

JAPAN'S ECONOMIC DIPLOMACY IN ASEAN

(1972—1977)

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P R E F A C E

PREFACE

In 1972, the 'Nixon shocks' had forced Japan to adopt a major shift in her foreign policy. But by and large Japan has continued very much on her original path of consolidating her bases in the neighbouring countries which are ruled by a range of conservative regimes.

Diplomacy often operates both as a mask and as a means of seeking out favourable channels for implementing policies. Japan's diplomacy is basically 'Resource Diplomacy', as the country has virtually none of the essential raw materials and mineral fuels needed for rapid industrial growth. Though the country is one of the leading industrial nations, almost 90 per cent of her required raw material and mineral fuels are imported. The United States supplies to Japan around 48 per cent of the raw materials and food stuffs. Nearly ²⁷~~10~~ per cent of these requirements ^{come} from South East Asia, especially from the ASEAN countries. This dependence on heavy imports of raw materials has conditioned Japan's foreign policy, vis-a-vis both Communist and non-Communist governments.

Japan does not have a foreign policy in the traditional sense. What she has is an "economic foreign policy". Her relationship with all countries of the world is guided by her self-interest and the need to promote her industrial base. In spite of whatever differences Japan has with the United States, the latter remains her biggest overseas trading partner and a stable market for her export goods. Simultaneously, the USSR and China are also Japan's major trading partners despite the distance Japan has to maintain owing to the Security Treaty she had signed with the US, immediately after the Second World War.

✓ In Asia, South East Asia offers an exclusive market for Japan as well as the most convenient source of getting a substantial amount of raw materials and mineral fuels. Japan has been actively supporting ASEAN since its formation and in turn is helped by this regional group through the supply of raw materials. Economic diplomacy ✓ is only possible when both partners are willing to trade with each other on a continued basis.

The 1973 oil crisis forced Japan to follow an 'omnidimensional diplomacy'. The South East Asian waters,

viz. Malacca Straits, is the very life line of Japan. As much as 90 per cent of her required raw materials and mineral fuel get transported through the above strait. In the event this route is cut, Japan would suffer economic disaster.

On the otherhand ASEAN, a regional group basically formed to get economic prosperity for its respective sectors, needs maximum capital for investments. Since all the ASEAN countries had a colonial past, in addition to their requirement for capital and the economic prosperity it brings, they need national stability. So far as their national security is concerned, their biggest threat comes from the Indo-China regimes. What ASEAN countries are in need today is not the sophisticated arms to block the Communists, but to achieve national stability. This stability depends largely on their economic and industrial progress. This fact became evident during the 1975 Indo-China War, when inspite of all the technologically advanced methods the US followed it lost the battle.

Japan can play a crucial role in helping the ASEAN countries realize their developmental goals. Since all

the ASEAN countries are basically ruled by conservative regimes, they naturally hesitate to come too close to Moscow or Peking. As far as the US is concerned, it does not keep ASEAN in her priority list (especially after 1975 Communist victory in Indo-China). The field is wide open to Japan, which has both a base and high stakes in the region. The interdependence of Japan and ASEAN countries has enormous scope to deepen.


✓ ASEAN countries offer, an exclusive market to Japan. In respect of trade Japan accounts for 27 per cent of their total exports and 29 per cent of their imports. And 45 per cent of Japanese private investment and official developmental assistance goes to ASEAN countries, making them ahead of any other Third World region in this respect. Japan is one of their biggest trading partners (in some places second only to US), and it appears to be the position for the next decade too.

The years 1972 to 1977 were a watershed in ASEAN-Japan relationship because this was the period when some Japanese prime ministers and other national

personalities visited ASEAN countries. The tour of the then Premier ^{Minister}, Takeo Fukuda, in 1977 was very important and significant for both partners.

In future, both Japan and ASEAN countries are likely to continue to support each other. That the Japanese diplomacy will give top place to ASEAN region is already visible. This dissertation makes an attempt to examine this mutuality in Japan-ASEAN relationship and study how Japan seeks to strengthen it in pursuit of her own national interest.

This work could not have been accomplished without the help from a number of people. My greatest debt is to Dr. Satish Kumar my supervisor. There are no words to express adequately the benefits I have received from his scholarship and guidance. Throughout the preparation of this thesis I have also greatly benefited from discussions with my friends, Kailash Singh and Lalit Shastri. I wish to record my appreciation for their valuable suggestions and encouragement. I am very grateful to Mr. Thulasidharan for meticulously typing the dissertation and Mr. V.K. Aggarwal and other staff of the JNU Library for making available the reading material.


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Chapter - I

IMPORTANCE OF ASEAN TO JAPAN

Japan-ASEAN Relations : A Historical Backdrop

Throughout the 20th century South East Asia held an important place in the policy and strategy of the Big Powers. It was important to the Super Powers for reasons, as aptly described by Max Teichmann :

Almost invariably one or other of the great powers has become involved in the various South East Asia conflicts of the post war period. The reason for such an involvement has been many and varied. The most significant among these has been : the attempts of certain Powers to retain and promote certain colonial interests even after the granting of independence; the struggle for power and prestige waged between such states as America, Russia, Britain, France and China; the general ideological struggle and cold war rivalry between East and West and hence the conflict between those states seeking to support and those seeking to oppose the emergence of strong local Communist movements throughout the South East Asian region.¹

The Big Powers have looked upon South East Asia as an important sphere for their political, military and

1. Teichmann Max, ed., Powers and Policies : Alignments and Realignments in the Indo-Pacific Region, (Melbourne, 1970), p.40.

strategic interests. At the same time they have attached great significance to the enormous economic potential of the region. Extremely rich in natural resources South East Asia has tremendous reserves of man power and capital investment sphere. The region has a population of over 900 million, more than one quarter of the world's population. It produces a major part of the some of the world's important primary commodities and foods, natural rubber, tin, jute, copra, tea, rice, spices etc. It is also one of the world's important markets. Because of the economic underdevelopment the region holds an attraction for foreign capital investment.

• After the withdrawal of the colonial Powers in post World War II era the South East Asian countries faced the common difficulties regarding political, social and economic problems. Prior to and from the very day of independence as well ever since the formation of ASEAN, inter state disputes already manifest or latent still, have existed among these countries. These include, inter alia, conflicts and animosities, religious prejudices, fear of

smaller states towards bigger ones.² Apart from these internal problems there was also the disturbances caused by Major Powers in the internal politics of the arena, such as US involvement in Indo-China region, thus dragging automatically the other Super Powers into the existing conflict. The Vietnam problem, like all other contemporary problems, has its international repercussions and international power politics has a deep rooted causal relationship with the Vietnam question.³ More specifically the relationship between the Soviet Union and the Democratic Republic of Vietnam (DRV) as separate from Super Power relationship cannot be correctly examined. Because all the three Big Powers involved in Vietnam viz., the Soviet Union, United States and China pursued their respective politics in Vietnam.⁴ Indeed, their policies on the Vietnam question were formulated on the basis of global

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2. There is still a certain muted uneasiness and latent apprehension toward a potential Indonesian aggression over Malaysia and Singapore due to her past hegemony through the kingdoms of Majapahit and Srivijaya.
 3. Rupen, Robert, A., and Robert Farvell, eds., Vietnam and the Sino-Soviet Dispute, (New York, 1967), p.118.
 4. Zagoria Donald, S., Vietnam Triangle — Moscow/Peking/Hanoi, (New York, 1967), p.13.

politics rather than the interests of Vietnam. The cold war diplomacy and great power rivalries in Indian Ocean, ideological war between the two Communist giants — Soviet Union and the People's Republic of China (PRC) — and Japanese economic expansion in the region, all have had their impact on the region. The emergence of the Sino-Soviet differences can be attributed to numerous ideological, political and economic and power interests — clashes between the two nations. In more precise terms, the principal reason of the rise of a bipolar world politics and of the bipolar world in the late 1950s was the Chinese fear of a Soviet-American accommodation at its expense.⁵

During this troublesome era of late sixties the formation of Association of South East Asia Nations (ASEAN), ^{a regional group} — was an important event in international political system.

One can safely argue that it was the realization by the five founding members — Malaysia, Indonesia, Thailand, Philippines and Singapore — of facing common economic, political and social difficulties and the acceptance of

5. Halperin Morton, H., Sino-Soviet Relation and Arms Control, (Cambridge: Mass, 1967), p.181.

each other's limitations motivated them to pull their resources together with the objectives of promoting economic growth, social progress, cultural development and peace and stability in the region.⁶

ASEAN can be seen as reflecting the growing political will of the nations of this region to prevent their region from outside forces, to take charge of their own future, to work out problems of development, stability and security together and to prevent their region from continuing to remain the arena and the subject of major power rivalry and then conflict.⁷ In short then, by joining together the endeavours of states which share common stakes in their

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6. Tunku Abdul Rehman was the first leader to mention the idea of forming ASEAN when he attended the Commonwealth Prime Ministers Conference in London in 1966. He stated that regional cooperation would be the best means to meet threats from the North, i.e. PRC, and to assure the stability and strengthen the economies of each country in the area. See Reece Bob, "Walking at Last", Far Eastern Economic Review, 4 December, 1969. Regarding the original text of the objectives of ASEAN, see The ASEAN Declaration (Bangkok), 8 August, 1967. Also see Hass, Michael, ed., Basic Documents of Asian Regional Organizations, (New York: Oceana Publications, 1974), pp.1269-70.
 7. ASEAN, (ASEAN National Secretariat of Indonesia, Public Relations Division, Jakarta, June 1975), p.65.

struggle for survival,⁸ regional efforts are intended to consolidate national security, freedom, independence and economic development.

The formation of ASEAN was also partly due to the failure of the Association of South East Asia (ASA) and Maphilindo to function as viable regional association.⁹

The main objective, however, was to consolidate their countries with a strong economic base. The economic^{es} of ASEAN are but every diverse in their resource endowment patterns and contain some of the most affluent of all less developed countries as well as some of the poorest. The colonial past has left a permanent imprint,^{es} thus their economies are heavily oriented towards the maritime powers

8. From the 1967 Declaration, one can drive that 'survival' was the main preoccupation in the minds of the Foreign Ministers. After signing the ASEAN Declaration, for example, Tunku Razak stated: "It is important that individually and jointly we should create a deep awareness that we cannot survive for long as independent but isolated, unless we also think and act together and imbued with our own ideas and aspirations and determined to shape our own society." See Minutes of ASEAN : First Ministerial Meeting, August 3-8, (Bangkok, 1967).
9. ASA was formed in 1961 by Malaya, the Philippines and Thailand, whereas Maphilindo was proposed in 1963 but never institutionalized.

of the West. Such a colonial pattern of "dependence"¹⁰ has persisted to this day.

Traditionally South East Asia is a region that can be economically exploited. The above motivation even today determines the major powers course of action vis-a-vis South East Asia. Like the other major external Powers present in South East Asia today, viz. USA, USSR, China etc., Japan has also adopted "economic diplomacy" as a means to enter into the region. However, there is a slight difference of Japanese motivation vis-a-vis the other major powers present in the area. That is, while Japan's intention is purely economic oriented, the USA, USSR and PRC objectives are both economic and political.

Further, throughout the post-war period, Japan has been locked into a subordinate alliance with the world's leading Power, the US. It was very cordial till 1971, but

10. Economies with a "weak" structure are said to be dependent upon those with a "strong" structure and are "moved, integrated, dominated and dragged by the latter. Such a relationship of economic interdependence as subsists in South East Asia is part and parcel of the global state of affairs. Francis Perroux distinguishes between two types of economic interdependence one existing among firms, individual prices and qualities at micro economic level and other among nations. The latter is more complicated than the former. See Perroux, Francois, In de'pendence de l' economie nationale et interdependence des nations (Paris: Aubier Montaigne, 1969).

after that Japan trailed behind Washington on all major international issues. In military affairs, of course, Japan still remains a subordinate to US. When the US took the strategic decision to build Japan back up as a major economic bastion in Asia, this was not simply to turn it into a "puppet", rather to create a controlled but strong ally whose power and responsibilities would grow as its economy expanded.

For the entire post war period, ⁽¹⁹⁴²⁾ US has been active in the military and political activities in South East Asia which have required sizeable logistic support. The US actively assisted Japan's economic growth as the indispensable source of supplies and later as economic and political ally. This helped Japan to penetrate in the region more forcefully as its economy had already a stake there.

Post World War II : Japan's Relations with ASEAN

Japan had militarily occupied South East Asia in World War II, which was scarcely a generation ago. After the defeat from the Allied Power in World War I Japan

lost her hold from South East Asian region. She was completely deprived of her Asian markets, raw materials and the ^{field for} investment of capital. In the post-war era Japan's main task¹¹ in the area was to get the better of her competitors, make a return to the region and establish her old relations, that is economic, if not political.

The first few years after the war were marked by increasing Japanese penetration in the region. One of the important factors was Japan's great competitiveness in ASEAN markets — the result of her close proximity to the

11. South East Asia was for a long time the main target of foreign economic expansion of Japan's capitalism. Even in pre-war era Japan's monopolies battled for markets, raw material sources and capital investment spheres. Japan's famous doctrine of the "Greater East Asia Co-Prosperity Sphere" was aimed at redividing the spheres of influence in South East Asia and was one of the fundamentals of Japanese foreign policy. See Klochkovsky, L.L., Economic Neocolonialism: Problems of Southeast Asian Countries, Struggle for Economic Independence, (Moscow, 1975), p.66. Another important development which encouraged Japan to assert itself in the region is what Prime Minister Sato said, "the wind of change in Asia". That is growing tension as a result of international stresses and strains, and Asia's inability to provide food for its citizens and the other is a growing realization in Asian capitals that self-help is a key to economic development and an incentive to attract outside help and support. See Sato, Eisaku, "Japan's Role in Asia", Contemporary Japan, no.4, 1967, p.697.

region, low production costs and good knowledge of local features and conditions. A no less important part was played by the flexibility of her forms and methods of economic penetration. Even before the war, when the colonial regimes of the European powers were in existence, Japan displayed great sophistication¹² as regards her forms of economic diplomacy.

As it is evident from the Japanese record, her economic and strategic interests in the ASEAN region are predominant over her political interests. Thus, for Japan the region is very crucial and important one. One can safely assume that for Japan ASEAN is the very key to prosperity.¹³ In spite of its tremendous economic growth, it is fully aware of the objective reality of its

12. The British Economist, Fisher C.A., has described the pre-war tactics of Japan as follows :

"Besides the psychological success of their slogan 'Asia for Asiatics', their ability to supply the sort of consumer goods which the local population wanted, at prices far below those of the corresponding European articles, as also did the willingness of Japanese firms to train and employ indigenes as assistants in their various Southeast Asia branches."

13. See Halliday, J., and McGormick, G., Japan's Imperialism Today, (London, 1973), pp.174-75.

economic and industrial might. That is, the basic resources upon which Japan's self-sufficiency rests are almost nil. In order to continue its economic growth it needs to secure its supply of raw materials, for which it is highly dependent on overseas resources. The country is poor in almost all resources like coal, minerals, petroleum, natural gas and uranium. Deposits of important minerals like bauxite, copper, iron-ore, nickel, tin and zinc, which are necessary for a modern industrial society, are also not available in abundance. Without these, the entire economic edifice of a country may collapse.

Half of the above required raw materials are present in Southeast Asian region. In the post-Second World War era, Japan's main effort was to penetrate into the region. In the post-War era Japan expanded and improved her ties with these regions through two distinct stages. During the first stage 1952-60, her relations remained on a passive note. But since 1960s Japan took real interest in the region and started its economic mission. During the first stage Japan's efforts were mainly

confined to normalising relations¹⁴ with the South East Asian countries. Important part, in this respect, was played by state financing of exports (in the form of reparations, grants of special yen credit etc.), and joint development of various kinds of raw materials, co-operation based on the division of production and so on. On the initiative of Japanese Government, the conference of South East Asian countries was convened where the official aim was to discuss questions of economic development and co-operation between the different countries. Japan viewed the conference as a first step towards implementing her economic plans.¹⁵

~~In the late sixties two important developments played a crucial role in the emergence of Japan's major~~

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14. In the post-war period the flow of Japan's financial resources to Southeast Asia was consisted a governmental grants mainly by way of reparations and aid and direct loans, as well as private exports credits, direct investment and portfolio investment. Subsequent grants and loans were used both to encourage the sale of Japanese exports, and where appropriate to pave the way for private investment from Japan. See Olson, L., Japan in Post-War Asia (New York, 1970), p.259. For statistical details of Japan's equity projects in Asia, see Yokobori, K., "Criticism of the Harsh Terms of Japanese Aid to Developing Countries have been Voiced". See Kawata, T., "The Asian Situation and Japan's Economic Relations with the Developing Countries", Developing Economics, vol.9, no.2, June 1971, p.144.
15. In accordance with the Japanese proposals two special organisations were set up - The Centre of Aid for the Development of Trade, Investment and Tourism, and the Centre for the Development of Fishing - in the South East Asia.

In the late sixties two important developments played a crucial role in the emergence of Japan's major Asiatic role. One is its close alliance with the US¹⁶ and the other a purely economic logic of capturing the export market, plus, to secure its commercial route.

It was Prime Minister Yoshida Shigeru,¹⁷ who set the tone of Japan's post-War South East Asia policy and his policy was subsequently followed by his successors.

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16. Funds which the US apportioned to the countries of the region as part of military and economic aid were used to finance a large part of Japanese exports. During the 1950s approximately 1,000 million dollars of goods were purchased by the American armed forces and International Cooperation Administration in Japan, which helped it to re-establish economic ties with South East Asia. See The White Book on Foreign Trade, Special Part, 1959-63, (Tokyo).
17. Yoshida Shigeru was fully aware that in view of the cold war politics, Japan would not be permitted by the US to trade with China, thus he stressed the need for developing South East Asia as an alternative area of trade. He sought to bring Japan closer to Southeast Asian region by means of trade and economic cooperation by adopting a firm anti-Communist and pro-US posture. See Shigeru, Yoshida, "Japan and the Crisis in Asia", Foreign Affairs (New York), vol. 29, no. 2, January 1951, p.173. Also see, Yoshida's address of the Twelfth Session of the Japanese Diet on 12 December, 1951, Contemporary Japan (Tokyo), vol. 20, nos. 7-9, July-September 1951, p.426.

Bases of Co-operation : Japan

Japanese interests in ASEAN is determined by its economic and commercial forces. The region's importance, especially as a source of raw material, explains Japan's great interest in the region. The five ASEAN countries are main supplier of certain important raw materials, i.e. rubber, tin, ^{cut}copra and hard fibres, iron, manganese and chromium ores, bauxite, timber and oil.

Table - 1

ASEAN : AGRICULTURE AND MINERAL PRODUCTS ¹⁸	
<u>Agricultural Products</u>	<u>Minerals</u>
1. Abaca Fibre	Tin
2. Banana	Chromium
3. Copra	Bauxite
4. Coconut	Manganese
5. Palm oil	Iron
6. Pineapples	Oil
7. Palm Kernels	
8. Rubber	
9. Rice	
10. Timber	

18. Source : FAO Production Year Book for Agricultural Products; and Statistical Year Book, for minerals.

✓ Japan purchases 80 per cent of Indonesia's oil exports and a major part of such Indonesian exports as tin, bauxites and manganese; all its exported nickel and timber. 85 per cent of Philippines copra exports goes to Japan. Indonesia has been given top priority in Japan's ✓ foreign policy, and ASEAN has become an area of "special relationship" for her.¹⁹

The post-War period was marked by far reaching structural changes in Japanese industry and export of industrial goods. The rapid growth of modern heavy industry made the problem of exporting machinery and equipment, transportation facilities, chemicals, non-ferrous metals etc. South East Asia was often used as a market by Japanese companies for marketing new kinds of heavy industrial production.²⁰ In 1948, 9.2 per cent of

19. Indonesian Times, 11 and 13 August, 1977.

20. In the early sixties upto 40 per cent of all Japanese plant and machinery exports, including 70 per cent of textile machinery, 75 per cent of motor vehicles, 50 per cent of metal working machine tools, almost half of all the exported ferrous metals, over 90 per cent of chemical fertilisers, and 70 per cent of cement went to South East Asia. See Klochkovsky, n.11, p.71.

For a detailed study, See Japan : Economic Growth, Resource Scarcity and Environmental Constraints, Olson, E.E., (Praeger, 1978), pp.53-63.

total exports went to South East Asia, with 8.1 per cent of total exports going to ASEAN countries. 18.6 per cent of Japan's imports came from South East Asia, 18.3 per cent originated from the five ASEAN economies. The relative importance of South East Asia declined steadily however, and in 1970, 10.4 per cent of Japan's exports were to South East Asia (9.4 per cent from ASEAN). In 1970 Japan's trade with some of the individual ASEAN countries such as the Philippines (amounting to \$ 987 million) and Indonesia (\$ 942 million) was greater than that with mainland China.²¹

Being the supplier of industrial equipments and manufactured goods Japan wants to market them in ASEAN. With this end in view, Japan has driven hard bargains with the countries of ASEAN and laid down stringent conditions on its economic aid and private investments.²² Because of this market economy, Japan has become the first Asian nation to rank among the leading economies of the modern world.

21. Leesoo-Ann, ed., New Directions in the International Relations of Southeast Asia : Economic Relations (Singapore, 1973), p.5.

22. Imam, Zafar, World Powers in South and Southeast Asia (New Delhi, 1972), p.132.

Politically, ASEAN thought to be important because of its location.²³ As has been observed by an expert, for Japan, "the importance of Southeast Asia as a source of supply is less than its significance of a strategic point on the tanker route to Japan from the Middle East".²⁴ Its geographic location along the sea lanes of the Indian Ocean and the Pacific (and the cross roads of Asia's two major cultures, China and India) have made it an important gateway,²⁵ to the West by air and sea.

The geographic importance of ASEAN to Japan cannot be underestimated since the Japanese goods passing through Malacca Straits accounts for nearly 40 per cent of total Japanese imports. About 90 per cent of her annual oil

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23. Yoshida and his successors wanted to trade with People's Republic of China, and considered the stability of Southeast Asia an important precondition for improved relations. If the region could be stabilized, they reasoned China's international position would be secure, and the normalization of Sino-Japanese relations would become possible. See Kosaka, Masataka, "Japan's Major Interest and Policies in Asia and the Pacific", Orbis, vol.19, no.3, Fall, 1975, pp.793-808.
24. Smith, Charles, "Japan-Mapping Out Strategy After Vietnam", The Mirror, 14 July 1975, p.3.
25. Kakkar, A.N., "Southeast Asia's Security Problems During 1980s", Seminar Series of Southeast Asia Division, S.I.S., 8-10 March 1979, pp.1-2.

requirements of approximately 200 million tons are shipped from the Middle East through the Malacca Straits, and as such the Straits have been described as the "life line" of Japanese industry. If this route were out, Japan would certainly experience a real economic crisis. The Malacca Straits happen to pass through two major ASEAN countries, Malaysia and Indonesia. Thus, Japan simply cannot annoy these ASEAN countries. Nor can it ignore the region's importance for her own economic prosperity.

ASEAN — Bases of Co-operation With Japan

As noted earlier the region is heavily dependent upon West and Japan, not only because of their former colonial links but also because Japan happens to be the biggest consumer of the region's primary commodities. Ten years ago, 71 per cent of region's exports went to these industrialized countries which in turn supplied 66 per cent of the region's total imports. In recent years the degree of dependency has been slightly reduced to 66 per cent and 60 per cent respectively. As such the region's trade with the socialist countries as well as its own

intra-regional trade remain low.²⁶

In the aggregate ASEAN imports more from Japan than even from the European Economic Community (EEC). In respect of trade Japan accounts for 27 per cent of their total exports and 29 per cent of their total imports.²⁷ The importance of Japan, as an absorber of ASEAN's raw materials and as a supplier of sophisticated modern industrial equipments, technical know-how, as an exporter and investor, and as an aid giver, has placed her at top of the priority list among the Western countries.

Besides, ASEAN as a whole accounts for more than ✓ 45 per cent of Japan's aid and investment. Industrially, technologically and organisationally, Japan is one of the leading economic power in the modern century, in Asia Japan is pre-eminent in those respects and looks like remaining so in near future. It is the only Asian country

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26. Wong, John, "Southeast Asia's Growing Trade Relations With Socialist Economies", Asian Survey, vol.17, no.4, April 1977, pp. 330-44.
27. John, P.P., "Japan-ASEAN Comundrum", Japan Quarterly, (New Delhi), vol.4, no.1, January 1978, pp.29-42.

except Hong Kong and Singapore on the one hand and Siberia and Soviet Central Asia on the other, to have achieved the sort of development to which all aspire.²⁸

Being Asian countries, the ASEAN members feel nearer to Japan than to any other Western power. In fact they are heavily dependent on Japan for its economic aid and investment.²⁹ In fact, their economy determines the relationship with Japan than political or military reasons.

Relations in the Decade of Seventies

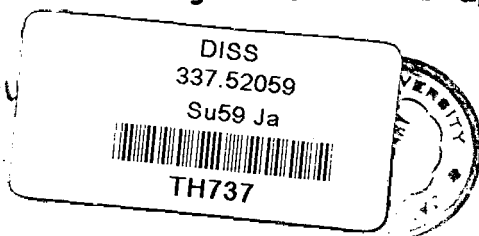
By mid Seventies, there had occurred a gigantic dispersal of power, both at the apex and the base of the pyramidal international power structure. The old time military alliances persisted, but parallel to them emerged fluid bargaining coalitions in which partners tried to increase their fragmented politics, also it was evident that the system of political and economic dependence

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28. Kirby, Stuart, E. "Japan in Southeast Asia : Perspectives of Industrial Power", Southeast Asian Spectrum, July-September, 1976, pp. 60-65.
29. Boyd, R.G., "The Strategic Significance of the Malacca Strait", The Strategic Digest, vol.7, no.9, September 1977, pp. 1-24.

of the Southeast Asian countries was undergoing a process of change. A shift of power away from the elements which used to receive support and nourishment from the United States and its Western allies was most convincingly visible in the South East Asia where the American client State of South Vietnam collapsed like a house of cards to the assault of the conflicting forces in 1975. As a result of the Communist victories in Indo-China, South East Asian Treaty Organization (SEATO), as an alliance was formally dissolved, US military presence in the region was substantially reduced, and the entire South East Asian region was, for the practical purposes, taken out of the firm and in-depth American military commitments. It was not that US power declined; what changed was the American as well as Southeast Asian perception of that power .

The new interest of the Soviet Union in Indian Ocean and in organizing some sort of defence arrangement in South and South East Asia, the decline of British and Commonwealth Military presence in the region, and the ideological cold-war between the two Communist giants — USSR and China — changed the existing international system, and had a major role in shaping the Japan-ASEAN relation.

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For the Southeast Asian, national intervention by the outside major powers, ceased to be an attractive proposition. And the changed international political situation generated in the Southeast Asian region a quest for inner balances, free of direct involvement of the major world powers. The widespread dispersal of power enhanced the options of these nations. There was a radical change in the perceptions of 'power' itself. Instead of measuring power in terms of alliances and foreign military aid, these nations started assessing power in terms of social cohesion, political stability, economic progress, industrial strength, resource base, capability of resource mobilization, quality and fibre of political institutions and leadership. There was also a growing realization that it was far better for these nations to try and resolve bilateral disputes and issues bilaterally or regionally, rather than invite intervention by the Major Powers. The immediate regional environment assumed far greater importance than the global polarization of power and resources.

In 1972 ministerial meeting at ASEAN, it was decided to establish peaceful relations with China.

However, the April 1975 Communist victory in Indo-China region had greater impact on ASEAN, than President Nixon's decision to withdraw his troops from Vietnam. The response to the victory was a mixture of feelings of optimism, anxiety and uncertainty. Indonesia's immediate response was to "maintain friendship with any government on the basis of non-interference and equality".³⁰ Philippines showed restraint although suggested economic cooperation and if possible economic assistance. And these two policies more or less guided the rest of the ASEAN countries. Moreover China's international options were rather limited partly because of its own choice but mainly because of China's unlimited potential to aggravate the already difficult situation in those countries from the multitude of insurgent movements. South East Asia started presenting a very complicated test for Chinese diplomacy. There was a conflict in the perception of the Communist movement. On the one side China fervently believed that the existing political orders in these countries were too fragile

30. Foreign Broadcast Information Service (FBIS), 7 November, 1973, see Vanderkoref, Justus, M., "National Security, Defense Strategy, and Foreign Policy Perceptions in Indonesia", Orbis, vol.19, no.14, Summer 1976, p.486.

because of their class nature, elitist character and other internal contradictions. Therefore, a revolutionary situation was bound to develop in those countries sooner or later. South East Asia being China's special area of interest did not live to see these movements developing draftlessly without Chinese helping and controlling hand. On the otherside all the members of the ASEAN were afraid of the internal communist uprising and used to think that the Communist groups present in the soil were detrimental to their national progress.

Also the Chinese domination of Singapore in many strata of activity created a fear of complex in the minds of the people of Singapore and they did not want to be looked down upon as a "Second Chinese State", which , indirectly restrained them from coming closer to China.

The choice naturally fell for the third party, Japan, who could pre-eminently fit to the position of a protector with its autonomous foreign policy, in which apparently though economic factors constituted the most pervasive and continuously operative influence.

In the past, Japan was so thoroughly absorbed in Big Power diplomacy, that it ignored the smaller nations.

The Japanese thinking essentially evolved around on East West axis for that matter. But the series of shocks in early Seventies, e.g. "Nixon shocks"³¹ and 1973 oil crisis, has turned its attention more towards a North-South arrangement,³² specially towards the South East Asian states.

Japan, with its "omnidimensional diplomacy" is neither too close nor too hostile to any of the Major Powers present in the region. Though the two 'shokkus' have forced Japan to remodel its foreign policy vis-a-vis America, in late 70s nevertheless she is still an ally of the US bloc. She is fully aware of the reality that US can be the guarantor of her international "Resource Diplomacy". Nonetheless, in Southeast Asia particularly Japan's economic diplomacy is flourishing under the nuclear umbrella of United States. Japan simply cannot overrule

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31. The two shocks, dollar devaluation and rapprochement with China and USSR were in 1971 and 1972 respectively.
32. Foreign Minister Kiichi Miyazawa told the 75th Session of the Diet in January 1975 that one of the policy goals of Japanese foreign policy was to seek a diversified diplomacy while continuing to regard the US as a cornerstone and maintaining peaceful co-existence with the Soviet Union and China. See Foreign Policy Address, 4 January, 1975, pp.19-20.

the important aspect, or weakness of her foreign policy. On the other hand Japan in South East Asia particularly is not blocked by either Peking or Moscow. In fact their main strategy is to block each other's way, not of Japan by any means.

ASEAN group, on their side know by now that chances of conflict while dealing with Japan is less than with any other major power present in the region.

On the other hand Japan also needs the region very much to secure the supply of raw materials and export market. The security of Indian and Pacific Ocean through which oil is being transported is vitally important to Japan's economic diplomacy. At the current rate of economic growth Japan will need some 800 million tons of crude oil per year in the early eighties, when the estimated GNP rises to US \$ 720,000 million. By the same year about 1,000 million tons of freight will move in and out of Japanese ports each year.³³

33. Shimomura, Osamu, "Impossibility of Development Into a Major Military Power", Oriental Economist, vol.39, no.724, February 1971, p.15.

The 1973 oil crisis disturbed Japanese economy much more than any of the country in the world. It must be noted that Japan is dependent almost entirely on imported energy. About 85 per cent of the energy used in Japan comes from petroleum and other energy materials, of which 80 per cent is from the Arab countries. On the other hand Japan imports about 50 per cent of its food requirements, of which 80 per cent is from the US. The Japanese economy is thus manipulated by two strong strings — one attached to the US and the other to the Arab countries. It is this dilemma which determines the economic destiny of Japan.³⁴

Japan is thus looking for some alternative base to avoid this dilemma by diversifying its foreign policy. To Japan, ASEAN is too good to rely upon. Fifteen per cent of her oil requirements now comes from Indonesia

34. Yano Toru and Ichimura Sinichi, "The Future Pattern of Japanese Economic and Political Relations With Southeast Asia", Discussion Paper No.81, 8 March, 1975, p.3.

and Japan is number one partner and in some places only second to US in respect of trade and investment in ASEAN region. A legacy of hostility and fear towards Japan among many, in Europe and the US and an increasing general feeling that Japan has benefited more than anyone else from the international trading system yet, has done little to help make it work well. The Japanese see their present success as fundamentally illusory due to lack of raw material.

So, the very life-line of Japan economy is to get raw material. For this purpose, Japan has to operate under the so-called "Resource Diplomacy" in South East Asia, especially ASEAN region, from where she gets the lion share of her required raw-materials. One can safely assume that in the near future both will be interdependent on each other, whether they like it or not. Both are having vital vested interest for which they are bound to co-operate if not in any other, at least in the economic field.

Chapter - II

JAPAN'S TRADE AND AID WITH ASEAN

Because of the lack of natural resources and the availability of an able and industrial source of manpower, the Japanese economy has developed for the last hundred years basically through "processing trade" activities, that is importing raw materials, manufacturing them for domestic use and exporting except for the exports of staples such as tea and silk in the early days.

Trade with South East Asia has been as important for Japan as the trade with the US, each direction accounting for a third of total trade. Japan's trade with South East Asia has provided and will continue to provide her with a large export surplus. The rapid industrialisation after the war, made Japan to trade with less developed and developed countries to gain access to raw materials and mineral fuels. Almost 80 per cent of its annual requirement of food and raw materials are imported from outside sources, without this her industrial economy will collapse. Out of 80 per cent, nearly 40 per cent of her annual requirements are imported from United States and about 18 per cent from South East Asia. Then the importance of South East Asia in respect of trade is very significant for Japan.

Probably, that is the reason, South East Asia has been given special priority in respect of trade and aid in Japanese foreign policy since the time of Premier Yoshida on the otherhand, the preoccupation with transition growth in South East Asia led to an extra regional orientation. This external orientation is a natural outcome of the resource and technological complementarity between these developing countries and the industrially advanced countries. In the transition context this complementarity lies in the exchange of land and/or labour intensive exports for capital goods and technology required for modernization of agriculture and industrialization.

Thus from the very beginning all the Southeast Asian countries depended on external trade. Because of the limited domestic market their economy had been export oriented. ASEAN states have inherited, what is commonly called a "colonial pattern of trade" with high dependence on the industrial market economies, particularly with Japan and the United States. As much as 60 per cent of its annual trade is with industrial countries of the West and Japan; consequently intra-regional trade remains correspondingly small. Despite many years of regional

co-operation, the total intra-ASEAN trade turn-over for 1975, was only US \$ 6 billion or 15 per cent of total ASEAN trade.¹ This can be analysed from Table - I.²

Since the end of the war, Japan's efforts have been directed to broadening its resource bases and markets. As its economy based on total external trade, she continued to maintain economic relationship with Southeast Asian countries. The process of decolonization and the general atmosphere of free trade have helped Japan in its task to trade with other countries in the world. The IMF—GATT system has helped it to promote a relatively free flow of trade and resources.

After 1967, with the formation of ASEAN, Japanese trade has increased with this regional group. ASEAN as a group supplies more than 27 per cent of the Japan's raw material requirements. While geographical proximity is an obvious reason, the degree of complementarity in economic structure between Japan and ASEAN is not to be

1. Asia Year Book, 1978, pp.70-74.

2. Computed from IMF and IBRD. Direction of Trade Annual, 1961-63 and 1970-74; and IMF, Direction of Trade, December 1976, January 1977 and May 1977.

Table - I

ASEAN DIRECTION OF TRADE

Exports/Imports		Industrial Countries						ASEAN	Per-
Year	Grand Total	Total	Per-centage	US	Per-centage	Japan	Per-centage	Total	centage
<hr/>									
<u>Exports</u>									
1972	7,857.5	4,686.2	59.6	1,411.2	17.9	1,918.0	24.4	1,529.4	19.6
1973	13,214.0	8,210.9	62.1	2,258.2	17.1	3,628.5	27.5	2,586.3	15.9
1974	22,608.2	13,983.5	61.9	3,919.7	17.3	6,877.9	30.0	3,598.8	19.2
1975	20,765.8	12,724.0	61.3	4,124.0	19.9	5,609.2	27.0	3,350.0	16.1
1971-75 Average	12,361.9	7,612.0	60.7	2,433.6	18.0	3,381.0	26.6	2,127.7	18.0
<u>Imports</u>									
1972	9,442.3	5,806.8	61.5	1,448.5	15.3	2,501.1	26.1	1,149.0	12.1
1973	14,197.7	8,546.1	60.2	2,272.8	16.0	3,575.1	25.1	1,678.4	11.8
1974	22,813.5	13,110.9	57.5	3,366.1	14.5	5,516.9	24.2	2,451.4	10.7
1975	23,260.7	13,450.6	57.8	3,613.6	15.5	3,697.2	15.8	2,876.6	12.4
1971-75 Average	13,531.8	8,037.7	60.0	2,078.5	14.9	3,041.8	23.5	1,573.7	11.8

ignored.³

While Japan's lack of resources makes it dependent on ASEAN, the technological and capital transfer from Japan to the latter is also vital for ASEAN economy. This mutual dependence in economic relations will be analysed with respect to trade and capital flows from Japan to ASEAN.

Trade

For ASEAN, Japan is the number one trade partner. It depends on Japan, for a large part of their basic materials such as iron and steel, petro-chemical products and fertilisers, and there seems little hope that any alternative productive base will appear to take Japan's place at least into the first half of the 1980s. In the fiscal year 1977, ASEAN as a group depended to an extent of 26 per cent on Japan in exports, and 25 per cent in imports, but Japan depended only to the extent of 11 per cent in terms of exports and 12 per cent in imports.

3. Hansberger, Waren, "Economic Co-operation and Integration in the ASPAC and ASEAN Areas", Asia Quarterly, vol.4, no.2, 1974, pp.128-46.

✓ The composition of exports to Japan continues to be mainly crude oil and raw materials. Besides, ASEAN is a key supplier of certain important commodities like copper, natural rubber, tropical timber, vegetable oil and seed oil, and hard fibres, tin and sugar. Annually over 25 per cent of ASEAN's total trade is with Japan alone — far higher than any other single country or block of countries including the US and the EEC. On ^{the} Japanese side too, ASEAN has become increasingly important. In 1976 9.5 per cent of Japan's total exports went to ASEAN and the regional grouping in term, supplied 12.6 per cent of Japan's total imports, putting ASEAN ahead considerably of Africa, Latin America and the Socialist countries.⁴ With its growing level of affluence, Japan is beget by numerous problems such as a declining labour force and the growing factors in the urban areas. The rural labour force, for example, has dropped from 16.5 million in 1955 to 9.8 million in 1970s.⁵ By locating factories outside Japan,

4. Asia Year Book, 1978, p.73.

5. Sebestyen, Charles, The Outward Urge : Japanese Investment World-wide, (London: Economist intelligence Unit, 1972), p.8. This study has an interesting table which compares the growth of wages and productivity in Japan. Wages in the textile industry, for instance, outstrips productivity and it can be seen that such industries may be confronted with increased costs.

entrepreneurs hope to solve the immediate problems such as the rising wage levels, which notwithstanding productivity measures, have made certain industries in Japan, no longer profitable. Since there are reservoirs of cheap and dexterous labour outside Japan the relocation of such factories would be beneficial to Japan. The other factors which have also led to increase in investment is the introduction of strict anti-pollution laws in Japan and the consequent relocation of industries that are a hazard to environment in other countries including South East Asia.⁶

Thus, the major effort of Japan after the war has been to establish links that were disrupted. And this it could do through trade and aid policy besides other types of relations. Japanese economic relations with these countries were elaborated with the establishment of manufacturing and extractive industries in the region, of which most of them are located in ASEAN.

ASEAN is the exporter of certain key commodities (in Table-2) which Japan needs very much to sustain its industrial growth. Trade is the best means to achieve the above goal.

6. Ibid., p.7.

The Balance of Trade

Before 1972, the balance of trade was in Japan's favour, but the subsequent price increases for petroleum and other resources, products from ASEAN changed the picture. Currently only Singapore and Thailand still run trade deficits with Japan.⁷

Among the ASEAN group Japanese trade surplus is most conspicuous with Singapore, followed by Thailand. In contrast trade deficit suffered by Japan with Indonesia in 1971 was about the size of the surplus, it had with Singapore, followed by Thailand. But overall the trade position was in Japan's favour only during the years 1965-69, although the deficit suffered in 1970-72 were not as large as those in 1969. In other words, by the criteria of trade alone, Japan stood to gain in terms of being able to sell more of its products to ASEAN countries.⁸

However these variations in trade balances between Japan and the ASEAN, are easily explained by the

7. Asia Year Book, 1978, p.100.

8. Ibid., pp.101-2.

Table - 2

MAJOR COMMODITY EXPORTS OF ASEAN REGION, 1975

(US \$ 1,000)

Raw Material	Malaysia	Indonesia	Thailand	Singapore	Thailand	Total	% of total world exports
Natural Rubber	782,254	361,996	175,001	--	--	1,319,250	82.92
Palm Oil	594,524	151,639	--	73,362	--	819,524	83.57
Tin Metal (tons)	77,635	14,488	16,552	--	--	108,657	71.77
Coconut Copra and coconut oil	27,511	--	**402,666	16,708	--	445,885	63.62
Spices (pepper)	43,662	22,867	--	45,769	--	112,298	57.16
Rice	--	--	293,000	--	--	293,000	9.21
Sugar	--	**580,736	281,122	--	--	861,858	7.26
Forest products	662,952	679,064	**246,775	--	--	1,588,791	15.09
Petroleum (crude 1974) million tons	--	54,450	--	--	--	54,450	3.93
Copper*	--	**397,433	--	--	--	397,433	3.10 (17.79)*

** Denotes Philippines

Sources: FAO, Trade Year Book, vol.29, 1975; FAO, Year Book of Forest Products, 1963-1974; International Tin Council, Monthly Bulletin of Statistics, vol.21, August 1977; B.P. Statistical Review of the World Oil Industries, 1974; UN Year Book of International Trade Statistics, 1975.

* As a percentage of world trade in copper ores (i.e. excluding trade in metal).

resource abundance or the resource poverty of the later countries. While Indonesia and Malaysia are rich in resources, Singapore and Thailand are deficient in it. Philippines can claim neither to be rich nor poor in resources.

A greater insight into this trading relationship can be obtained if we analyse the pattern of ASEAN-Japan trade on bilateral basis between individual ASEAN countries and Japan. In Table-3, when we consider Japan's trade with Indonesia, it becomes apparent that the surpluses enjoyed by the latter was done mainly to its exports of raw materials and mineral fuels. In 1975, mineral fuels alone accounted for US \$ 2,725.2 million or 79.4 per cent of the total imports of Indonesia. This is a sharp jump considering the fact that such imports were only US \$ 366.3 million in 1970. The pattern of trade is hence typically colonial, as far as Indonesia is concerned. Indonesia because of its availability of such highly demanded resources is likely to enjoy considerable surpluses in the foreseeable future. This is not to say that, that country is happy with such a state of affairs. With 57 per cent of its domestic revenue and 46 per cent of net foreign exchange earnings

Table - 3

JAPAN'S TRADE WITH INDONESIA, 1970-75

US \$ Million

Item	1970	1971	1972	1973	1974	1975
Exports						
1. Food stuffs	23.0	20.2	17.8	50.2	32.7	-
2. Raw materials	6.0	4.2	5.4	6.3	26.8	-
3. Light industrial products	66.0	82.8	105.7	175.0	247.2	237.5
4. Heavy industrial & chemical products	219.3	341.4	480.3	663.1	1,129.9	1,556.4
Chemical products	(37.7)	(51.0)	(76.2)	(108.9)	(198.9)	(264.3)
Metals	(62.3)	(87.2)	(133.7)	(177.5)	(317.5)	(475.6)
Machinery and equipments	(119.3)	(203.2)	(270.4)	(376.7)	(613.5)	(816.4)
5. Others	1.5	4.2	6.3	7.8	13.7	55.9
Total Exports	315.8	452.8	615.5	902.4	1,450.3	1,849.8
Imports						
1. Food stuffs	19.4	38.1	60.6	101.6	110.1	122.8
2. Raw materials	241.9	328.9	323.4	733.4	999.6	528.4
3. Mineral Fuels	366.3	471.4	782.0	1,342.1	3,400.3	2,725.2
4. Manufactured goods	-	-	-	34.6	59.9	51.3
5. Others	9.0	16.0	31.5	2.0	1.6	2.6
Total Imports	636.6	854.4	1,197.5	2,213.7	4,571.5	3,430.3
Surplus/Deficit	-320.8	-401.6	-582.0	-1,311.3	-3,121.2	1,580.5

coming currently from oil exports, the Director General of Oil and Natural Gas, Wijarso, stressed that unless new energy resources are developed early, Indonesian domestic oil consumption would surpass production within fifteen years.⁹ The hefty trade surpluses would thus be reduced substantially.

With Malaysia, Japan's trade deficit was very much smaller reaching US \$ 125.3 million in 1975, compared to US \$ 252.4 million in 1970. While heavy industrial and chemical products were still Japan's major exports to Malaysia. The major exports from Malaysia to Japan were raw materials, rather than mineral fuels. Further, the pattern of trade was somewhat diluted by an increasing proportion of manufactured goods being exported, averaging 20 per cent of imports from Japan in the period of 1973-75. But like Indonesia, it is likely that the trade balance will be in Japan's disfavour so long as the dependence on raw materials prevails. Nonetheless this surplus need not be a permanent feature as can be seen from the deep concern by the Malaysian leaders over possible increase in production of

9. Far Eastern Economic Review, 10 June 1977, pp. 85-89.

synthetic rubber by Japanese industries (Table-4).

The trade surplus enjoyed by the Philippines in 1975, was smaller than those in the years 1974-75. (Table-5). This was attributed to the sudden decrease in the demand for its raw materials, that is, lumber. Imports of raw materials especially copper and iron also fell in both value and volume, in 1974 and 1975. Again exports of heavy industrial and chemical production from Japan formed a major share in total exports amounting to US \$ 847.5 or 82.6 per cent in 1975.

With the other two ASEAN countries where Japan enjoys trade surpluses, the value of trade is slightly larger with Singapore than Thailand. However, the trade deficit with Singapore is about five times that with Thailand, being US \$ 1,124.8 million in 1975, compared to US \$ 235.0 million with Thailand for the same year. Singapore's main exports to Japan have traditionally been processed mineral fuels, accounting for 74.1 per cent in 1975 compared with 81.8 per cent in 1970. This item is subject to change depending on variations in demand. Since 1973, the second largest item of export to Japan has been manufactured goods. This reflects the growing

Table - 4

JAPAN'S TRADE WITH MALAYSIA, 1970-75

US \$ Million

Commodity	1970	1971	1972	1973	1974	1975-
<u>Exports</u>						
1. Food stuffs	4.5	5.7	5.6	7.8	8.4	9.0
2. Raw materials & fuels	1.0	2.6	1.5	3.5	4.6	-
3. Light industrial products	25.3	25.6	31.2	52.3	82.7	75.3
4. Heavy industrial & chemical products	135.4	169.8	225.2	382.8	607.1	427.5
5. Chemical products	(14.0)	(17.1)	(20.9)	(31.5)	(60.1)	(55.3)
Metals	(41.9)	(44.9)	(54.4)	(107.4)	(191.9)	(122.3)
Mechinery and equipments	(79.5)	(107.8)	(149.9)	(243.9)	(355.0)	(299.9)
5. Others	0.3	0.3	0.4	10.5	5.2	9.3
<u>Total Exports</u>	<u>166.5</u>	<u>204.0</u>	<u>263.9</u>	<u>447.9</u>	<u>708.0</u>	<u>566.1</u>
<u>Imports</u>						
1. Food stuffs	10.1	17.8	24.8	38.5	27.7	28.5
2. Raw materials	301.8	254.7	259.3	570.8	671.4	396.2
3. Minerals	3.3	3.0	5.2	18.0	74.5	130.0
4. Manufactured goods	-	-	-	148.3	204.1	134.2
5. Others	103.7	97.1	106.2	0.7	1.3	2.5
<u>Total Imports</u>	<u>418.9</u>	<u>372.6</u>	<u>395.5</u>	<u>776.3</u>	<u>979.0</u>	<u>69.4</u>
Surplus/Deficit	-252.4	-168.6	-131.6	-328.4	-271.0	-125.3

Source: JETRO, White Paper on International Trade,
Various years.

Table - 5

JAPAN'S TRADE WITH THE PHILIPPINES, 1970-75

US \$ Million

Exports	1970	1971	1972	1973	1974	1975
1. Food stuffs	16.7	21.6	19.5	38.2	46.8	28.8
2. Raw materials & fuels	6.5	8.0	9.3	11.0	14.0	13.0
3. Light industrial products	85.8	98.8	85.5	102.9	132.7	130.1
4. Heavy industrial & chemical products	341.6	331.5	338.5	462.1	709.4	847.5
Chemical products	(45.7)	(57.3)	(59.9)	(88.0)	(173.3)	(121.3)
Metals	(121.6)	(92.9)	(97.5)	(160.8)	(207.6)	(195.4)
Machinery & equipments	(174.2)	(181.3)	(181.9)	(213.3)	(328.5)	(530.8)
5. Others	3.1	4.9	4.6	6.1	8.3	6.8
<u>Total Exports</u>	<u>453.7</u>	<u>464.8</u>	<u>457.4</u>	<u>620.3</u>	<u>911.2</u>	<u>1,026.2</u>
<u>Imports</u>						
1. Food stuffs	34.4	53.1	71.3	103.4	234.9	630.8
2. Raw materials	483.5	436.8	379.7	676.7	829.6	462.8
3. Mineral fuels	-	-	-	-	-	-
4. Manufactured goods	-	-	-	35.3	38.6	25.6
5. Others	15.6	23.9	19.8	4.8	1.7	1.8
<u>Total Imports</u>	<u>533.5</u>	<u>513.8</u>	<u>470.4</u>	<u>820.2</u>	<u>1,104.8</u>	<u>1,121.0</u>
<u>Surplus/Deficit</u>	<u>-79.8</u>	<u>-49.0</u>	<u>-13.0</u>	<u>-199.9</u>	<u>-193.6</u>	<u>-94.8</u>

Source : Cited in Table - 4.

importance of industrialization in Singapore as well as a willingness of Japan to ease its markets for such goods recently. But like its ASEAN counterparts, Singapore continues to rely heavily on Japan's heavy industrial and chemical products. Such exports from Japan totalled US \$ 1,252.6 million or 82.2 per cent in 1975. (Table-6).

For Thailand the dependence on Japanese heavy industrial and chemical products is no less, being US \$ 835.0 million or 87.1 per cent of total Japanese exports in 1975. Thailand's main exports to Japan were food stuffs, which replaced raw materials after 1974. By 1975, exports of food stuffs amounted to US \$ 456.0 million or 63.0 per cent of all Thailand's exports to Japan (see Table - 7).

In summary Table - 8, shows the pattern of ASEAN-Japanese trade. As in the earlier period 1967-71, trade deficits were suffered by Japan for all the three years except in 1972. The deficit surged up tremendously in 1974 on account of the increase in price and export of mineral fuels from ASEAN to Japan. Raw materials and food stuffs were among the other major ASEAN exports to Japan in 1975. In comparison, exports of mineral fuels for the

same year were 49.5 per cent. Thus, while manufactured goods to Japan were considerable after 1973, the proportion was only 6.4 per cent in 1975. The composition of exports to Japan continues to be mainly crude oil and raw materials.

On the other hand, bilateral exports from Japan to each of the ASEAN countries have been dominated by heavy industrial and chemical products or over 80 per cent in all cases. In aggregate, in 1975, such exports from Japan totalled US \$ 4,964.0 million or 83.8 per cent of total exports. They are followed by light industrial products, amounting to US \$ 749.3 million or 12.6 per cent of total exports. So long as Japan remains as a cheap competitive source for such products, its trade position in all the ASEAN countries is unlikely to be replaced for some years to come.

Japan's record trade surplus of \$ 11,150 million in the year 1976, has every reason to welcome closer economic co-operation with the ASEAN countries, her major market and prime source of raw materials. However, the changes that have occurred in international political system due to

Table - 6

JAPAN'S TRADE WITH SINGAPORE, 1970-75

US \$ Million

Exports	1970	1971	1972	1973	1974	1975
1. Food stuffs	8.5	12.2	12.5	18.7	20.8	31.7
2. Raw materials & food stuffs	7.6	8.1	4.0	5.4	10.2	4.9
3. Light industrial products	156.2	182.2	173.7	209.1	210.4	219.5
4. Heavy industrial & chemical products	249.4	303.6	501.9	691.5	1,128.4	1,252.6
Chemical products	(21.8)	(24.5)	(34.7)	(50.1)	(76.7)	(67.3)
Metals	(85.8)	(112.1)	(135.5)	(197.4)	(417.5)	(388.2)
Machinery & equipments	(142.1)	(167.0)	(331.7)	(444.0)	(634.2)	(797.1)
5. Others	1.3	1.9	9.1	5.2	18.1	15.0
<u>Total Exports</u>	<u>423.0</u>	<u>508.0</u>	<u>701.5</u>	<u>929.9</u>	<u>1,387.9</u>	<u>1,523.7</u>
<u>Imports</u>						
1. Food stuffs	1.1	2.1	4.1	7.4	9.9	8.6
2. Raw materials	9.2	7.8	10.8	15.9	15.1	8.3
3. Mineral Fuels	70.8	93.6	86.6	148.3	522.1	295.4
4. Manufactured goods	-	-	-	47.7	68.3	82.6
5. Others	5.4	10.4	19.7	3.7	3.5	4.0
<u>Total Imports</u>	<u>86.5</u>	<u>113.9</u>	<u>120.9</u>	<u>223.0</u>	<u>618.9</u>	<u>398.9</u>
<u>Surplus/Deficit</u>	<u>336.5</u>	<u>394.1</u>	<u>580.6</u>	<u>706.9</u>	<u>769.0</u>	<u>1,124.8</u>

Source : Cited in Table - 4.

Table - 7

JAPAN'S TRADE WITH THAILAND, 1970-75

US \$ Million

Commodity	1970	1971	1972	1973	1974	1975
<u>Exports</u>						
1. Food stuffs	2.0	1.8	1.9	2.8	2.5	-
2. Raw materials and food stuffs	4.8	10.1	8.7	9.4	24.2	24.1
3. Light industrial products	74.5	61.5	65.0	88.7	99.6	86.9
4. Heavy industrial and chemical products	365.7	370.4	445.0	613.7	812.2	835.0
Chemical products	(55.5)	(61.6)	(82.6)	(112.8)	(130.6)	(161.8)
Metals	(91.6)	(98.7)	(107.1)	(115.6)	(208.4)	(181.7)
Machinery and equipment	(218.6)	(210.1)	(255.3)	(345.3)	(473.2)	(491.5)
5. Others	2.2	1.3	1.6	5.4	12.7	12.7
<u>Total Exports</u>	<u>449.2</u>	<u>445.1</u>	<u>522.2</u>	<u>720.0</u>	<u>951.2</u>	<u>958.7</u>
<u>Imports</u>						
1. Food stuffs	75.6	112.3	113.2	134.5	351.3	456.0
2. Raw materials	97.8	97.9	98.7	158.7	193.8	153.6
3. Manufactured goods	16.2	19.7	-	96.3	137.5	110.8
4. Others	-	-	40.2	4.1	3.2	3.3
<u>Total Imports</u>	<u>189.6</u>	<u>229.9</u>	<u>252.1</u>	<u>393.6</u>	<u>685.8</u>	<u>723.7</u>
Surplus/Deficit	259.6	205.2	270.1	326.4	265.4	235.0

Source : Cited in Table - 4

Table - 8

JAPAN—ASEAN TRADE : 1970-75

US \$ Million

Commodity	1970	1971	1972	1973	1974	1975
Exports						
1. Food stuffs	54.7	61.5	57.8	117.7	111.2	69.5
2. Raw materials & mineral fuels	25.9	33.0	28.9	35.6	79.8	42.0
3. Light industrial products	407.8	450.9	461.1	628.0	772.6	749.3
4. Heavy industrial and chemical products	1,311.4	1,516.7	1,990.9	2,813.2	4,387.0	4,964.0
5. Others	8.4	12.6	22.3	26.0	58.0	94.7
Total Exports	1,808.2	2,074.7	2,560.5	3,620.5	5,408.6	5,924.5
Imports						
1. Food stuffs	140.6	223.4	274.0	385.4	733.9	1,246.7
2. Raw materials	1,134.2	1,126.1	1,071.2	2,155.5	2,709.5	1,549.3
3. Mineral Fuels	440.4	568.0	873.8	1,508.4	3,996.9	3,150.6
4. Manufactured goods	16.2	19.7	-	362.2	508.4	404.5
5. Others	133.7	147.4	217.4	15.3	11.3	14.2
Total Imports	1,865.1	2,084.6	2,436.4	4,426.8	7,960.0	6,365.3
Surplus/Deficit	-56.9	-9.9	-124.1	-806.3	-2,551.4	-440.8

Source: Cited in Table - 4.

the Indonesian war, and the successive Communist victory in the region and US withdrawal policy, the ASEAN partners have realized that co-operation with their neighbours rather than confrontation would serve their interest best. And at the same time they realized that the only Asian country which can substantially contribute to their economic growth is Japan.¹⁰ On the other hand, Japan also after the US withdrawal from South East Asian scene is understood to have been shouldering the economic burden of that region; specially of ASEAN partners. Thus it is a policy of mutual help. The event of 1972 has forced them both, to come closer in respect of trade and other economic relationship.

Otherwise also Japan has got important place in respect of trade with its ASEAN partners. It is the largest exporter of goods to Indonesia and Thailand, the second largest to the Phillipines and the third largest to Malaysia and Singapore. Japan also supplies largest volumes of imports to many of these countries.¹¹ (see Table-9).

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10. Raichaudhry, S., "Japan and the ASEAN", Amrita Bazar Patrika, 8 August 1977.
11. Sakurai, Yoshiko, "Japan Views ASEAN in Newlight", Tribune, 30 March 1976.

Table - 9

JAPAN'S FOREIGN TRADE BY REGION OF DESTINATION
(million dollars)

Country and	Year	Imports	Exports
Indonesia	1970	637	316
	1975	3,430	1,850
	1976	4,091	1,639
	1977	4,997	1,797
Philippines	1970	533	454
	1975	1,121	1,026
	1976	793	1,114
	1977	897	1,100
Singapore	1970	87	423
	1975	399	1,524
	1976	647	1,531
	1977	687	1,719
Malaysia	1970	419	166
	1975	691	566
	1976	1,362	704
	1977	1,560	863
Thailand	1970	190	449
	1975	724	959
	1976	848	1,070
	1977	748	1,360

Source: Statistical Handbook of Japan, (Tokyo, 1978), p.82.

Japanese economic interests tend to be more global because of their scale and considerations of security of investments. A number of studies have been made on Japan's future trade with various parts of the world. One projection made by an economist, Kanamori and some others by MITI have concluded that Japanese exports to South East Asia will tend to decline, whereas her imports will increase. Japan's exports to South East Asia in 1970 constituted 25.4 per cent of her export trade, but in 1975, 20 per cent and in 1985 around 18.5 per cent. There is a tendency for Japan's exports to South East Asia to decline as a percentage of her total exports, imports however will increase. At present they are something like 16 per cent but in 1985 they are expected to be around 19 per cent.

The above study reveals that in spite of all external and internal domestic constraints, Japan will remain close to ASEAN in respect of trade and aid. However, her strategy or policies might change from time to time according to the situation and circumstances. As has been pointed out by Kanamori, Japan will prefer to import more from ASEAN region.

This above shift in Japanese policy has led Japan to make more loans, aid and investment in ASEAN region which we will discuss below.

Aid

The need to gain access to foreign raw materials has led Japanese business to engage itself to make loans to foreign economies and to engage in overseas investments. These activities are patronized by the Japanese government which keeps a watchful eye on overseas investment by Japanese firms as well as on foreign investment in Japan. Technological assistance contracts also have been subject to validation through case by case government screening.¹²

By 1970s Japanese industrial committee had committed themselves to a new strategy that is foreign direct investment. The Japanese approach to international businessmen has many characteristics of a military campaign. This attitude has aptly been described by Yanaga: "In the conduct of foreign relations, economic matters virtually monopolise the government, with the result that diplomacy becomes the means to achieve economic ends. Without economic prosperity, Japanese independence and integrity would be meaningless."¹³

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12. Yoshida, F., "Inward and Outward Investment Policies of Japan", (Tokyo: Ministry of Finance), 5 October, 1971.
 13. Yanaga, C., Big Business in Japanese Politics, (New Haven: Yale University Press, 1971), p.3.

From an examination of post-war development it is clear that Japanese policies towards inward and overseas investments have been adjusted to the goals of the industrial strategy.¹⁴

There are four types of economic relationship between Japanese corporations and South East Asian nations. They are : (1) Trade, (2) Licensing, (3) Direct Investment, and (4) Indirect Investment.

Direct Investment ✓

Out of these four categories, Japan gives importance to foreign direct investment.¹⁵ The Japanese direct private investment in ASEAN totalled about \$ 4 billion at the end of the year 1976. Although, Japan is a new comer in this field, it has been catching up fast with the US and Western European countries in this field. At present, it is being disclosed by the Board of Investment reports that Japanese investments are second in the Philippines, second in Indonesia, first in Thailand, and third in Malaysia, and lastly, has got a second position in Singapore. The rate of Japanese

14. In addition, foreign investment in Japan has been restricted because Japan feels that foreign control of Japanese firms would result in the introduction of foreign management, which would not work easily within the traditional framework of close Japanese Government business working relationship in Japan, arises from the fact that both parties view each other as instruments of national policy. Yanaga, n.13, p.76.

15. Intarathai, Khorntong, "Japanese Development from the Viewpoint of the South East Asia", Japan Quarterly,

investment in this region increased quickly, i.e. by 84.6 per cent from 1974 to 1977. In the near future Japanese investments in ASEAN are making great efforts to obtain Japanese investments in their countries.¹⁶

The whole of Asia received about 21 per cent of the total Japanese overseas investments in the decade of seventies. This share rose to 23 per cent in 1975 and expected to remain so in the near future, until 1980. The rest are dispersed throughout Latin America, Africa and the Middle East. Thus Japan's trade and investments are more widely distributed than they have ever been in the past, although the share of US and South East Asia particularly seem to be more prominent, than others.¹⁷

vol.26, no.2, April-June 1979, pp.219-29.

16. Direct investment is acquisition of shares. To be exact, it is "the amount of direct investment = the number of acquired shares x the market value of shares". But, since the shares of most South East Asian corporations are not traded in the stock market, par value. When shares in an existing corporation are acquired, the value per share Japanese corporations have paid may differ from the par value. Therefore, the amount of Japanese investment discussed in the following pages may not exactly be the amount of capital used to acquire shares. But since Japanese direct investment usually takes place in connection with setting up new companies, the difference is small.
17. Romana, Elpidio, R. Sta, "Dependency and Philippines Japan's Economic Relations", The Japanese Interpreter, vol.12, no.2, Spring 1978, pp.234-47.

First, because of hardening of US attitude to imports from Japan in the early 1970s and increasing costs of land and labour at home, Japanese investors are directing their attention to South East Asia. A projection by a Japanese Bank indicates that by 1980 this region's share in Japanese foreign investments will rise more than seven times to 24.7 per cent of the total; while Europe's share will decline substantially from 24.5 per cent in 1973 to 14.7 per cent and that of North America from 22.9 per cent in 1975 to 17.7 per cent in the year 1977 and onwards.

Then secondly, Japanese reserves are close to \$ 5 billion. A pressure to get them to revalue the yen would but fail. The logical thing would be to raise investments.¹⁸ At present the reserves equal to about six months of imports, this allows Japan to fulfil its intention of doubling the aid. Furthermore, when it was announced that all "advanced countries should give 1 per cent of their GNP in foreign aid to the developing countries, Japan responded quickly to this policy. US is lowering its aid and investments in that region, thus paving the way to

18. According to current international practice, foreign investment includes loan, shares and other securities, branch establishments and other property.

Japan to raise its aid and investment in ASEAN region. This we can see from the table-10 and table-11.

Japanese investments in some of the ASEAN countries is second only to US. However, Japanese relations and investments in ASEAN are something different from what they are in any part of the world. She is making "package investments", that is, by helping the developing countries raising their exports for Japanese markets only. In South East Asia¹⁹ only four countries, Indonesia, Thailand, Taiwan and Korea claim 70 per cent of the total Japanese foreign investments in the region. Just over 60 per cent of the total Japanese foreign investments at the end of the fiscal year 1975-76 was in the form of portfolios investment,²⁰ nearly a third in the form of loans and nearly 7 per cent in investments in overseas branches.

In the near future Japanese investments in ASEAN might be at the top of the list. These investments are

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19. Sometimes Korea and Taiwan are also included under South East Asia.
 20. According to Japanese convention this refers to shares and other securities issued by subsidiaries incorporated in foreign countries. Similarly loans are made to a branch, subsidiary or a joint venture in foreign countries.

Table -10

JAPAN'S BILATERAL CO-OPERATION TOWARDS ASEAN COUNTRIES (1976)

US \$ million

Country	Official Development Assistance				T o t a l		Government loan		T o t a l	
	Grant Assistance		Technical Assis- tance		Amount	Share	Amount	Share	Amount	Share
	Amount	Share	Amount	Share						
Indonesia	1	1.3	12	11.1	13	7.0	188	33.1	200	26.6
Thailand	-	-	8	7.4	8	4.3	35	6.2	43	5.7
Philippines	20	26.0	7	6.5	27	14.6	49	8.6	76	10.1
Malaysia	-	-	4	3.7	4	2.2	30	5.3	34	4.5
Singapore	-	-	1	0.9	1	0.5	4	0.7	6	0.8
ASEAN Total	21	27.3	32	29.6	53	28.6	306	53.9	359	47.7
Asia	69	89.6	54	50.0	123	66.5	458	80.6	581	77.2
World	77	100.0	108	100.0	185	100.0	568	100.0	753	100.0

Source : Far Eastern Economic Review, 10 March, 1979.

Table - 11

JAPAN'S BILATERAL ECONOMIC COOPERATION TOWARDS ASEAN (1976)

US \$ million

Country	Direct Investment		Others Export Credit		Total		Total		1960-76 Accumulated Total	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Indonesia	785	40.0	125	15.8	909	33.0	1,110	31.7	4,092	16.9
Thailand	8	0.4	133	1.7	5	0.2	38	1.1	486	2.0
Philippines	56	2.9	121	15.3	177	6.4	253	7.2	1,544	6.4
Malaysia	45	2.5	2	0.3	47	1.7	81	2.3	634	2.6
Singapore	56	2.9	4	0.5	51	1.9	57	1.6	420	1.7
ASEAN Total	950	48.5	231	29.2	1,179	42.8	1,539	43.9	7,176	29.6
Asia	1,045	53.2	396	50.1	1,441	52.3	2,022	57.6	13,486	55.8
World	1,965	100.0	790	100.0	2,755	100.0	3,508	100.0	24,184	100.0

Source: As cited in Table - 10.

mainly concentrated in textile, steel, mining, chemical products, electrical appliances, and mechanical products, which are the basic industries of the region.

Foreign Investment By Region

Investment in Indonesia, a rich source of fuel and other raw materials, had increased to \$ 612 million as against total US investment in the country of \$ 843 million. Total Japanese investment in Thailand had already cross the \$ 100 million mark by March 1973 and more than doubled by the end of the year 1976.

In Philippines, it totalled around \$ 45 million in the beginning year of the formation of ASEAN, and had reached \$ 78 million now. But Japanese share in foreign investment in Philippines remains low at 10 per cent, while the US share is a little over two thirds. In recent years Japanese investors seem to be keen to buy up the US interest in the Philippines, one of the important examples being the acquisition by the Mitsubishi Corporation of a 20 per cent equity shares in the Ayala corporation. Japanese companies have recently²¹ shown interest in copper mining and smelting,

21. The Far Eastern Economic Review, 28 August, 1971, p.73.

afforestation programmes, ship-building and the tourist industry. The cumulative total of Japanese investment in Malaysia increased from about \$ 36 million to \$ 62 million, most of this going into mining, wood and pulp products and manufacturing. Singapore, Hong Kong, the Ryakye islands and the Republic of Korea have also attracted Japanese private capital. Investment in Singapore rose ten fold between 1969 onwards to \$ 244.8 million with investors interest, compressors, black and white colour television carbide.

Most of these investments are largely in the form of joint participation with other entrepreneurs. Secondly, such investments rely more extensively on loans and are engaged generally in single-product or simple processing methods. These investments are usually in the form of a "package", incorporating finance, technology, market outlets and even personnel from Japan.²²

It is clear that this move towards manufacturing and industrial investments merely reinforces its already active trading patterns in South East Asia.

22. For details see Alien, T.W., Direct Investment of Japanese Enterprises in Southeast Asia : A Study of Motivations, Characteristics and Attitudes, (Bangkok: Economic Cooperation Centre for Asia and Pacific Region, 1973), p.27.

Direct investment tied to trade can be classified into three types : (a) import substitution, (b) resource exploitation, and (c) export oriented.

The import substitution type of direct investment takes place when host countries impose barriers against the importation of finished goods. The resource exploitation type of investment takes place when corporations invest in agriculture, mines, forestry and fishing. This is, in essence, the investment which enhances the flow of natural resources from South East Asia to Japan. When direct investment is not allowed or is difficult as in the Philippines, indirect investment is made to play the same role. The export oriented type of investment is rather a new phenomenon as far as Japan is concerned. Its purpose is to produce industrial goods, but unlike the case of the import substitution type of investment, the products are not sold to the domestic market.

Since South East Asian countries, especially Singapore, seem to offer better economic opportunities, export oriented type of investment began to flow to this region. In conjunction with financial assistance through

foreign aid, Japan has a substantial amount of private investment in the region. Table-12, below shows the amount of private investment distributed in ASEAN:

Table - 12 ✓

JAPAN'S DIRECT PRIVATE INVESTMENT IN ASEAN: 1972-76

Country	1971	1972	1973	1974	1975
Indonesia	48.6	112.4	119.3	298.0	810
Malaysia	14.0	12.1	13.4	95.0	200
Philippines	29.0	4.5	9.7	30.0	130
Singapore	8.9	15.1	42.2	20.0	170
Thailand	12.7	8.6	29.6	20.0	160
Total ASEAN	113.2	152.7	214.2	513.0	1,470
Total Pacific Asia	167.1	236.9	401.5	NA	NA

Source: Extracted from Kershver, T.R., Japanese Foreign Trade, (Lexington, Mass: D.C. Heath & Co., 1975), p.141.

As a group ASEAN has absorbed the lion's share of Japan's private investment in Asia, taking 78.0 per cent in 1968 and 53.3 per cent in 1972. Much of these investments are found in manufacturing and in mineral extraction. Most of the investments are vested in Indonesia, where they could be found in mining (about 49%), manufacturing (largely in textiles or 30%), agriculture, fisheries and forestry (70%). Most of these investments are largely in the form of loans and development credits.²³

This pattern is contrasted to that of Thailand, where much of the investments are directly controlled ventures with the result that, that country has now more Japanese owned or associated enterprises than any other country in Asia except Taiwan.²⁴

Japan though only second to the US in terms of total value of assets invested, had a greater number of subsidiaries. Again the average size of Japanese investment is small because its investors prefer joint ventures. There are not many 100 per cent owned Japanese subsidiaries.

23. Sebestyen, Charles, n.5, pp.24-25.

24. Ibid., p.24.

The typical pattern for Thailand, Singapore, Malaysia is a joint venture on fifty fifty basis. The Japanese preferred a joint venture because they wanted to control local distribution channel and needed parties to handle domestic marketing, apart from the need for local expertise. Besides joint ventures reduce the average amount of Japanese investment.²⁵

The distribution of Japanese direct investment by industry is shown in the Table-13. The number of Japanese investments vary from country to country. As shown in Table-13, the largest number are Thailand's 98, and the smallest are the Philippines' 14. The small number for the Philippines does not mean that she is not economically attractive to Japan. On the contrary, she is one of Japan's most important source of natural resources in South East Asia. Thailand, on the other hand, offers little in terms of natural resources. The sum of Japanese direct investment and indirect investment (mostly long term loans) is larger for the Philippines than for Thailand. But there are more "Japanese" corporations

25. Calculated from Tsurumi, Yoshi, The Japanese Are Coming, (Ballinger: Cambridge, Mass, 1976), p.252.

Table - 13

DISTRIBUTION OF JAPANESE DIRECT INVESTMENTS
BY INDUSTRY

Industry	C o u n t r y				
	Thailand	Singapore	Malaysia	Indo- nesia	Phili- ppines
1	2	3	4	5	6
Agriculture, Forestry, Fishing	3	x	x	16	x
Mining	6	x	4	1	4
Manufacturing	89	37	46	42	10
(A) Food, beverages and tobacco	5	3	4	4	1
(B) Textiles					
1. Spinning & weaving	27	6	3	12	1
2. Garments	17	2	2	10	1
3. Industrial textiles	3	1	x	2	x
(C) Chemicals	16	7	16	8	1
1. Paints, ink	5	2	1	2	x
2. Fertilizer, insecticide	2	x	2	x	x
3. Drugs	1	x	2	3	x
4. Soap & cosmetics	2	2	3	1	x
5. Batteries	x	1	1	1	x
6. Plastic products	1	2	4	1	1
7. Others	5	x	3	x	x
(D) Metal Fabrics	17	7	8	7	2

Table- 13 (contd..)

1	2	3	4	5	6
(E) Household appliances	9	1	4	2	3
(F) Machinery & equipment	7	3	3	5	1
1. General machinery	x	x	1	3	x
2. Transport	7	1	2	2	x
3. Ship-building & repairing	x	2	x	x	x
(G) Others	8	10	8	4	1
1. Paper & paper products	x	1	2	x	x
2. Rubber	3	1	x	x	x
3. Glass	1	x	x	1	x
4. Cement	x	2	1	x	x
5. Construction materials (not classified elsewhere)	1	2	4	x	x
6. Printing	2	2	x	1	x
7. Others	1	2	1	2	1
Total	98	37	50	59	14

Source: Yashihara, Kuniyo, "Japanese District Investment in Southeast Asia", Occasional Paper No.18, (Institute of Southeast Asian Studies, Singapore), November, 1973, p.6.

(corporations with Japanese equity participation) for Thailand than for the Philippines. This is primarily due to the difference in the political and the economic climate. To be concrete, until recently, control over Japanese direct investment was much less in Thailand than in the Philippines.

The relatively small number for Singapore is probably because of her domestic market is small. The smaller number of 'Japanese corporations' in Indonesia than in Thailand are because the former was not politically stable until recently and her economic policies had not been conducive to foreign investors for some time.

Table-14 also shows that concentration of investments are mostly in textile, especially in Thailand and Indonesia. If we examine the industrial distribution, we find that except for a few, most investments are very small. But some investments are large. Thus, the investment in textiles, ship-building and tyres exceeds one million US dollars. The fact that the investment in textile tends to be large partly explains the fact that Indonesia has the largest average size of Japanese investment.

In Table-14, we will analyse the average size of Japanese investment by industry in ASEAN region.

Table - 14

AVERAGE SIZE OF JAPANESE INVESTMENT BY INDUSTRY
(Unit : US \$ 1,000)

Industry	C o u n t r y				
	Thailand	Singapore	Malaysia	Indo- nesia	Phili- ppines
1	2	3	4	5	6
Agriculture, Forestry, Fishing	128	x	x	835	x
Mining	51	x	811	450	895
Manufacturing	578	528	586	1,184	638
(A) Food, beverages and tobacco	715	556	505	543	513
(B) Textiles	1,147	984	840	2,890	1,500
1. Spinning & weaving	1,623	2,606	780	3,138	1,500
2. Garments	265	182	119	x	x
3. Industrial Textiles	510	149	x	1,650	x
(C) Chemicals	144	98	244	363	137
1. Paints, ink	154	146	35	170	x
2. Fertilizer, insecticide	118	x	977	x	x
3. Drugs	x	x	509	613	x
4. Soap & cosmetics	120	33	81	200	x
5. Batteries	x	44	25	340	x
6. Plastic products	115	142	68	185	x
7. Others	188	x	120	x	137
(D) Metal Fabri- cation	389	216	515	538	1,844

Table-14 (contd.)

1	2	3	4	5	6
(E) Household appliances	172	142	224	363	154
(F) Machinery & equipment	524	1,533	400	441	22
1. General Machinery	x	x	80	413	22
2. Transport	524	95	360	483	x
3. Ship-building & repairing	x	2,252	x	x	x
(G) Others	351	500	1,691	525	62
1. Paper & paper product	x	85	33	x	x
2. Rubber	604	1,773	x	x	x
3. Glass	428	x	x	999	x
4. Cement	x	632	12,416	x	x
5. Construction materials (not classified elsewhere)	302	508	241	x	x
6. Printing	34	394	x	561	x
7. Others	198	38	84	270	62
All Industry	532	528	604	1,057	712

Source : As cited in Table-13, p.7.

✓
When we analyse the equity shares we can clearly see that it is higher in Indonesia than in the other four ASEAN countries. This is because the Indonesian Government is more willing to approve of projects with higher Japanese equity shares since there is a shortage of local capital. The average Japanese shares for Thailand were higher for earlier years, but some corporations have reduced Japanese shares under the administrative guidance of the Thai Government. When more funds and entrepreneurship become available in the future, the Indonesian Government will probably ask Japanese corporations to reduce their shares.

Table-15 shows the distribution of investment sizes. In Table-12 it seems that the number of corporations with Japanese capital is impressive, but as Table-15 shows, the average amount of Japanese investment is small. In the case of Thailand, more than 50 per cent of Japanese joint ventures contained an amount of investment less than 220,000 US dollars. In Malaysia, Japanese investment is smaller. About a half of Japanese investments in the country are less than 122,000 US dollars.

There are six Japanese investments which exceed five million US dollars; the five are in textiles and one

is in the cement industry.

Another trend of Japanese investment in ASEAN is in the form of trade. If investment was involved, it was indirect investment (loans) which was given for exports or in the case of imports, for the future delivery of goods. But the imposition of the import substitution policy of ASEAN, in particular, and it necessary for Japanese corporations to make direct investments.

There are now estimated five hundred Japanese companies which are operating in South Asia and are accounting for the 40 per cent of the total foreign investments in that region.²⁶

The industrial structure committee has said that by 1980, 57 per cent of total investments will go to develop natural resources and that 35 per cent will go to South East Asia. In 1976, Japan's share in the trade of this region was about 26 per cent, of the outstanding balance of private investment in ASEAN.²⁷

26. Japans Times Weekly, (Tokyo), vol.16, no.28, 1 July, 1976.

27. Vishwanathan, S., "Creating a New Order in Asia", Amrita Bazar Patrika, 26 August 1977.

Table - 15

THE DISTRIBUTION OF JAPANESE INVESTMENT BY SIZE

Japanese Invest- ment	Thai- land	Singa- pore	Malay- sia	Indo- nesia	Phili- ppines
Less than 100 thousand US \$	28	12	23	4	4
100- 199	22	6	6	5	1
200- 299	7	6	5	4	1
300- 399	9	2	5	4	x
400- 499	5	4	2	4	x
500- 599	6	x	1	4	2
600- 699	3	x	x	8	x
700- 799	1	1	1	2	1
800- 899	1	1	1	6	x
900- 999	2	x	1	3	1
1,000-1,999	10	3	3	7	3
2,000-2,999	2	1	x	3	1
3,000-3,999	x	x	1	2	x
4,000-4,999	x	1	x	x	x
Over 5,000	2	x	1	3	x
Total:	98	37	50	59	14
Median (thousand US \$)	214	328	122	601	510

Source: As cited in Table-13, p.9.

Loans and Grants

In the year 1961, Japan by joining the Development Assistance Committee became one of the donor nations. In the same year the Japanese Government established the overseas corporation agency with South East Asia as its main focus. Under this scheme Japan integrated a programme of extending its technical aid to the countries of the region by inviting their technicians for training in Japan and sending its own technical experts to them.

In the year 1966 Japan took another step by convening a ministerial conference of South East Asia. Since that year, the conference has become a regular annual feature, attended by Thailand, Singapore, Taiwan and South Korea. In sixtysix only, she took interest in the establishment of the Asian Development Bank (ADB), and committed a sum of \$ 200 million to the Bank.

✓ Among other Japanese efforts in multilateral level is help to Indonesia. Since the establishment of the Suharto regime, Japan has been responsible for ensuing international co-operation to providing aid to it.²⁸

28. Kesavan, K.V., Japanese-Indonesia Relations During Sixties, (Tokyo: Institute of Developmental Economies, 1970), p.72.

Japan's financial aid has improved year by year and it is approaching the goal laid down by the Development Assistance Committee. The main items covered are export credits, official and private, official development assistance and direct investment, official financing and private financing.

Among these exports credits are clearly powerful means of promoting exports, especially capital goods exports, from Japan and a part of official development assistance is also closely related to exports, when it is extended in the form of tied aid.

In individual relationship with ASEAN, Japan's contribution to Indonesia in terms of aid and investment is second only to US. Japan trained 1,644 Indonesians from 1951 in fields ranging from agriculture to atomic development.²⁹ Japan also recently agreed to an unguaranteed loan of US \$ 565 million to help Indonesia's oil exploration programme.³⁰

29. Png Pohseng, "Japan's Relations with Southeast Asia", Asia Research Bulletin (Singapore), vol.7, 1971-72, pp. 704-5.

30. The Strait Times, 15 May 1972.

Japan has been Thailand's most important economic partner. The Japanese export of machinery and consumer products such as automobiles has been on the increase for a number of years. James Sterba writes in the New York Times as follows:

In Bangkok, a Thai businessman wakes up by a Japanese alarm clock, looks out of a window made of Japanese glass, puts on a trouser's made of fibres supplied by Japan, puts on a Japanese watch, drives to work in a Japanese car, and watches on a Japanese television set, a Japanese melodrama dubbed in Thailand.³¹

In Malaysia, Singapore and Philippines also Japanese contribution is enormous, second only to USⁱⁿ. The capital transfer from Japan in aid to ASEAN countries can be seen in Table-16 below:

Table - 16

OFFICIAL BILATERAL AID FROM JAPAN TO ASEAN

Country	1960	1963	1966	1970	1975
✓ Indonesia	14.28	17.93	50.58	125.8	111.9
Malaysia	0.04	0.18	0.38	-	12.3
Philippines	27.85	10.75	30.50	19.3	29.6
Thailand	0.32	3.23	3.66	-	15.5

Table - 16 (contd.)

Country	1960	1963	1966	1970	1975
Singapore	0.01	0.09	0.14	-	6.8
Japan's total to ASEAN	42.50	32.18	85.26	145.1	176.1
Japan's total to world	77.66	128.12	234.78	371.5	432.0

Source : As cited in Table - 16, p.141.

Over the years Japan's official bilateral aid to the five ASEAN countries has tended to increase. Japan, in fact, is a member of IGGI, which has been assisting the economy of Indonesia since the change of regime in that country under Suharto in 1967. Malaysia and Singapore are marginal recipients in relation to their size and population.

But while Indonesia has received the largest amount of aid, the relative contribution by Japan to Thailand is larger. For instance, Japanese aid to Thailand in 1971, constituted 32.5 per cent of all aid received by the latter

in that year. For Indonesia, the Japanese component was only 25.0 per cent.³²

Table 16 shows two overall trends of Japanese aid, i.e. (1) the magnitude and impact of Japanese aid has increased from nearly 5 times over the period from US \$ 77.7 million in 1960s to US \$ 432.0 million in 1975 what is more striking is that clearly the majority of Japanese aid was directed to Southeast Asian countries, especially ASEAN.

According to a report published recently by the Development Assistance Committee (DAC), a club of seventeen non-Communist donor nations, Japan became the third largest giver of official Development Assistance (ODA).³³ From 1971 to 1975, Japanese grants and loans to developing countries totalled \$ 3.4 billion, of which \$ 1.5 billion or 43 per cent had gone to ASEAN.

32. Chee Meow Seah and Linda Seah, "Japan ASEAN Relations, New Perspectives on an old Theme", Pacific Community, vol.9, no.1, October 1977, pp. 109-10.

33. ODA means Assistance of a concessional nature, that is given by the governments and their agencies of DAC member countries in order to help developing countries improve their living standards. It includes bilateral grants and loans to needy nations and contributions to international organs such as World Bank.

In the year 1977, Japanese development assistance was expected to reach US \$ 1 billion, of which 46 per cent was earmarked for South East Asia and especially for ASEAN alone.

General grant assistance has increased 2.2 fold from 18.0 billion yen in fiscal year 1977 to 39.0 billion yen. As for aid for promotion of food production, by which Japan offers agriculture materials and equipment, such as fertilizers and farm implements, has also jumped 2.2 fold from 6.0 billion yen in fiscal year 1977 to 13.0 billion yen.

Of Japan's total budget for technical cooperation more than 60 per cent is dispersed by the Japanese International Cooperation Agency (JICA). Expenses for technical cooperation, which form the mainstay of JICA's budget, have also been increased by 17.6 per cent from 25.3 billion yen in fiscal year 1977 to 29.7 billion yen. The increase, though falling short of the 19.7 per cent increase for fiscal year 1977, indicates that Japan's technical cooperation still continues to show substantial growth.³⁴

34. "Development Assistance", Asian Recorder, vol.24, no.35, 27 August—2 September, 1978, pp.14477-78.

All these schemes helped ASEAN to improve its own economy vis-a-vis Japan's also. Though Japan is spreading well over throughout the world to gain access to raw materials and fuels, using aid and trade as a vehicle of its economic diplomacy, ASEAN has got an important place in Japan's foreign international economic policy. The impressive aid given by Japanese Government can be seen from 1972 budget, when Japan spends more than 90 per cent of the governmental help of \$ 610 million given to ASEAN countries.³⁵

On bilateral grants level, Japan's reparation payments have formed an important basis. Japan successfully fulfilled its obligations to various nations and only payments to the Philippines fulfilled in 1976. In addition to this Japan has extended substantial economic assistance loans to the countries of the region. From the above analysis it is clear that Japan and ASEAN are one of the important trade partners. ASEAN on its part gets the maximum capital from Japan to help and speed up its own economy.

On the other side, ASEAN is also an important trade partner for Japan, which fact is quite visible. Japan

35. Shinroluvozaki, "Lessons from the Riot", Japan Times Weekly, vol.14, no.6, 9 February, 1975.

simply cannot avoid the importance of its one of the biggest trading partner in the Pacific region. In spite of all the trade deficits, both the partners suffered during the decade 1967 to 1977, both are still keen on maintaining their trade relations. Though some of the ASEAN members, like Malaysia and Indonesia are bitter critics of Japanese economic expansion, they have realized that Japan can help them out from their economic crisis. Being developing countries, they need loans and grants for their national development and financial stability. Japanese Government is giving them the maximum loans and grants, which they do not get from any other country except the US.

However, the Nixon shokkus has forced Japan to re-evaluate its economic strategy, not only in trade but also in foreign investment. Introduction of new products, modernisation of equipments, development of export market and so on are undertaken at the initiative of the entrepreneurs. The main role of the MITI is that of conceptualizing policy goals and persuading a guiding industry towards such goals. Further this conceptualization is done while seeking the consensus of industry, consumers and men of experience and

learning. This relationship rests on trust and enterprises and cooperation between the government and enterprises and this trust and cooperation is what has made Japanese industrial policy successful.³⁶

36. Hayansi, S., "Japan's Trade and Industrial Policy", MITI, (Tokyo), 5 October, 1971, p.14.

Chapter - III

JAPAN'S ROLE IN THE ASEAN REGION AND ITS EFFECT
ON RELATIONS WITH USA, USSR AND CHINA

Japan was forced to conclude a Peace Treaty with United States of America after the end of World War II. Since then, Japan has been compelled by the security alliance to work within a pro-US and anti-Communist framework. On the otherhand, by loosing the war at the hands of the Allied Powers, Japan also had to leave her South East Asian colonies. It was, thus, difficult to reestablish the broken link, especially when the latter had experienced a colonial life under Japan. Japan lost both her prestige and economy because of her colonial past which it failed to retain.

That is why during 1950's many Japanese scholars and politicians used the word 'Orphan of Asia'¹ to describe the position of their country. In economic sense, the term orphan was used to mean that Japan had been thoroughly stripped of all its pro-War economic strength and that it had become a prostrate nation.² It was also

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1. Kesavan, K.V., "Japans South East Asia Policy", Institute for Defense Studies and Analysis Journal, vol.5, no.2, October 1972, pp.301-20.
 2. Masamichi, Royama, "Ajia no Nashinariseemu to Niha", Chuokoron (Tokyo), January 1952, pp. 248-56.

argued that by entering into a peace treaty with US, Japan had deliberately turned away from its neighbourhood of South East Asia.

However, the idea that US had in mind was that [because of Japanese economy and the way it manipulated its war-ravaged country to an advanced industrial nation], Japan could play a positive economic role in South East Asian nation and could be a bloc to the Communist powers to enter there. For United States, USSR was number one Communist power rather than China.

Since then Japan is a close ally to US. But the 1972 Sino-US rapprochement followed by USSR and US detente forced Japan to rethink about its security alliance with US. Then the two Nixon shokkus forced ^{Japan} (to have independent foreign policy. Basically Japanese foreign policy, what one can safely assume, is economic foreign policy. Because of its strategic position, and lack of raw materials, it has to depend on outside source, for the supply of vital raw-materials, without which its entire economy will collapse within no time.

Since the initial Nixon shocks of 1971-72, a number of diplomatic moves have been initiated, including the extension of official recognition to outer Mongolia and to Hanoi, and to the new states of Bangladesh, the despatch of an official mission to Hanoi and an agreement with the Soviet Union concerning the development of oil fields in Siberia.³

In spite of all the differences, however, there are certain fields where Japan and US are bound to help each other and to co-operate with each other as far as their interests do not clash. In fact, sometimes Japan is more dependent on United States than the latter on the former.

The Asian Context of American-Japanese Relations

The Japan of 1972 was not the Japan of 1902, 1922 or 1932. Similarly both the United States and East Asia have undergone massive changes in recent decades. There has been great change in the structure of Pacific-Asian international politics. The continent of Asia is no longer

3. Hosoya, Chirio, "The Foreign Policy Decision Making in Japan", World Politics, vol.26, 1973-74, pp.353-69.

the vacuum of power, it was during the period immediately after World War II. The two most formidable military Powers -- USSR and China -- are there to compete with each other with the third Power, America.

The scene in South East Asia has also changed. Vietnam, after the independence has emerged as one of the strongest Communist threat to its ASEAN neighbours. The continuing disturbance in Cambodia and Laos etc. are also not letting ASEAN neighbours to sleep peacefully.

The withdrawal of United States "with honour" from Vietnam war gave a setback to American foreign policy in Asian soil. On the one hand Soviet Union and China's forceful penetration in South East Asia and other Asian region, changed the existing balance of power in the region. And on the other hand "Dullesian Peace Policy" in Asian region became outdated and invalid.

In this changing circumstance what role Japan should play then, was a major question during the early 70s. Though the critics asserted that Japan had no foreign policy, but only a programme of economic expansion.

It is worthwhile to remember that Japan came under the umbrella of United States immediately after World War II, but the relationship though unequal no doubt, was very beneficial for Japan. Japan achieved a "minimal-risk, maximal-gain foreign policy". That is, an intense preoccupation with economic growth, developed with a vision of the world cast almost wholly in economic terms, markets, sources of raw materials, opportunities for investment. Secondly, Japan got the American nuclear umbrella on her head, to protect herself from the threat of its nearest Communist powers like USSR, Korea etc. Japan not only depended extensively upon the United States to provide it with security, spending less than one per cent of its GNP on defence, but it also undertook very few ventures in political initiative. The changes that occurred in early 70's compelled Japan to shift its traditional pro-US theory. United States on its part, though doesn't welcome the change, never forced Japan to come back.

The Economic Factor in American-Japanese Relations

In the course of presenting its recommendations concerning Japanese trade and industry policies for the

1970s, the Council on Industrial structure of Japan captured the essence of Japanese economic achievement since 1945 in the following passage:

"We have energetically climbed a narrow and steep slope with our eyes intently set on the distant clouds over the mountain. Given such an effort, Japan's economy now stands on the summit of the mountain and views the world below."⁴

Within the industrial structures of these two advanced states, the major difference remains in chemical and machinery, especially electrical machinery.

This massive impressive economic gain which Japan has acquired today is through the help of United States which purchased from the Japanese market, and allowed the nation deliberately to enter in the international economic market. Yet, it is true that no amount of American assistance would have sufficed had the recipient not been prepared for its effective use.

In Japan the ratio of investment of GNP has been approximately 38-39 per cent in recent years which is

4. Council on Industrial Structure of Japan, "Trade and Industry Policies in the 1970's", Tokyo, May 1971, p.1.

double the rate in the United States. This is also through the mutual adjustment of both the countries. Now Japan's 45 per cent of total official development assistance is going to ASEAN countries alone, putting them ahead of all the other LDC (less Developed Countries) behind. This has been a policy of America, which deliberately allowed Japan to enter into that region, to have a strong foothold, especially after the Vietnam war.

These are some of the factors which constitute the central reasons for the strong competitive position that Japan has established and held in the international market in recent years.⁵

However, the friction in economic field started with the dumping of Japanese goods in American market. US exports to Japan in the main were non-competitive, largely being food-stuff and raw materials, while Japanese exports to US were highly competitive, centring on textiles, iron and steel, electronic equipment, automobiles etc. Since 1965, the balance of trade was in Japan's favour.

5. For recent American evaluations of the sources of post-1945 Japanese economic growth the current trends within the Japanese economy, see US Foreign Economic Policy of the Committee on Foreign Affairs, House of Representatives, 92nd Congress, First Session, 2, 3, 4, and 8 November 1971, US Government Printing Office, Washington D.C., 1972.

After the tense period of 1969-73, US-Japan relations have again improved. In 1974-75, the nuclear issue in La Rocque testimony⁶ apparently subsided after US President Ford's visit to Japan. Japan has rapidly liberalized trade and capital restrictions which were, for long, a target of American criticism, and the US-Japan trade imbalance (against the US), which reached \$ 4.1 billion in 1972, reduced to \$ 1.3 billion in 1973 and was further reduced in recent years.

The Political Dimensions of US Japanese Relations

If economic ties have constituted the foundations of the American-Japanese alliance, the political and military structure built upon that foundation is also of major importance both to the US and Japan, and it has a direct reflection to the ASEAN members.

After the security treaty signed with US, Japan could get a "prestigious position" if someone may call liberally, in international political system. With the US help Japan could enter into the international

6. Pempel, T.J., "Japan's Nuclear Allergy", Current History, January-June, 1975, p.169.

market, and slowly with US help only it has become the third largest economic giant of the world.

In late 70s Japan got a strong foothold in ASEAN market. It is true that US helped Japan to enter into the ASEAN scene. This was what Dulles had in his mind that Japan by virtue of its advanced economic and industrial base could play an important economic role in South East Asia analogous to a role they assigned to West Germany in Europe.⁷ The weight of evidence since the Communist takeover of all the three countries of Indochina in 1975, is that US no longer considers it necessary to play a strategic role in mainland South East Asia. Now, that Vietnam is 'lost' and China after the detente is no longer perceived as the arch instigator of Communist aggression, there is no strategic purpose to be served by maintaining US troops in Mainland South East Asia. Washington prefers to reduce direct military commitments to a minimum, so as to keep its options open in the event of an emergency.⁸

7. Kesavan, n.1, pp. 311-12.

8. Presidential Review Memorandum, quoted by Rowland Evans and Robert Novak, International Herald Tribune, 9 September, 1977.

Furthermore, US is preoccupied with other important issues and areas of the globe — such as Middle East, black nationalism in Southern Africa, the shifting alliances in Horn of Africa, the strategic Arms Limitation Talks, detente and containment policy. As far as ASEAN is concerned US had made it clear that American presence in South East Asia is to be an economic, rather than a military or overtly political one.

Thus, it is US's deliberate policy to allow Japan to enter in ASEAN region, and to trade with them. However, Japan though a major economic power in the region, has kept a low profile for the past so many years as far as political involvement is concerned.

Though after the two Nixon's shokkus, Japanese foreign policy has taken an 'independent' course, especially with South East Asian countries, the level of Japan-US relations remaining all the more same. The 'independent' action of Japan in South East Asia is recognition of Vietnam and the massive aid given by the former to the latter. South East Asia however will remain important for US, inspite of the low level of political activity.

In order to achieve a political equilibrium as in Europe,⁹ the US sought to align the non-Communist countries of South East Asia. This concerns her strategic political interests so wide that it becomes difficult for it, as Buchan has observed "to be quite sure where its vital interests really lie".¹⁰ Thus, until the early 1970s South East Asia remained an area of vital importance for the US,¹¹ and a "part of the American defence perimeter".¹² The command of the South China Sea and the Malacca Straits remained the basic American objective in the South East Asian waters. The US bases in the Philippines were useless unless an effective control over the South China Sea was maintained. Both the Straits of Malacca and the South China Sea were vital for the Western Powers during their involvement in Vietnam. With the withdrawal from Indochina "with honour"¹³ the Nixon Doctrine declared that the US would support only those governments which showed capacity

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9. Kennedy, D.E., The Security of Southern Asia (London, 1965), p.17
 10. Alaister Buchan's interview in US News Agency and World Report, vol.78, no.26, 30 June 1975, p.26.
 11. As against the opinion expressed by the then US Secretary of Defense, James Schelsinger, in an interview that South East Asia has a "very slight weight". The Straits Times, 24 March 1975.
 12. Kennedy, n.9, p.30.
 13. As was observed by Nixon before the US Congress. UN News and World Report, vol.74, no.20, 14 May, 1973, pp. 102-4.

to survive and which could hold their own line against any kind of threat. During 1970-72, the US had given 5.3 billion dollars in military and financial aid to Saigon which it thought made South Vietnam "fully capable" of defending itself from the "Communists".¹⁴

With this, US started pulling out her forces from South Vietnam and other ASEAN region. This shift in US priorities and interests was a by-product of its rapprochement with China. After the Sino-Soviet border clash of 1969, one of the top interests of the US in South East Asia became the rehabilitation of both China and the Soviet Union in the region in order to provide a South East Asian dimension to the Sino-Soviet rivalry. Together with it, the US sought to attain a situation of multilateral power presence and involvement in the region, in which a three-cornered balance was to be achieved.

The Communist victory in Indochina, however, neither adversely affected US interests nor required its over involvement or a total withdrawal from the region. The

14. As was observed by Defence Secretary Laird, Melvin, before the House Armed Service Committee on 8 January 1973, Ibid., vol.74, no.5, 29 January, 1973, p.14.

supply of important raw materials came from Island South East Asia and "the US will have access to those supplies no matter who rules Indochina".¹⁵ Since the Indo-China War the security of Japan, Island South East Asia and Australia "as a matter of prime importance" for the US and it had declared that a 'constructive' relationship with China would thenceforth form the basis of US foreign policy".¹⁶

The end of Indo-China war further strengthened Washington's will to strive for a favourable power balance in South East Asia.¹⁷ A three cornered balance which was more favourable to the US as China was tilted to its side on the global level.¹⁸ Since then, US is trying to strengthen ASEAN's military potential and political solidarity with the help of its allies and particularly the United Kingdom, Australia and Japan.¹⁹ Partly as a result of

15. US News and World Report, vol.78, no.15, 14 May, 1975, p.29.

16. Ibid., vol.78, no.16, 21 April, 1975, pp.82-83.

17. Dr. Kissinger had observed: "We have learned at painful cost that equilibrium in Asia is essential to our own peace and safety". Ibid., vol.79, no.25, 22 December, 1975, p.27.

18. See Schelsinger's interview, Ibid., p.22.

19. Pollard, Vincent, "Southeast Asia : Meeting Whose Needs?", Far Eastern Economic Review, vol.73, no.38, 18 September 1971, p.25.

US efforts and partly to serve their own interests the Japanese have developed similar interests in ASEAN. The US would be required to maintain its dominant position and influence in Island South East Asia in order to safeguard the security and economic interest of itself and its allies.

The Security Dimension in US Japanese Relations

Japan, though a great economic power is spending 1 per cent of its total GNP for the defence purpose.²⁰ Let us go to the central issue. Does a threat really exist to Japan's security, and if so, from where does that threat come? In January 1969, in an Asahi survey, these questions were posed.²¹ Of those answering, 32 per cent stated that they felt a threat from another country existed, while 52 per cent responded negatively. Of those answering affirmatively, 15 per cent cited China, 5 per cent the Soviet Union, and 6 per cent the US.²² In 1976

20. Scalapino, Robert, American Japanese Relations in a Changing Era, (New York, 1972), p.117.

21. This poll is cited by Wantanabe Akio, "Reversion of Okinawa : The Changing US Japan Alliance", Chuo Koron, August 1971.

22. It should be noted that as of 1969, the majority of Japanese saw the basic interests of Japan as in agreement with those of the US. A modified national probability sample of 1,086 adult conducted for the USIA by Central Research Service, Inc., between 1-6 September 1969.

and 1977 study, the Tsunoda report stressed that the major threat to Japan's security comes from the Soviet Union. These are the external threats, which Japan perceives. Today, however, Japan's main security perception lies with the safety of its Sea tanker route, the life line of Japanese economic miracle. Over 90 per cent of her required mineral fuels are being transported daily through these tanker routes. For example, in the year 1975, 78 per cent of its oil imports came from the Middle East and 3 per cent from Africa, that is 81 per cent being transported from points beyond the Strait of Malacca.

Though US is there to help Japan protect its oil route, (a provision of their security treaty), nevertheless situation remains tricky, for Tokyo. Because Japan cannot afford alternative sources of supply in a war emergency, at least not in time. This dilemma forced Japan to depend heavily on US nuclear energy. It is clear by now that Japan has neither will nor wish to become a military power once again. World War II has given it enough a lesson. The psychological fear, that Japan may become a military power again, if comes true, will be definitely disastrous for Japanese economy. In that case the ASEAN states may

try to stop her peaceful economic penetration in the region.

Thus, Japan would definitely prefer US presence in the region. ASEAN states on their part have every reason to welcome US military presence on their soil. So that there would be a proper military balance against Communist Vietnam, so far the greatest military power in South East Asia.

We have discussed all the three aspects of US-Japan relations and its impact on ASEAN. The recent friction between US and Japan in early 1970s though has changed, will not have a greater impact, to be more precise, the future affect will certainly be everlasting. The world of seventies is markedly different from the world of 60s. Despite the detente, US would not like Japan to move closer to either China or to the Soviet Union. It should also be noted that bilateral trade and investment problems between the two countries will not disappear. The Japanese dependence on US will not dramatically change despite Japan's efforts to diversify her sources of food and raw

materials as well as the markets for Japanese industrial products.²³

For the US, Japan will remain its largest overseas trading partner. And with the recent full-scale Japanese liberalization of capital investments, there will be an increased opportunity for American companies to invest in Japan.²⁴ While dealing with South East Asia they will need each other's help and cooperation, though it would not be automatic. Specially for ASEAN region, Japan will be dependent on US and vice versa.

Japan and Soviet Union

The Soviet Union is simultaneously Japan's closest and the most distant neighbour.²⁵ It is closer in the sense of physical proximity. It is distant politically and psychologically to Japan for some reasons discussed below.

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23. According to one estimate, 32.4 per cent of Japanese exports and 31.4 per cent of imports will be with North America in 1980s, as opposed to 34.1 per cent and 34.5 per cent respectively in 1970. Scalapino, Robert, n.20, p.88.
24. Sato, Hideo, "US Japan Relations : A Japanese View", Current History, vol. 68, no.4, January-June 1975, p.181.
25. Stephen, John, J., "Japan and the Soviet Union : The Distant Neighbours", Asian Affairs, vol.3, no.2, October 1977, p.278.

Security Considerations

Japan perceives her main security threat from the Soviet Union.²⁶ Continuous Soviet occupation of Japanese islands of Habomais, Shikotan, Etorofee and Kunashiri in the Kuriles in the main bone of contention. The resultant bitterness has often been compounded by Soviet harassment of Japanese fishermen and the vulnerability of Japan's extensive trans-oceanic trade from Soviet naval presence to the Indo-Pacific region. These coupled with the projected withdrawal of US ground forces from South Korea has generated rethinking on Japanese rearmament. Japan, by herself, however, cannot face a military confrontation with USSR, thus it will work under the framework of US nuclear protection. It will continue to deal diplomatically in a deft manner. On the other hand, the Sino-Soviet rift has weakened the Soviet Union's position in the sense that Japan will not have to feel insecure, at least for the time being from Soviet Union.

Economic Aspect

The economic relationship of both the countries started in the year 1956, followed by a gradual development

26. Fukuda Takeo, "Japanese Foreign Policy from Now — We Do Not Choose The Road of a Militarist Big Power", Ajicho Geppo, Asian Survey Monthly, March 1972, pp.2-13; Chira Masayashi, "The Various Problems which Surround

of mutual trade and creation of possibilities for economic cooperation in exploiting the natural resources of Siberia and Sakhalin. Both the sides seem to have acknowledged that a total break down in Soviet-Japanese relations is not desirable, given the prospects for mutually advantageous economic cooperation and the need to regulate fisheries conflicts.²⁷

Moscow is also aware that a total deterioration in Soviet-Japanese relations would work to its disadvantage by increasing the incentives for closer Sino-Japanese ties.²⁸

After 1973 oil crisis, Japan has moved to what one may assume safely to a "omnidimensional diplomacy". As Japan is one of the trading country, and its economy is based on imports of oil and raw materials from abroad, the vast oil and raw materials present in Soviet Union is enough to attract raw material hungry Japan.²⁹ The coal

Japan", Ibid., February 1972, pp.30-41; and Miki Takeo, "The Political Topics of this Year", Jivu, April 1972, pp.123-27.

27. Peggy L. Falkenheim, "Some Determining Factors in Soviet Japanese Relations", Pacific Affairs, vol.50, no.4, Winter 1977-78, pp. 604-24.

28. Ibid., p.607.

29. Robert, Scalapino, n.20, p.80.

in Yakutsk and valuable timber in the eastern region are attraction, for an energy hungry Japan, the prospects of developing these resources, with pipelines up to the sea of Okhotsk were alluring possibilities.³⁰

Soviet Union, on the other hand though a Super Power, has very limited capital at its disposal to explore the unlimited and unexplored, vast raw-materials she possesses. In the other hand it needed Japanese capital and technology and had sensed a possibility of utilising the Siberian bait for gradually weaning Japan from the US alliance.

Negotiations were accordingly started in the late sixties, but the progress was very tardy because of Soviet insistence on long-term low interest loans, and Japan's guarded attitude for security relations. At long last, by the end of 1975, Japan and the Soviet Union could arrive at 1 billion project agreement over Yakutsk coal, Sakhalin gas and Eastern Siberian timber. For the time being, but there is too little possibility of agreement for further ventures, since Japan's interests have been diverted to

30. "Japan's Role in South East Asia and the Pattern of Its Relations with China, USSR, USA and India", ndc Journal, vol.1, no.1, November 1979, pp.87-100.

prospects in China and Alaska — countries with whom she has better relations and understanding.³¹ However, Soviet Union is waiting for a right opportunity to explore other sources so that it can be close to Japan and her economy.

USSR-Japan vis-a-vis ASEAN

Soviet Union's general policy in South East Asia has remained that of "peaceful co-existence" which allowed competition with the Western powers in political and economic influence. In Southeast Asia, Soviet Union's policies were also determined by its global objectives and by the degree with which the Western powers put up their stakes in that region or created problems for her in that area.³² In the military field it has often strived to create a local balance as against a West sponsored balance.³³

The Sino-Soviet rivalry entered South East Asia to an actual rivalry point only after the end of Vietnam

31. Ibid., pp. 93-94.

32. Soedjatmoko, "The Role of the Major Powers in the East Asian Pacific Region", Survival, vol.14, no.1, January-February, 1972, p.29.

33. Jukes, Geoffrey, "The Soviet Union and Southeast Asia", Australian Outlook, vol.31, no.1, April, 1977, p.175.

war.³⁴ Soviet Union's interest prior to the end of Vietnam war remained those of increasing its leverage vis-a-vis China among South East Asian non-Communist governments. Specially Soviet target is ASEAN, and to show a low-level of interest and involvement in Indo-China in order to facilitate China's support for Vietnam, which could have been affected or had at least made China cautious if she would have considered Soviet stakes and interests too high in Indo-China.

For geographical reasons, compared to the US, the Soviet Union was a more suitable power to contain China and check her activities against the non-Communist governments of South East Asia. Under such conditions Soviet Union's collective security plan, put forward by L.I. Brezhnev in his speech on 7 June 1969³⁵, could have got favourable response from the ASEAN countries. But situation during the early 70s was not favourable for such a plan as it could have been during the late 60s.

34. During the American blockade of Vietnam in 1972 Soviet supplies to Vietnam were allowed through China. Southeast Asia Research Bulletin, vol.2, no.1, June 1972, p. 9330.

35. International Affairs (Moscow), July 1969, pp. 3-21.

Nixon's Chinese visit in 1972 changed the Soviet perception of South East Asia. It started attacking China's intentions in South East Asia.³⁶ It was also after Nixon's Peking visit that Moscow adopted a conciliatory approach towards the ASEAN and some of its plan such as "neutralisation".³⁷ After the 1975 Communist victory in Indo-China region, although the ASEAN countries have established diplomatic relations with China they were in no position to by pass or completely ignore Moscow for the simple reason that it had emerged as a dominant foreign power both in Vietnam and Laos and was already the number two naval power in South East Asian waters.³⁸

Another aspect of Soviet Union's interest in ASEAN region was her concern to protect its communication lanes through South East Asian waters. The attempts of the littoral states of the Straits of Malacca to nationalize it have required the Soviet Union to declare its right of

36. Asia Research Bulletin, vol.1, no.11, April 1972, pp. 788A-B and 787-A-B.

37. Lugovsky, Yu, "Asian People's Struggle for Freedom, Progress and Security", International Affairs, November 1973, pp.29-35.

38. Jukes, Geoffrey, n.33, p.178.

passage for commercial as well as naval vessels through that straits.³⁹ Although both the US and Japan have similar interests in the Straits, Soviet stakes can be considered higher. As governments of the littoral states are more friendly to Western bloc, they may prefer to discriminate against the Soviet Union in times of crisis.⁴⁰ Although the Soviet navy is not expanding too fast,⁴¹ the Western Pacific and the South China Sea are highly important waters for the Soviet Union. From these waters it can maintain any political leverage vis-a-vis the US, Japan and China.

However, after the Vietnam war ASEAN has become an area of low priority for the Soviet Union.⁴² It continued its balanced approach towards ASEAN, demanding for a low Western involvement through it in the region and criticizing the pro-Western policies of that organization.⁴³ When

39. Yaroslavtsev, V., "The World Oceans and International Law : Results of the Caracas Session of the Third UN Conference on the Law of Sea", Ibid., February 1975, pp. 61-71.

40. See Tun Hazak's interview in Asia Research Bulletin, vol.2, no.2, July, 1972, p.989.

41. Jukes, n.33, pp.181-82.

42. Ibid., p.184.

43. See Sergeev, A., "Political Realities and Security in Asia", International Affairs, June 1976, pp.44-50.

China declared her open support for the ASEAN, Soviet Union was bound to side openly with the Vietnamese.

As of now, Soviet interests in South East Asia are those of a global power who would like to retain its diplomatic and strategical parity with another Super Power and would try to avoid any such situation which may drag its feet into an armed conflict. She wants to maintain an equilibrium with Japan, in ASEAN region, as far as its interests do not come in direct confrontation with Japan. Because of its low level of political activity in ASEAN region, Japan is in no way blocking Soviet Union. Though the latter will continue its ideological fight, the main target will remain either China, or US, not Japan.

China-Japan and ASEAN Triangle

To the Chinese, the Japanese 'economic miracles' is not only a threat, it is also an insult to their nation. Today, they trade more with Japan than with any one else, but they do not praise Japan for her economic success, nor do they put Sino-Japanese economic co-operation on a stable long-term footing. According to the Chinese, "trade no longer follows the flag". "She needs to carry out an

economic expansion abroad", Chou En-lai explained in 1972 summer, to the fifteen member Comrade of Concerned Asian Scholars (CCAS) delegation in Peaking. "Otherwise she cannot maintain her economy", and so being a capitalist system, following this economic expansion" there is bound to come with it military expansion, Is n't that so?"⁴⁴

Peking Review on the other hand has commented that "The Japanese reactionaries openly put forth two years ago the slogan, 'with economy as lead and armed forces as the backing'." It further commented that "in energetically carrying out an economic expansion in China's Taiwan province, Japan's monopoly capital aims at turning Taiwan into a 'Japanese colony' and re-occupying it."⁴⁵

Japanese, on their part, do not take the Chinese seriously. The Japanese are more concerned that another nation might get ahead of them in Chinese trade, than the Chinese competing with them successfully in rest of Asia. But a sharp growth in Sino-Japanese trade is rendered doubtful by the limited possibilities of the Chinese

44. Unger, Jonathan, "Japan, the Economic Threat", Survival, vol.14, no.10, 1972, p.40.

45. Ibid., p.41.

extractive and manufacturing industries insufficient infrastructure and inadequate financial solvency.⁴⁶

Japan is likely to be averse to their rapid growth and her dependence on the raw materials on a country which apart from being nuclear is still vulnerable to sudden political change.

For China, Japan is important, but not the only important partner for China's modernization. West Germany is a major collaborator and would be putting up world's largest steel plants in the Hopei province. The Dresdner Bank is extending credits up to 28 billion DM for this project, largest given by West Germany to any country. China has also her agreements with West Germany for mining of coal, its liquificator⁴⁷ technology, raw material research, space research, satellite technology and aviation electronics. US collaboration is vital for off shore exploration and exploitation of oil. The prospects with USA, and with Western Europe [on the basis of 1977-78 agreement with the Common Market] testify to the fact

46. ndc Journal, n.30, p.92.

47. Ibid.

that Japan is not an important trade partner for her economy.

Political Parameter

In political sphere, Peking will like Tokyo to join hands with it, and oppose Moscow. Specially after the Nixon visit to Peking, she considers Japan also to come closer to her. However, Tokyo would not take such risk. In spite of Peking's support for Japanese claim to her four islands, Tokyo feels that Peking is making the border issue between Tokyo and Moscow more complicated. Prime Minister Miki felt compelled to express irritation at the Chinese for complicating a solution to the territorial issue.⁴⁸ But in spite of all this, Tokyo tries to conduct its diplomacy with great care and caution, while seeking to capitalize on favourable situation. It believes in systematically strengthening relations with both by maintaining strict balance in its dealings with them. This policy attributed to the then Foreign Minister, Ohira, described by the Japanese Press, as "Tsunawatari Gaiko"⁴⁹ or tight-rope diplomacy. What is

48. Stephen, n.25, p.271.

49. Kesavan, K.V., "Japan's Response to the Swing of US-Soviet Relations", International Studies, vol.13, no.4, 1974, pp.677-93.

interesting is that Japan is confronted with a similar set of problems with both Moscow and Peking.

Japan-China in ASEAN Soil

Although the People's Republic of China was prepared to offset Western designs to South East Asia, she was not ready to enter into a direct military contest with the Western Powers in the area outside her own borders.⁵⁰ However, China's defensive border was not considered as her actual border but much beyond that. It was thought that the Western Powers, after dominating the entire Indo-Chinese peninsula, might elect to strike on China proper, and in that situation China would be forced to fight a war on her own territory. To avoid this, China's primary interests in South East Asia became firstly to forestall Western attempts to dominate Indo-China and to help maintain the independence and integrity of North Vietnam with a friendly government there; secondly, to offset attempts by any power to dominate Laos, which was considered vital for China's security interest and, thirdly to have a pro-Peking or at least strictly neutral regime in Burma. In

50. Mao's interview to Edgar Snow on 9 January 1965, quoted in Apalin, G., "New Period in Peking's Foreign Policy", Sergeev, n.43, February 1969, p.8.

order to safeguard these interests, China's immediate interest in mainland South East Asia became that of engaging the Western Powers in Vietnam in which China's involvement should be of an indirect nature and the struggle should be, a protracted one that could give China a period of respite, engage Western energy, and attention there, and keep North Vietnam under the control and influence of Peking.

Since the formation of ASEAN, China has considered South East Asia as her possible sphere of influence and acted in the direction of becoming a dominant power in that region. In that Peking started "manipulating the existing balance to her advantage".⁵¹ In her strategy to strengthen her position, China supported the national liberation movements with longterm objectives and branded the non-Communist South East Asian governments as "US lackys", "puppet regime" and "anti-people governments".⁵² These tactics were adopted to create a popular upsurge against the Western powers, and to force the native

51. Kennedy, n.9, p.35.

52. Peking Review, vol.11, no.47, 22 November, 1968, pp. 22-23.

governments to negotiate directly with Peking. Another objective of China's policy in South East Asia, as understood by the Soviets, was to force Washington for a direct negotiation with Peking.⁵³ China's support to the national liberation movements has been marked by a dual approach by which she seeks to maintain relationship both with the ASEAN non-Communist governments, and the Communist parties which are opposing these governments.⁵⁴

With regard to the overseas Chinese (Nanyang), China's policy has been that of supporting them, as the Nanyang's have enough control in economies of some of the ASEAN countries, for example, in Singapore, Malaysia etc.

China's political as well as strategical interests also have been responsible for her present policy regarding the straits of Malacca. Her present policy is also a outcome of Sino-Soviet rift. Soviet collective security plan could have affected China's interests in South East

53. Apalin, G., n.50, p.11.

54. Hua Kuo Feng's Report to the Eleventh Congress, Peking Review, vol.12, no.35, 26 August, 1969, pp. 12-14.

Asia and therefore she bitterly attacked it.⁵⁵ China also fears Soviet naval strength in the Pacific and therefore sought to limit it by supporting the stand of Malaysia and Indonesia on the straits of Malacca.⁵⁶

However, when her idea for a red Vietnam got setback, it in order to contain the former's power Peking supported the Pol Pot regime in Cambodia and gave it a blank check against Vietnam and the Soviet Union.⁵⁷ Peking's support to ASEAN has also been reflected by her desire to offset Soviet and Vietnamese influence. In the beginning China had criticised ASEAN as a militarist bloc established by the US in order to contain China. After Nixon's China visit she adopted a conciliatory approach towards ASEAN's policies.⁵⁸ By early 1975, China had started taking note of ASEAN's usefulness as a regional organization,⁵⁹ and by 1976, during the visit

55. Ibid., vol.17, no.28, 12 July, 1974, pp.11-14.

56. Ibid., vol.20, no.41, 7 November 1977, pp.27-28; and vol.21, no.4, 27 January 1978, pp.24-25.

57. Ibid., vol.11, no.47, 22 November 1968, pp.22-23.

58. Ibid., vol.15, no.11, 17 March, 1972, pp.20-21.

59. Ibid., vol.18, no.11, 14 March, 1975, p.14.

of Lee Kuan Yew to China, she started giving official support to the ASEAN.⁶⁰ The timing of China's shift of policy in favour of ASEAN is related, on the one hand with the US and on the other with the growing rift between Vietnam and the ASEAN as well as Soviet support to Vietnam against ASEAN.

During the early seventies, she tended to accept, tactfully at least, a US military presence in the region, in order to offset Soviet naval power and the vacuum situation which could have been filled by the Soviet Union.⁶¹ China regards the withdrawal of the entire US military presence as being tantamount to its own interests, for she is as yet, not prepared to step in to balance her rivals, the USSR and Vietnam. Her interests now have become identical with the interests of the United States and its allies in South East Asia, Vietnam's closer ties with Moscow has been taken as a national insult by the Chinese and the drastic action which they have taken against Hanoi may suggest the future course of their policies. Peking may tolerate anti-China governments but not pro-Moscow governments in South East Asia.

60. Ibid., vol.19, no.20, 14, May, 1976, p.7.

61. Asia Research Bulletin, vol.2, no.3, August 1972, p.1088A. Also see Kissinger's interview in US News and World Report, vol.78, no.25, 23 June 1975, p.24.

Thus, it is clear, that whatever China's ill-intention might be towards Japan, in South East Asia, at least her attention is not directed towards the latter, as her attention is diverted by the Vietnamese struggle and Moscow's support to their revolution.

On the other hand, after Nixon's rapprochement with Peking, ASEAN allies, have also changed their anti-Peking view. Malaysia was first to break the ice, in 1974, it opened its diplomatic relations with Peking, while the other four ASEAN countries, followed the example by joining diplomatic hands with Peking.

China's interests by no means are being threatened by Japanese presence in ASEAN region. Rather, the presence of Tokyo is balancing the power balance in that region, which goes to Chinese favour only. Tokyo's non-political character in ASEAN is a guarantee to Peking's fear. Thus, China does not consider Japan as a threat to her own interests in the ASEAN region.

Conclusion

A highly industrialized Japan totally dependent on the exchange of finished goods, and high technology exports

for import of food, raw materials and energy, has increasingly devoted her foreign policy attention to economic issues. Her concern for maintenance of friendly relations with all, especially her economic partners, accounts for de-emphasis on military affairs in her security policy. She prefers to depend on the US strategic protection rather than the creation of her own defence potential. The successive US governments, at least through the decades of the sixties and seventies took positions strikingly favourable to Japan's economic policy.

The US however took its pound of flesh in many early negotiations with Japan, particularly in air and fishing treaties.⁶² Yet, on balance, the relationship with US was greatly beneficial to Japanese foreign economic policy. Moreover, US assistance was critical in gaining the World Bank loans needed for Japan's rapid industrialisation and in promoting Japan's entry into a wide variety of multinational economic organisations in face of opposition from the European and oceanic states.

62. Yuichiro, Noguchi, Nihon no keizai Nashonarizumu, (Tokyo: Diyamondo Sha, 1976), Chapter-I.

Without US assistance, Japan would not have got the economic success, which otherwise with the assistance of US reduction of a vast array of barriers that had been erected against Japanese goods, particularly in Europe, making possible much of the export success that Japan achieved.⁶³

It is clear that in many areas, conscious or unconscious help by the US proved to be an essential international contribution to the Japanese economy.⁶⁴ The Nixon shocks, however, gave independence to Japanese foreign policy, while US continued to advocate a more "cautious" attitude in dealings between the two countries, China and Japan.⁶⁵ The mutual security treaty is likely

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63. Giplin, "US Power and the Multinational Corporation" pp. 109-11; Langdon, F.C., Japan's Foreign Policy (Vancouver: University of British Columbia Press, 1974); Patterson, Gardner, Discrimination in International Trade : The Policy Issue - 1945-65, (Princeton: Princeton University Press, 1966), pp. 272-307.
64. Krauss and Sekiguchi, "Japanese Foreign Economic Policy", International Organization, vol.9, no.4, 1976, pp.760, Krauss and Sekiguchi calculated that a total of at least \$ 1 billion was added to Japanese exports by 1971 due to the Indo-China War.
65. Itaruchiro Fukui, "Tanaka Goes to Peking : A Case Study in Foreign Policy Making", in Pempel, (ed.O, Policy Making in Contemporary Japan, (Ithaca: Cornell University Press, 1977)).

to remain the focal point in Japan's relations with the USA, in spite of the fact that Japan can militarily contribute very little directly to sustain the stability in the Pacific region. The economic of the USA (and Europe) and Japan are likely to remain competitive rather than complementary but this is not likely to cause any rift between Japan and the USA, at least in the near future.

However, more or less Japanese independence from US policy can be seen in economic relations with Soviet Union. In 1968, Japan signed a \$ 160 million Lumber agreement as first Russo-Japanese venture in the economic development of Siberia. In 1971, Japan had overtaken the UK as the largest capitalist trading partner of the USSR. Particularly interesting in relations between two countries was a project which would involve joint Japan-Russo development of the Tyumen oil fields and the construction of a major pipeline, from the oil field to the east coast of Siberia from which oil could be transported to Japan.⁶⁶

66. On Tyumen, see Curtis, Gerald, L., "The Tyumen Oil Project and Japanese Foreign Policy", Paper presented at the Research Conference on Japanese Foreign Policy, Kauai, Hawaii, 14-18 January 1974; Hitchcock, David, Jr., "Joint Development of Siberia : Decision Making in Japanese Foreign Relations", Asian Survey, vol.11, no.4, March 1971, pp.279-300.

On the other hand Soviet Union holds out Siberian development prospects as an incentive to reduce the flow of Japanese capital to China. The USSR is perceived by Japan as her only and major military threat. Her relations are likely to fluctuate from "cool to warm" and it is quite likely that Japan will sign a friendship treaty with Moscow without prejudice to her claim on the Northern Kurile islands. This would, however, depend on the state of US-Soviet relations.

Tokyo does not view Peking as a major threat. Politically the relations are likely to improve but Japan is not likely to allow herself to be used by China in her anti-hegemony posture vis-a-vis USSR. Because, Japan and China's mutual defence would represent a serious threat to the Soviet Union.⁶⁷ In recent years, to an increasing degree the Soviets are viewing Japan as an autonomous power, potentially capable of threatening Soviet interests.⁶⁸

67. Kim, Young, C., Japanese-Soviet Relations : Interaction of Politics, Economics and National Security, (London: Sage Publications, 1974), p.3.

68. Ibid., p.2.

If we extend the horizon a little, it is quite conceivable that Japan would sooner or later acquire her independent foreign policy. She may then effectively play the kind of political role in ASEAN as envisaged in Fukuda doctrine, vis-a-vis all the three Super Powers.⁶⁹

69. ndc Journal, n.30, p.98.

Chapter - IV

FUTURE RETROSPECTS AND PROSPECTS IN JAPAN-ASEAN
RELATIONS

There is admiration as well as envy for the economic miracle which Japan has brought in the face of adverse circumstances. But it is not a one sided success story. Her economy today is a reflection of its colonial past. It is basically based on import of raw-material and export of finished goods. Almost 90 per cent of its raw-material requirements are met from abroad. She has to depend on foreign countries for oil, copper, coppra, rubber, iron-ore, silver and steel etc.

So far as her land is concerned 80 per cent of the land is non-arable. Therefore, Japan has no option but to meet her food requirements from foreign countries. Japan being a littoral state is well endowed with a lucrative fishing industry and is a major exporter of fish, but on the otherhand she imports other essential food articles, viz., milk, bread, butter, sugar, soyabean, banana, fruits, coconut and meat etc. in a large quantity.

No doubt, she has recuped well after an unaccountable economic disaster, which it faced at the hands of the

Allied Powers, during the concluding stages of the World War II. Going back to the mid-forties, one can decipher the fact that nearly 80 million Japanese were jobless, hunting for food, shelter and clothing in a totally resourceless and dry soil of Japan where, not more than 18 per cent of the land is arable.

During the pre-War days Japan's economic base resided in her colonies. One can well imagine the troubled waters Japan found itself in, when she lost both her colonies as well as had to contend with a shattered economy at home.

Economic revival was no easy task for Japan during the changed circumstances. She had to all the more bank upon foreign countries for raw materials, for industrial and national development. Viewing in this back drop we notice that all her domestic as well as foreign policies were motivated towards increasing total output. Since she was all the more relying on foreign raw material, there was tendency to find access to markets abroad for finished goods, in order to achieve a favourable balance of payment.

(All the economic policies pursued by Japan have brought about favourable ends to her. The first 20 years after world war II, have launched Japan as one of the leading industrially developed nations. According to some Scientist, the twenty-first century will be of Japan.¹ As such she has a vital role to play with the neighbouring nations. Japan's ^{etc} policies on the otherhand cannot just be viewed singularly. United States has also had a very important part in the deliberations although indirectly. The US is mainly concerned with the task of checking Communist influence. This has been one of her major global tasks.) American debacle in Vietnam was a cause enough for her to realise that its presence in the region was not the solution to check the Communists in Indo-China, rather the attempt proved a total disaster. This holocaust resulted in a restructuring of priorities and policies on the part of the United States administration, the end of course remaining the

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1. Kahn, predicts that "owing to Japan's high savings and investment rates (about twice to that of America's) intensive education system, and the way in which its incredible achievement oriented society has now got its institutions accustomed to the momentum of growth in this innovative stage", Japan will continue to be at the top of the world growth league. Kahn Herman, no.7, p.117.

same, that is to check the Communist influence.

In order to make things simpler she has had a compromising ally in Japan, who in turn relied to a great extent on American supply of raw material and food stuffs. After World War II, US wanted Japan to play an important role in mainland South East Asia. For nearly two decades Japan remained in the soil of that region. Being an Asian country, Japan had a historical link with the latter countries. Because of this link, US assigned Japan to play an economic role with limited vulnerability, if not a political one.²

Thus, we see that after the Vietnam War, both Japanese and US's role has been complementary to each other. Since after the Vietnam war Japan's role in particular became four dimensional. That is to (1) keep mainland South East Asia nearer to the Western bloc; (2) maintain a distance from USSR and to a limited extent from China as well; (3) keep South East Asia's strategic

2. The US actively assisted Japan's economic growth and later on economic and politically. The modalities of this would merit much more detailed treatment. For example, the relationship between Japan's high growth rate and relatively low level of foreign capital in the economy. It is clear that higher foreign investment would have resulted in lower growth rates. The overall strategic political objective of US imperialism was "stronger Japan". Did the US therefore use to keep down its investment in order to help maintain the growth rates in Japan which it required strategically? Halliday, John, A Political History of Japanese Capitalism, (New York: Pantheon Books, 1975), p.467.

importance to a safe distance from the Communist block and last but not the least to maintain the region as one of the important source for raw-materials and foreign capital investment.

From Japan's side, it was a prosperous business. The Japanese have a heavy stake in South East Asia — political, economic as well as strategic. Thus to operate too close to the region has not been a problem, neither it was a loss to it.

The suspicion.

Japan's relation with South East Asia is basically economic. It may not like to play a military role in this region. Not even a limited naval role in order to safeguard her vital communications lanes in the region's water. A military or naval role by Japan will make the South East Asians more cautious about Japanese intentions and may prompt them to block her peaceful economic penetration into the region.

It would be worthwhile to note at this point that Japan's economic infiltration in ASEAN has been a gradual one. Looking at the colonial past, the region in

consideration has been underdeveloped and over populated. We notice that Japan avail the opportunity to exploit its industrial and technical know-how in ASEAN, with the growing tendency of developmental activities in this region. She has succeeded in establishing major industries in ASEAN, ^{region} These economic inroads are not viewed without suspicion, but are taken as exploitative in nature. As it is, the region is ^{not} free from problems. These can be classified as border disputes, ethnic and minorities problems, refugee insurgencies etc. To top it, the presence of Japanese know-how in the guise of developmental aides has in actuality given the major Japanese business houses an opportunity to exploit ideal factors of products.

In this process, they have avoided of an opportunity to invest their capital which is at hand and in turn Siphon out huge dividends through skillful appropriation of various sectors of production which they could find in abundance in the soil.

Since, only the work force has constituted of the local population, which at the sametime has not been well paid. The higher vacancies in these concerns have

of course been reserved for Japanese themselves. But for these drawbacks, the Japanese have also had the tendency to transplant the rejected, pollution prone and labour intensive industries to the ASEAN soil.

As we have seen above, Japan has utilised its secondary resources quite well. The whole process has really boosted its economic condition. Unfortunately, the process has been a lot one sided. The interests of the trading partners has just been overlooked. The ASEAN import market has also been shifted to second place by Japan, in preference to her Western commercial partners. She has gone to the extent of despatching second rate consumer and industrial goods to the detriment of ASEAN. (It is a time-tested grudge of ASEAN members).

However, the latter's suspicions regarding Japanese motives are not totally ill founded. The grievances which have been reflected repeatedly through their forum, indicate very well all the drawbacks which have resulted due to the economic interaction, has been advantageous to one and detrimental to the 'others' i.e. Japan and ASEAN respectively. Looking at the above problem from Japan's

point of view one would immediately question the authenticity of the aforementioned suspicions, based mainly on circumstantial evidence. Japan's policies and functioning will have to be viewed taking the objective situations in view, since national policies are never utopian models.

7 ASEAN alleges Japan to be one of the major causes for its economic backwardness. This belief may be true to some extent but the present state of affairs is not a result of a planned and deliberate Japanese attempt.

Since the days of the beginning of economic cooperation between ASEAN and Japan, the latter has definitely not allowed its economic interests to recede in the background. The entrepreneurship in this process led Japan to a position where we find it today. She has been through a period of unchecked economic and industrial advancement. We cannot blame Japan to have brutally suppressed the interests of its economic allies in ASEAN region. This fact can be rightly summed if we glance at the immediate past.

From a recent survey, it has been proved that Japanese government is trying to improve its economic ties with her ASEAN partners. It is no longer sending the rejected industries to ASEAN region. Rather the proportion in the employment has also been almost equalled. The native entrepreneurs too are getting a chance to run the joint ventures and other Japanese geared industries on an equal level.

The period 1972 to 1977 was described by some, as a water-shed in Japan's relations with South East Asia. A growing awareness of South East Asia was not matched by positive steps, by the Japanese Government to strengthen its relations with the countries of this region. Japan is quite eager to develop its trade relations with the developed countries, while private business are engaged in ASEAN region. But this tendency developed some conflicts and frictions, which ultimately forced Japanese Government to take a positive step towards the region.

The Priministerial Visits

This step started with the tours of the two Japanese Prime Minister — Tanaka in 1974 and Fukuda in 1977.

During the Tanaka tour, there were anti-Japanese demonstrations which convinced the Japanese Government to build more concrete relations with this particular region. Tanaka tour was hardly a success. Thus, followed a more positive and assuring tour of Prime Minister Fukuda during August 1977.

The ASEAN fully realized that in spite of the major role it plays in Japanese economy, Japan has followed the protectionist practices of other developed nations, by raising tariff and non-tariff barriers against the manufactured imports from ASEAN. Thus, the second ASEAN summit, specifically requested Japan to provide better access for its products, as well as to support for the five industrial projects and schemes aimed at stabilizing prices of ASEAN's primary exports to Japan. The Japanese Premier Takeo Fukuda in principle agreed to this, under the so-called "Fukuda Doctrine". The main thrust of ASEAN industrial co-operation lies in the package of five regional industrial projects, urea for Malaysia and Indonesia, super phosphates for the Philippines, diesel engines for Singapore, and

potash for Thailand.³

Both the parties agreed that five projects each costing about US \$ 200, \$ 300 million, be established as joint ventures with all the member countries participating in the equity and sharing in the profits and risks. While, Japan on its part promised to finance the five projects with US \$ 1 billion.

Thus, in the Fukuda Doctrine, Japan made its intention clear, that is, Japan's role became more certain and positive than before. However it remains to be seen when Japan is donating its financial assistance for the above five projects. This however did not make Tokyo diplomacy with ASEAN any less tricky. Simultaneously, the Fukuda doctrine came out with some concrete proposals, regarding their business deal. Japan in fact agreed to "cooperate closely with ASEAN to help establish the common fund for commodity price stabilization proposed in the North-South dialogue involving developed and underdeveloped countries. The Premier re-stated his position of

3. The Asia Year Book, 1978, pp.70-74.

foreign-aid to ASEAN and other developing nations and doubled the Japanese assistance to ASEAN in the coming years. From 1971 to 1975, Japanese grants and loans to developing countries totalled \$ 3.4 billion, of which \$ 1.5 billion or 43 per cent had gone to the ASEAN region alone.⁴

In July 1977, ASEAN again placed before Japan four demands: (i) A contribution of about US \$' 400 million to set up a fund to guarantee income of ASEAN primary product exporters; (ii) Easier access to the Japanese market for ASEAN products; (iii) Lower Japanese tariff on imports from this region, and (iv) US \$ 1 billion in Japanese aid (in soft loans) for ASEAN industrial project.⁵

In 1978, Japanese development assistance was expected to reach \$ 1 billion, of which 46 per cent was earmarked for South East Asia. On 8 August 1978, the leaders of the ASEAN

4. Asian Year Book, 20-26 August 1978, vol.23, no.34, pp. 13897-99.

5. Chandola, Harish, "Japan and ASEAN", National Herald, 2 September, 1977.

expressed their satisfaction over the outcome of the discussion with the Premier Fukuda.

The ASEAN heads of governments requested Japan's cooperation in improving access to Japanese markets for manufactured, semi-manufactured and primary products, exported from ASEAN. Japanese Government expressed its readiness to facilitate ASEAN's efforts to increase exports to Japan, through various measures including further examination of ASEAN's requests for removal and, or relaxation of tariff and non-tariff barriers within the context of the Multilateral Trade Negotiations (MTN), Improvement of Japan's General Scheme of Preference (GSP) and the introduction of ASEAN's cumulative rules of origin under Japan's GSP. Fukuda also affirmed Japan's readiness to cooperate within ASEAN in their efforts for promoting exports of their products to Japan, through measures including the establishment of a permanent ASEAN trade and tourism hall in Tokyo.⁶

The emergence of Vietnam in 1975, helped Japan's perception of strategic importance of the area. The straits

6. Asia Year Book, no.46, 12-18 November 1977, pp. 14631-32.

of Malakka, Lombok and Makassar, in fact the entire water-way in South East Asia, is the life line of Japan. Thus it needs peace in this region. The desire found in Fukuda doctrine was that: (a) Japan would not seek to be a military power, and would not produce nuclear arm; (b) Japan as a true friend of ASEAN would do its best for consolidating the relationship of mutual confidence and trust, based on "heart to heart understanding" with these countries, in wide ranging fields conveying economic, political, social and cultural areas; (c) will cooperate with these countries to strengthen their solidarity and resilience, Japan would as an equal partner also try to foster a relationship based on mutual understanding, which would contribute to the building of peace and prosperity throughout South East Asia.⁷

Japan and ASEAN : A Mutual Perspective .

Looking at the course of events during the last twenty-six years with reference to South East Asia, we see that, Japan and ASEAN have been mutually interacting

7. ndc Journal, no.30, p.96.

among themselves on economic fronts. The economic activity of any unilateral constituent cannot be perceived in isolation. Japan attained its present colossal economic super structure, with the timely aid in the form of raw materials and mineral fuels from ASEAN also, besides United States. On the otherhand, whatever technological and capital intensive industrial progress ASEAN has achieved today, is a result of Japanese cooperation.

On the economic front, ASEAN made it very clear that it sees Japan in a central role in providing economic assistance for their first five projects. However, Indonesia's attempts to build an oil storage-terminal with the help of Tokyo, were not received much attention, due to the heavy costs involved (US \$ 2,000 million).

Noting the existing exports of ASEAN to Japan consists mainly of primary commodities, the ASEAN heads of government proposed the creation of the Stabex Scheme (stabilisation of export of ASEAN's primary commodities), as an important supplementary from UNCTAD-IV in Nairobi.

While both the Japan and ASEAN want to maintain their present relationship, Japan is more anxious to hold

its partner tightly. Japan's economic as well as security interests are mainly concentrated in South East Asia. Her overdependence on this region for raw materials has made her more responsive to regional demands and more concerned about the stability and security of the region. Japanese have a stake in the bases. Though they have security arrangements with the US they are perturbed that US is reducing its military capability in the Western Pacific, following President Carter's decision to withdraw the last American troops on the Saian mainland, South Korea. And to this were to be followed by a pull out from the Philippines as well, concern for Japan towards a quick rapprochement with the USSR. However, this would not suit either China or US or indeed ASEAN countries. ~~But Japan can go far military build up as an alternative~~

However, the Japanese position vis-a-vis China, the Soviet Union and the US is to say, unique, primarily because of the basic disequilibrium between Japan's economic potential and its political clout in the international community. And it is under-pressure from all

the three. While Peking and Moscow are attempting to use Tokyo as a pawn in their own power game. Japan is indirectly bound to Washington through an anti-Moscow, anti-Peking security treaty that forms the base plate of its foreign policy.⁸

ASEAN's attitude is equivocal. In theory they want total US withdrawal from their land and a declaration requiring all the external powers to accept South East Asia as a zone of peace and neutrality. In practice, however, they are most anxious to retain US commitment to the region. Some of them say it openly (viz. Philippines) while Indonesia and Malaysia maintain a diplomatic relation, which does not quite deceive anyone about what they really want.

Japan's position is peculiar in the sense that it has been branded as one of the imperialistic power, in the South East Asian region. Though ASEAN is its main economic partner, still they are not able to detect the real motive of Japan. The recent economic miracle of Japan, no doubt has created suspicion, not only in ASEAN's mind,

8. Nakamura, Koji, "Tripartite Pressure", Far Eastern Economic Review, vol. 86, no. 39, 9 October, 1974, p. 47.

but also all over the world.

However, ASEAN has very well taken up the issue of economic imbalance with Japan. Their respective roles in the region, of late, have come to be well defined. The field of mutual cooperation among them seems to be full of reward in the near future. At the same time internal security remains a major problem for ASEAN region. Though the Communist threat will persist, there is no sign that the Communists will be able to take over power in the foreseeable future, unless there is a breakdown of the political and economic system within the ASEAN states. The ASEAN partners have fully realized that the threat which exists in the present is not external, but internal one. That is the threat of economic instability, lack of capital to invest in industries, local communist uprisings and ethnic minority problems and last but not the least, political instability. Almost all the five ASEAN members are facing these problems besides the border problems, which they have to share with their island South East Asian neighbours.

The ASEAN leaders since the new development of 1975 like Communist victory in Indo-China have frequently tried to review the security issue in the region, but all

now have realized from their heart of hearts that a security is not needed in the near future for the following reasons:

- (i) Military alliances or a foreign military presence or both proved to be outdated and ineffective in dealing with the Communists. This they realized during and after the Indo-China victory by the Communists.
- (ii) ASEAN's total military strength is weaker than the Democratic Republic of Vietnam.
- (iii) An alliance might provoke greater haste and increase support by the DRV to the Communist insurgent movements within ASEAN.
- (iv) ASEAN realized that the real security threat comes from internal rather than external forces and consider the present bilateral co-operation adequate enough to contain these subversive moments.⁹

It seems that US will continue to maintain a security role in South East Asia no doubt, but this extent will certainly be limited because of the past's bitter experiences

9. "ASEAN Powers, with Only 260,000"; Military Balance 1974-75 and 1975-76, (London: Institute of Strategic Studies), pp. 55-56 and 59-60.

in the Asian soil. The normalization of US and Vietnam's relationship is also in progress and certainly have improved. This is good for the ASEAN countries. ASEAN members hope that Vietnam will become less dependent on Soviet Union and more flexible in the conduct of its foreign policy. Such a shift will be better for both the island and mainland South East Asia.

Now, important thing for ASEAN is the extent to which the United States have considered contributing to the defence capability of the region so that they can become self-reliant in defence and security. What the ASEAN members are in need is not sophisticated or expensive armaments but rather weaponry that can be effectively used for limited military purposes, so that when necessary, they can at least suppress the local insurgency movements and can have moral strength if not a real military strength vis-a-vis Indo-China region. In this context, economic aid, trade, investment and transfer of technology are most important in aiding ASEAN in its efforts to build natural and regional resilience.

Taking these crucial drawbacks, backbone of which is formed by the total economy of the concerned region,

we can very well derive that Japanese aid and continued investment forms a focal point in the process of bringing about socio-economic as well as political stability in individual ASEAN members.

One of the attempts made by the ASEAN as a group is to have various "dialogues" within the major trading partners with a view to involving them in accelerated growth of these five countries. Japan featured prominently in the discussion among the strength, and also because Japan is the only country that is most likely — in itself — interested to support the ASEAN. The US ever since its withdrawal from Vietnamese soil, does not consider South East Asian region an important area at least for the economic dealings.

The EEC has its own trading partners in Africa and Caribbean at improving economic links among themselves. While Australia does have some security and economic stakes in the region it certainly does not consider ASEAN as its main area of interest. The important visit of Malcolm Fraser to each ASEAN member's soil, however failed

to give any concrete proposals to the member countries.

Assessment.

With the rapid changing of new international market scene in the 80's, Japan has been successfully trying to divert her foreign resources and international trade policies. She has realized the growing importance of Asian market for her own economic development. MITI has realized the importance of ASEAN market, according to which the top priority has been assigned to that region.

The renewed Japanese attempt to understand individual ASEAN member in a better way and the frequent visits of Japanese national personalities to ASEAN countries marks a new attempt to understand ASEAN for a better relations to come in the 80's.

In ASEAN's thinking, there has been no change as to the position of Japan and to help the region through foreign capital and technology. As also the

need remains the same, it appears only Japanese preparation to supply or not to supply the requisites will alone decide the shape of things to come in ASEAN economy.

Japanese does not neglect any part of the world for marketing and procure supply of raw materials. Promotion of relations with such countries are done through the cultural mission and trading companies. Since the present trading techniques of Japanese are only a phenomenon resulting out of the affluence of 60's and 70's, the real cultural practices for business tactics plays a greater role in conducting the overseas transactions. It is here that a new understanding of Japanese affairs is necessary. However, the instant remarks and the disturbances, whenever a Japanese dignitary has visited ASEAN region are an expression against Japanese phenomenon and not against the Japanese as such. Such misunderstandings are gradually being erased and cloud of better understanding are gathering, thus both the partners are looking for better days in their trading and aiding. This is a positive change for better days.

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