

Jantzen, Günther

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Japan's Relations with South East Asia

by Professor Günther Jantzen, Hamburg *

Practically all the governments of countries in South East Asia have observed with close attention, and in some cases with deep mistrust and concern, recent developments of Japan's foreign and foreign trade policies. Memories of the Imperialist period of the Japanese Empire are still overshadowing the relations of these countries with Japan.

The memories of this past period mingle with speculations about the road along which Japan will march in the future. Neither present nor past postwar governments of Japan have succeeded in dismantling old resentments, and the new shores towards which the Japanese ship of state now seems to be sailing appear to Japan's neighbours sufficient cause for reviving their ancient suspicions. Most probably, it is not so much the fundamental agreement with China that plagues the minds of South East Asian statesmen with fears but the method of approach to these problems by Japan.

One major cause for disquiet is the rupture in diplomatic relations between Japan and Taiwan — although these relations have not been simply wiped out but they are continued by officially authorised private associations, which, for this special purpose, are accorded semi-official standing. Yet the abandonment of Taiwan by Japan is seen as a betrayal of a faithful partner of long standing, who is being sacrificed ruthlessly on the altar of *realpolitik*, as soon as a new balance of power is sought.

Assessment of Japanese Policies

Whether this assessment of Japanese policies is just in the context of Japan's situation, or whether it is derived from exaggerated fears, based on the consciousness of political and economic inferiority of its neighbours, is immaterial, broadly speaking, for Japan's policy. For the Japanese, the fact will be decisive that South East Asian feelings towards them have become antagonistic, and these hostile feelings will henceforth accompany any and every political step of theirs, even though they themselves may not have caused it.

In mid-December of 1972, a report from Washington declared that Mr Chou En-lai, the Chinese

prime minister, had told a Japanese delegation that he was able to visualise a future constellation in which China would have to render military aid to Japan, because it might be possible that Japan found itself under a threat or even under attack by the Soviet Union. This report was not simply treated as the speculation of a journalist. In the whole of South East Asia, as well as in Hong Kong, the most daring speculations became rife as to whether Peking and Tokyo had already come to a secret agreement or were approaching such a pact. At any rate, Japan was highlighted from quite a new angle.

Japanese quarters, on the other hand, expressed fears lest Singapore, Malaysia and Indonesia might come to an understanding about closing the Straits of Malacca to warships and to merchant vessels. It was pointed out that Japan had a legitimate and vital interest in protecting its merchant marine also in the case of military conflict. Such pointers to the future did not, of course, pass unnoticed in South East Asia. The difference was that Japan had passed the period of being merely an economically great power, in order to pass again into the sphere of international power politics.

Criticism in Thailand

Late in 1972, the strong dislike of Japan led to a veritable explosion in Thailand, where violent demonstrations took place. They were the reflection of bitter criticism against Japanese aggressiveness, hitherto held in rein. Students in Bangkok organised a boycott against Japanese goods and companies, which did not fail to leave a deep impression in the Japanese business community. Mr Toshio Ikawa, President of the Japanese Chamber of Commerce in Bangkok, seemed thunderstruck and was unsparing in his criticism of his compatriots. He stated that the lack of balance in Japanese/Thai trade was not the true cause of anti-Japanese feelings, since the widely differ-

* Executive Director, Stiftung Deutsches Obersee-Institut (The German Overseas Institute Foundation).

ent economic structures of the two countries made it virtually impossible to obviate such "imbalances". The underlying cause, so he thought, was the behaviour of the Japanese. Mr Ikawa complained: "Japanese people are narrowminded and rigid in their thinking — they tend to despise the nations of South East Asia." Japan would have to grant more credits to Thailand, since its share in the total of foreign loans given to Thailand was a mere 8.2 p.c. Conditions for such credits would also have to be more generous than in the past.

Improved Credit Conditions

After the President of the Chamber of Commerce made his statement, Mr Pote Sarasin, a government delegate from Japan, hurried to Bangkok on December 16, 1972, and made promises of improving credit conditions. In future, so he assured his listeners, long-term advances and loans would be granted "without strings" (of using them exclusively for financing imports from Japan). They might also be used for making purchases in other countries of South East Asia, and at a later date, Japan would even permit its South East Asian debtors to buy goods and services from any country of their choice.

It is an astonishing fact that Japan has waited till now before seriously considering to loosen the ties between its own exports and development aid — after numerous talks about this kind of liberalisation, especially in the context of chronic Japanese surplus earnings of foreign exchange and of a possible revaluation of the Japanese Yen. It was always emphasised that long-term credits to less developed countries (LDCs) "without strings" could be either an alternative or a so-called "flanking measure" to the revaluation of the Yen. In spite of all this generous talk, the Japanese authorities seem to hesitate in fulfilling their grand promises. Liberalising loans, so as to permit purchases in other countries of South East Asia, means but little to a state of Thailand's kind: Investment goods can be found there only in severely restricted quantities, and the same is true of other industrial products. Light and heavy machinery, steel, chemicals, and other products of the kind which Japan, at present, exports to Thailand to an annual value of about US \$ 450 mn are scarcely available from other countries in South East Asia. It remains to be seen when the Japanese will carry their promised loan liberalisation to the second stage of untying all "strings", that is, to permit their debtors to use Japanese credits for making purchases in industrialised countries which are direct competitors of Japan.

Between December 10 and 13, the Seventh Conference of Ministers on South East Asian Develop-

ment took place in Saigon. Mr Ohira, the Foreign Minister and probably the strongest personality in the Cabinet Tanaka, thought this conference to be of sufficient importance to attend it in person. He promised his colleagues from South East Asia that Japan "would show the utmost endeavour for overcoming all difficulties which hinder any widening of the volumes of credit and any improvement of credit conditions." However, this promise failed to impress the other delegates at the conference — they were the representatives of the Philippines, South Vietnam, Laos, Cambodia, Indonesia, Singapore, Malaysia and Thailand. They demanded, for example, that Japan should revise its offer to cut its rate of interest for "soft" development loans to 3.2 p.c., because for such purposes an interest rate of 2.5 p.c. was right and proper.

They also disagreed with the Japanese proposals in the field of trade policy, for they thought the Japanese "offer" to reduce import duties, to liberalise the physical controls on the imports of certain goods and to increase import quotas to be insufficient. Some observers in Saigon even reported about the disappointment of the conference delegates, because the Japanese delegation had not made it clear which kind of aid Japan would actually undertake. One of the reasons for Japanese reticence was seen in the reluctance to make firm offers to countries who are involved, directly or indirectly, in the Vietnamese war. It was said that respect for the tender feelings of North Vietnam, which Japan did not want to annoy in view of possible post-war business there, prevented the Japanese from making clear-cut promises to other states.

There is, of course, no proof either way, whether respect for the feelings of North Vietnam has played such a determining role, or not. However, the final communiqué of the Conference contains the following passage about post-war cooperation, which also includes North Vietnam: "The hope was expressed that the restoration of peace in Indochina would facilitate greater regional economic cooperation, and that collective and joint actions would be directed toward the post-war reconstruction in this area in which Japan is expected to play a more active role and to assume more challenging responsibilities."

The Saigon Development Conference came to an end before the USA had resumed bombing the North. That is why the discussions in Saigon were still influenced by the impression that peace was near. It is probable that the wording of the communiqué would have been different, in its passages referring to Vietnam, if the delegates had known of the failure to conclude peace before the

end of 1972, and of the consequences of this breakdown of peace negotiations.

Opening of Import Markets

The Eighth Conference of Ministers on Developing South East Asia will take place in Japan in 1973. The invitation to meet in Japan, extended by the Japanese Government, was accepted unanimously. This also means that the Government of Mr Tanaka will have to greet its guests with more generous offers. By his pronouncements about opening the Japanese market for imports and about dismantling the obstacles to trade, Prime Minister Mr Tanaka has underwritten a promissory note which will be presented to him for payment by the governments of South East Asia, though there are doubts whether the Prime Minister will be able to make a breach in the front of Big Business for his new trade policy.

Japan is exporting much to the countries of South East Asia. In 1971, its deliveries to the individual countries of South East Asia reached the following values (in Yen bn): to Indonesia 157.6, to Malaysia 68.1, to Philippines 162.3, to Singapore 177.8, to Thailand 155.5 and to South Vietnam 52.4.

Altogether, South East Asia absorbed Japanese exports equivalent to nearly Yen 775 bn. Relating this overall value to Japanese imports taken by other regions shows the overriding importance of the seven South East Asian countries as outlets for Japanese trade: In 1971, the EEC area absorbed a total value of Yen 570 bn and if the

United Kingdom is added, the result would be about equal to total South East Asian purchases; Latin America took for Yen 553 bn; and Africa for Yen 719 bn, although Liberia's imports must almost wholly be deducted, because they mostly consisted of new ships registered in Liberia but owned by foreign interests. Japan's predominance in South East Asian imports becomes even more striking when the import returns of South East Asian countries are consulted: Japan is far out in front among leading exporters to Singapore, Thailand, Indonesia, Malaysia, the Philippines, but its purchases e.g. from Singapore and Malaysia were only marginal.

Future Outlook

From now on, Japan will be compelled to treat its South East Asian trade outlets with great care, not only in the interest of its exports but also on the import side and in the field of planned investments there. Courting trouble by its political policies and by tactlessness must be avoided by the Japanese Government at all costs, because regionalisation of South East Asia forces Japan to treat this area as the space for its own development, where it must be felt to be an element of cooperation.

Every augury shows that Japan seems to be learning from the errors of its past, including the most recent period, but it has not become obvious, as yet, that Japan's South East Asian partners have accepted the country, without reserve, as their helper and friend.

US Economic Outlook for 1973

by Professor Robert G. Wertheimer, Cambridge, Mass.*

The electorate has spoken — *alea jacta est* — re-electing President Nixon in an old-fashioned landslide for another four years' term. What is to be expected in the internal and external economic sphere during 1973?

The election was won by doubts about the challenger, Senator McGovern, paying tribute to the slow ending of the Vietnam war and the growing speed of the domestic recovery. Popular promises of immediate full employment, rising government spending and a redistribution of income without hurting many sounded too unrealistic. Rising attacks on "favoritism to business" could not sway the impression of inadequacy displayed by the opposing candidate either. In the

* Babson College

election of the new Congress, however, the Democrats prevailed and while President Nixon will approach this body with a stronger popular mandate than during his first term, most basic domestic and foreign economic decisions will remain in the hands of elected partisan and regional representatives. Looking at the 1972 economic performance now close at hand, a gain in the GNP by \$ 98 bn will be achieved bringing it from the \$ 1,050 bn level in 1971 to \$ 1,148 bn in 1972. Allowing for a price deflator of 3.3 p. c., this total