can assist MNCs when they have been responsible for those market failures, such as by correcting rules that have been discriminatory against MNCs or failures to protect intellectual property rights. In both cases, the host government is viewed as having failed in the market, and therefore must make corrections by applying a free market regime with all the applicable trade and investment rules. However, the role of the state in the real international economy seems to be far more significant than neoclassical theory advocates. The experiences of Northeast Asian states such as Japan, Korea and Taiwan reveal the importance of the state in economic development.

In contrast to the neoclassical economists, revisionists (or so-called statists) argue that the key element of economic development in East Asia was attributable to the existence of strong state capacity, or the so-called *developmental state* (Amsden 1989, Johnson 1982, Wade 1990). This concept, to some extent, further influenced the World Bank, which was a key exponent of neoliberal thinking by the early 1990s.[5] Consequently, the theory of the developmental state has become one of the fundamental starting points for explaining economic transformation in East Asia (Emig 1999, Terry 2000, Wade 1996).

Developmental state theory describes how a state intervenes in the economy to enhance economic growth and development. The theory particularly emphasises the interventionist role of *plan-rational* state bureaucracy, in association with the introduction of industrial policies for the industrial transformation of East Asian nations. The developmental states, in general, identify opportunities for economic development and encourage (or target) particular industries or companies in association with national economic goals, by employing effective mercantile intervention. With regards to FDI, developmental state theory implies that the state can have the ability to control the inflow as well as the outflow of foreign investment and to control the distribution of total private investment between sectors and industries. In practice, East Asian developmental states have effectively controlled inward foreign investment and upgraded their technology (Amsden 1989, Bishop 1997, Mardon 1990, Wade 1990).

With regards to outflow investment, the developmental state theory assumes that home governments can guide or facilitate foreign investment into particular industries and countries by employing ODA and other measures. In fact, the Japanese government has used ODA, including infrastructure development and technical cooperation, export credits, preferential loans, and insurance, in order to facilitate Japanese private foreign investment, particularly in the East Asian region.[6] For example, Dunning portrays the

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[5] As a neoclassically oriented organisation, the World Bank stressed the importance of the role of the state in economic development in their reports (World Bank 1993 and 1997). Again, refer to Stiglitz (1998).

[6] For example, the Japan Bank for International Cooperation (JBIC) provides export credits and preferential loans for the overseas business activities of Japanese corporations. Nippon Export and Investment Insurance (NEXI) provides export and investment insurance, which

role of the Japanese state in enhancing outward FDI, explaining that:

> *"Japan set up a single agency to ensure that outbound MNE [multinational enterprise] activity was consistent with national economic objectives. Unlike other developed countries, Japan has evolved in a holistic and integrated strategy towards outward direct investment. Even today, such a strategy is inseparable from its more general industrial, trade, and technology, as well as from policies towards inward direct investment"* (Dunning 1993, pp.569-579).

Although the statists emphasise state capacity to promote economic development, institutionalists placed further emphasis on the role of the state in economic development, expanding the research target from state capacity to organisational issues within the state, the institutional system and arrangements of the state, and placed special emphasis on *limits of strength of the state* (Aoki *et al.* 1996, Doner 1991, Evans 1995, Weiss and Hobson 1995, Weiss 1998). From the perspective of the institutionalists, the statist interpretation places too much emphasis on state autonomy, and thus it disregards the influences of non-governmental actors, including business societies and corporations. The institutionalists observe the arrangements or coordination of interests between the state and businesses and how institutional systems play a role in economic development.

Peter Evans and Linda Weiss portray the developmental states in East Asia from the perspective of interdependence between state and business. They have argued that an 'embedded coordination structure' has created a favourable competitive collaboration

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compensates for up to a maximum of 95% of overseas business losses for Japanese corporations. The Japan Overseas Development Corporation (JODC) particularly promotes technical cooperation for Japanese corporations abroad and Japanese corporations' trading partners. These programmes are primarily targeted at the East Asian region.

between the state and business. Evans contends that East Asian developmental states are not simply authoritarian, nor insulated from society, but embedded in a concrete set of social ties that bind the state to society and provide institutionalised channels for negotiation and re-negotiation of goals and policies. He referred to this relationship between state and society as *embedded autonomy*, which provides the underlying structural basis for successful state involvement in industrial transformation (Evans 1995, p.12). Weiss emphasised a similar view, stressing the interdependence of state and business, and called these institutional arrangements, *governed interdependence*, which describes a system of central coordination based on the cooperation of government and industry (Weiss 1998, Weiss and Hobson 1995).

Effective state-business relations in East Asian developmental states have relied on large volumes of high quality information flow between the two bodies, and on mutual confidence that predictions and commitments are credible (Evans 1998). This relationship is maintained through institutional linkages, such as deliberation (or advisory) councils for consultation and information sharing between state and business, including MNCs. The deliberation councils generally consist of business leaders, union leaders, academics, journalists or NGOs from various sectors of society. The purpose of this wide range of representatives is to give the council a wider view of society. Thus, institutional structures for consultation and coordination between state and business, namely deliberation councils, are deemed to play a central role in the policy making structure of East Asian developmental states. Various state agencies in East Asian developmental states have been involved in encouraging the establishment of institutional networks.

With regards to the state-business relationship in Japan, each ministry establishes a number of formal deliberation councils called s*hingikai*, which are comprised of corporations, *zaikai* (economic federations such as Nippon-Keidanren and the Chamber of Commerce of Japan), *gyokai* (industrial specific trade organisations), journalists and academics. The role of these councils is to mediate between the interests and opinions of various societal groups in the formation of public policies. For example, the Ministry of Economy, Trade and Industry (METI) coordinates eleven *shingikai* (deliberation councils) and over 70 *bukai* (sub-committees), which enable the state to consult business societies and to collect various types of information.[7] One of the most powerful councils, *Sangyo Kozo Shingikai* (Industrial Structural Council) consists of twenty two sub-committees, including trade and economic cooperation, aerospace, information technology and so on. In terms of business societies, both the *zaikai* and *gyokai* organisations, such as the Japan Automobile Manufacturers Association (JAMA),[8] can coordinate their economic interests with governmental organisations by means of publishing formal policy recommendation reports, dispatching executive officials to deliberation councils and using informal contact with government officials (Yoshimatsu 2000).

Japanese-style deliberation councils have also been introduced in other developmental states of East Asia (Evans 1998). For instance, in 1985 the Industrial Development Advisory Council (IDCA) was established in Taiwan. Duplicating METI's Industrial Structure Council, it consisted of six sub-committees covering general industrial policy, industry, trade, SMEs, commerce and energy (Kondo 2005). The council (and committee) members consisted of government officials, academics, researchers, and members of the business community. Furthermore, business organisations, such as the

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[7] Refer to METI's website in Japanese: http://www.meti.go.jp/committee/index.html#c2 [Accessed 25th January 2008].

[8] All Japanese automobile MNCs such as Toyota, Nissan and Honda belong to JAMA.

Taiwan Textile Federation and the Taiwan Electronics Appliance Manufacturer Association, have played important roles in coordinating their economic interests with those of the government by collecting and publishing data and implementing policies (Weiss and Hobson 1995).

Malaysia has also adopted Japanese-style deliberation councils. Prime Minister Mahathir Mohamad established the Malaysian Business Council (MBC) in association with the presentation of a policy paper, *Malaysia: The Way Forward*, better known as *Vision 2020*. Contained in its pages is the blueprint for Malaysia's development: to become an advanced nation by the year 2020. The MBC has been playing an important role in the formation of the Malaysian developmental state. In this council, the top business leaders can exchange views on economic policies with top political leaders and civil servants. The council, chaired by the Prime Minister, consists of 76 members, including a number of political leaders such as the Deputy Prime Minister and Cabinet Ministers, senior public servants, private sector representatives, NGOs, unions, regional development authorities, and academics (Campos and Gonzalez III 1999).

From the perspective of the institutionalists, the home government can formulate and implement effective economic policies in association with industry. In this relationship, the interdependence between state and industry is the key to a prosperous nation. The institutionalist literature generally focuses on the state-industry relationship within the domestic market. However, we wish to propose an expansion of the *model*. Policy orientations between state and business are not only relevant for the domestic market, but also abroad. In short, MNCs-home government collaboration can pursue their economic interests not only in the domestic market, but also in overseas markets, which will be examined in the next section. Secondly, the Japanese style state-business relationship has been duplicated, and is playing an important role in industrial governance in the countries of East Asia. Region-wide expansion of state-business economic relationships involving the Japanese government, Japanese MNCs and governments in Southeast Asia will also be examined in the next section.

3. Three-Party Economic Interdependence in Southeast Asia

Japanese MNCs as well as the Japanese government have been playing an important role in the regional political economy in Southeast Asia. Indeed, Japan has been one of the largest foreign investment and aid providers in the region for over four decades. Japanese MNCs have relocated their production activities from Japan to the region, and the Japanese government has provided a large number of infrastructure development projects, human resource development programmes, or proposed industrial development master plans to the governments in Southeast Asia. Until the early 1990s, Japan's political and economic strategies were based on ODA and FDI, which maybe represented by the New ASEAN Industrial Development (New AID) Plan or the Asian Brain Scheme.[9] Under these schemes, Japan tried to enhance industrial development in East Asia in association with the promotion of an international division of labour within the region by employing technical cooperation, financial cooperation, investment promotion and intra-regional trade promotion. However, these schemes failed to be realised because the schemes targeted a particular country and industry, and thus could not cover region-wide issues (Otsuji 2001, p.325). As the result of these failures, the Japanese nation-state has shifted its regional economic policy. In fact, the Japanese government, in association with the business community, has started creating extensive

[9] For example, the New AID Plan consisted of three phases: formulating a comprehensive master plan as the first phase; formulating individual programmes for fostering growth in each industry as the second phase; and implementation of each industrial development programme as the final phase (Arase 1995, Shiraishi 1997).

institutional linkages with Southeast Asia in recent years.

Emergence of Japanese Regional Production Networks

Since the mid 1980s, Japanese MNCs have actively relocated their production activities to countries in East Asia, as the result of the appreciation of the yen caused by the Plaza Accord in 1985. Consequently, regional production networks (RPNs) created by Japanese MNCs, particularly in the automobile and electronics sectors, have become a prominent phenomena in the regional political economy (Hatch and Yamamura 1996). Such informal market-driven networks have become one of the most important elements in the regional integration within East Asia (Shiraishi 1997).[10] The structure of Japanese RPNs includes subsidiaries and branch companies of the Japanese MNCs, partnerships with local residents, joint ventures, production sharing, and cooperative production with local suppliers. All these elements are based on lasting economic connections, such as dispatching directors, furnishing technology, and supplying materials and parts (Tokunaga 1992, p.15). Thus, RPNs established by Japanese MNCs have absorbed local businesses and industries in Southeast Asia as joint-venture partners or components suppliers. In addition, Japanese MNCs have established extensive political linkages with local business elites and politicians, who encourage a favourable attitude towards Japanese business activities in the region. For example, Japanese automobile MNCs established extensive use of informal networks including the sometimes 'extra-legal accommodation' of politicians and bureaucrats in Southeast Asia (Hatch and Yamamura 1996, Chapter 8).

In the process of regionalising production, Japanese MNCs bring capital, employment, technology and human resource development to local economies, particularly those

[10] Informal means not reliant on a formal inter-governmental agreement.

which lack supporting industries. In exchange, the governments and local industries in Southeast Asia support and participate in the regionalisation of Japanese production networks in their countries. The governments in Southeast Asia have individual strategies and policies for industrialisation. A state's ability to take advantage of MNCs' assets for national development plays an important role in the economic development of each country.

Southeast Asian governments started adopting policies to complement production networks by encouraging localised capability, building both within MNC establishments and through broader efforts to create cluster dynamics in the form of specialised infrastructure, human resources and supplier bases (Felker 2003, p.273). Government investment promotion agencies (IPAs) in Southeast Asia started providing various measures, such as investment guarantees and special treatment, which include tax incentives and subsidies to particular industries, technologies or types of FDI. For instance, the Thai Board of Investment (BOI) targets automobile, electronics, hard-disk drive and biotechnology industries by providing corporate tax incentives. In addition, the BOI provides special incentives for foreign investment in R&D, operational headquarters (OHQ) or regional headquarters (RHQ) (Economist Intelligence Unit 2007a). By the same token, the Malaysian Industrial Development Authority (MIDA) provides special tax incentives for R&D, OHQ and high-tech industries (Economist Intelligence Unit 2007b).

Furthermore, IPAs in Southeast Asia have started to focus on improving the investment climate and enhancing investment promotion capacity in order to attract FDI.[11]

[11] The investment climate is one of the most important issues for attracting FDI. For instance, Yeung (1996) concluded that the investment climate influences the location decision of MNCs, rather than particular incentives.

FDI-related government organisations have moved to invest in specialised infrastructure, such as the establishment of special economic zones (SEZs), and improve the number of staff with special skills, which in turn complements the strategies of MNCs (Felker 2003). Those activities are often carried out in association with Japanese ODA assistance. For example, the Japan International Cooperation Agency (JICA) dispatches investment promotion experts to investment promotion agencies in Southeast Asia, particularly new ASEAN members such as Vietnam, Cambodia and Laos, in order to enhance Japanese FDI into the region.[12] By the same token, the Japan Bank for International Cooperation (JBIC) provides yen loans to Southeast Asian governments to develop economic infrastructure.[13]

Japan's New Institutional Strategy

The failures of the New AID Plan and the Asian Brain Scheme, along with the emergence of Japanese RPNs during this time, encouraged a change of economic policy by Japan in Southeast Asia, leading to an enhancement of the institutional linkage between the former and latter. Since the late 1990s, the Japanese government has started articulating Japan's politico-economic framework into Southeast Asia. The most significant factor of Japan's new strategy is based on the incorporation of formal government-to-government networks and informal private market-driven networks. In other words, the establishment of networks between the Japanese government, governments in Southeast Asia and Japanese MNCs has become a key issue for Japan's new regional policy.

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[12] JICA often advises them to establish a Japan Desk within the organisation, which exclusively consults with Japanese firms in a Japanese business manner (JICA 2007, Chapter 11).

[13] For example, the Eastern Seaboard project in Thailand is considered one of the successful infrastructure development projects that attracted Japanese FDI (Arase 1995, pp.102-105). As a recent example, JBIC is currently engaged in rehabilitating Sihanoukville port in Cambodia in order to establish a SEZ.

A good example of such a network is the AEM-METI Economic and Industrial Cooperation Committee (AMEICC), which originated from an agreement reached at the AEM-METI meeting in September 1994 for the establishment of the Working Group on Economic Cooperation in Cambodia, Laos and Myanmar (CLM-WG), in order that economic development be fostered in that part of the region. METI had strategic concerns for promoting regional development by planning to use the committee as an industrial ministers' forum, as distinct from a trade ministers' forum, through which Japan could transfer basic ideas regarding industrial development to the ASEAN governments (Hatch 2002). METI's strategy was to establish an organisation that worked at the Director-General level in the ministries concerned (CLM-WG) and to later upgrade the organisation to the ministerial level. The committee was subsequently oriented to industrial development, including the development of infrastructure, improving business environments and industrial and trade financing, instead of standard trade discussions such as trade and investment liberalisation (Yoshimatsu 2003, p.110). Consequently, in December 1997 - just after the breakout of the Asian Crisis - the Minister of METI and the ASEAN Economic Ministers agreed to upgrade the CLM-WG to the AMEICC. They aimed to reform institutional structures in ASEAN countries in order to improve the competitiveness of industries, expand industrial cooperation and support the economic development of new ASEAN member countries (Otsuji 2001, pp.334-335). In addition, it was expected that tighter economic links would be created between Japan and ASEAN countries, with the particular inclusion of Japanese assistance during and after the Asian Crisis.

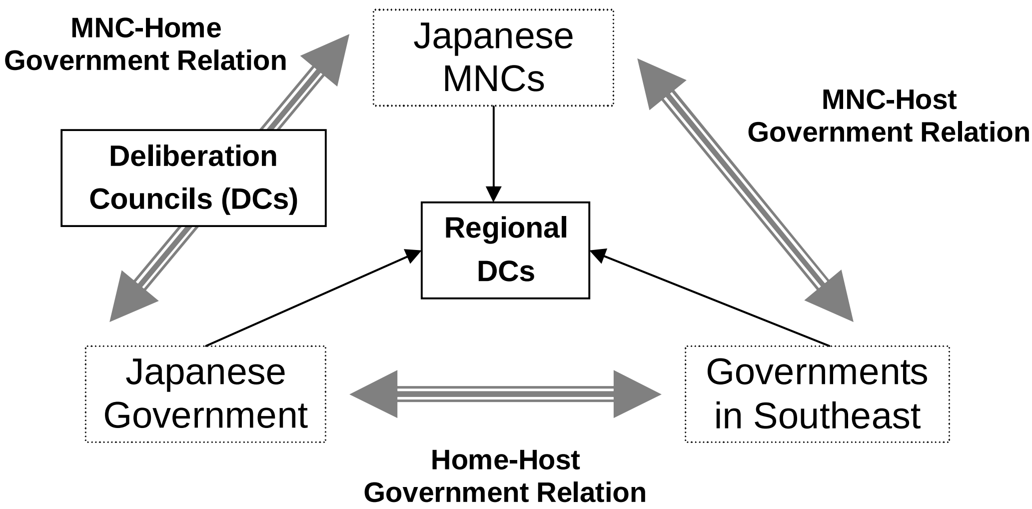
Under the AMEICC, eight working groups (human resource development, small and medium sized enterprises and supporting industries, the automobile, chemical, electronics, textile and garment industries, statistics, and the West-East corridor working groups) were organised. A remarkable aspect of these working groups is that they consist of government officials and business representatives as members, and have a structure similar to the Japanese deliberation council system (Yoshimatsu 2003, p.110). In this context, the Japanese government has established a system of *regional governed interdependence* (Natsuda and Butler 2005). Most importantly, Japanese MNCs play a pivotal role in the AMEICC working groups as advisors in the drawing up of industrial policies for the ASEAN region. For instance, the automobile working group under AMEICC identified the problems of the industry in Southeast Asia and proposed that the automobile industry in each country should be involved in the activities of the ASEAN Automobile Federation (AAF). In turn, the Japan Automobile Manufactures Association (JAMA) should assist such activities by establishing a representative office in the region (Yoshimatsu 2003, p.111). As another example, METI, in association with JAMA, assisted Thailand in upgrading the quality and competitiveness of automobile components industries through the establishment of a Thai-Japan Automobile Institution (Hatch 2002). In short, the Southeast Asian political economy has evolved via a three-party system: Japanese MNCs, the Japanese government and governments in Southeast Asia. These three parties have been moving towards an interdependent relationship, which is sustained through the establishment of the AMEICC.

Figure 1 outlines the three-party economic interdependence of the region. Economic development, as well as the economic environment, can be improved as a result of this interdependence. Three types of economic relationships can be identified. Firstly, in the economic relationship between Japanese MNCs and the Japanese government, a collaborative and cooperative relationship between the two parties is sustained by ‘governed interdependence’ or ‘embedded autonomy’, represented by deliberation councils. Thus, the Japanese government jointly pursues economic benefits in association with Japanese MNCs. Secondly, in the economic relationship between Japanese MNCs and the host governments in Southeast Asia, a non-adversarial and cooperative relationship, rather than adversarial and confrontational relationship, appears to be favoured for the following reasons. First, the host governments in Southeast Asia have been pursuing FDI-led development in response to the globalisation of the world economy. Second, the Japanese RPNs serve to encourage local business and industries in Southeast Asia to develop as business partners, either in joint ventures or as components suppliers. Consequently, the host governments in Southeast Asia and Japanese MNCs have established a mutually beneficial economic relationship. Japanese MNCs provide capital, employment, technology and human resource development to local economies, in exchange for the participation of local industry and government, as well as the support given to Japanese MNCs. Thirdly, in the economic relationship between the Japanese government and the governments in Southeast Asia, a cooperative relationship was formed through the establishment of a formal institutional network, AMEICC. Above all, Japanese MNCs are included in the structure of AMEICC. Each party participates in the creation of AMEICC, in the form of regional deliberation councils, in order to maintain their economic benefits in Southeast Asia. In other words, regional deliberation councils play a coordinating role in maintaining economic interdependence among the three-parties.

The Japanese government has created extensive intergovernmental cooperative networks in an attempt to harmonize local institutions with the Japanese style of industrial governance. In particular, Japanese MNCs, the Japanese government, and governments in Southeast Asia have constructed regional deliberation councils (which are based on Japanese-style deliberation councils) in Southeast Asia. As a result, interdependence between state and business in Southeast Asia has significantly expanded through the involvement of the three-party system.

Figure 1

Three-Party Economic Interdependence in Southeast Asia



4. The Vietnam-Japan Joint Initiative

In the multilateral economic relationship between Japan and Southeast Asia, the Japanese government has articulated its government-business cooperation system into the region. In the bilateral economic relationships between Japan and each country in Southeast Asia, the Japanese government adopts the same institutional strategy, in particular in relation to new ASEAN member countries. Here I will argue that *the Vietnam-Japan Joint Initiative* is a successful example of bilateral economic cooperation based on the three-party economic interdependence, particularly as a result of the construction of institutional networks between the two nations.

Japanese state-business collaboration has created a significant politico-economic framework in association with the government of Vietnam. On 7th April 2003, the Prime Minister of the Socialist Republic of Vietnam, Phan Van Khai and the Prime Minister of Japan, Junichiro Koizumi met in Tokyo and decided to launch 'the Vietnam-Japan Joint Initiative to Improve the Business Environment with a View to Strengthen Vietnam's Competitiveness', or the so-called 'Vietnam-Japan Joint Initiative'. The aim of the initiative was to strengthen Vietnam's economic competitiveness through the promotion of FDI flows into Vietnam. The Japanese and Vietnamese governments jointly committed themselves to enhancing the development of industries by establishing training and technical support centres for small and medium sized enterprises (SMEs), setting up a database for the industry, building industrial zones, and implementing incentive methods, such as support for capital mobilisation, human resource training, and information on technology.

From the perspective of Japanese corporations and *zaikai*, such as Nippon-Keidanren and the Chamber of Commerce, the establishment of a favoured investment environment in Vietnam was very important for the relocation of Japanese production activities within East Asia. In particular, since 2003 the Japanese business community and government organisations such as JETRO have started advocating the 'China + 1 strategy',[14] by promoting Japanese FDI outside of China. Vietnam was considered a promising '+1' because of its relatively large market, and high quality but inexpensive labour force. However, there were a variety of issues to be resolved, such as applicable laws, the taxation system, corruption, and infrastructural deficiencies within Vietnam. Thus, the creation of a favoured business environment in Vietnam was deemed both

[14] This encourages the location of investment in one production base located in China and one production base located in one of the other East Asian countries (establishing a production base not only in China). The first reason for this was that, after the SARS outbreak in China, there was a need to avoid potential business risks in China, leading to a strengthening of this type of investment strategy. Second, in 2003 Japanese FDI in China overtook Japanese FDI in ASEAN 10.

necessary and beneficial for Japanese multinational corporations in the region. Furthermore, it was also considered that Japan's efforts would boost inward foreign investment into Vietnam not only from Japan, but also from other countries, which would contribute to the economic development of Vietnam.[15]

The Vietnamese government launched the *doi moi* (renovation) policy in 1986 and has been gradually deregulating FDI policies since the late 1980s, in order to increase foreign investment (Thoburn 2004). Subsequently, FDI inflow into Vietnam has significantly increased. However, this trend slowed after the Asian Currency Crisis. As a result, legal and structural problems in the Vietnamese investment environment became evident. Therefore, for the Vietnamese government, improving their attractiveness to foreign investors in order to enhance economic development became a priority issue (Freeman 2004). As one of the largest regional investors, Japanese MNCs were thus deemed to play an important role in Vietnam's rapid industrialisation and economic development, and creating an attractive investment environment became necessary for attracting Japanese FDI – particularly due to the fierce competition posed by other ASEAN countries and China. Secondly, Vietnam has been making the transition from central planning to a more market based system. It appears that, for the economic transition of Vietnam, the Vietnamese government views the Japanese development state model as potentially a more effective and favourable choice than the neoclassical model.[16] Thus, the government officials are interested in Japan's successful experiences of state-led economic development.[17]

[15] Interview with the Embassy of Japan in Vietnam on the 25th February 2008

[16] For example, Vietnamese Communist Party Leader Do Muoi invited the Japanese government to formulate a five-year development programme, which included industrial development, investment, and fiscal monetary policy for 1996-2000 in April 1995 (Terry 2000, pp. 90-91)

[17] Interview with the Embassy of Japan in Vietnam on the 25th February 2008.

In order to achieve this initiative, Japan established a joint committee, which included governmental organisations and private business associations, as well as various Vietnamese ministries.[18] In July 2003, a private consultation team, contracted by the Japanese government, was dispatched to Vietnam. Their role was to identify impediments to FDI through the interviewing of Japanese corporations in Vietnam and Vietnamese governmental organisations, and then formulate improvement plans. As a result, the Japanese team proposed the first draft of the improvement plan in September 2003, consisting of 48 specific items. Correspondingly, their Vietnamese counterparts examined the plan and, to some extent, evaluated it as a basis for the initiative in the future, and included critical feedback on possible difficulties in the implementation of some issues. Consequently, negotiations were held between the Japanese and Vietnamese teams, and the second draft was completed in November 2003. On the 26th and 27th November 2003, the official drafting meeting for the action plan was held. Of the 44 specific items that the Japanese team proposed, 31 specific items were agreed to by both parties at the meeting. The other 11 specific items were agreed to in a high level meeting between the Japanese ambassador in Vietnam, Norio Hattori, and the Minister of Planning and Investment, Vo Hong Phuc on the 1st December 2003 (Kitano, 2004).

The 'Vietnam-Japan Joint Initiative' was finally approved in the joint committee on the 4th December 2003, consisting of the 44 specific items, and subsequent 125 sub items. It was categorised into the following six fields:

[18] Japanese governmental organisations were: the Ministry of Foreign Affairs, Ministry of Finance, Ministry of Economy, Trade and Industry, Japan International Cooperation Agency, Japan Bank for International Cooperation and Japan External Trade Organization. Japanese Private Business Associations included Nippon-Keidanren and the Japan Business Association in Vietnam and Ho Chi Minh City. Vietnamese Ministries included the Ministry of Planning and Investment, Ministry of Trade, Ministry of Finance, Ministry of Science of Technology, Ministry of Transport, Ministry of Industry, Ministry of Post and Telematics Telecommunications, Government Office, Ministry of Labour, Invalids and Social Affairs, Ministry of Natural Resources and Environment, and Ministry of Justice (Embassy of Japan in Vietnam, 2005).

(1) establishment and implementation of an FDI attraction strategy;

(2) regulations related to investment;

(3) capacity building among the implementing authorities;

(4) improvement of investment related institutions;

(5) improvement of economic infrastructure; and

(6) support to existing investors.

In regards to the first field, various issues, including the development of supporting industries in Vietnam, corporate income tax, personnel income tax, FDI promotion activities (introduction of one stop service), the introduction of a master plan, and visa waiver for short stays, were proposed as six specific items. These items are further divided into 31 sub-items for action plans. For example, clarification of corporate income tax incentives for FDI companies is addressed in the action plan in item no.2 and a further break-down was provided for another two sub-items. Sub-item 2-1 proposed an action plan, stating that:

> "*Keeping tax incentives in accordance with the Law on the Foreign Investment: The Government of Vietnam affirms that the coming revision of the CIT law doesn't have any adverse effects on the current preferential tax treatment articulated in the Law on the Foreign Investment, in sum 10%, 15%, and 20% [Immediate execution]. In addition, it should be articulated in the new CIT implementing guideline decree [as soon as possible before the end of 2003]. <MOF [Ministry of Finance]:WT7>*" (Embassy of Japan in Vietnam 2003, pp.27-28).[19]

[19] One of the most significant measures to be carried out in these action plans was to clarify the responsible government organisation in Vietnam and schedule the implementation of the report.

In addition, Sub-item 2-2 proposed the following action plan:

> "*Securing current tax incentives for existing investors: The Government of Vietnam affirms that the coming revision of corporate income tax does not have any adverse impact on the current tax incentive scheme given to existing investors. [Immediate execution]. Moreover, the new implementing guidelines issues later shall articulate this as soon as possible before the end of 2003. <MOF:WT7>*" (ibid).

By the same token, the second field included the removal of restrictive investment rules, various legal issues such as labour, land and foreign investment and technology transfers, addressing 12 specific items and proposing 23 action plans. The third field involved the enhancement of transparency and administration capacity in tax and intellectual property, addressing six specific items and proposing 21 action plans. The fourth field covered the enhancement of accounting standards, statistical capacity, industrial standardisation and metrology improvement, addressing nine specific items and proposing 16 action plans. The fifth field included urban traffic, transport efficiency, the power sector, and telecommunications, addressing six specific items and proposing 16 action plans. In particular, item 36 stressed the promotion of JBIC's international finance for infrastructure. Finally, the sixth field addressed five specific items and proposed 18 action plans.

Features of the Initiative

Four unique features can be identified in the 'Vietnam-Japan Joint Initiative'. Firstly, joint efforts between the Japanese and Vietnamese teams can be identified. The

Japanese government-business alliance, in association with various Vietnamese government organisations - in other words, the three-parties - made a lot of efforts to jointly introduce the scheme. The first stage was to identify investment related problems faced by Japanese MNCs. The second stage was to facilitate common recognition and understanding of the problems through a series of discussions. The final stage was to implement the best possible solutions to the problems at a policy level. The uniqueness of this initiative is the fact that it is based on a mutual understanding between the two nations, as opposed to a bargaining type of relationship. It is neither based on a conditionality type of negotiation, nor is it based on external pressure. Therefore, a number of the reform's specific items appear to have been voluntarily accepted by the Vietnamese government in consultation with Japan.

Secondly, it was the commitment of high-level leaders that brought the unique characteristics of the initiative into effect. Originally agreed to by the Prime Ministers of both Japan and Vietnam, the road was then paved for the actual implementation of the initiative, via the joint committee, which was headed by Ambassador Norio Hattori and Minister Vo Hong Phuc. In fact, the joint committee played a central coordinating role in the negotiations between the Vietnamese and Japanese parties.

Thirdly, Japanese state-business collaboration played a central role in formulating the action plan for the initiative. In particular, requests from the Japan Business Association in Vietnam and Ho Chi Minh City to the Vietnamese government became a leverage for the Japanese governmental organisations to negotiate with their counterparts. As one member of the Japan Business Association in Ho Chi Minh City pointed out: "*local Japanese corporations in the Japanese Business Association in Vietnam strengthened solidarity and made a lot of demands to the Vietnamese government, claiming for a* *better business environment in the country".*[20] These demands provided a strong basis for negotiations by the Japanese governmental organisations.

Fourthly, the Japanese government saw that FDI was important in aiding the development of appropriate institutions and policies, economic infrastructure and human resources, and this should be the engine for growth in Vietnam. Thus, the Japanese government has provided effective and timely ODA assistance to support the implementation of the action plan items, in accordance with Vietnam's own efforts in improving the policies and regulations concerned. The support provided so far includes the infrastructural development of roads, ports, bridges, investment promotion, SME promotion and the formulation of an industrial development plan. For example, JICA dispatched two experts to the Ministry of Planning and Investment for policy advice in the areas of investment environment improvement and SME promotion, and one expert to help formulate policies for the electric/electronics and motorbike industries with the ministries concerned. In addition, JICA, in association with the Ministry of Finance of Japan, has implemented the necessary technical support for the enhancement of Vietnam's taxation system and taxation administration. JBIC provided a loan to improve the Cai Mep Thi Port, and also provided a poverty reduction support credit (PRSC) of 2 billion yen, with an additional 2.5 billion yen for the third phase in 2004 and a fourth phase in 2005. JETRO organised trade fairs (so called reversed exhibition) in order to promote the components business between Japanese MNCs and local supporting industries in Vietnam (Embassy of Japan in Vietnam, 2005).

Embedded Monitoring Aids a Successful Outcome

The implementation of the Vietnam-Japan Joint Initiative has also been largely

[20] Interview on the 8th February 2007

successful due to the inclusion of a monitoring mechanism under the joint committee. The progress of the 44 specific items within the action plan has been periodically monitored since the commencement of the initiative by both Japanese and Vietnamese sides. The second evaluation and facilitation committee meeting, headed by Ambassador Norio Hattori and Minister Vo Hong Phuc, was held on the 29th November 2005. The committee evaluated all items and clarified the 125 sub-items. A total of 105 items accounting for 84% of the whole action plan, were dealt with: of these, 41 sub-items were already implemented and 64 sub-items were on the list scheduled for improvement. The remaining items were not dealt with, either because of a shortage of information or differences in the viewpoints of the two sides, leading to a delay in the original schedule or no progress.[21] The monitoring of activities was carried out between 2006 and 2007 as part of the second phase, and by November 2007, the initiative was evaluated as having achieved its objective in relation to 93% of items (Embassy of Japan in Vietnam, 2007).

There is no doubt that this ability to monitor progress has played an important role in the success of the initiative. The investment environment in Vietnam was significantly improved after the initiative was agreed upon in December 2003. Infrastructure, technology transfers, investment laws, the taxation structure and banking systems were all improved. International phone charges and international telecom channel leasing fees have decreased to acceptable levels. The anti-corruption law was introduced. Furthermore, visa waiver for short-term stays for Japanese citizens was introduced.

According to the Vice-Chief Representative of JICA in Vietnam, Mr. Koji Oshikiri,

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[21] Vietnam-Japan Joint Initiative (Presentation Document on 7th February 2006) by Yoshito Nakajima in Embassy of Japan in Vietnam. Available at http://www.fasid.or.jp/oda/pdf/handout_ban3_7.pdf [Accessed 30th November 2007]

there have been significant advances: '[p]reviously foreigners had to pay higher electric prices but now they enjoy the same prices as Vietnamese people. This signals equal play ground for all economic sectors'.[22] In addition, Kyoshiro Ichikawa, a JICA expert who is working for the Ministry of Planning and Investment of Vietnam (MPI), stated that 'a series of industrial zones for certain industries is under construction with investment preferences and they have attracted many foreign investors in auto and motorbike parts'.[23] In the Vietnamese perspective, Nguyen Thi Bich Van, Vice Head of the Foreign Investment Department, acknowledged the importance of the initiative for attracting Japanese investors, stating: 'From our trip to three big cities in Japan last February we know that Japanese enterprises clearly understand Vietnam's efforts to improve the investment environment. Our mission now is how to welcome them in Vietnam'.[24]

The economic relationship between Japan and Vietnam has been significantly strengthened due to the Vietnam-Japan initiative. This is indicated in the bilateral economic figures (see Table 1). Japanese FDI grew eight times in the period 2002-2006, accounting for US$60 million in 2002 and US$467 million in 2006. Bilateral trade approximately doubled between 2002 and 2006. In fact, exports from Japan to Vietnam increased from US$2.1 billion in 2002 to US$4.1 billion in 2006 (a 94% increase) and imports increased from US$2.5 billion in 2003 to US$5.3 billion in 2006 (a 109% increase). By the same token, Japanese ODA increased by over 60% in the period between 2002 and 2005, rising from US$374.7 million in 2002 to US$602.7 million in 2005.

[22] Vietnam Net Bridge, *VN: a model for improving investment climate*, 24th March 2006. Available at http://english.vietnamnet.vn/reports/2006/03/553517/ [Accessed 30th November 2007]
[23] ibid.
[24] ibid.

Table 1

Bilateral Economic Figures between Japan and Vietnam, 2001-2006

Year	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
FDI	78	60	70	109	154	467
Trade						
Export from Japan	1,785	2,130	2,613	3,178	3,610	4,142
Import from Vietnam	2,616	2,527	3,078	3,855	4,560	5,294
ODA (Total)	459.5	374.7	484.2	615.3	602.7	-
- Loan Aid	321.2	241.4	307.4	491.6	480.4	
- Grant Aid	51.6	53.5	53.2	39.8	50.6	
- Technical Cooperation	86.7	79.8	83.6	83.9	71.7	

(Unit: US$ Million)

Source: Japan External Trade Organization (JETRO) and Ministry of Foreign Affairs of Japan (MOFA)

Note: 1) Figures of Exports (Japan to Vietnam), Imports (Vietnam to Japan) and FDI are taken from JETRO's online database, available at: http://www.jetro.go.jp/jpn/stats/, and those on ODA from the MOFA's online data book, available at: http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/kuni/06_databook/index.html

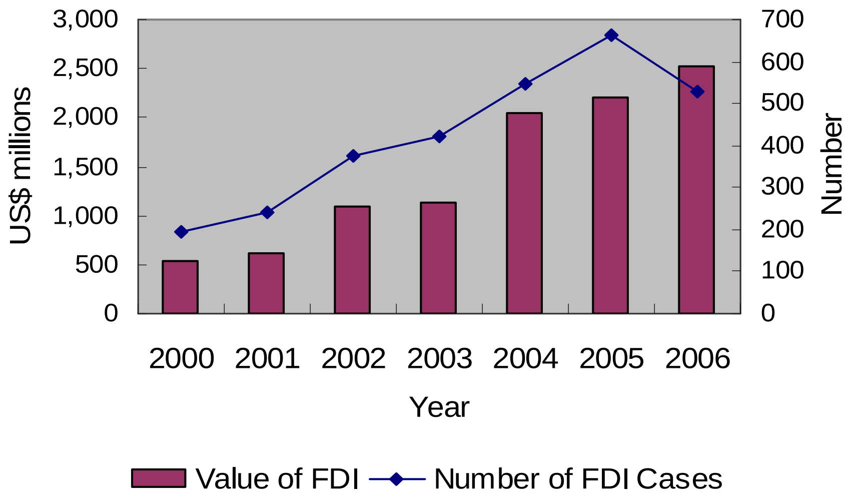
2) FDI: 2001-2004 (reported basis) and 2005-2006 (balance of payment basis)

3) ODA: net disbursement figures

The Vietnam-Japan Joint Initiative has also boosted the inflow of FDI into Vietnam from all over the world, particularly after its introduction in 2003. Both the number of cases and the value of FDI significantly increased in the period of 2000-2006, with 196 cases accounting for US$528 million in 2000, and 664 cases accounting for US$2,521 million in 2006 (see Figure 2).

Figure 2

Inward FDI in Vietnam, 2000-2006



Source: Ministry of Planning and Investment, Vietnam (MPI)

Note: Registered Capital Basis, available at:
http://fia.ttv.vn/Default.aspx?ctl=Article2&TabID=4&mID=52&aID=412

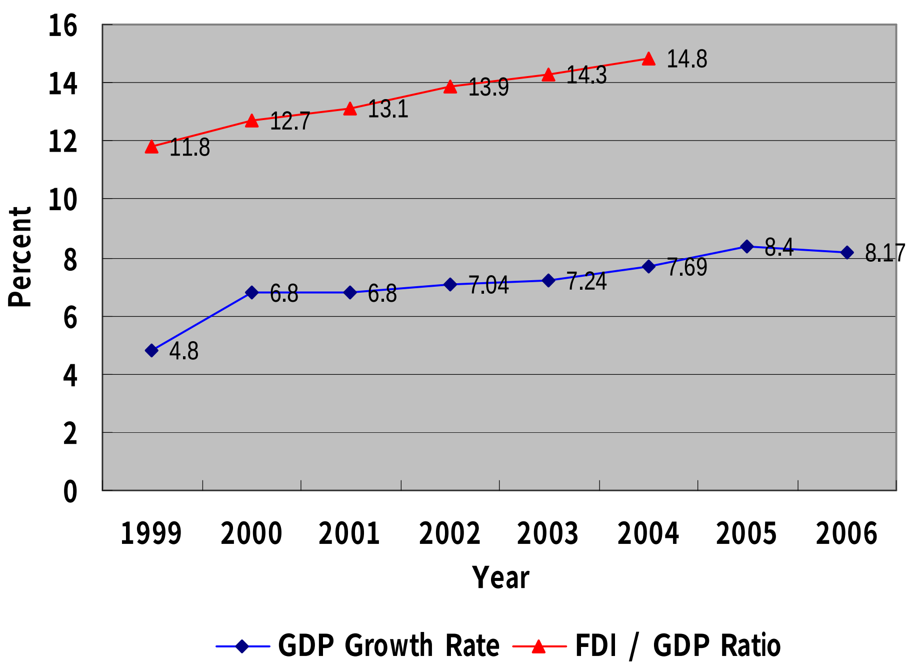
In relation to the GDP growth rate, Vietnam also showed a rise from 4.8% in 1999 to 8.17% in 2006. Remarkably, the contribution that FDI made to Vietnam's GDP increased from 11.8% in 1999 to 14.8% in 2004 (see Figure 3). This figure indicates that inflow FDI has been playing a more important role in the economic development of Vietnam in recent years.

In order for such strong improvements to occur, there is little doubt that the economic interdependence that has been fostered by the three-party negotiation system has played a vital role, and the key to this has been the establishment of deliberation councils. In the case of Vietnam, the establishment of a joint committee (deliberation council) between Japan and Vietnam has played a coordinating role in the three-party system, involving the Japanese government, Japanese MNCs, and the Vietnamese government. The joint committee significantly enhanced mutual cooperation between Vietnam and

Japan. The Joint Donor Report to Vietnam argued that international donors cannot buy policy reforms in Vietnam, and there is thus a strong country ownership of the programmes (Vietnam Development Report 2007, p.29). This case study shows that the Japanese approach might be the most effective way for influencing policy reforms in the country.

Figure 3

Economic Growth Rate and FDI/GDP Ratio in Vietnam, 1999-2006



Source: JETRO, Hanoi Centre (2007) and MPI

Note: 1) Original information on GDP Growth Rate from General Statistic Office of Vietnam

2) The FDI/GDP ratio is available at MPI website: http://fia.ttv.vn/Default.aspx?ctl=Article2&TabID=4&mID=52&aID=412

5. Concluding Remarks

This study has argued that economic relations between Japan and Southeast Asia have been moving towards greater interdependence as a result of the creation of regional deliberation councils which maintain the interests of the members within a three-party negotiation system: the Japanese government, the governments in Southeast Asia, and the Japanese MNCs. Since the late 1990s, the Japanese government has shifted its regional economic strategy by enhancing institutional linkages with Southeast Asian countries, incorporating Japanese RPNs created by Japanese MNCs. In other words, both formal institutional networks and informal market-driven networks linking Japan and Southeast Asia have been jointly strengthened. As an institutional strategy, the Japanese government and business community have cooperatively projected a Japanese style state-business collaboration model into the regional industrial governance system in Southeast Asia.

In the multilateral economic relationship with ASEAN governments, Japan has successfully established a regional deliberation council, the AMEICC, which aimed to pursue a Japanese style of industrial development. In particular, Japanese MNCs play a pivotal role in the AMEICC working groups as advisors for regional industrial policy making. Consequently, the economic relationships between Japanese MNCs and the governments in Southeast Asia have become more cooperative and play an important role in the creation of national competitiveness, in turn enhancing economic development in Southeast Asia. As an example of a bilateral relationship, the case study of the Vietnam-Japan Joint Initiative shows the successful implementation of a formal institutional network through the creation of a joint committee, which has improved the Vietnamese investment climate. This has resulted a rapid increase of FDI inflow into Vietnam, particularly from Japan, and has enhanced Vietnamese economic development, as well as the prosperity of Japanese MNCs in the country.

In the current world, informal market-driven networks, created by multinational corporations have become a prominent issue in the global political economy. In addition, the nation-states' boundaries are becoming less significant, as a result, in part, of the globalisation process under neoclassical influences. However, this study has concluded that institutional arrangements (or the establishment of formal networks) between states and MNCs can be beneficial for economic development in less advanced countries.

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