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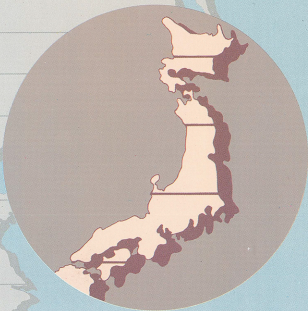
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JAPAN'S COMPREHENSIVE NATIONAL SECURITY STRATEGY AND ITS ECONOMIC COOPERATION WITH THE ASEAN COUNTRIES

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Anny Wong

Hong Kong Institute of Asia - Pacific Studies
The Chinese University of Hong Kong

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by

Anny Wong



**Hong Kong Institute of Asia-Pacific Studies
The Chinese University of Hong Kong**

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List of Abbreviations

ADB	Asian Development Bank
ADEF	Asian Development Equity Fund
AFC	ASEAN Finance Corporation
AOTS	Association for Oversea Technical Scholarships
ASEAN	Association of Southeast Asian Nations
ASEBEX	ASEAN Export Stabilization Scheme
ASPAC	Asian and Pacific Council
BOP	Balance of Payment
CCOP	Committee for Coordination of Offshore Prospecting
DAC	Development Assistance Committee
DAG	Development Assistance Group
EC	European Community
ECAFE	Economic Commission for Asia and the Far East
EEC	European Economic Community
FDI	Foreign Direct Investment
FRG	Federal Republic of Germany
FY	Fiscal Year
GATT	General Agreement on Tariffs and Trade
GNP	Gross National Product
GSP	General Scheme of Preferences
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
JAF	Japan-ASEAN Forum
JETRO	Japan Export Trade Organization
JICA	Japan International Cooperation Agency
JSDF	Japan Self-Defense Forces
LDP	Liberal Democratic Party
LNG	Liquefied Natural Gas
MITI	Ministry of International Trade and Industry
MNCs	Multinational Corporations
MSDF	Maritime Self-Defence Force
N.Y.T.	New York Times
NICs	Newly Industrializing Countries
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development

OECE	Overseas Economic Cooperation Fund
OPEC	Organization of Petroleum Exporting Countries
PAP	Philippine Aid Package
SLOCS	Sea Lines of Communication
U.K.	United Kingdom
U.S.	United States of America
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNHCR	United Nations High Commissioner for Refugees
USSR	Union of Soviet Socialist Republic
ZOPFAN	Zone of Peace, Freedom and Neutrality

INTRODUCTION

IN the two decades after conclusion of the Asian-Pacific War, Japan had poured all its energy into rebuilding its war-torn economy. The country focused itself on developing close bilateral relations with the West European countries and the North and South American states to find markets for its exports. The Asian region, the Middle East and much of the African continent, in contrast, were considered merely as sources for raw materials for a resource-poor but economically booming Japan.

It had benefitted immensely from American economic assistance and enjoyed the military protection of the U.S., whose global economic, political and military might were unchallenged by any power, capitalist or communist.

But by 1967, the faltering position of America in the Indo-Chinese imbroglio, its new foreign policy of non-military involvement in Asian security affairs as underlined by the Nixon Doctrine of 1969, and finally America's defeat in the Vietnam War in 1975 had drastically altered Japanese perception of U.S. strength and commitment to the country's security.

Japan began to take renewed initiative in cultivating better ties with its Asian neighbors. On security, pressures from Washington forced Japan to bear greater responsibility in its own national defense.

Japan found it necessary to reassess its foreign policy towards Asia and the Southeast Asian countries in particular, realizing that peace and prosperity for itself were impossible without the political stability and economic progress of the Southeast Asian states and Asia as a whole. These resource-rich and strategically situated, fragile democracies, where vital Japanese national security interests lie, were directly threatened by communist aggression from Vietnam and the long-term implications of the Soviet-Vietnamese alliance.

In response to the changes that were taking place in Indo-China, these Southeast Asian countries also began to take greater initiative in safeguarding the region's freedom and security, and the Association

of Southeast Asian Nations (ASEAN) was formally created on 8 August 1967 by its five members: Indonesia, Malaysia, the Philippines, Singapore and Thailand (Brunei joined in 1984).¹ The announced objectives of ASEAN were to facilitate intra-regional economic and cultural cooperation. But since Vietnam's invasion of Kampuchea in 1978, the organization has become more outspoken on regional political issues, with evidently greater political solidarity, and producing more unified foreign policies on many issues. The ASEAN members, individually and as a group, have consistently demanded the complete withdrawal of Vietnamese troops from Kampuchea.

Japan has maintained good state relations with each member of ASEAN even before its inception in 1967. Cooperation was, however, largely limited to the economic sphere and on bilateral basis, making the formulation of a coordinated set of foreign policies towards the Southeast Asian region an arduous and cumbersome task. The presence of ASEAN has, therefore, significantly helped Japan in designing a unified Southeast Asian policy, and for ASEAN countries to negotiate with Tokyo more effectively as a corporate entity on many regional matters.

In the first decade of Japan-ASEAN relations, economic cooperation was the main focus of their relationship. But radical politico-military changes in the Southeast Asian environment since the fall of Saigon has made it increasingly difficult for Japan to maintain a purely economic role in the region. Japan's vested economic interests in the ASEAN region oblige the country to expand its political and military influence in the region to ensure Japan's national interests. Yet the strengthening of the Japan Self-Defense Forces (JSDF) to an extent that could realistically protect its national security interests, even if only in the Southeast Asian region, proved to be impossible without evoking domestic and foreign opposition.

The fear of Japanese remilitarization is strong among these ASEAN countries, whose population had suffered tremendously under the cruel dictatorship of their Japanese captors during the war and where millions had perished fighting for freedom and liberation against the Japanese Imperial Army. Hence, even the slightest gesture

to improve the JSDF's military capabilities would invite severe criticisms from ASEAN states and possibly at the expense of hurting Japan-ASEAN relations.

To compensate for this sense of helplessness, Japan has since the late 1970s employed a "Comprehensive National Security Strategy." In this strategy, the country's long-term security in defense, food, and energy is linked in a "non-military" way. Both domestic and international security concerns would be promoted through means other than military build-up or military alliances, i.e., rather through economic and cultural cooperation with foreign states.² Several internal and external factors convinced Tokyo that economic aid to and cooperation with other nations, in the form of economic and technical assistance, public and private loans, and liberalization of the Japanese market, would be the most effective instrument to promote international peace and prosperity.

Since Tokyo proclaimed Japan's determination to forge a closer relationship with ASEAN in 1977, every Japanese Prime Minister had visited the ASEAN region in whole or in part. Each one of them spelled out his administration's foreign policy towards ASEAN, each reiterating the importance of ASEAN to Japan.

Economic assistance to ASEAN is motivated by national interests as well as humanitarian concerns. It aims to encourage economic growth and political stability in the Southeast Asian region, prerequisites for Japanese security, allowing Japan to obtain essential raw materials and food from the region, permitting safe and free passage of Japanese merchant fleets and oil tankers (which carry over 70 percent of all Japanese oil imports into Japan³) through the major Sea Lanes of Communication (SLOCs) that traverse the ASEAN region. The region's stability would also facilitate Japan's domestic industrial restructuring, transferring the resource- and labor-intensive industries to these developing Southeast Asian economies where raw materials and labor are abundant and inexpensive.

The first major Japanese economic assistance to ASEAN was the US\$1 billion aid package extended by Prime Minister Takeo Fukuda during his visit to the region in 1977.⁴ A succession of other Japanese

aid packages has followed, each larger and more impressive than its precedent.

The latest of these efforts was the US\$2 billion aid package pledged by Prime Minister Noburo Takeshita in December 1987 at the Third ASEAN Summit Meeting in Manila. Although economic cooperation remains the central element of Japan-ASEAN relations, increased emphasis on greater technology transfer, cultural exchange, and human resource development has also been expressed.

The main objective of this paper is to ascertain how Japan uses economic cooperation with ASEAN states to enhance its comprehensive national security interests in the Southeast Asian region and perhaps beyond. A number of questions are addressed in unveiling the complexities of their relationship: how would economic cooperation with ASEAN contribute to Japan's security needs, in terms of resources, markets, Japan's international status, etc.? What form of economic cooperation? What transformations in Japan's aid policy were there over the years to meet the evolving needs of Japan and ASEAN countries? What other efforts were there to forge closer ties with ASEAN states? What are the responses of ASEAN to these Japanese initiatives? To end this paper, an assessment is made of how Japan-ASEAN relations will develop in the future in view of the changing international and regional environments and the possible consequences growing Japan-ASEAN relations will have on the regional and global environments.

Notes

1. Lee Yong-Leng, *Southeast Asia: Essays in Political Geography* (Singapore: Singapore University Press, 1982), p. 183.
2. See Eileen Marie Doherty, "Japan's Expanding Aid Program," *Asian Affairs: An American Review* (Fall 1987), p. 137.
3. Muthial Alagappa, "Japan's Political and Security Role in the Asian-Pacific Region," *Contemporary Southeast Asia* 10 (June 1988), pp. 40-41.
4. All dollar figures are understood to be in terms of U.S. dollars unless otherwise stated.

CHAPTER I

THE COMPREHENSIVE NATIONAL SECURITY STRATEGY AND ITS GOALS

CONSTITUTIONAL constraints plus domestic pacifist sentiments as well as international opposition keep Japan from assuming any substantial security responsibilities that are commensurate with its economic status, even within the Asian-Pacific region. These have prompted Japan to develop its relations with foreign states through economic exchanges.

Japan's incredible post-war economic growth certainly dazzled many developed countries and has become the envy and model for emulation by many developing ones. Today's Japan is an economic powerhouse that boasts the largest GNP in the world. It is also the world's largest creditor, with a net foreign investment of \$240 billion. In fiscal year 1988-89, it has displaced the U.S. as the most generous aid donor in the world.¹ Much of these came about because of an international environment that was favorable to Japan's development.

Back in 1968, Japan already had the second largest GNP in the world after the U.S. Its economic development since World War II was largely made possible by two factors: (1) an uninterrupted supply of resources and energy; (2) an undervalued Japanese yen which increased the competitiveness of Japanese exports to foreign markets. Concurrently, the existence of a relatively stable global environment facilitated international trade. Furthermore, with the U.S. shouldering Japan's defense under the Japan-U.S. security arrangements, Japan could use all its resources to power domestic socio-economic development.

Despite considerable tensions in international politics during the 1950s and in the early to mid-1960s, general stability and political balance between the U.S. and the Soviet Union made remote the possibility of any large scale invasion of Japan. Moreover, with the

burden of defense of the Japanese islands borne by America, Japan practically separated economic security from national defense assuming only nominal defense responsibilities. The first three defense plans from 1958 to 1971 reflected this attitude. The aims of these plans were only to strengthen JSDF capabilities to “counter conventional aggression of a localized scale,” i.e., only looking after the Japanese islands and the coastal waters.²

Then events in the late 1960s and throughout the 1970s alerted Japan of its vulnerability and radically changed its perception of the world and its position in it. Domestic and foreign social, economic and political developments, shifts in international balances of power, and the emergence of a new international economic order pushed Tokyo to ponder on the short- and long-term effects of these changes on Japan and how it should and could respond to these changes.

The U.S. decision to withdraw its troops from Vietnam in 1968, together with the enunciation of the Nixon Doctrine the following year, and the U.S. unilateral peace overtures at the Paris Peace Conference sent a strong and chilling message to Tokyo — that it was the end of an era of unchallengeable American military superiority.

The balance of power between the two superpowers was perceived by the Japanese to have tilted in the Soviet Union's favor. U.S. military strength appeared to have weakened substantially vis-à-vis the Soviet Union, and America was unwilling or unable to thwart the expansion of Communism in Asia, Africa and Central and South America. On a regional scale, the communization of Indo-China with the Soviets occupying and utilizing the American facilities in Da Nang and Cam Ranh Bay was particularly worrisome for the Japanese as Japan's economic interests in Southeast Asia would come under the immediate threat of the Soviets and the Vietnamese.

Japan's confidence in the credibility of America's commitment to Japan's security needs had sharply dwindled since the late 1960s with the new U.S. foreign policy of non-military involvement in Asian affairs espoused by Nixon and pressures from Washington to fortify the JSDF. Reduction of U.S. troops from the region throughout the 1970s further reinforced this view.³ The unexpected American announcement for rapprochement with Communist China in 1971

literally “shocked” Japan, forcing Japan to have its own rapprochement with Beijing in 1972. Today a new attitude towards security has evolved in Japan — if anyone is to truly promote Japanese security the Japanese must do it themselves.⁴

Japanese economic development also underwent a series of challenges in the early 1970s. First, the 1971 Bretton Woods Conference enforced an upward adjustment in the value of the yen against the U.S. dollar, from US\$1 = ¥360 to US\$1 = ¥306. The result was a 16.88 percent jump in the value of the yen, the largest adjustment among the affected currencies.⁵

All Japanese efforts to stop or limit the extent of re-evaluation failed. Then Japanese Prime Minister Eisaku Sato pronounced that this was “the greatest economic shock” for Japan since World War II.⁶ This event had an exceptional psychological impact on the Japanese. Thousands protested on the streets and many considered this a “national economic crisis.”

Although their fears appear to have been vastly exaggerated, they were not totally unreal. For one, it would seriously reduce Japanese competitiveness in international markets. Japan had registered double-digit economic growth throughout the 1950s and 1960s; appreciation of the yen reduced annual economic growth to a meager 7 to 8 percent,⁷ and Japanese stock prices plummeted.⁸ These incidents reinforced Japanese fears that all these may trigger a recession, felt by many Japanese as the worst possible threat to them and their country.

The next emergency was the Organization of Petroleum Exporting Countries (OPEC) Oil Embargo of 1973-74. The Oil Crisis greatly heightened Japanese awareness of their country's vulnerability to any external changes, especially those in the economic sphere. In the immediate post-oil crisis years, Japan experienced its first recession in nearly thirty years.

By this time even the U.S. has become a major OPEC oil importer and also battling with soaring oil prices and inflation. The world saw how OPEC, a small group of oil-producing states, could bring a superpower and other world economies to their knees simply by manipulating crude oil prices or by cutting oil production. The Arab-Israeli War (1973), the Iranian Revolution and the Iran-Iraq War were

other ominous threats to the supply of oil from the Middle East to Japan.

Then in 1974, a group of developing countries known as the "Group of 77" put forward demands for a New International Economic Order at the U.N. General Assembly. Two of the many demands that particularly worried Japan were the stabilization and increase in the price of primary commodities and reforms in the pricing of shipping services. If implemented, these reforms would obviously hurt Japanese interests as Japan is heavily dependent on imports of raw materials and owns the largest merchant fleet in the world in tonnage terms.

On Japanese relations with ASEAN, the Japanese were shocked and horrified by the violent anti-Japanese riots that greeted Prime Minister Kakuei Tanaka during his visit to the region in 1974.

On the domestic front, the Japanese were confronted with the high environmental and human costs of industrialization. Pollution generated by its industries was defiling the air, water and land, endangering its meager domestic food production. Many innocents were tragically killed or maimed for life in several incidents involving contamination of food, water or the environment by poisonous industrial wastes. The more notorious were the pollution of farm and pasture lands by cadmium dumped by the Nippon Mining Company's zinc refinery, and poisoning in Minamata caused by mercury dumping by the Nippon Nitrogen Company which claimed 46 lives.⁹

These industries, however dangerous they may be, produce goods that are indispensable to many other Japanese industries. The only solution was to move them — preferably overseas. The Ministry of International Trade and Industry's (MITI) 1971 White Paper advocated "a re-orientation of the economy from 'resource-proned' and 'resource-consuming' industries toward 'clean and knowledge-intensive' ones."¹⁰ The Ministry of International Trade and Industry's Council on Industrial Structure further stressed that "Japanese overseas economic cooperation should be promoted from 1976 onward for the relocation of heavy and petro-chemical plants to resource- and labor-rich countries."¹¹ Hence, the stability of foreign places where

Japan intends to transfer its industries to will also become vital to Japan's national security.

In recent years, Japan's trade problems with the U.S. and Western Europe and the rising tide of protectionist sentiment in these places have strained Japan's relations with them and it becomes ever more important for Japan to develop good relations with other states for the purpose of economic exchange.

Such close interdependence in the economic and political dimensions convinced Japanese leaders that Japan must adopt a new foreign policy posture to deal with these international developments and to facilitate the country's domestic changes. It was precisely these developments that laid the foundation for the Comprehensive National Security Strategy.

To Japan security then means not only defense of the islands from foreign physical aggression but also the protection and strengthening of many other national interests. It was clearly stated in the Japan Defense White Paper of Fiscal Year (FY) 1981-82 that,

Japan is dependent for its survival and prosperity on imports of the bulk of its resources and energy. Among the possible threats to its safety and existence are the restriction or suspension of supplies of resources, energies, and foodstuffs, etc., as well as armed aggression.¹²

A national priority is continuous economic development in a relatively peaceful and stable global environment. Another is an enlargement of Japan's world role and status to enable Japan to use its global economic leverage to its advantage in influencing and shaping international financial and trade policies.

Japan had adhered to the Basic Policy for National Defense since its introduction in 1957, along with the Japan-U.S. security agreements and the non-nuclear policy adopted in 1968 to form the foundation for the country's defense policy. Then in 1981 Prime Minister Masayoshi Ohira introduced the concept of "comprehensive security" in the country's security strategy. The concept was officially adopted by his successor Zenko Suzuki by gradually incorporating it into

every aspect of Japanese security. In FY1981-82, Tokyo, for the first time ever, stressed that for Japan's security the country should assume an international peace-keeping role through cooperation with other countries. In the Defense White Paper of FY1982-83, Tokyo emphasized three aspects necessary to safeguard peace and independence and maintain the country's security:

1. Japan must strive to realize a peaceful international climate, promoting solidarity and cooperation with Western and other nations, cooperate more positively in U.N. activities for maintenance of peace and security, global security and economic development through diplomatic efforts to resolve or alleviate disputes and confrontations in various parts of the world and through economic cooperation;
2. Japan must make self-help efforts to maintain a defense capability adequate for deterring aggression and depending on itself in any invasion that may occur; and
3. that the Japan-U.S. security arrangements must be maintained and to ensure their smooth and effective implementation.

In the FY1983-84 Defense White Paper, the term "comprehensive security" found its way into the Japanese diplomatic jargon:

For securing Japan's peace and security, policies that are consistent with comprehensive security considerations must be promoted in all areas of respected fields including foreign affairs, the economy and defense.¹⁴

Actually the concept of comprehensive security had already established itself in Japanese policies in the mid-1970s. It was the 1973 OPEC Oil Embargo that painfully confirmed Japan's belief that its economic progress is directly linked to its security. As it will be discussed in greater detail in a later section, immediately after the Oil Crisis Japan began to use its overseas investments and aid program to secure resources crucial to Japan's economic well-being, i.e., its

national survival. The concept was however formally embraced only in the 1980s when it has grown to encompass all of Japan's security needs — economic, political and military.

In this Comprehensive National Security Strategy, the military and non-military aspects of security are interlocked so that strengthening of one would also augment others. This approach to security is much more pragmatic than mere military fortification since it takes into account that military buildup is not an entirely viable or advisable option to warrant the nation's political, economic and defense interests.

First of all, there are both internal and external opposition to JSDF expansion. Secondly, even if expansion were made, Japan will still remain extremely vulnerable because of the demographic distribution of its population. Tokyo and its three neighboring prefectures shelter 25 percent of the national population; Osaka and its three neighboring prefectures, another 15 percent.¹⁵ With heavy population and industrial concentration in the major cities, any attack on these parts would surely inflict irreparable damages on the transport and communication networks, crippling the entire economy. Thirdly, in any superpower military confrontation, Japan would become a natural target for pre-emptive strikes by the Soviets. These reasons explain why Comprehensive National Security Strategy puts heavy emphasis on "non-military cooperation" which includes economic cooperation in the forms of technology transfer, trade, investment, aid, as well as educational, cultural and athletic exchanges, instead of a single-minded drive towards militarization.

Tokyo reasons that it can increase global security by redistributing its wealth. The Japanese are enlarging their involvement in resolving the third world debt crisis through many unilateral actions and cooperative efforts with foreign states and international agencies, including the lowering of interest rates on existing loans and raising their contributions to multilateral institutions.

This strategy also enables Japan to maximize the use of its economic power at a time when non-military cooperation, particularly economic cooperation, has become a major component of interna-

tional diplomacy and to foster improved ties with the communist economies.

In the past few years, the political climate between the East and the West has become more relaxed with diminishing emphasis on both sides on ideology and armament. Japan is, thus, optimizing this opportunity to enhance its global status and national security.

The following are the major national security interests that Tokyo hopes to guarantee and advance with its Comprehensive National Security Strategy, with special reference to ASEAN region.

SLOCs and Crude Oil

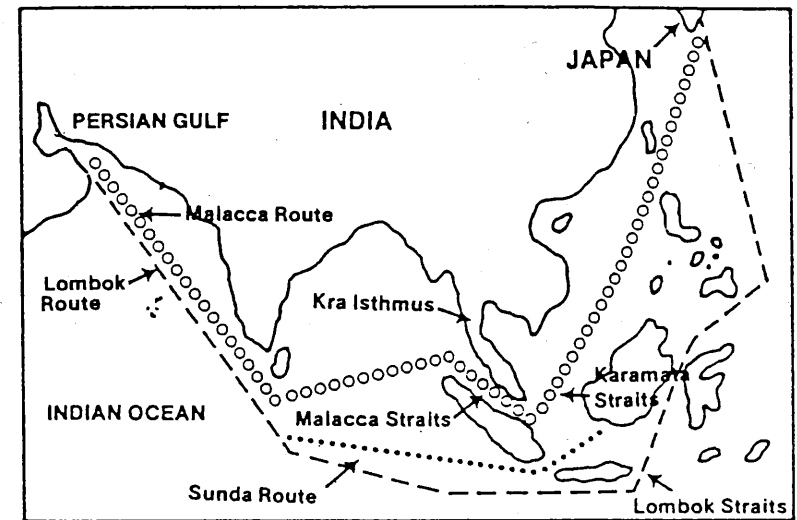
Japan's main security interest in Southeast Asia is the safety of navigation through the SLOCs (Sea Lines of Communication) that cut through the ASEAN region — the most important being the Malacca Straits and the Lombok Straits. More than 70 percent of Japan's crude oil imports pass through these straits;¹⁶ 40 percent of its total world imports goes through the ASEAN region.¹⁷ Any disruption at these bottlenecks would require re-routing around Australia, increasing shipping distance by as much as 78 percent.¹⁸

The most hostile of potential threats to these navigation routes is the Soviet Union. U.S.S.R. maintains permanent military establishments in Danang and Cam Ranh Bay and frequently conducts naval exercises in the South China Sea. The Soviet fleet is capable of harassing these choke points and even completely blockading them. Soviet aggression and expansion is thus most feared as interdiction at any point along these routes would strangle Japan's economy.

Another possible threat would be contention for control of these straits by the coastal states of ASEAN who sit astride these crucial "lifelines" of Japan. Consequently, Japan's desire to cultivate goodwill with ASEAN states and especially among them, the littoral states adjoining the Malacca and the Lombok Straits, is aimed at keeping these passages safely open and minimizing the risk of denial of passage for political reasons. The administration of these straits by

friendly and stable governments is therefore indispensable to Japan's security.

Figure 1.1 Map of Sea Routes Between the Persian Gulf and Japan



Until recently Japan cannot and is reluctant to play a military role in Southeast Asia, defense of these major sea lines depends heavily on ASEAN states. Japan thus hopes to build up the defense capability of these countries by strengthening their economies through economic aid and cooperation.

Oil is the single most important import for Japan. With no significant petroleum endowment, Japan imports more crude oil than any other country. This is demonstrated by the fact that it depends on oil for nearly 70 percent of its total energy needs, far greater than any West European or North American economy.¹⁹

Oil is so important to Japan that a Japanese official once remarked, "...there is no national security without oil." The Oil Crisis of 1973 forced the Japanese to confront the profound vulnerability of

their economy and their country. In FY1974-75, the economy recorded its first negative growth rate since 1945. The country sank into a recession and inflation rocketed. There was little the Japanese government could do to avert or ameliorate the situation. Civilian oil consumption was curtailed; some military exercises were halted. With less than a 45-day oil inventory in the country, Japan abandoned its neutralism for a pro-Arab stance (even at the risk of antagonizing the pro-Israel U.S.) to protect its national interest of obtaining that precious commodity from the Arab-dominated OPEC.²⁰

In response to the OPEC oil embargoes of the 1970s and turbulences in the Middle East, Tokyo took steps to ease the country's dependence on oil, especially OPEC oil from the Middle East, by diversifying its energy sources and their places of origin.

Japan has been developing the use of nuclear and hydroelectric power, utilizing natural gas or liquefied natural gas (LNG) and coal, absorbing nearly all of ASEAN's oil and LNG exports and buying crude oil from China (thereby offsetting increments that would otherwise be supplied by the OPEC), and participating in overseas energy resource exploration and development.²¹ Conservation is encouraged even when crude oil prices are low. Oil and LNG stock-piles are rising, now reaching about 100 days (up from just 30 to 35 days before the 1973 Oil Crisis) and 45 days, respectively.

ASEAN countries with the exception of Singapore hold substantial reserves of oil and LNG. (However, Singapore is the world's third largest oil refining center.²² It refines one million barrels of oil every day, of which 70 to 80 percent goes to Japan.²³) Although currently less than 20 percent of Japan's crude oil comes from Southeast Asia, the percentage has been growing steadily.²⁴

The oil shocks sped up Japan's indigenous and overseas oil development efforts and Southeast Asia becomes a major focus for oil and LNG exploration by the Japanese as the presence of these resources is already determined. Favorable geological potential and low-sulphur content of most Southeast Asian crude and proximity of the Japanese market have brought huge amounts of capital and technology into the region for energy resource development over the past decade.²⁵

Table 1.1 Structure of Japan's Energy Sources (%)

Year	Oil	Coal	Natural Gas	Hydro-electric Power	Nuclear Power	Total
1977	74.7	14.8	3.6	4.8	2.0	99.9
1978	73.2	13.7	4.6	4.7	3.7	99.9
1979	71.6	13.9	5.2	5.0	4.2	99.9
1980	66.4	16.7	6.0	5.6	5.0	99.7
1981	64.2	18.0	6.3	5.7	5.5	99.7
1982	61.9	18.5	7.0	5.4	6.9	99.7
1983	61.9	18.7	7.5	5.4	7.2	99.7
1984	59.6	18.5	9.2	4.4	8.0	99.7
1985	56.7	19.1	9.4	4.9	9.5	99.6
1990*	52.5	17.5	12.1	5.0	10.8	97.9
2000*	42.0	20.0	11.0	5.0	16.0	94.0

*Projected figures

Note: In the year 2000, the remaining 6 percent is expected to come from geothermal and other non-oil energy sources.

Source: Compiled from *Energy 1987* (May 1987), pp. 220-223.

Securing Raw Materials

Among the major industrialized economies, Japan is surely the most destitute in natural resources. Japan has a population of 123 million within an area of only 378,000 sq.km. (compared with the U.S. population of 241.6 million but in an area twenty-four times the size of Japan²⁶). Moreover, Japan's dependence on food imports is the highest among Organization for Economic Cooperation and Development (OECD) countries.²⁷

Japan is totally dependent on imports for many commodities, e.g., petroleum, cotton, wool, aluminum, nickel, uranium, and phosphoric ore. Dependence on other minerals including coking coal, iron ore, copper, chromium, tin and manganese is over 95 percent.²⁸

As these figures would indicate, Japan even with its super-high

technology and advanced industrial infrastructure, will not be able to survive or produce anything without its imports of foodstuffs, raw materials and energy resources.

Table 1.2 Dependence on Imports of Foodstuffs Among OECD Countries

	Amount (US\$ million)	Percentage of total imports
Japan	19,186	16.1
Italy	13,932	14.0
Netherlands	9,803	13.0
U.K.	14,762	11.8
Germany, F.R.	21,807	11.5
France	14,233	11.1
U.S.A.	26,599	7.0
Canada	4,750	5.9
Australia	1,245	4.9
OECD Total	126,317	10.6

Source: OECD, *Statistics of Foreign Trade* (1986).

ASEAN economies, by contrast, are rich in natural resources. As these countries are geographically close to Japan and lie astride major sea lines of communication, they serve to meet many of Japan's resource needs.

Nearly 99 percent of Japan's total natural rubber imports comes from Thailand (69.3 percent), Malaysia (17.4 percent) and Indonesia (10.2 percent). Ninety-five percent of the country's tropical lumber imports is supplied by ASEAN countries. The region also fulfill substantial Japanese requirements of other commodities including zinc, bauxite, copper, nickel, vegetable oil, and other foodstuffs.²⁹ Among the six ASEAN countries, Brunei, Indonesia and Malaysia are of special importance to Japan because of their substantial reserves of oil, natural gas and other minerals.

To secure a stable supply of raw materials from ASEAN and to increase production to meet rising Japanese demands, Japan has been making heavy investments in developing and gaining control of these resources in the region. As a matter of fact, most Japanese government and private loans, economic and technical aid and other forms of economic cooperation with the region are generally related to resource development projects.

Trade and Markets

Over the past decade, particularly in the past five to six years, Japan has been experiencing much hardship in promoting its exports in the lucrative North American and European markets. One major factor is rising protectionism in these places because of their gargantuan trade deficits with Japan. Another is the spectacular rise of the yen against the U.S. dollar since 1985. The situation is worsened by floods of similar goods at much lower prices from the Newly Industrializing Countries (NICs), specifically Korea and Taiwan. They have further undermined Japan's competitiveness by seizing sizable chunks of the U.S. and European electronic, home appliance, and computer parts and hardware markets.

Although a great proportion of Japan's products is consumed domestically, Japan has to export to earn the dollars it needs to purchase oil and other imports. Preparing itself for these changes in the industrialized economies of the West, Japan has been "developing" new trade partners. Huge investments, loans, and assistance have been directed to the developing countries of Asia, the "hopefuls" in contrast to those "hopeless" bread-baskets of Africa. Through these efforts, Japan hopes to see more vibrant and wealthy economies that will be able to absorb more Japanese consumer and industrial goods; so far results have been very encouraging. This is especially true in the case of ASEAN which is one of the fastest growing regions in the world.

The ASEAN community is the third largest trading partner of Japan after the U.S. and the European Economic Community (EEC).

It accounts for 8.5 percent of Japan's international trade in 1985.³⁰ Simultaneously, Japan is the single largest trading partner of ASEAN, purchasing nearly a quarter of the region's total exports, while Japanese goods make up a fifth of all of the region's imports.³¹

In 1985 Japanese imports from ASEAN were almost \$20 billion or 15 percent of the country's total imports. At the same time, exports to ASEAN were nearly \$15 billion or 10 percent of all Japanese exports.³²

Japan sustains a balance of payment (BOP) deficit in trade with ASEAN. For instance, the surplus enjoyed by ASEAN was \$4,390 million in 1985. However, this can be misleading, for in reality only Indonesia and Malaysia have significant surpluses in bilateral trade with Japan. (The Philippines has a surplus of approximately 125 million in bilateral trade worth \$1,625 million.) This is largely because of Japan's oil and LNG imports from them. Deficits are suffered by the other ASEAN countries whose exports to Japan are either less price competitive or less demanded by the Japanese market.

Table 1.3 Japan-ASEAN Trade, 1985

	Total ASEAN exports to Japan		Total ASEAN imports from Japan	
	US\$ mil.	%	US\$ mil.	%
Indonesia	9,007	(49.1)	2,619	(28.1)
Malaysia	3,784	(24.6)	2,833	(23.0)
Philippines	875	(19.0)	750	(14.0)
Singapore	2,184	(9.4)	4,486	(16.3)
Thailand	951	(13.3)	2,448	(26.0)
ASEAN Total	16,801	(24.4)	13,135	(20.6)

Source: IMF, *Direction of Trade Statistics* (Yearbook 1986).

Japan-ASEAN trade assumes the typical asymmetrical pattern of trade between developed and developing countries. Some 90 percent

of Japan's imports from ASEAN is primary products (processed and unprocessed) and energy; manufactured goods make up less than 10 percent of total exports to Japan.³³ On the contrary, Japanese exports to ASEAN are almost entirely dominated by industrial plants and equipment, electronic instruments, and other manufactured consumer goods.

On the transfer of capital, over half of Japan's aggregate overseas direct investments from 1951 to 1986 in Asia was injected into ASEAN economies. This represents 13.6 percent of Japan's direct foreign investments within the period.

Table 1.4 Japan's Overseas Direct Investments (in million US\$)

Region	1985		1986		Net 1951-1986	
	Value	%	Value	%	Value	%
North America (U.S.A.)	5,495 (5,395)	45.0 (44.2)	10,441 (10,615)	46.8 (45.5)	37,406 (35,455)	35.3 (33.5)
Europe	1,930	15.8	3,469	15.5	14,471	13.7
Asia (ASEAN)	1,435 (949)	11.7 (7.7)	2,427 (866)	10.4 (3.9)	21,790 (14,427)	20.6 (13.6)
Middle East	45	0.4	44	0.2	3,016	2.8
Africa	172	1.4	309	1.4	3,678	3.5
Oceania	525	4.3	992	4.4	5,234	4.9
Total	12,217	100.0	22,320	100.0	105,970	100.0

Source: Ministry of International Trade and Industry and Ministry of Finance, Government of Japan.

Nearly half of all Japanese investments in the region is in mining. Within the manufacturing sector, production of metal products and textiles and clothing take up 13 and 8.6 percent of total Japanese investments in ASEAN,³⁴ investments in other manufacturing areas are extremely small.

Because of geographic or economic considerations, Asia is and will continue to be Japan's natural and major trading area in the

coming decades. Japan's economic success in the 21st century will greatly depend on its close relationship with the economies of Asia, especially with developments like protectionism in the U.S. and European markets, European Community (EC) integration in 1992, and the growing prosperity of the Asian economies, as well as Japan's domestic and foreign policy changes.

Strengthening the JSDF

For years Japan had been reluctant to involve itself in its domestic defense or in regional and international security efforts that expected military alliances or deployment of the Japan Self-Defense Forces (JSDF). Countries in Asia and the West did not want a vigorous Japanese defense force either. So in the three decades since 1945, Japan was essentially dependent on the U.S. nuclear umbrella and U.S. troops stationed in Japan for the nation's defense.

During the late 1960s and throughout the 1970s, growing lack of confidence among the Japanese population in the U.S. defense shield and U.S. credibility in its security commitments to Japan induced the Japanese government to formulate more self-reliant defense policies and to augment JSDF capabilities. Although the majority of Japanese feels that Japan's national defense should be achieved through a combination of diplomacy, economic power, military might, and other means, a growing consensus for a strengthening of JSDF in response to the changes in the international environment is emerging. The new generation of Japanese is more sensitive to external changes. They still look on to America as a close Japanese ally but there are serious doubts about U.S. commitment to defend Japan at all costs. The Japanese population is now advocating more positive and independent security and defense policies and is more aware of the pragmatic need to maintain JSDF. A 1982 nationwide poll on defense conducted by the Prime Minister's office revealed that 86 percent of Japanese endorsed JSDF and 69 percent of them identified the maintenance of national security as the primary reason for supporting JSDF.

Japan's defense capabilities have been significantly increased under the various defense plans adopted since the late 1960s. And throughout the 1980s, Japan has continued to expand JSDF's capabilities in spite of the peaceful international atmosphere and the greater degree of openness and cooperation from the communist bloc. There are clear signs that Japan is determined to continue this buildup of JSDF and to raise the prominence of JSDF in Asia.

The land and air forces of JSDF operate strictly within Japanese territory. They have the duty of defending the country and its population from direct foreign hostility on Japanese soil.

Although the Chinese are no longer viewed as a threat to the country, the Soviets are still dealt with great caution. If a conventional Soviet attack is launched against Japan, these two forces cannot hold off the far superior Soviet forces for more than a month. Direct U.S. military assistance must be summoned for the nation's survival.

The naval branch of JSDF, the Maritime Self-Defense Force (MSDF), fares no better when compared to the Soviet naval force but it can more effectively discourage Soviet interference and interdiction activities in the Japan Sea (and straits between the major Japanese islands which the Soviet navy frequently intrudes) to keep these waterways free and safe for navigation. Outside the Northeast Asian region, Tokyo is most concerned with the Strait of Hormuz in the Middle East and SLOCs in ASEAN. There is not much MSDF can do in the Middle East but Tokyo is interested in keeping the latter free from Soviet intimidation, particularly when Soviet naval forces are only a few hundred miles away in the ports of Vietnam and Cambodia and frequently exercise in the South China Sea. Consequently, Tokyo wants to expand MSDF's perimeter of patrol to 1,000 nautical miles from Japan, bringing the MSDF into the territorial waters of the ASEAN states.

Among the ASEAN states, the Philippines and Indonesia have been the most vociferous critics of JSDF. There were concerns about Japanese rearmament, in particular that the national sovereignty of ASEAN states in these waters and maybe even in the coastal areas could be undermined by Japanese military presence. From the legal perspective, some contended that this would be a violation of Japan's

constitution — that the presence of a “defense force” in a foreign territory could no longer be considered purely “defensive” in nature. Another concern of ASEAN states is that expansion of MSDF capabilities will invite the Soviets to expand their military presence in the region as Moscow may perceive a weakening of U.S. commitment to the region's defense.

Furthermore, ASEAN states are troubled by the fact that Japan now has the third largest defense budget in the world after the two superpowers. Yet this still represents less than 2 percent of its GNP compared to some 6.4 percent of the GNP for the U.S. and 5.1 percent of the GNP for the United Kingdom.³⁷ Just two years ago, Tokyo broke the “1 percent of GNP” ceiling on defense and the ratio is still rising. There were also incidents like former Prime Minister Yasuhiro Nakasone's visit while in office to the Yasukuni Shrine for the war dead and the controversy over the revision of Japanese history texts. Another worry is the recent dispute between Japan and the U.S. over joint manufacture of the FSX, an advance model of the F16 jet fighter. Since it would involve the transfer of valuable aerospace technology to Japan, many defense and economic experts warn of the possible boomerang effect on the West as Japan may blunt the West's competitive edge in the production of commercial and military aircrafts. All these add to heighten ASEAN's anxiety over revival of Japanese militarism.

However, the likelihood of full-scale Japanese militarization is really quite remote. Firstly, there is domestic opposition. Secondly, foreign states may demonstrate their objection by halting or sharply reducing trade with Japan. In the end, Japan's national security is harmed rather than enhanced.

Japan is trapped in a predicament. On the one hand, ASEAN objects to JSDF expansion; on the other, there are overwhelming U.S. pressure for greater JSDF commitment and complaints that Japan is getting a “free ride” in its defense.

As an economic superpower fighting for acceptance in the exclusive club of Western developed countries, Japan will have to assume international peace-keeping and development responsibilities befitting a major political and economic power. Therefore, it is crucial

for Japan to obtain the endorsement or at least the acquiescence of ASEAN for the strengthening of JSDF, the first step toward enhancing Japan's political and military role in the Asia-Pacific region. For instance, Nakasone's 1983 visit to ASEAN with promises of small yen credits and technical cooperation had effectively toned down the Philippines and Indonesia's adamant opposition to Japan's defense policy, specifically to the “1,000-nautical mile limit” policy.³⁸

Table 1.5 Japan's Defense Expenditure (in billion yen)

Year	Defense Budget	Growth from Previous Year	Ratio to GNP	Ratio to Total Gov't Budget
1955	134.9	3.3	1.78	13.60
1960	156.9	0.6	1.23	9.90
1965	301.4	9.6	1.07	8.24
1970	569.5	17.7	0.79	1.76
1975	1,327.3	21.4	0.84	6.23
1976	1,512.4	13.9	0.90	6.22
1977	1,690.6	11.8	0.88	5.93
1980	2,230.2	6.5	0.90	5.24
1984	2,934.6	6.5	0.99	5.80
1986	3,343.5	6.58	0.993	6.18
1987	3,517.4	5.2	1.004	6.50
1988	3,700.3	5.2	1.013	6.53

Source: Figures for 1955 to 1976 are from Defense Agency of Japan, *Defense of Japan 1977*; while remaining figures are compiled from various sources.

International Status Enhancement

Traditionally, Japan has avoided any direct entanglement in any political conflict in Asia and elsewhere. JSDF troops have been kept from participating in military peace-keeping activities overseas by legal restraints, but Tokyo has also been most reluctant to act as mediator in any political or military strife. For example, Japan has

kept to a minimum its involvement in the Indo-China refugee problem. The country has accepted very few Indo-Chinese refugees, and so far only a few hundred have been granted Japanese citizenship. (Although some 6,171 Indo-Chinese have received permanent settlement in Japan between 1975 and 1988, this compared with 17,849 in Britain, 23,574 in France, 9,813 in Hong Kong and 8,247 in Switzerland.) Its only substantial contribution has been economic aid to organizations responsible for the care and relocation of refugees.³⁹ Sizable sums have also been given to ASEAN states who receive the majority of Indo-Chinese refugees.⁴⁰

To put it bluntly, it has been a policy of minimal involvement in problems that do not directly impinge on Japanese security to prevent itself from being drawn into ideological or politico-military alliances in order to maximize the economic advantages in its relationships with foreign states. Participation has been only to the extent necessary to avoid isolation. With its financial wealth, the country simply "pays" others to assume its global responsibilities.

Japan is gradually coming to terms with internationalization, accepting that its existence as a member of the world community demands greater involvement in world economic as well as political affairs. Japan is no longer satisfied with being an economic superpower. It seeks an international political role that is commensurate with its financial strength.

For years, Japan's foreign policies were only designed to advance the country's economic progress. The absence in Japanese policies of any solid ideological commitment or vision befitting a world power was the major reason why many countries would not take Japan seriously as a global political leader even if it is a world economic power. For instance, India has a much smaller economy, but its independent stands on many international issues and its ideological convictions about socialism and the independence of developing countries from domination and exploitation by foreign powers, especially the superpowers, have enabled India to present itself as a leader of the third world, such as in the Non-Aligned Movement, and establish itself as a formidable political entity in many multilateral organizations and international conferences.

The Comprehensive National Security Strategy was thus introduced to remedy this situation. Japan began to advocate global cooperation for world peace and stability as its ideology to support and rationalize its foreign policies and gradually expand the country's international status.

During his first official state visit to the U.S., Prime Minister Noburo Takeshita pledged to increase Japan's contributions to the developing countries.⁴¹ After the June 1988 Toronto Summit, Takeshita spoke in Chicago and promised Japan's cooperation in "helping to resolve and prevent conflicts" between nations and proposed the creation of an "international furusato" (a global village) as the ultimate goal of global cooperation.⁴²

This pursuit for international status really began not in the 1980s but in the 1960s under the Sato administration.⁴³ It is only in the 1980s that the world witnessed a Japan that is fervently broadening its influence in all areas as part of its Comprehensive National Security Strategy.

Japan hopes that greater involvement in international affairs would win her support from other countries for the realization of its national goals for the 1980s and 1990s: firstly, Japan desires global status of a level that is on par with the Western powers; secondly, greater leverage, both economic and political, in the international environment would facilitate Japan's development needs.

In 1978 Japan demanded a permanent chair in the U.N. Security Council, a symbol of status that would have put Japan in the league of countries like the U.S., the Soviet Union, U.K., France and China. This request was rejected since Japan failed to find support even from its Asian neighbors. The ASEAN countries all supported an unlikely and obviously much inferior contender — Bangladesh.⁴⁴ The same disappointment greeted Japan in its 1981 bid to have the 1988 Summer Olympics staged in Nagoya.

These setbacks have spurred Japan to make greater efforts to enlarge its role in many international issues and organizations with its economic muscle. In March 1989, Japanese Finance Minister Tetsuo Murayama pledged financial support for the new U.S. plan to help reduce the third world debt, including a lowering of interest rates on

existing loans.⁴⁵ In international lending agencies like the World Bank, the International Monetary Fund (IMF), and the Asian Development Bank (ADB), Japan has increased its influence by purchasing large subscriptions.

Every major power has its sphere of influence. If Japan is to be acknowledged as a formidable political power, it must then establish for itself a sphere of influence. The European Community will become one large, open market in 1992. Japan also envisions a sort of "Common Asian Market" in which Japan occupies a leadership position in its development.

Japan is the strongest economy in Asia and all Asian countries are eager to forge closer trade relations with Japan for their domestic development. We can already see greater cooperation among the Asian economies and between them and Japan. Japan has been very generous in extending financial grants and loans. In return Japan has secured a stronger voice in many regional organizations, most clearly in the case of ASEAN. In the Third ASEAN Summit in December 1987, Japan was the only dialogue partner invited to attend the summit conference in Manila.

Another sign of Japan's greater political role in Asian affairs is its new position on the Kampuchean question. Japan has offered to mediate for a Vietnamese withdrawal from Kampuchea.⁴⁶ Although the recent decision to pull out the Vietnamese troops from Kampuchea was made solely by Hanoi, offers of badly needed economic assistance from Japan had surely affected Hanoi's decision to some extent. In 1984, Foreign Minister Shintaro Abe announced that Japan (1) would consider financing an international peace-keeping force in Kampuchea; (2) offered official personnel assistance and facilities in monitoring any forthcoming election in the country; and (3) promised Japanese aid after peace is established.⁴⁷

Outside the Asian region, Japan has also taken significant diplomatic initiatives. Foreign Minister Sosuke Uno visited Israel in June 1988. He was the first Japanese Cabinet Minister to visit the Jewish state. The trip demonstrated a sharp departure from Japan's past policy of appeasement with the Arab states.⁴⁸ On the Afghan issue, Tokyo has plans to dispatch civilians to join the U.S. peace-

keeping operation in the country, the first of its kind undertaken by the Japanese. Five million dollars was pledged to finance U.N. peace efforts in Afghanistan and Japanese workers were sent there to assist in transporting refugees and rebuilding the telecommunications network damaged by the decade-long war.⁴⁹ On the audacious Strategic Defense Initiative program of the U.S., Japan announced its participation in research and development in 1986. In the same year, Japan concluded a technology-sharing agreement with Washington which stipulated the supply of dual-use technology to the U.S.

Within the United Nations, Japan has also made significant headway. Japanese nationals now chair the World Health Organization and the United Nations High Commissioner for Refugees (UNHCR). Japan finances nearly eleven percent of the U.N. annual budget, a contribution that is second only to America's.⁵⁰ In international relief efforts, Japan has broadened its capacity to respond to large-scale disasters. In the 1985 Mexican earthquake and Colombian volcanic eruption, Japan donated \$1.25 million to each country, plus emergency funding and sent its disaster-relief medical team to help the disaster victims. In April 1986, Japan set up a special organization to respond to natural disasters — the International Emergency Relief System.⁵¹

Notes

1. "From Superrich to Superpower," *TIME*, 4 July 1988, pp. 4-7.
2. *Kodansha Encyclopedia*, s.v. "Self-Defense Forces," by Goro Mutsu.
3. In FY1986-87, Japan broke the self-imposed unofficial "1 percent of GNP" defense expenditure ceiling as the defense budget rose to 1.004 percent of the GNP that year. Defense spending jumped to 1.013 percent of GNP in FY1987-88, which in real terms would be the third largest in the world after the U.S. and the U.S.S.R. Japan now pays about 40 percent of the annual \$6 billion required to maintain 60,000 U.S. troops in Japan. Just eight years ago, the U.S. bore the total cost, see *Defense of Japan* (1977-87); and "From Superrich to Superpower," *TIME*, 4 July 1988, pp. 5, 7.
4. Results of opinion polls conducted by the Jiji Press showed that over the past eighteen years, more Japanese are accepting the presence of the JSDF. Their heightened awareness of security threats contributed to stronger support for strengthening the JSDF, Charles E. Morrison, *Threats to Security in East Asia-Pacific* (Lexington, Mass.: Lexington Books, 1983), pp. 55-57.
5. Richard Halloran, "Tokyo Gloomy Over Big Re-evaluation." *N.Y.T.*, 20 December 1971, in *Japan: The Great Contemporary Issues* (N.Y.: Arno Press, 1974), pp. 344-345.
6. *Ibid.*
7. See Oka Tadashi, "Fiscal Chief Warns Japan of New Era of Hardship," *N.Y.T.*, 30 August 1971, in *Japan: The Great Contemporary Issues* (N.Y.: Arno Press, 1974), pp. 425-426.
8. Yukata Kosai, *The Era of High-Speed Growth* (Tokyo: The University of Tokyo Press, 1986), p. 173.
9. Oka Tadashi, "Sato Plans Action to Meet Pollution Crisis in Japan," *N.Y.T.*, 29 July 1970, in *Japan: The Great Contemporary Issues* (N.Y.: Arno Press, 1974), p. 374.

10. See Terutomo Ozawa, *Multinationalism: Japanese Style* (Princeton, N.J.: Princeton University Press, 1986), p. 169; and Alan Rix, *Japan's Economic Aid: Policy Making and Politics* (London: Croom Helm, 1980), pp. 40-41.
11. Edberto M. Villegas, *Japanese Capitalism and the Asian Development Bank* (Quezon City: University of the Philippines, 1983), pp. 17-18.
12. *White Paper of Japan, 1981-82* (Tokyo: The Japan Institute of International Affairs, 1981), pp. 37-48.
13. *White Paper of Japan, 1982-83* (Tokyo: The Japan Institute of International Affairs, 1982), pp. 44-45.
14. *White Paper of Japan, 1983-84* (Tokyo: The Japan Institute of International Affairs, 1983), p. 45.
15. Mamoi Makoto, "Are there any alternative strategies for the defense of Japan?" in *U.S.-Japan Relations and the Security of East Asia*, ed. Franklin B. Weinstein (Boulder, Colo.: Westview Press, Inc., 1978), p. 29.
16. See Muthial Alagappa, "Japan's Political and Security Role in the Asia-Pacific Region," *Contemporary Southeast Asia* 10 (June 1988), pp. 40-41; and Tsuneo Akaha, "Japan's Response to Threats of Shipping Disruptions in Southeast Asia and the Middle East," *Pacific Affairs* 59 (Summer 1986), pp. 256-266.
17. See Robert O. Tilman, *Southeast Asia and the Enemy Beyond: ASEAN Perception of External Threats* (Boulder, Colo.: Westview Press, Inc., 1987), p. 107.
18. Tsuneo Akaha, "Japan's Response to Threats of Shipping Disruptions in Southeast Asia and the Middle East," *Pacific Affairs* 59 (Summer 1986), pp. 256-266.
19. Martin E. Weinstein, *The Great Power Triangle and Asian Security* (Toronto: Lexington Books, 1983), p. 75.
20. Mamoi Makoto, "Are there alternative strategies for the defense of Japan?" in *U.S.-Japan Relations and the Security of East Asia*,

- ed. Franklin B. Weinstein (Boulder, Colo.: Westview Press, Inc., 1978), p. 76.
21. Akao Nobutoshi, "Resources and Japan's Security," *Japan's Economic Security: Resources as a Factor in Foreign Policy*, ed. Akao Nobutoshi (Hampshire: Gower, 1983), pp. 15-44.
 22. See "Black Futures," *Asiaweek*, 10 March 1989, p. 56.
 23. See Robert O. Tilman, *Southeast Asia and the Enemy Beyond: ASEAN Perception of External Threats* (Boulder, Colo.: Westview Press, Inc., 1987), p. 107.
 24. Robert Franklin Ichord, Jr., "Southeast Asian Oil and U.S. Foreign Policy," (Ph.D. dissertation, University of Hawaii, 1975), p. 106.
 25. See A. R. Soehoed, "Economic Dimensions of Security in the ASEAN Region," in *Economic, Political, and Security Issues in the 1980s*, ed. Robert A. Scalapino and Jusuf Wanandi (Berkeley: University of California, 1982), p. 59.
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 28. See MITI, *White Paper on International Trade 1975* (Tokyo: Japan External Trade Organization, 1975), pp. 24-25, 41-42; and *Yearbook on International Statistics 1987* (New York: United Nations, 1988); and "Import Dependency of Natural Resources of Selected Countries (1986)," *Japan 1988: An International Comparison* (Japan: Keizai Koho Center, 1988), p. 66.
 29. See Japan Tariff Association, *Foreign Trade Almanac* (1987); and Hideo Matsuzaka, "Future of Japan-ASEAN Relations," *Asia Pacific Community* (Summer 1983), p. 13.
 30. Muthial Alagappa, "Japan's Political and Security Role in the

- Asia-Pacific Region," *Contemporary Southeast Asia* 10 (June 1988), p. 20.
31. See "Leading Trading Partners of Selected Asian Countries (1986)," *Japan 1988: An International Comparison* (Tokyo: Keizai Koho Center, 1988), p. 39.
 32. Tsuneo Akaha, "Japan's Response to Threats of Shipping Disruptions in Southeast Asia and the Middle East," *Pacific Affairs* 59 (Summer 1986), p. 264.
 33. See *Export and Import Statistics of Japan*, 1980, 1984, 1987.
 34. Ministry of Finance, *Japan's Direct Investment to ASEAN* (1987).
 35. Ralph N. Clough, *The Common Security of Japan, the U.S. and NATO* (Boston, Mass.: Ballinger Publishing Company, 1981), p. 32.
 36. Hang Sang-II, "Japan's Defense Policy and Its Implications," in *Korea and Japan in World Politics*, ed. Chung Chin-Wee, et al. (Seoul: Korea Association of International Relations, 1985), pp. 104, 106-107.
 37. See *The World Almanac and Book of Facts 1988*, s.v. "U.K.," p. 729; and *The World Almanac and Book of Facts 1988*, s.v. "U.S.," p. 732.
 38. See Khong Kim Hoong, "Malaysia-Japan Relations in the 1980s," *Asian Survey* 27 (October 1987), p. 1103.
 39. Half of the UNHCR's budget in 1979 was financed by the Japanese, Donald G. Hellmann, "Japan and Southeast Asia: Continuity Amidst Change," *Asian Survey* 19 (December 1979), p. 1197. Also, see *Refugees Magazine* (June 1989), p. 35.
 40. *Ibid.*
 41. See "A Guest Arrives Bearing Gifts," *TIME*, 25 January 1988, p. 11.
 42. See "From Superrich to Superpower," *TIME*, 4 July 1988, p. 6.

43. Sato adopted a set of foreign policy guidelines known as the "Asia-Pacific Concept." Its main emphasis was regional solidarity in defense against Communist expansion. Japan shall play a leading role in the Asian community by forming closer ties with other Asian states through economic cooperation. In April 1964, Japan became the first Asian country to be admitted into the OECD. Two years later, the Association of Asian Pacific Cooperation Council was formed by Japan, South Korea, Taiwan, the Philippines, Malaysia, Thailand, Australia and New Zealand to increase economic cooperation with hopes for resolving the Vietnam War. Also in 1966, the ADB was established and a Japanese became its first director. In 1968, the Olympics was held in Tokyo. This was the first time the Olympics was held in an Asian city and for two weeks Japan was in the international limelight, changing the world's perception of Japan. See Robert Trumbull, "New Japanese Policy aimed at Regional Solidarity," *N.Y.T.*, 13 February 1967, in *Japan: The Great Contemporary Issues* (N.Y.: Arno Press, 1974), pp. 336-337; Robert Trumbull, "Asia-Pacific Council is Formed: Nine Members Split on Vietnam," *N.Y.T.*, 20 June 1966, in *Japan: The Great Contemporary Issues* (N.Y.: Arno Press, 1974), p. 335; Robert Trumbull, "Sato Urges Japan to Regain World Role," *N.Y.T.*, 14 November 1964, in *Japan: The Great Contemporary Issues* (N.Y.: Arno Press, 1974), p. 326; and Emerson Chapin, "Japanese Admitted into Economic Group," *N.Y.T.*, 29 April 1964, in *Japan: The Great Contemporary Issues* (N.Y.: Arno Press, 1974), p. 294.
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45. See "Enter the Brady Plan," *TIME*, 20 March 1989, p. 34.
46. See "From Superrich to Superpower," *TIME*, 4 July 1988, p. 6.
47. See "Asian/Pacific," *FEER Asia 1989 Yearbook*, p. 60; and Suetō Sudo, "From Fukuda to Takeshita: A Decade of Japan-ASEAN Relations," *Contemporary Southeast Asia* 10 (September 1988), pp. 125-126.
48. See "From Superrich to Superpower," *TIME*, 4 July 1988, p. 6.

49. *Ibid.*
50. *Ibid.*, pp. 4, 6.
51. See Eileen Marie Doherty, "Japan's Expanding Foreign Aid Program," *Asian Affairs: An American Review* (Fall 1987), p. 132.

CHAPTER II

JAPAN'S ECONOMIC COOPERATION WITH ASEAN

OVER the years, ASEAN has slowly achieved greater unity in promoting closer intra-regional cooperation and in advancing the interests of its members. The stability and growing affluence of the region has given rise to stronger nationalism among ASEAN populations, each becoming more independent in security matters. On a regional basis, the members are seeking greater cooperation, e.g., Singapore has helped trained some Bruneian troops. In their alliance with the U.S., ASEAN states want greater equity. The Philippine government has successfully bargained for higher rents and shortened the leases of the U.S. military bases in the islands.

This noble impulse to become self-reliant in the region's defense is, however, extremely difficult to realize since these developing states have only limited resources. Simultaneously these resources are already in competition with economic and social demands. Diversion of these scarce resources to the military sector would severely strain on-going economic development and dash hopes for improving life for the majority of ASEAN population.

Intra-regional commercial exchange is small as these economies produce similar products. There is little that they can offer to each other in terms of capital and technology. Hence, ASEAN states cannot effectively develop without outside help.

Japan and ASEAN have highly complimentary economies. The ASEAN countries are rich in resources, including minerals, energy, agricultural and fisheries produce, and labor. Japan, on the other hand, is in a position to offer capital and technology.

Japan has much to gain in facilitating the development of ASEAN states. Firstly, Japan would have greater assurance of raw materials and energy sources from the region. Participation in the

development of these resources would further guarantee this. Secondly, industrialization would require ASEAN economies to import capital and industrial equipment and technology from Japan. Thirdly, the growing market potential of these economies would certainly increase the demand for consumer goods, e.g., electrical appliances and automobiles. Fourthly, Japanese assistance in ASEAN's development would clearly benefit ASEAN states, but at the same time it would facilitate Japan's own economic restructuring, transferring labor- and resource-intensive and space-consuming industries to ASEAN. Fifthly, stronger ASEAN economies could produce stronger ASEAN military forces in safeguarding the freedom of the Malacca Straits and other sealines. Sixthly, goodwill and gratitude from ASEAN states could possibly win their support for Japan in many international issues, building up Japan's global political power and prestige. For example, Japan's chances of acquiring a permanent seat in the U.N. Security Council may improve significantly with the endorsement of ASEAN and other developing countries which Japan is also actively assisting in their development. Seventhly, economic prosperity can contribute to the stability of the region. It would protect Japan's vested economic and political stakes in the region by allaying feelings of discontent and frustration felt by peoples unable to develop as rapidly as they would like to. Such feelings compounded by poverty breeds totalitarianism and communism. Finally, it would improve Japan's image, relieving it from some of the international criticisms that Japan is not contributing enough to international peace, development and security.

The motives and direction of Japanese economic aid and cooperation are therefore intimately linked to Japan's national security needs. Assistance to promote another country's development or global peace and stability should directly or indirectly advance the nation's security interests. Simultaneously, its perceived security threats and requirements are affected by political and economic developments in the domestic and international environments.

In a more general sense, aid may be defined as "the explicit transfer of real resources to less developed countries on concessional terms from a variety of origins, commercial or official." Narrowing it

only to official assistance, it may be defined as "government-sponsored flows of resources made available on concessional terms to foreign governments."¹ Whichever way one wishes to define it, foreign aid is basically a movement of resources from one country to another designed to assist the latter in its development. Furthermore, cooperation may include private investments and other profit or non-profit endeavors. Thus, economic assistance and cooperation may come in many forms, including government and private loans, financial and commodity grants, personnel development, investment, etc.

The transfer of science and technology is also an important element of aid and cooperation as skills and know-how facilitate a country's development. It is, however, more complex than other forms of assistance because what is transferred is most often intangible, and there are simply no laws governing the precise nature of technical transfer. It may be transferred through personnel training and education, licensing of production technology, plans, models, foreign direct investments bringing personnel, management skills, production know-how, tools and machineries, etc. The success and effectiveness of such transfers can be assessed and evaluated only by judging the adaptability and appropriateness of such skills and knowledge to the domestic environment of the recipient countries.

The Japanese government views all forms of government grants, loans and credits as economic aid. Often in the calculation of it, private efforts, e.g., private loans, grants and business investments are included as well. As such, Japan's Official Development Assistance (ODA)² includes bilateral and multilateral grants (financial, commodity and technical), as well as government loans.³

The following sections will chart the development of Japan's assistance to and cooperation with ASEAN since the 1950s when Japan first began to use these economic tools in expanding diplomatic relations with foreign states. This will reflect the change in Tokyo's perception of its security needs and how Tokyo has tried to promote them through economic cooperation.

The 1950s: A Fresh Start

Japan's aid programs began modestly with its war reparations program in 1951.⁴ A total of \$1,152.8 million in damages and \$737.5 million in loans were disbursed to the Southeast Asian states and Burma.⁵ However, scrutiny of the composition and terms of the reparations reveals that they could have benefitted Japan more than they did to the recipient.

In the case of the Philippines who received the lion's share of the payments, out of the total \$780 million received only \$30 million was in cash for war widows and orphans. Five hundred million dollars were goods grants and the rest was relatively low-interest commercial loans over a period of twenty years. Indonesia received \$223 million over a 12-year period and commercial loans of up to \$400 million. Thailand received a total of \$41.7 million worth of shipping vessels and capital goods, while Singapore was allotted \$17 million in grants and loans.⁶

As the larger part of the indemnity was dominated by commodity and service grants, Japan was actually developing markets for its exports. This growing influx of Japanese commercial and capital goods, financial institutions and styles formed the basis for future dependence on Japan.

Japan's initial investments during this period concentrated on resource development, especially mining in Indonesia and the Philippines.⁷

Motivated by desires to open more markets for its exports, Japan continue to expand its diplomatic ties and influence in the region. Japan joined the Colombo Plan in 1954 which was designed for cooperation in economic development in South and Southeast Asia. This was the first time in which Japan extended official assistance, and not indemnity, to developing countries.⁸ Japan also took part in another program of a similar nature organized by the United Nations — the U.N. Expanded Program of Technical Assistance. In both plans, technology transfer was the main focus.

As a matter of fact, technical assistance was an early and important form of Japanese aid that was wholly financed by the Japanese

government. Although its technical aid was small in dollar terms and offered a lower level of technology compared to those of the advanced countries, the technology transferred had a significant impact on ASEAN economies since the level and types of technology transferred were appropriate for these newly developing countries. Many from the participating developing countries were either sent to Japan for training or were trained by Japanese experts sent to their country.⁹

Japan took full advantage of these programs to promote sales of its industrial plants and equipment, which helps to explain Japan's enthusiasm in these projects. The country also attended the Bandung Conference in 1955 to establish ties with participants of this landmark meeting of developing nations.

In sum, aid during this period was aimed at opening up and improving trade and political links with post-war Asia and to increase Japan's diplomatic visibility in the region as Japan was regaining self-rule from the Allied Occupation Forces. It was also used to improve Japan's image among these Southeast Asian states, hoping to reduce their differences and erase their memories of Japanese atrocities during the war. But most important of all, it was the first step towards Japan's economic future.

1960 to 1968: Striving for Recognition and Status

By the late 1950s, Japan was already eager to establish itself as a certified developed country. Because of this, it took on a new approach to dispensing aid and cooperation, constructing a more comprehensive aid program and expanding its forms and amount.

Japan helped found and joined the Development Assistance Committee (DAC) of the OECD in 1960.¹⁰ Its involvement in international economic agencies was illustrated by its active participation in the General Agreement on Tariffs and Trade (GATT) and Asian and Pacific Council (ASPAC), and its decision to host the Asian Productivity Council.¹¹

In international financial agencies, Japan made its debut and exercised its influence by taking large capital subscription in them,

e.g., in the International Development Association.¹² In 1966, Japan helped launch the ADB and has since become a major force in it because of its huge capital subscription holdings.¹³ Of the ADB's initial capital of \$1,100 million, \$200 million of it was put up by the Japanese (the second largest contribution after the U.S.). Japan also gave \$20 million to the ADB's Special Fund — generally used for technology development projects — and \$23 million to the Agriculture Fund. Moreover, \$80 million of the Bank's \$125.8 million Multipurpose Fund was from Japan.¹⁴ Substantial contributions were also made to various U.N. agencies and other international institutions.¹⁵

On the administrative side of aid disbursement, there was no specific agency responsible for this task within the Japanese bureaucracy in the 1950s. Each ministry simply drew up its own set of priorities into which economic cooperation was incorporated. The top priority in almost every ministry — and the nation as a whole — was Japan's economic prosperity. Consequently, the resulting policies often lacked coordination, efficiency and frequently only catered to the needs of Japan, failing to satisfy the demands of the recipient countries. To remedy the situation, the Overseas Economic Cooperation Fund (OECF), under the direction of the Economic Planning Agency, was set up in 1962 to administer and oversee special development project loans to developing countries.

By 1966, Japan's aid program had begun to gain greater international credibility. Japan agreed to upgrade its performance at the United Nations Conference on Trade and Development (UNCTAD) II conference in 1968. To meet the OECD level of the Western developed states, Japan promised to raise its ODA to 0.7 percent of GNP by 1970.¹⁶

Concurrently, Japan launched its new high-profile Southeast Asian policy with three specific events in 1966: (1) Japan hosted the first Ministerial Conference on Southeast Asian Economic Development; (2) joined the ADB; and (3) created an Agricultural Fund for Southeast Asia.¹⁷

Japanese aid to the Southeast Asian region from 1960 to 1968 constituted 28 percent of all Japanese aid and half of all Japanese assistance to Asia in the same period.¹⁸

Table 2.1 Japanese Aid by Area, 1960-1968 (in million US\$)

	Asia	Southeast Asia	Middle East	Africa	Int'l Agencies	Total
1960-1968	2664.1 (56%)	1318.0 (28%)	325.5 (7%)	650.5 (14%)	334.7 (7%)	4753.5

Source: *Chosa Geppo (Research Monthly)*, published by the Cabinet Research Office, Vol. 14, No. 12 (December 1969), p. 14.

From 1963 to 1970, Japanese aid to the non-communist countries of the Asian region increased six-fold.¹⁹ The war in Vietnam raised Japan's consciousness over its security, and the need for closer cooperation with the free Southeast Asian states, who were nearest to Indochina and themselves battling with domestic communist insurgencies, to combat and curb the spread of communism.

The main feature of Japanese aid during this period was that a disproportionate majority of it was bilateral grants with low concessionality and government and private loans. Bilateral assistance was preferred because it allowed the donor greater control over the terms of cooperation. This arrangement ensured that the donor, too, would derive benefits from the donations, e.g., the aid-recipient country may be required or recommended to make purchases from the donor country. During the Ikeda years (1961-64), over 90 percent of Japan's aid was bilateral. This helped Japan in balancing its balance of payment and in financing its imports.

Japanese official assistance was strongly biased towards exports promotion and excessively tied. Rigid rules and conditions set by the Japanese government dictate the disposal of funds by the recipients, often prescribing the exact tools and equipment and contractors, generally Japanese companies, for a specific project. Until 1969, about half of its total transfer of resources to the developing countries was in the form of deferred-payment export credits.

Grants to multilateral agencies was less than 3 percent of its total aid, making it apparent that Japan wanted participation in these institutions for diplomatic reasons rather than the provision of real aid on

an equitable basis to developing countries. (Japan's ODA as percentage of its GNP was consistently the lowest within the OECD).

Investments were strongly inclined towards developing resources and infrastructures strategic to Japanese-economic interests, although more are drifting into the manufacturing and tertiary sectors than before. Japanese loans had much higher interest rates, ranging from 4.75 to 5.75 percent compared with capitalist Europe average of 3 percent.²⁰

Table 2.2 Japanese Aid During the Ikeda Cabinet, 1961-64
(in million US\$)

Official Funds	1961	1962	1963	1964
Bilateral Grants				
Reparations	65.1	66.8	62.1	57.8
Technical Aid	2.4	3.6	4.5	5.8
Other Grants	0.3	4.2	10.1	5.1
Gov't Long-term Capital				
Direct Loans	26.8	12.5	60.3	49.1
Others	0.9	-7.5	-8.8	-11.6
Grants to Multilateral Agencies	2.0	2.2	2.9	3.2
Capital Subscriptions to Multilateral Agencies	9.4	5.0	9.2	6.5
Subtotal	106.9	86.8	140.3	115.9
Private Funds				
Foreign Direct Investment	98.4	68.4	76.7	39.3
Export Credits	180.7	130.3	50.6	135.7
Multilateral Portfolio Investment	-4.6	0.7	-	0.3
Subtotal	274.5	199.4	127.3	175.3
Total	381.4	286.2	267.6	291.2
National Income (in bil. US\$)	41.32	46.68	52.93	60.08
Percent of National Income	0.92	0.61	0.51	0.48

Source: Japan Ministry of Foreign Affairs.

Under equipment supply schemes, Japan furnished equipments and machineries necessary for technology transfer. Japanese "technical assistance experts" were dispatched to ASEAN countries to teach and demonstrate techniques. For effective implementation of this form of technology transfer, the Japan Overseas Cooperation Volunteers agencies were established in 1965. Throughout this period, ASEAN received the largest number of Japanese technical experts sent overseas. For instance in 1962, 62.5 percent of the total was sent to ASEAN.

Foreign students were also trained in Japan in Japanese government-financed programs, with ASEAN nationals representing some 60 percent of all foreign trainees. Nonetheless, these training programs were not very successful and limited to a restricted scale because of language problems for most foreign students.²¹

Therefore, Japan's regional aid and economic cooperation efforts were single-mindedly geared towards advancement of Japanese economic interests, usually neglecting the social and economic needs for balanced development in the recipient country. Enlargement of Japan's regional standing and influence was only to affirm its status as a developed state, and political-military alliances were avoided, only pursuing broad international political objectives immediately pertinent to Japan's domestic economic progress.

1969 to 1977: Survival and Adjustment

Political maneuvers in the late 1960s and early 1970s aggravated by the shock of the 1973 Oil Crisis brought about a decisive change in Japan's economic aid and cooperation policies. It was a crude awakening for the Japanese psyche in accepting Japan's vulnerability and then immediately and hastily trying to cope with these changes. The outcome was the employment of resource diplomacy. The Japanese Foreign Ministry openly stated that economic cooperation and assistance were to be concentrated in the resource-rich countries and countries along the major maritime passageways to harness resources vital to Japan's economy and ensure their safe transport to

Japan. Almost all aid and cooperation were geared to energy development. Japanese aid and overseas investments rose rapidly. Amicable ties with countries holding essential materials were considered necessary to assure stable supply of these resources. For instance, Japanese ODA to the Middle East leaped from a minute 0.1 percent of total Japanese aid (before the Oil Crisis) to 12.4 percent of all Japanese aid in 1977.²²

Japanese aid grew over 400 percent from \$1,263.1 million in 1969 to \$5,884.4 million in 1973. The ODA component was about 25 percent of its total assistance, accounting for \$435.6 million and \$1,011 million in 1969 and 1973, respectively.²³ By 1971, Japan had risen to become the second largest aid donor within the DAC after the U.S.

Table 2.3 Aid from Major Donors Among OECD Countries

Country	1963	1965	1967	1970
United States	4,579	5,520	5,567	5,971
Japan	320	601	855	1,824
France	1,242	1,299	1,344	1,808
F.R.G.	605	726	1,140	1,487
U.K.	720	1,028	875	1,259
Italy	321	266	285	725

Source: OECD, *Development Assistance, 1971 Review*, Table 2, p. 144.

The recession caused by the 1973 Oil Crisis stunted growth in Japan's aid programs. Total aid from 1973 to 1975 fell, but shot up to twice the 1973 level by 1978. Between 1976 and 1978, Japan's ODA doubled.²⁴ Bilateral and tied aid dominated Japanese assistance in the 1950s and 1960s so at the UNCTAD III in 1972, Japan promised to untie its multilateral contributions. However, the recession from 1973 to 1975 impeded the process, and it was only in 1975 that Japan began untying its bilateral aid and loans.²⁵

At the same time, Japan expanded and diversified its aid program to include more technology transfer and personnel exchange in compliance with the demands from the aid-recipient countries for more genuine aid.

In the area of economic cooperation, specifically foreign direct investment, Japan channeled hundreds of millions into oil exploration and drilling. This conformed to the past practice of investing in the tapping and development of these resources that are absolutely crucial to Japan, but by this time the emphasis was on petroleum development because of the OPEC 1973 Oil Embargo.

This change first came about after the Tanaka Riots in 1974. Tokyo interpreted this as the Southeast Asians' expression of their deep dissatisfaction over the existing state of relations with Japan. Japanese policy makers realized that Japan had a serious image problem in the region. Japanese were perceived as capitalistic exploiters solely interested in markets and profits. This greatly intensified the urgency for Tokyo to review its past Southeast Asian policy.

ASEAN continued to receive the largest share of Japanese aid to a single region. Although bilateral loans remained the core element of Japanese aid, their terms were vastly improved and a growing percentage of it was in grants. For instance in 1978, 51.8 percent of Japanese ODA was government loans with an interest rate lowered to 3.5 percent and the grace period and repayment schedule extended to 6.7 years and 23.5 years, respectively.²⁶ However, Japanese loans were still more expensive compared to those of other DAC members. The average interest rate of DAC loans in the 1970s was only 2.6 percent. Repayment schedules were also tighter for Japanese loans. The DAC average had a grace period of 7.5 years and a repayment period of 29.7 years. In the same period, Japan's Export-Import Bank loans charged an interest rate of 6.5 percent.²⁷

Most of these concessionary loans and credits to ASEAN were for energy development and other related projects. Since the oil crisis, Japan has affirmed its determination to enlarge its control over energy sources. Consequently, it has strongly favored assistance from international organizations to public petroleum development in Southeast

Asia to reduce the monopoly of Western oil companies in the exploration, refinery and sale of oil.

ASEAN governments welcomed Japanese loans despite their less favorable terms because other capital sources, e.g., the World Bank, the International Monetary Fund and commercial lending agencies considered loans for petroleum development much too risky. ASEAN economies were buyers of oil, the price-takers, and had suffered tremendously from the sudden price hike of the 1973 Oil Embargo. They had to expend large shares of their precious capital resources on oil imports, capital that was also essential in fulfilling other social and economic demands. They were, therefore, eager to attain greater self-reliance in energy and at the same time to benefit from the surging oil prices if they were exporters.

Due to its substantial oil deposits — the most promising among ASEAN states before Brunei joined the organization in 1984 — and its status as an OPEC member, Indonesia received the largest portion of Japanese aid among ASEAN states. It was in this period that Japan replaced the U.S. as the largest aid donor to Indonesia. In May 1972, a Japanese government loan of \$200 million plus a commercial loan of \$100 million were given to Indonesia for oil exploration and the Asahan Valley Dam project. As part of the loan agreement, Indonesia was to supply Japan with 58 million kiloliters of low-sulphur oil²⁸ over a ten-year span.²⁹ A one-billion dollar loan was later added for the construction of two liquefied natural gas plants in North Sumatra and East Kalimantan.³⁰ From 1971 to 1972, Japan gave two \$10 million untied, soft-term loans to Myanma, the national oil company of Malaysia. These loans were also to be repaid by crude oil at market price.³¹

This assistance have earned Japan offshore concessions for exploration and development of oil deposits in Indonesia through its Japex-Indonesia Oil Company since the early 1970s.

The Japanese government also rendered technical assistance to ASEAN states. The Japan International Cooperation Agency (JICA) was created in 1974 by the government. This semi-governmental organization is the sole executor of official technical grants and assistance to the developing countries. JICA manages the Japanese

Peace Corps and is responsible for recruiting, training and dispatching its volunteers to work in developing countries. In 1986 alone, JICA sent some 7,615 experts to the developing world.³² JICA administers over 130 training courses with over 3,000 participants from 199 countries coming to Japan for training every year.³³

Since the early 1970s, Japan has been giving significant technical and financial support to the Committee for Coordination of Offshore Prospecting (CCOP) of ECAFE (Economic Commission for Asia and the Far East, now known as the Economic and Social Commission for Asia and the Pacific).³⁴ Individually, Japan has offered technical assistance in training indigenous technicians to the ASEAN public oil companies and supplying them with data and equipment.³⁵

On economic cooperation, Japan's ambition to secure and diversify its oil sources was the primary factor for increasing Japanese foreign direct investments (FDI) to ASEAN. The willingness of ASEAN states to accept foreign equity participation in their natural resource development served Japan well. By 1979, Japan had invested some \$5.5 billion in ASEAN countries. In each ASEAN economy, Japanese capital accounted for more than 25 percent of all approved foreign investments.³⁶ Japanese FDI in Indonesia consistently made up some 60 percent of all Japanese capital investments in ASEAN in the 1970s.

Table 2.4 Japanese FDI in ASEAN (in million US\$)

	1951-65	1970	1972	1974	1976	1978	1980	1986
ASEAN	150	490	856	2,946	3,946	4,581	7,021	14,324
Indonesia	51	242	473	1,190	2,703	3,739	4,424	8,673
Malaysia	19	50	76	250	356	473	650	1,283
Philippines	24	74	74	88	354	434	615	913
Singapore	17	33	90	222	305	544	936	2,571
Thailand	39	91	129	194	228	309	396	884
World Total	949	3,577	6,773	12,662	19,405	26,809	36,497	105,970

Source: Keizai Koho Center, *Japan 1988: An International Comparison* (Tokyo: Keizai Koho Center, 1988), p. 50.

Table 2.5 Japanese FDI in ASEAN — By Sector (in million US\$)

	1976		1977		1978		1979	
	C	A	C	A	C	A	C	A
Total	125	195	151	240	214	635	212	316
Manufacturing Industry:								
Food	17	6	15	4	15	12	23	10
Textile	9	36	13	52	19	33	23	31
Wood & Pulp	8	6	9	8	4	1	7	7
Chemistry	25	24	20	59	19	43	22	25
Metals	17	58	15	23	30	386	30	29
Machinery	10	6	12	5	32	40	23	51
Electric Machinery	16	10	16	16	52	62	39	27
Transport	9	7	9	24	9	39	8	33
Others	14	43	42	50	34	18	37	102
Others:								
Agriculture & Forestry	23	15	27	14	35	33	18	8
Fishery	7	5	7	3	2	1	10	10
Mining	10	800	11	339	4	176	3	143
Construction	14	6	16	3	20	14	20	12
Commerce	43	4	47	4	39	16	56	49
Finance & Insurance	5	4	2	4	4	3	2	3
Others	39	1	22	24	26	23	42	50
Real Estate	5	0.1	8	1	17	3	10	1
Branch Office	10	3	10	5	8	12	7	3
Total	281	1,044	301	636	369	917	380	595

C — Cases A — Amount

Source: Ministry of Finance, Government of Japan.

Japanese FDI in the ASEAN were still strongly inclined towards the mining sector, especially in the post-oil crisis years of 1974 to 1977. Each year, Japanese FDI in Indonesia expanded by approximately 50 percent with most of the money going into energy

industries. It rose to 14 percent of total Japanese FDI in the world in 1977, making Indonesia the largest recipient of Japanese FDI of any single country after the U.S.³⁷

Japanese FDI in the manufacturing sector also increased. The number of cases rose rapidly in the areas of textiles, chemicals, metals, machinery and electric machinery — a consequence of the new Japanese industrial initiative of moving heavy and petro-chemical industries to resource-rich countries like the ASEAN states.³⁸

During this period, Japan sought greater prominence in regional cooperative efforts because of declining U.S. influence in Southeast Asia. At the First ASEAN Summit Conference in Bali in 1976, the ASEAN members decided on five industrial projects to be carried out as symbol of their economic unity.³⁹ Japan promised material and technical support and took part in other major cooperative projects, including the development of the Mekong River Basin and construction of the Asian Highway.⁴⁰

The Second ASEAN Summit Conference was held in Kuala Lumpur in July the following year and Japan, New Zealand, and Australia were invited as dialogue partners. After attending the meeting, Prime Minister Takeo Fukuda toured the ASEAN states.⁴¹ In Manila, Fukuda committed a \$1 billion aid package to the five joint-ASEAN projects and declared what later came to be known as the "Fukuda Doctrine."

The Fukuda Doctrine asserted several points delineating the future course of Japan-ASEAN relations and Japan's role in the region:

1. that Japan will not become a military power;
2. that Japan intends to expand cultural, social, political ties with ASEAN along with their their economic ones;
3. that Japan wishes to cooperate with ASEAN as "equal partner" while working for stable relations with the Indo-Chinese states; and
4. that Japan will double its aid to ASEAN in five years, and raising imports from and investment in ASEAN.⁴²

Japan declared its firm support for a Zone of Peace, Freedom and Neutrality (ZOPFAN) proposed by ASEAN. Thereafter, assuming a leadership role, Japan had also promoted other regional organizations or cooperation frameworks for closer regional economic integration with Japan. However, ASEAN states did not give much attention to these Japanese proposals as they doubted Japanese intentions and capabilities in realizing these plans.

Being the largest subscriber of the ADB since 1972 and regularly making large contributions to the Bank's Special Fund and other special purpose development funds of the Bank, Japan exerts great influence over the Bank's lending policies. Top preference is given to development loans on agricultural, agro-industrial, energy and transport and communication development.⁴³

An overall assessment of Japanese aid during this period shows that Japan's ODA were not exceptional in comparison to those of other developed countries. In percentage terms, with aid amounting to only 0.29 percent of GNP, Japan was still below the OECD average of 0.35 percent (Norway was up to 1.2 percent of its GNP; Netherlands, 0.97 percent; Sweden, 0.85 percent), and well beneath its "1 percent of GNP" pledged at UNCTAD III in 1972.⁴⁴ Japan's argument for its failure to meet this target was that per capita income in Japan was low compared to those of Western Europe and the U.S.

Japanese aid was generally tied and with less favorable terms than those of other developed states. Government aid (grants and loans) was only 25 percent of total assistance — merely meeting the OECD requirement — in contrast to 68 percent for the U.S., 55 percent for France and 40 percent for the United Kingdom. In addition, a disproportionately large part of official aid was in the form of direct bilateral loans.⁴⁵

ASEAN complained that there was not enough technical aid given to them, specifically in the areas of research and development.⁴⁶ They were also outraged that Japan was still only interested in advancing its economic interests through aid, displaying little or no concern for the limitations, needs and requests of the aid-recipient countries. And in exporting its industries to ASEAN, Japan was also exporting its pollution problems and creating new ones in the host

countries. A sintering plant in Mindanao, Philippines, built by Kawasaki Steel in 1977, was implicated in causing asthma among its workers and residents near the plant. The Asahi Caustic Soda Plant in Thailand polluted the Chao Pulaya River with its mercury-tainted disposals. The Mamut Copper Mine of Japan's Overseas Mineral Resources Development Company in Suva, Malaysia has damaged neighboring areas with its sludge and dirt.⁴⁷

These shortcomings were the consequence of the Japanese government's short-sightedness and narrow-mindedness in international affairs. It was still trying to respond to changes only when they occur and then trying desperately to cope with the new situation and promote its interests with only slight concern for the welfare of its cooperation partners thereby setting ground for future conflicts.

1978 to the Present: Driving Towards International Pre-Eminence

With the advent of the 1980s, Japan develops a different attitude towards aid and economic cooperation as part of its Comprehensive National Security Strategy. Economics is tied to politics and defense requirements, contributing to the overall security of the state and its economy. It reflects both the country's economic motivations and security considerations, as well as its growing awareness of global inter-dependence and its desire for a commensurate world status.

Japanese security and economic concerns are strongly affected by Tokyo's political and economic relations with other industrialized economies. Japan has a highly vulnerable economy. It feels threatened by the rising tide of protectionism in the markets of the developed economies. Japan responds by increasing its overseas investments to open up new markets and to expand its market share in them as well as in the existing ones.

Japan's economic problems with the West, primarily bilateral trade deficits and incidents involving military technology transfer and illegal sale of technology to the Soviets by Japanese private business concerns, have sparked political conflicts. Both Americans and West

Europeans accuse Japan of protectionism due to its often unreasonably high tariffs and restrictions on foreign imports.

Then there are the defense considerations. Many Japanese are disturbed by the impact of the present acrimonious state of relations between their country and the U.S. on the Japan-U.S. security arrangements and U.S. commitment to Japan's defense.

For a long time, Japan has asserted that its economic aid will contribute to global peace and stability, ultimately benefitting Japan's own security and prosperity. But in contrast to its past aid and economic cooperation policy of simply exploiting raw materials and labor, Japan places strong emphasis on the strategic political application of aid, particularly to countries judged to be important to the West, thus effectively pursuing comprehensive security through aid.⁴⁸

Humanitarian aid has also increased, improving the social and economic conditions of life for the population of poverty-stricken developing countries helping to stem the ferment of popular discontent that may give rise to political instability.

As a world power, it is under tremendous domestic and international pressure to "do more" for the third world. The U.S. has been most outspoken in asking Tokyo to share the burden of building up pro-Western developing countries close to conflict areas. Increasing Japanese awareness of its economic strength and its diplomatic influence in the world also contribute to Japan's growing willingness and ambition for a political role in world affairs.

Prime Minister Takeshita declared during his state visit to the U.S. in 1988 that he intends "to make Japan responsible in the world."⁴⁹ For years, Japan has tried to establish itself as a fully-fledged member of the Western camp, most obviously and actively during Nakasone's tenure as prime minister. Japan has involved itself in numerous multilateral agencies and international political and economic issues through its aid contributions and global economic influence. Unlike military assistance, foreign aid is less controversial and has the broad-based support of the Japanese people, politicians and academics. It projects Japan as a "peace-loving" country that is genuinely concerned with the welfare of developing nations.

The ASEAN becomes ever more important in this grand scheme

of the Japanese government. Nakasone's 1983 tour with gifts of aid packages and loans was designed to win ASEAN backing for Japan's policies and positions on international issues thereby strengthening Nakasone's own footing at the Williamsburg Summit. And throughout the 1980s Japan has made itself more visible in international politics, proposing to act as an ASEAN spokesman in Washington and intermediary between Hanoi and ASEAN.⁵⁰

In recent years, Japan's foreign economic aid has grown more quickly than any other country, making it the largest global aid donor. Fukuda's pledge to double Japanese aid disbursements in five years with increases in the grant and technology elements of aid was realized in just four years. Development assistance was raised from \$1.43 billion in 1977 to \$3 billion in 1980.

In the same spirit, Prime Minister Zenko Suzuki announced in 1981 a new medium-term plan to raise Japan's level of aid during the 1981-85 period to an aggregate of \$21 billion by 1985. The plan was, however, hampered and made impossible to fulfill due to Japanese fiscal austerity during the global recession of the early 1980s. By the end of 1985, only an aggregate of \$18.1 billion or about 85 percent of the target was reached.

In September 1985, the cabinet of Nakasone approved a third medium-term plan that covers a seven-year period from 1986 to 1992 (later reduced to five years, 1986-1990). The target was to disburse an aggregate of \$40 billion by 1992 and double the 1985 aid total of \$3.8 billion by 1992.⁵¹ Quantitatively, Japanese ODA has grown but more importantly, its quality has improved considerably. Interest rates on ODA loans declined by an average of 0.6 percent and according to OECD reports, more than 70 percent of Japanese aid is now untied.⁵²

By 1981, Japanese ODA was well over \$3 billion annually. This makes Japan the fourth largest donor within the OECD in dollar terms after the U.S., France, and FRG. Japanese official aid totalled \$3.8 billion in 1985, making Japan the third largest global aid donor, but the amount was still a drop from \$4.3 billion in 1984. Japanese ODA soared to \$5.6 billion in 1986, largely because of the sharp rise in the yen's value.⁵³ In FY1988-89, Japan's foreign aid budget came to \$10

billion, surpassing the U.S.'s \$9.2 billion to make Japan the largest aid donor in the world.⁵⁴

At the Toronto Summit of the "Big Seven" in June 1988, Takeshita announced that Japan would spend more than \$50 billion in ODA in the five years from FY1988 to FY1992.⁵⁵ At the same time, he introduced a \$20 billion debt-relief program to help alleviate the third world debt crisis. This would be done through economic assistance to the developing countries and refinancing their debts.⁵⁶ Of this, \$8 billion was to be transferred through multilateral agencies; Japan's OECD, its Export-Import Bank and private banks would co-finance World Bank loans worth \$9 billion; and the rest would be untied loans from the Export-Import Bank of Japan.⁵⁷ Moreover, Japan would consider writing off repayments on loans extended to a group of countries that has been the poorest in the world since 1978.⁵⁸

Its participation in many multilateral institutions other than the IMF, International Bank for Reconstruction and Development (IBRD), and ADB also act as conduits for recycling Japanese surplus to the developing countries. This includes the African Development Bank, to which Japan is the second largest donor, the Inter-American Development Bank, the Asian Productivity Organization and the Southeast Asian Fisheries Development Center.⁵⁹

Such Japanese generosity to and concern for the third world debt problem is not entirely unfounded. Concurrently, Japan boasts foreign exchange reserves estimated to be at least \$80 billion, by far the largest in the world, and four of the top five world banks are Japanese-owned.⁶⁰ The depreciation of the dollar versus a rising yen significantly strengthened Japan's economic muscle, making foreign investments cheaper than ever before (partially explaining Japan's buying binge in the real estate markets of the U.S. and Australia); yet this has seriously worsened the third world debt problem, especially for countries having large yen-denominated loans.

ASEAN economies are in just such a position. They have been particularly hard-hit by the appreciation of the yen, aggravating their already heavy debt burden since yen loans make up a large proportion of Japanese aid to them.

They had appealed to Japan for some assistance to compensate

for this appreciation. Finally in December 1986, Japan acceded to lowering interest rates on new loans.⁶¹ Other than this, Japan also recycles its surplus to ASEAN through ADB facilities. The ASEAN-Japan Industrial Cooperation, a joint-stock company and satellite of the ASEAN Finance Corporation (AFC), was set up in 1980 to provide equity funds and loans to small- and medium-scale development projects. It would also guarantee and underwrite project loans.⁶² The Bank's ¥4.5 billion Japan Special Fund was launched in 1988 to finance or co-finance technical assistance grants and private-sector equity investments in developing countries for industrialization, natural and human-resource development, and technology transfer.⁶³ Another ADB facility was created in 1988 — the Asian Development Equity Fund (ADEF). Around \$100 million was set up in collaboration with eight underwriting firms for the ADEF to recycle surplus and promote equity market development in developing Asian economies.⁶⁴

Although China has grown to become the single largest beneficiary of Japanese largess since 1982, net donations to ASEAN as a whole is still the most substantial. Moreover, Japan remains the most important contributor of ODA to ASEAN.⁶⁵

Table 2.6 Ten Major Recipients of Japan's Bilateral ODA (net disbursements)

1980			1982			1983		
Rank	Amount	%	Rank	Amount	%	Rank	Amount	%
1. Indonesia	350.03	17.9	1. China	368.79	22.4	1. China	350.15	22.4
2. Bangladesh	215.14	11.0	2. Indonesia	294.55	12.4	2. Thailand	248.12	15.8
3. Thailand	189.55	9.7	3. Bangladesh	215.79	9.1	3. Indonesia	235.46	15.0
4. Burma	152.46	7.8	4. Thailand	170.32	7.2	4. Philippines	147.02	9.4
5. Egypt	122.97	6.3	5. Philippines	136.38	5.8	5. India	129.54	8.3
6. Pakistan	112.42	5.7	6. Burma	103.93	4.4	6. Burma	113.39	7.2
7. Philippines	94.40	4.8	7. Pakistan	95.28	4.0	7. Bangladesh	104.20	6.7
8. South Korea	76.30	3.9	8. Malaysia	75.32	3.2	8. Malaysia	92.30	5.9
9. Malaysia	65.63	3.3	9. Sri Lanka	61.61	2.6	9. Sri Lanka	73.06	4.7
10. Sri Lanka	44.78	2.3	10. Egypt	61.61	2.6	10. Pakistan	72.77	4.6
Total	1,960.80	100.0	Total	2,367.33	100.0	Total	1,566.03	100.0

Source: Japanese Ministry of Foreign Affairs.

About \$727 million worth of Japanese ODA was disbursed to ASEAN in 1983 to promote small business and various personnel, energy and rural development projects.⁶⁶ However, ASEAN states were deeply dissatisfied with Japan since a recession kept Japan from meeting ASEAN's requests made at the 8th Japan-ASEAN Forum for improvement in Japan's General System of Preferences Scheme, specifically lowering tariffs and non-tariff barriers and expanding import quotas for certain products. Hence, they pressed Tokyo for another Japan-ASEAN Forum to reiterate their demands, but no agreement has been reached.⁶⁷

As its economic health recovered, Japan increased grants-in-aid to ASEAN in 1984. A large grant donation of \$170 million went to Thailand in 1985.⁶⁸ At the 1985 Post-Ministerial Conference, Japan agreed to aid fifteen ASEAN projects.⁶⁹ In 1985, grants to ASEAN reached \$380 million, more than twice the 1980 amount. The same year, Japan also gave grants to various ASEAN projects, including a project for environment and hygiene improvement in Manila; a pest and disease forecasting and control unit in Indonesia; and construction of a Machinery Industries Development Institute in Thailand.⁷⁰

At the Foreign Minister's Meeting in Singapore in June 1987, Japan's Foreign Minister Tadashi Kuranari agreed in principle to prepare a major fund to help promote ASEAN cooperation. In September that year, Prime Minister Nakasone hinted that this fund would be at least \$2 billion. With this Tokyo successfully obtained an invitation to the Third ASEAN Summit for the new Prime Minister Noburo Takeshita.⁷¹ As a matter of fact, Japan was the only dialogue partner invited to the summit, reflecting the importance ASEAN attached to a friendly and close relationship with Japan. In his speech at the meeting, Takashita stressed three Japanese policies to advance ASEAN-Japan cooperation:

1. to strengthen the economic resilience of ASEAN and Japan;
2. to promote political coordination between Japan and ASEAN and to promote a "comprehensive exchange plan," i.e., cultural, academic, and personnel exchanges; and

3. to formalize the ASEAN-Japan Development Fund, the \$2 billion aid package that is the first part of a \$20 billion recycling program.⁷²

Table 2.7 Japan's Bilateral ODA to ASEAN Countries (in million US\$)

Country	1980			1983			1986		
	G	L	T	G	L	T	G	L	T
Indonesia	59.2	290.8	350 (17.9)	60.0	175	235 (9.7)	110	51	161 (4.2)
Malaysia	12.7	52.9	65.6 (3.3)	29	63	92 (3.8)	43	-6	37 (1.0)
Philippines	35.7	58.6	94.4 (4.8)	61.9	85	147 (6.1)	80	358	438 (11.4)
Thailand	70.2	119	189 (9.7)	89	158	248 (10.2)	126	135	261 (6.8)
Singapore	3.7	-	3.7 (0.2)	8	-4	3.8 (0.2)	21	-6	15 (0.4)
Total*			702.9 (35.9)			725.8 (30.0)			914 (23.8)

*Total includes ODA to Brunei which takes the form of technical cooperation amounting to US\$1 to 2 million each year.

Notes: G—Grant element covering Aid and Technical Cooperation

L—Loan aid

T—Total

(—)Figures in parentheses indicate percentage within Japan's total bilateral ODA

Source: *Japan's ODA 1985* (Tokyo: Ministry of Foreign Affairs, 1985); and *Basic Statistics on Japan's Economic Cooperation* (Tokyo: Ministry of Foreign Affairs, 1987).

The ASEAN-Japan Development Fund consists of two parts. The first is an investment fund of official and private resources to furnish loans to the private sector and yen-dominated loans at a low interest rate of 3 percent per annum for joint-ventures in the region.⁷³ The second part requires Japan to provide untied loans to ASEAN through development institutions in each country, e.g., the ADB.⁷⁴

A "mini-Marshall Plan" was agreed to by ASEAN, the U.S., Japan and the E.C. at the 1988 Annual ASEAN Meeting in Bangkok to help revitalize the Philippine economy. Most recently in February 1989, the ASEAN Poultry Disease Research and Training Center officially opened in Malaysia. It was constructed with a ¥1.3 billion grant and supplied with Japanese technology.⁷⁵

In the 1980s, technology transfer and cooperation are gaining increasing importance in Japan's aid to ASEAN, with these economies all going full-throttle with their industrialization. Since 1980, technical aid has come to account for about 17 percent of its bilateral ODA, and official technology transfer rose 41 percent between 1980 and 1983.⁷⁶

Between 1980 and 1988, Japan expanded its technological aid to ASEAN by initiating many cooperation projects. Cooperation included personnel training, industrial, technology, socio-economic, and health related development projects. It also became more involved in the planning, execution and evaluation of these science and technology projects.⁷⁷ Equipment and machinery given for technology-transfer purpose reached ¥1,651 million in 1986 (or about US\$10 million based on the exchange rate then).⁷⁸

Among the technical cooperation projects agreed to between Japan and ASEAN from 1986 to 1988 were (1) an Industrial Technology Program to dispatch Japanese experts on management and production techniques from private Japanese companies to ASEAN government agencies;⁷⁹ (2) the construction of a Computer Science, Robotics and Automan Training Center; (3) two bio-technology joint-ventures;⁸⁰ (4) a Japan-financed training course on meteorological satellite data and an ad-hoc Expert Study Group on Meteorological Facilities and Services for Aviation;⁸¹ and (5) the establishment of a Training Center on Land Transportation in cooperation with the ASEAN Committee on Transportation and Communication.⁸²

Most of these are short-term projects; nonetheless, Japan is entering into more long-term projects including industrial technology cooperation in quality control, plant renovation, assessment and appraisal of mineral and energy resources, and cooperation in energy development.⁸³ To better facilitate long-term transfer of technology to

ASEAN, a Japanese survey mission was sent to Technonet Asia to study ways to efficiently transfer technology to ASEAN and coordinate the sharing of technology among the ASEAN member states.⁸⁴

Japan is also participating in numerous social and urban development projects of ASEAN. Most of these are short-term projects and are now in the planning stage. Most of its work in health-related cooperation projects are now in the implementation stage and some have already been completed.⁸⁵

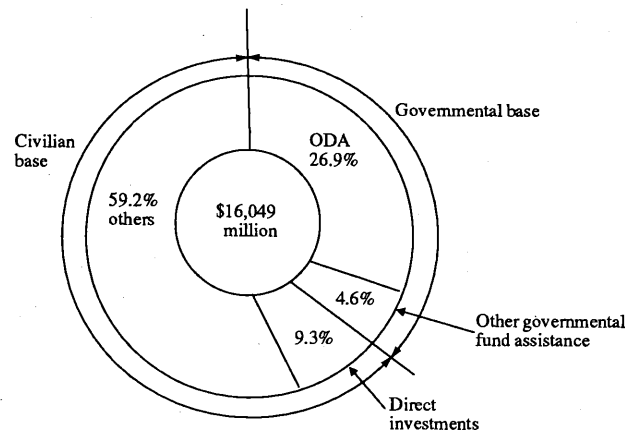
In response to ASEAN requests, the focus of Japanese ODA to the region has shifted away from large industrial ventures to the development of agricultural industries and human resources and cultivating small- and medium-sized businesses. Japan is still very much interested in exploring energy sources, but it is also trying to develop renewable energies in ASEAN. As the third medium-term target had outlined, Japanese aid now aims at "effective and efficient implementation of aid, better coordination between technical and financial assistance and evaluation of aid projects."⁸⁶

To optimize the impact of these assistance on the developing economies, Tokyo wants better coordination with non-governmental aid organizations within Japan, e.g., the Tokyo Foundation, Asian Community Trust, Japan International Volunteers Center and the OISCA Industrial Development Body, who are increasingly involved in Japan's aid program, and with other donor countries and international organizations like OECD's Development Assistance Committee group.⁸⁷

FDI are becoming more important to ASEAN states than economic aid. Since ASEAN governments all employ export-oriented development strategies, they do like and have been asking for more FDI to the region to finance industrialization. Moreover, as these developing economies prosper, less aid will be made available to them by international agencies.

Japanese FDI in the ASEAN region continue to expand by more than \$900 million annually, but the amount as a share of Japan's annual global investment has been diminishing, dropping to only 16 percent in 1985.⁸⁸

Figure 2.1 Japan's Economic Aid to Developing Countries (1984)



An enormous portion of Japanese capital investments has been flowing into North America, Western Europe and Australia since 1985. This was possibly prompted by intensifying trade frictions between Japan and these economies causing Japan to adopt an export-substitution strategy by putting up factories within these markets to circumvent foreign legal protectionist measures and at the same time maintain and enlarge its market share in these economies. This includes the Honda and Mazda automobile assembly plants in the U.S., an upcoming Toyota automobile parts factory in England and Japanese acquisition of Firestone, a major U.S. tire-maker. In these investments Japan capitalizes on its strong yen, which makes FDI and other purchases less expensive.

Japanese FDI in ASEAN still constitutes nearly 60 percent of Japanese investments in Asia and almost half of Japan's global investment in natural resource development, with Indonesia receiving a dominant share of it.⁸⁹ Looking at this from ASEAN perspective, the importance of Japanese investment in ASEAN is greatly magnified for over half of all FDI in ASEAN comes from Japan.⁹⁰

Japan continues to place heavy emphasis on energy development and minerals exploration with 47 percent of its FDI in the region concentrated in these activities, e.g., nearly all Japanese FDI in Brunei goes exclusively to the gas and oil industry. Nevertheless, in response to ASEAN demands for more investments in the manufacturing sector, Japan has raised its investments in this area to some 40 percent of its FDI in ASEAN.⁹¹ The ASEAN governments hope that investment in the manufacturing industries will help relieve unemployment in their over-crowded urban centers and produce skilled workers crucial to their future industrial development.

In Brunei the unavailability of labor and natural resources other than oil limits Japanese investments to the oil and gas industry. In Indonesia, Japanese investments are found mostly in the extractive industries — coal mines, oil fields, hydroelectric plants — but cases of cooperation in the manufacturing sector have been increasing, including car-making and production of electrical appliances. In Malaysia, the situation is similar, plus a strong Japanese presence in the construction industry with Japanese companies responsible for a quarter of all its construction projects. Toyota and other major Japanese automobile makers have manufacturing and assembly plants in the Philippines. Nippon Steel and Toshiba also operate in the islands. Singapore hosts manufacturing and processing operations for many top Japanese computer and home appliance giants — Sanyo, Toshiba and Hitachi to name a few — and Japanese capital built Singapore's construction and shipbuilding and repairing industries.⁹²

To better promote private capital investments in ASEAN, the Japanese government has set up the Japan-ASEAN Investment Company in 1983 to provide funds for capital participation in mutually beneficial economic undertakings. An initial capital fund of \$55 million was committed by the Japanese government and private sources to launch the scheme. Keidanren, the powerful Japanese business organization, established in April 1989 an "international cooperation project promotion company" with sixty leading Japanese companies. Its aim is to bring investment into the developing countries by acting as an intermediary between the host country and investors and also as a guarantor for Export-Import Bank loans.⁹³

Japanese investments in ASEAN have helped to ease the unemployment situation and the Japanese Multinational Corporations (MNCs) operating in these countries have brought to ASEAN economies their marketing and production know-how, made available to them supporting facilities like credit loans and linked these economies with the global marketing network.

As the ASEAN economies are growing rapidly, they will also need to generate more foreign capital through exports so international trade has become very important to their overall industrial and economic development.

Japan has tried to accommodate ASEAN demands for easier access of ASEAN exports into Japan. At the 5th UNCTAD Conference in Manila in May 1979, Prime Minister Ohira promised more and better aid, improved access for exports of developing countries into Japan and stated Tokyo's support for a Common Fund for commodity price stabilization, engaging Japan in manpower development in the third world.⁹⁴

In his visit to ASEAN in 1981, Prime Minister Suzuki indicated Japanese willingness to improve economic cooperation with ASEAN states especially in assisting the development of agriculture, energy, human resources and the rural areas through management and technical training.⁹⁵

For the first time, Japan is assisting the promotion of ASEAN exports to Japan with considerable institutional and non-institutional involvement. On the institutional side, the Manufacturers' Import Promotion Organization was established by MITI in February 1978 to facilitate imports by supplying free display in Japan for foreign manufacturers. A Common Fund on Commodity Agreements with \$61 million from Japan was created in June 1980. An ASEAN Export Stabilization Scheme (ASEBEX) was adopted in response to the long-running and mounting ASEAN demands for such a scheme. Its main function, as its name suggests, is to "stabilize" prices of specific primary commodities the ASEAN exports to Japan. This is done by compensating (or replenishing) for a price downfall (or increase) when price fluctuations exceed a certain range measured from the base level of these exports to Japan. Tokyo extended the country's

General Scheme of Preferences (GSP) to ASEAN for another ten years.⁹⁶ Moreover, a 50 percent rise in the ceiling of quotas under the GSP for ASEAN industrial products to be effective from 1984 onward was announced by Nakasone during his ASEAN tour in 1983.⁹⁷

Japan is the only OECD member to include in its GSP wider coverage for ASEAN products and to treat all ASEAN countries as a single entity so that approved imports from one ASEAN country can be regarded as wholly originating in another ASEAN country as well.⁹⁸

The Cumulative Origin Principle, effective since April 1978, has proved itself beneficial to ASEAN as it aids them in the export of raw materials processed within the region, e.g., plywood made from Southeast Asian lumber. The MITI has organized Import Promotion Missions to ASEAN to show what the economies have to offer Japan and advise ASEAN businessmen on ways to enter the Japanese market.⁹⁹ In 1985, an "action program" to improve market access to foreign imports with tariff cuts on a variety of products of interest to ASEAN was introduced. An ASEAN Trade Promotion Center was officially opened in 1988.¹⁰⁰

Non-institutional aid to promote ASEAN exports to Japan include visits of Japan External Trade Organization (JETRO)'s export promotion policy advisers to the region.¹⁰¹ It has also organized and sponsored numerous seminars, symposia and exhibitions within the region so that indigenous trading companies would achieve better organization and coordination in their attempt to penetrate the Japanese market.¹⁰²

ASEAN as a whole still enjoy a small trade surplus with Japan, but individually only Malaysia and Indonesia (and since 1984, Brunei) have a substantial trade surplus because of their energy exports to Japan. The Philippines has only a very small surplus while Thailand and Singapore have none at all. The industrialization of these economies will reduce this surplus as they will have to purchase more capital goods from Japan and other foreign sources. This will further cut down their surplus because of the appreciation of the yen.

Table 2.8 Japan's Trade with ASEAN (in million US\$)

Year	Indonesia	Malaysia	Philippines	Singapore	Thailand
1978 Export	2,016	1,373	1,349	2,509	1,645
Import	4,566	1,695	828	981	830
Balance	-2,550	-233	521	1,645	815
1979 Export	2,101	1,757	1,480	3,004	1,843
Import	7,189	2,595	1,208	1,366	1,126
Balance	-5,088	-833	272	1,638	717
1980 Export	3,458	2,061	1,686	3,911	1,917
Import	13,167	3,471	1,951	1,507	1,119
Balance	-9,709	-1,410	-268	2,404	798
1981 Export	4,123	2,424	1,928	4,468	2,251
Import	13,305	2,927	1,731	1,944	1,061
Balance	-9,182	-503	197	2,524	1,190
1982 Export	4,261	2,502	1,803	4,373	1,907
Import	12,005	3,010	1,567	1,826	1,041
Balance	-7,744	-508	227	2,547	866
1983 Export	3,552	2,771	1,744	4,448	2,506
Import	10,432	3,131	1,306	1,468	1,019
Balance	-6,880	-360	438	2,980	1,483
1984 Export	3,073	2,875	1,080	4,610	2,425
Import	11,175	4,412	1,419	1,775	1,040
Balance	-8,102	-1537	-339	2,835	1,385
1985 Export	2,172	2,168	937	3,860	2,030
Import	10,119	4,330	1,243	1,594	1,027
Balance	-7,947	-2,162	-306	2,266	1,003
1986 Export	2,662	1,708	1,088	4,577	2,030
Import	7,311	3,846	1,221	1,468	1,390
Balance	-4,639	-2,138	-133	3,109	640

Source: Japan's Ministry of International Trade and Industry.

Albeit that Japan has been improving and increasing its economic aid to developing countries, there are still many complaints from other DAC members and recipient countries that Japan is not giving enough. Its ODA-GNP ratio is still one of the lowest within the DAC even if it boasts the largest global GNP. For instance, in dollar terms, Japan was the third largest aid donor within the DAC group in 1985,

but its ODA was only 0.29 percent of its GNP, very much lower than the U.N. recommended average of 0.70 percent. The grant element of aid was also the lowest. DAC members have an average of 86 percent, but Japan's grants-in-aid was only 73.6 percent of its ODA.¹⁰³ In absolute dollar terms, Japan's aid has grown tremendously but as ratio of its GNP it has been declining and the same is also true for its ODA program.

Table 2.9 Economic Aid of DAC Member Countries to Developing Countries (1984)

	Total Economic Aid (100 mil. US\$)	Ratio to GNP (%)	Gov't Economic Aid (100 mil. US\$)	Total to GNP (%)
France	89.0	1.82	27.9	0.77
Netherlands	20.5	1.65	12.7	1.02
Japan	160.5	1.30	43.2	0.35
Germany, F.R.	65.1	1.06	27.8	0.45
United Kingdom	37.9	0.88	14.2	0.33
Canada	28.4	0.87	16.3	0.55
United States	285.9	0.78	87.1	0.36
TOTAL DAC Countries			286.6	0.36

Source: Japan's Ministry of International Trade and Industry.

Tokyo explains that the poor Japanese ODA performance is the result of slow disbursement of budgeted funds, particularly OECF loans. Each year, nearly a third of the OECF budget remains unused. The major obstacles, according to Japanese officials, are the inability of the debt-ridden countries to absorb new loans and suspension of aid to risky projects and unstable countries. The current trend of undertaking smaller-scale and lower-cost development projects, the slow implementation of programs and even the difficulty of finding worthwhile projects in often unfamiliar countries are other reasons.¹⁰⁴

Table 2.10 Economic Aid of DAC Member Countries to Developing Countries (1985)

	Total Economic Aid (100 mil. US\$)	Ratio to GNP (%)	Gov't Economic Aid (100 mil. US\$)	Total to GNP (%)
France	88.7	1.74	40.0	0.78
Netherlands	26.3	2.11	11.4	0.91
Japan	112.4	0.84	38.0	0.29
Germany, F.R.	57.5	0.92	29.4	0.47
United Kingdom	36.7	0.81	15.3	0.34
Canada	16.9	0.51	16.3	0.49
United States	218.2	0.50	94.0	0.24
TOTAL DAC Countries			294.3	0.35

Source: Japan's Ministry of International Trade and Industry.

Table 2.11 Japan's ODA, 1978-85

	1978	1979	1980	1981	1982	1983	1984	1985
bil. US\$	2.20	2.64	3.30	3.17	3.02	3.76	4.32	3.80
As % of GNP	0.23	0.26	0.32	0.28	0.28	0.33	0.35	0.29
As average of DAC Total	0.35	0.34	0.37	0.35	0.38	0.36	0.36	0.35

Source: Ministry of International Trade and Industry and Ministry of Foreign Affairs, Government of Japan.

Tokyo further justified its preference for bilateral loans and assistance over multilateral contributions by saying that Japan prefers more direct supervision over and evaluation of the Japanese aid-financed projects for maximum effectiveness and efficiency.

However, it would be unfair to criticize Japan for giving "tied" aid because nearly 70 percent of Japanese aid is now "untied." Furthermore, it is not uncommon to find tied aid among other DAC

members, e.g., about 50 percent of all American development assistance is tied and "buy American" provisions of U.S. laws require much of the donations to be spent on U.S. goods.¹⁰⁵ Another point is that a great deal of Japanese donations to multilateral agencies for relieving the Third World debt does not show up in the OECD tally.¹⁰⁶

On aid and economic cooperation, another controversial issue is technical assistance. Critics charge that it is still relatively low and that there is still the tendency of Japan to overemphasize official export credits and private investments as part of its development aid effort. On trade, the asymmetry that ruled Japan-ASEAN trade relations in the past decades continue today, with the difference widening. Japan's economic importance to ASEAN is greater than it has ever been but at the same time, there is a decline in the region's economic importance to Japan. This is most extreme in the case of Indonesia. Japan buys about 40 percent of Indonesia's total exports but the figure represents only 7 percent of Japan's total imports. On the other hand, Indonesia buys 27.1 percent of its imports from Japan, or only 2.2 percent of Japan's total exports.¹⁰⁷

As part of its new security effort, Japan is not only extending much assistance to the Asian-Pacific countries which are considered vital to Japan's national security. Its aid to other areas certainly shows a new Japan that is more sensitive to international problems and more prepared to help. It has offered \$4 billion to help Latin American countries with their debt problems. It has a well-established aid program in sub-Saharan Africa, assisting in hunger-relief and health-related projects, agriculture technology transfer and personnel training. The African governments gladly welcome Japanese assistance at a time when Western aid is falling. Another merit of Japanese aid to the African governments is that it is generally free of any political constraints that are so common of aid packages from the U.S. and former colonial rulers.¹⁰⁸

Indeed, if Japanese aid is applied benevolently, it can serve to improve the socio-economic condition in many third world countries, earning Japan their respect and support, making Japan a model for emulation. In 1982, Malaysia's Prime Minister Mahathir has openly espoused a "Look East Policy" using Japan as a model for develop-

ment — the first among ASEAN.¹⁰⁹ In the late 1970s and the early 1980s, Singapore had advocated a "Learning from Japan Movement" but the program was not formally adopted as part of the country's development policy as it is in Malaysia. Moreover, economic cooperation would supplement aid. If carried out wisely and conscientiously, it would be mutually beneficial, contributing to each's security needs and regional peace, stability and prosperity.

Notes

1. Alan Rix, *Japan's Economic Aid: Policy Making and Politics* (London: Croom Helm, 1980), p. 14.
2. Official Development Assistance (ODA) as defined by the OECD is "those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests: (a) it is administered with the promotion of the economic development and welfare of the developing countries as its main objective, (b) it is concessional in character and contains a grant element of at least 25 percent." See A. Rajendran, *ASEAN's Foreign Relations: The Shift to Collective Action* (Kuala Lumpur: Arenbuku, Sdn., bnd., 1985), p. 189.
3. See F. C. Langdon, *Japan's Foreign Policy* (Vancouver: University of British Columbia, 1973), p. 171.
4. Norton S. Ginsburg and James Osborn, "Japan and Southeast Asia: The Geography of Interdependence," in *Japan, America, and the Future World Order*, ed. Morton A. Kaplan and Kinhide Mashakoji (N.Y.: The Free Press, 1976), pp. 244-245.
5. See Jon Halliday and Gavan McCormack, *Japanese Imperialism Today: Co-Prosperity in Greater East Asia* (London: Penguin Books, 1983), pp. 21-23.
6. Norton S. Ginsburg and James Osborn, "Japan and Southeast Asia: The Geography of Interdependence," in *Japan, America, and the Future World Order*, ed. Morton A. Kaplan and Kinhide Mashakoji (N.Y.: The Free Press, 1976), pp. 244-245.
7. See Kernial Singh Sandhu and Eileen P. T. Tang, eds., *Japan as an Economic Power and Its Implications for Southeast Asia* (Singapore: Singapore University Press, 1974), p. 1.
8. *Ibid.*, pp. 50-51.

9. Alan Rix, *Japan's Economic Aid: Policy Making and Politics* (London: Croom Helm, 1980), p. 22.
10. The Group was initially known as the Development Assistance Group (DAG) and Japan was formally admitted into the OECD in 1964, from Kernial Singh Sandhu and Eileen P. T. Tang, eds., *Japan as an Economic Power and Its Implications for Southeast Asia* (Singapore: Singapore University Press, 1974), p. 60.
11. Norton S. Ginsburg and James Osborn, "Japan and Southeast Asia: The Geography of Interdependence," in *Japan, America, and the Future World Order*, ed. Morton A. Kaplan and Kinhide Mashakoji (N.Y.: The Free Press, 1976), p. 243.
12. Kernial Singh Sandhu and Eileen P. T. Tang, eds., *Japan as an Economic Power and Its Implications for Southeast Asia* (Singapore: Singapore University Press, 1974), p. 60.
13. Voting power within the ADB is determined by the number of shares, or capital subscriptions a country has. Japan exceeded the U.S. to become the largest shareholder in the ADB in 1981 with a total of 117,500 shares compared with the U.S.'s 113,368, see *Asian Development Bank Annual Report*, 1981, appendices I-VII, pp. 116-117.
14. Norton S. Ginsburg and James Osborn, "Japan and Southeast Asia: The Geography of Interdependence," in *Japan, America, and the Future World Order*, ed., Morton A. Kaplan and Kinhide Mashakoji (N.Y.: The Free Press, 1976), pp. 243-244.
15. See Kernial Singh Sandhu and Eileen P. T. Tang, eds., *Japan as an Economic Power and Its Implications for Southeast Asia* (Singapore: Singapore University Press, 1974), pp. 50-51.
16. Alan Rix, *Japan's Economic Aid: Policy Making and Politics* (London: Croom Helm, 1980), p. 39.
17. See William L. Brooks and Robert M. Orr, Jr., "Japan's Foreign Economic Assistance," *Asian Survey* 25 (March 1985), p. 325; and Robert Guillain, *The Japanese Challenge* (N.Y.: L. B. Lippincott Co., 1977), pp. 242-243.

18. Japan: Cabinet Research Office, *Chosa Geppo (Research Monthly)* 14, no. 12 (December 1969), p. 14.
19. See F. C. Langdon, *Japan's Foreign Policy* (Vancouver: University of British Columbia, 1973), p. 171.
20. *Ibid.*, pp. 184-186.
21. See Jon Halliday and Gavan McCormack, *Japanese Imperialism Today: Co-Prosperity in Greater East Asia* (London: Penguin Books, 1983), pp. 29-30; and *White Papers of Japan, 1986-87* (Tokyo: Japan Institute of International Affairs, 1986), p. 33.
22. Alan Rix, *Japan's Economic Aid: Policy Making and Politics* (London: Croom Helm, 1980), p. 35.
23. *Ibid.*
24. *Ibid.*, pp. 40-41.
25. William L. Brooks and Robert M. Orr, Jr., "Japan's Foreign Economic Assistance," *Asian Survey* 25 (March 1985), p. 325.
26. See Alan Rix, *Japan's Economic Aid: Policy Making and Politics* (London: Croom Helm, 1980), p. 43; and Raul S. Manglapus, *Japan in Southeast Asia: Collision Course* (N.Y. and Washington, D. C.: Carnegie Endowment for International Peace, 1976), pp. 5, 99.
27. Jon Halliday and Gavan McCormack, *Japanese Imperialism Today: Co-Prosperity in Greater East Asia* (London: Penguin Books, 1983), pp. 29-30.
28. Low-sulphur oil produces lower emissions of toxic gases, hence is less polluting than oil with high or medium sulphur level content.
29. Norton S. Ginsburg and James Osborn, "Japan and Southeast Asia: The Geography of Interdependence," in *Japan, America, and the Future World Order*, ed. Morton A. Kaplan and Kinhide Mashakoji (N.Y.: The Free Press, 1976), p. 249.
30. Robert Franklin Ichord, Jr., "Southeast Asian Oil and U.S.

- Foreign Policy," (Ph.D. dissertation, University of Hawaii, 1975), p. 70.
31. *Ibid.*, pp. 184-185.
 32. *White Papers of Japan, 1986-87* (Tokyo: Japan Institute of International Affairs, 1986), p. 33.
 33. "Options of Technical Trainees in Japan," *Asia Pacific Community* (Winter 1980), p. 95.
 34. The CCOP gives advice, training and data to developing member countries for conducting offshore surveys. Together with Australia, U.K., U.S., West Germany, France, Japan has given over \$5 million in various types of aid to CCOP projects from 1965 to 1975. See Robert Franklin Ichord, Jr., "Southeast Asian Oil and U.S. Foreign Policy," (Ph.D. dissertation, University of Hawaii, 1975), pp. 203-204.
 35. *Ibid.*, pp. 184-185.
 36. Robert A. Scalapino and Jusuf Wanandi, eds., *Economic, Political and Security Issues in Southeast Asia in the 1980s* (Berkeley: University of California, 1982), p. 18.
 37. See Keizai Koho Center, "Japanese FDI in ASEAN and Other Regions," *Japan 1988: An International Comparison* (Tokyo: Keizai Koho Center, 1988), p. 50.
 38. *Ibid.*, pp. 56-58.
 39. The five ASEAN projects were urea plants in Malaysia and Indonesia, production of diesel engines in Singapore, production of soda ash in Thailand and superphosphate in the Philippines. Equity shares were to be 60 percent for the host country and 10 percent for each of the other participants, and in the end only the urea projects were realized. The other large-scale projects were abandoned because of non-viability and the inability of the ASEAN members to cooperate among themselves, see Seiji Naya, "Japan's Role in ASEAN Economic Development," *Asia Pacific Community* (Summer 1978), p. 34; and Muthial Alagap-

- pa, "Japan's Political and Security Role in the Asia-Pacific," *Contemporary Southeast Asia* 10 (June 1988), p. 46.
40. See Kernial Singh Sandhu and Eileen P. T. Tang, eds., *Japan as an Economic Power and its Implications for Southeast Asia* (Singapore: Singapore University Press, 1974), pp. 52-53.
 41. Reijiro Toba, "Japan's Southeast Asia Policy in this Past Decade," *Asia Pacific Community* (Winter 1982), pp. 35-37.
 42. Donald G. Hellmann, "Japan and Southeast Asia: Continuity Amidst Change," *Asian Survey* 19 (December 1979), pp. 1195-1196.
 43. See Edberto M. Villegas, *Japanese Capitalism and the ADB* (Quezon City: University of the Philippines, 1983), pp. 26-30.
 44. Hiroshi Kitamura, *Choices for the Japanese Economy* (London: Chatham House, 1976), p. 159; "The New Global Philanthropist," *TIME*, 25 April 1988, p. 14.
 45. See Oka Takashi, "Japanese Aid: Up 44% in 1970, Nears Target Set by U.N.," *N.Y.T.*, 3 May 1971, in *Japan: The Great Contemporary Issues* (N.Y.: Arno Press, 1974), p. 387.
 46. Kernial Singh Sandhu and Eileen P. T. Tang, eds., *Japan as an Economic Power and its Implications for Southeast Asia* (Singapore: Singapore University Press, 1974), pp. 53-54.
 47. Edberto M. Villegas, *Japanese Capitalism and the ADB* (Quezon City: University of the Philippines, 1983), p. 18.
 48. Japanese aid to Thailand has been termed "strategic assistance" since 1980. Its purpose is to bolster Thailand's economic and social stability because of the Vietnamese invasion and occupation of Kampuchea, and to provide humanitarian aid to ease Thailand's burden in handling the massive influx of Indo-Chinese refugees into the country everyday, from Sudo Sueo, "From Fukuda to Takeshita: A Decade of Japan-ASEAN Relations," *Contemporary Southeast Asia* 10 (September 1988), p. 132.

49. See "The New Global Philanthropist," *TIME*, 25 April 1988, p. 14.
50. See Franklin B. Weinstein, "Japan and Southeast Asia," in *Economic, Political and Security Issues in Southeast Asia in the 1980s*, ed. Robert A. Scalapino and Jusuf Wanandi (Berkeley: University of California, 1982), p. 185.
51. See Eileen Marie Doherty, "Japan's Expanding Foreign Aid Programs," *Asian Affairs: An American Review* (Fall 1987), pp. 130-131.
52. See Statement by H.E. Mr. Sosuke Uno, Japan's Foreign Minister, "A New Dimension of Japan-ASEAN Cooperation: Engine for Development for the Asia-Pacific Region," in *21st ASEAN Ministerial Meeting and Post-Ministerial Conferences with the Dialogue Partners* (Bangkok: ASEAN Secretariat, 4 - 9 July 1988), p. 92; "The Global New Philanthropist," *TIME*, 25 April 1988, p. 14; and *White Papers of Japan, 1986-1987* (Tokyo: Japan Institute of International Affairs, 1986), p. 37.
53. In early 1985, US\$1 = ¥238.54, by the end of 1985 it was US\$1 = ¥168.52, up 41.6 percent, see Eileen Marie Doherty, "Japan's Expanding Foreign Aid Programs," *Asian Affairs: An American Review* (Fall 1987), pp. 135-136.
54. See "From Superrich to Superpower," *TIME*, 4 July 1988, p. 6.
55. Foreign Press Center, "FY 1983," *Press Guide* 13 (August 1983), pp. 1-2.
56. See "A Guest Arrives Bearing Gifts," *TIME*, 25 January 1988, p. 11.
57. Eileen Marie Doherty, "Japan's Expanding Foreign Aid Programs," *Asian Affairs: An American Review* (Fall 1987), pp. 142-143.
58. "A Guest Arrives Bearing Gifts," *TIME*, 25 January 1988, p. 13.
59. See Eileen Marie Doherty, "Japan's Expanding Foreign Aid

- Programs," *Asian Affairs: An American Review* (Fall 1987), p. 143.
60. Today's top five international banks are (1) Dai-ichi Kangyo with total assets of \$376 billion; (2) Citicorp (U.S.), \$176 billion; (3) Fuji Bank, \$143 billion; (4) Sumitomo Bank, \$136 billion; and (5) Mitsubishi Bank, \$133 billion, see "Money Masters From the East," *TIME*, 11 August 1986, p. 33.
61. For instance, interest rates on new loans to Malaysia were adjusted downward by one to four percent per annum, and interest rate on new loans to Thailand and the Philippines was lowered by 0.50 percent to 3.0 percent p.a., see Muthial Alagappa, "Japan's Political and Security Role in the Asia-Pacific Region," *Contemporary Southeast Asia* 10 (June 1988), p. 46.
62. With its headquarter in Singapore, the AFC supplies capital and credit to high-risk pioneering industrial ventures within the region, see Eric W. Hayden, "Financing ASEAN's Development: The Availability of Funds and Security of Investments," in *MNCs and ASEAN Development in the 1980s: Proceedings of Regional Conferences 1980*, ed. Arun Senkuttuvan (Singapore: Institute of Southeast Asian Studies, 1981), p. 71.
63. "Asia and Pacific Organizations," *FEER Asia 1989 Yearbook*, p. 62.
64. *Ibid.*, p. 63.
65. See Eileen Marie Doherty, "Japan's Expanding Foreign Aid Programs," *Asian Affairs: An American Review* (Fall 1987), p. 138.
66. Asai Motofumi, "Japan," in *ASEAN Success Story: Social, Economic, and Political Dimensions*, ed. Linda G. Martin (Honolulu: East-West Center, University of Hawaii, 1987), p. 195.
67. The declared purpose of the JAF is to decide on areas of cooperation between Japan and the ASEAN, to review and monitor progress of their cooperation and to recommend measures to

- expand cooperation. But in most cases, it is used by the ASEAN to bargain for more Japanese assistance, see Sudo Sueo, "From Fukuda to Takeshita: A Decade of Japan-Assistance Relations," *Contemporary Southeast Asia* 10 (September 1988), pp. 126-127.
68. See "A Global Money Machine," *TIME*, 18 March 1985, p. 38.
69. See Kato Koichi, "Toward Peace and Stability: Japan, ASEAN and the Asia-Pacific Challenge," *Speaking of Japan* 19 (June 1989), p. 4.
70. See *White Papers of Japan, 1986-87* (Tokyo: Japan Institute of International Affairs, 1986), pp. 34-35.
71. "Japan," *FEER Asia 1988 Yearbook*, p. 156.
72. See Sudo Sueo, "From Fukuda to Takeshita: A Decade of Japan-ASEAN Relations," *Contemporary Southeast Asia* 10 (September 1988), p. 123.
73. "Asian and Pacific Organizations," *FEER Asia 1989 Yearbook*, p. 62.
74. See Kato Koichi, "Toward Peace and Stability: Japan, ASEAN and the Asia-Pacific Challenge," *Speaking of Japan* 19 (June 1988), p. 4.
75. "ASEAN Poultry Disease Research and Training Center in Malaysia," *ASEAN Newsletter* (January-February 1989), p. 7.
76. William L. Brooks and Robert M. Orr, Jr., "Japan's Foreign Economic Assistance," *Asian Survey* 25 (March 1985), p. 338.
77. See *Annual Report of the ASEAN Standing Committee, 1987-88* (Jakarta: ASEAN Secretariat, 1988), pp. 126-127.
78. *White Papers of Japan, 1986-87* (Tokyo: Japan Institute of International Affairs, 1986), pp. 33-34, 86-87.
79. Statement by H.E. Mr. Sosuke Uno, Foreign Minister of Japan, "A New Dimension of Japan-ASEAN Cooperation: Engine for Development of the Asia-Pacific Region," in *21st ASEAN Mini-*

- sterial Meeting and Post-Ministerial Conferences with the Dialogue Partners* (Bangkok: ASEAN Secretariat, 4 - 9 July 1988), pp. 91-92.
80. See *Annual Report of the ASEAN Standing Committee, 1987-88* (Jakarta: ASEAN Secretariat, 1988), p. 88.
81. *Ibid.*, pp. 64-65.
82. *Ibid.*, p. 61.
83. *Ibid.*, p. 149.
84. *Ibid.*, p. 47.
85. See *Annual Report of the ASEAN Standing Committee, 1987-88* (Jakarta: ASEAN Secretariat, 1988), p. 109.
86. Eileen Marie Doherty, "Japan's Expanding Foreign Aid Programs," *Asian Affairs: An American Review* (Fall 1987), pp. 130-134.
87. *Ibid.*
88. Sudo Sueo, "From Fukuda to Takeshita: A Decade of Japan-ASEAN Relations," *Contemporary Southeast Asia* 10 (September 1988), p. 131.
89. *Ibid.*
90. *Ibid.*
91. Hideo Matsuzaka, "Future of Japan-ASEAN Relations," *Asia Pacific Community* (Summer 1983), p. 13.
92. See Norton S. Ginsburg and James Osborn, "Japan and Southeast Asia: The Geography of Interdependence," in *Japan, America, and the Future World Order*, ed. Morton A. Kaplan and Kinhide Mashakoji (N.Y.: The Free Press, 1976), p. 251; and Sudo Sueo, "From Fukuda to Takeshita: A Decade of Japan-ASEAN Relations," *Contemporary Southeast Asia* 10 (September 1988), p. 131.

93. FBIS, *Daily Report*, 8 February 1989, annex pp. 5-6.
94. Alan Rix, *Japan's Economic Aid: Policy Making and Politics* (London: Croom Helm, 1980), p. 21.
95. Franklin B. Weinstein, "Japan and Southeast Asia," in *Economic, Political and Security Issues in Southeast Asia*, ed. Robert A. Scalapino and Jusuf Wanandi (Berkeley: University of California, 1982), p. 185.
96. Nukazawa Kazuo, "Japan-ASEAN Trade Relations," in *ASEAN-Japan Relations: Trade and Development*, ed. Narongchai Akrasanee (Singapore: Institute of Southeast Asian Studies, 1983), pp. 170-171.
97. See Sudo Suelo, "From Fukuda to Takeshita: A Decade of Japan-ASEAN Relations," *Contemporary Southeast Asia* 10 (September 1988), p.122.
98. Robert J. Ozaki and Walter Arnold, eds. *Japan's Foreign Relations: A Global Search for Economic Security* (Boulder, Colo.: Westview Press, Inc., 1985), pp. 122-123.
99. See Nukazawa Kazuo, "Japan-ASEAN Trade Relations," in *ASEAN-Japan Relations: Trade and Development*, ed. Narongchai Akrasanee (Singapore: Institute of Southeast Asian Studies, 1983), pp. 170-171.
100. See Sudo Suelo, "From Fukuda to Takeshita: A Decade of Japan-ASEAN Relations," *Contemporary Southeast Asia* 10 (September 1988), p.131.
101. *Annual Report of the ASEAN Standing Committee, 1987-1988* (Jakarta: ASEAN Secretariat, 1988), p. 75.
102. See Nukazawa Kazuo, "Japan-ASEAN Trade Relations," in *ASEAN-Japan Relations: Trade and Development*, ed. Narongchai Akrasanee (Singapore: Institute of Southeast Asian Studies, 1983), pp. 171-172.
103. See Eileen Marie Doherty, "Japan's Expanding Foreign Aid

- Programs" *Asian Affairs: An American Review* (Fall 1987), pp. 135-136.
104. William L. Brooks and Robert M. Orr, Jr., "Japan's Foreign Economic Assistance," *Asian Survey* 25 (March 1985), p. 337.
105. See "The New Global Philanthropist," *TIME*, 25 April 1988, p. 14.
106. See "An Old Pro Wins," *TIME*, 2 November 1987, p. 38.
107. Saburo Okita, *The Developing Countries and Japan: Lessons in Growth* (Tokyo: University of Tokyo Press, 1980), pp. 265-266.
108. See "The New Global Philanthropist," *TIME*, 25 April 1988, p. 14.
109. Khong-Kim Hoong, "Malaysia-Japan Relations in the 1980s," *Asian Survey* 27 (October 1987), p. 1103.

CHAPTER III

CULTIVATION OF ASEAN ELITES

FOR reasons of security and national pride, Japan yearns deeply for global power status. It has expended billions of dollars on development aid to the Third World to build up an international reputation as a responsible, peace-loving and politically-conscious economic superpower. Although its generous economic and technical aid has broadened Japan's global visibility and influence and has enticed foreign governments to foster more amiable ties with Japan, it has unfortunately failed to change the attitude of the people of these developing countries towards Japan. Japan is still regarded as a one-time military aggressor, and today seen as a greedy economic monster that is gobbling up every bit of the earth's resources for its own selfish gains.

In Japan's view, the benevolent intentions of the Japanese government and the Japanese people are grossly misunderstood. Japan reasons that it gives aid for world peace and stability so that all countries, including Japan, can carry out their economic development in a peaceful and stable international environment. It rallies for the support of developing countries for its policies because Japan feels it is capable of doing something for them and is willing to. Its aid to the developing countries holds no ulterior motives, rather it should be taken as a gift or a form of assistance as one friend would extend to another.

Other governments like the superpowers, the U.K., France, were (or still are) colonial powers. The third world governments are invited by the world-class powers to join their political and military alliances with unambiguous motives that aim to advance the national interests of the world powers rather than those of the developing ones.

It is true that third world governments often feel frustrated and vent their anger at the major powers in international conferences and

agencies. Yet at the same time, they respect the ideals of their "oppressors" and "exploiters" and look to them for guidance and support. Then what affects the attitude of these people towards foreign countries, particularly that of the elites of these societies who are in a position to influence public opinions and their governments' decisions?

A fundamental difference is in their thinking, for a great many of the third world elites are educated in the schools of their former colonizers or those of their political allies. In addition, technical and scientific experts, e.g., the U.S. Peace Corps, are regularly sent to these developing countries to aid them in their socio-economic development projects. Aside from technical and educational programs, there are also athletic and cultural contacts that build up better mutual understanding and bonds between these third world elites and their benefactors.

These men and women, having absorbed the thoughts, ideals, and cultures of their "teachers" become more willing to work with their benefactors in various forms of diplomatic, security, economic, and political cooperation because they feel closer affinity to their benefactors in ideology, commitment and goals.

Japan understands the significance of personnel and cultural exchanges as it, too, benefitted from the enlightened guidance of the U.S. So to promote a more positive third world opinion, Japan has taken the initiative to cultivate third world elites so that they will have a more profound understanding of Japan. ASEAN countries are especially important in this scheme. Other than meeting the Japanese comprehensive security needs for resources, labor and communication links, ASEAN is crucial in fulfilling Japan's ambition to become a prominent leader or representative of the Asian-Pacific region.

ASEAN is the only corporate political entity that is willing and ready to render diplomatic support to Japan in exchange for economic assistance. Although China is the largest receiver of Japanese aid, its size and location make it a world power and a competitor for the leadership of Asia. South Korea is bogged down by its internal turbulences; even if it were not, the Korean people are still strongly suspicious of Japan and hold strong grievances against Japan's harsh

colonial rule in the past. Hong Kong is only a colony and will soon be reverted to China. Taiwan is an important trading partner but it is no longer an influential force in international politics. India is too independent to overtly support Japanese diplomatic initiatives and considers itself a leader in South Asia and in the third world's Non-Aligned Movement.

Simultaneously, ASEAN has grown to become an influential and respected force in regional affairs, especially on issues concerning Indo-China and U.S. military deployments in Asia. For a long time, Japan did not have a clear-cut, independent Indo-China policy. In finding itself a place in this important regional issue, Tokyo endorsed ASEAN's position on the Kampuchean question in the late 1970s and has repeatedly reiterated its strong support for it. Eventually, this support for ASEAN's Kampuchean policy turned into a springboard for Japan's own, similar Indochina policy. Japan needs the cooperation of ASEAN states to lend credibility to its Indo-China policy.

On the issue of defense, the U.S. maintains military installations in South Korea, Thailand, Japan, and the Philippines. Around 49,000 U.S. troops are stationed in Japan, 43,000 in South Korea, 15,600 in the Philippines and some 21,000 at sea in East Asia and the Pacific as part of the U.S. 7th Fleet.¹

U.S. military presence had been important in sustaining the limited freedom and stability of Asia from the 1950s to the 1970s when communist expansion and domestic insurgencies brought havoc in the region. But with the communist threat gone and domestic situations stabilized, plus the fact that the general political atmosphere is becoming more tranquil, Asians are questioning the necessity of the U.S. military presence. The presence of U.S. armed forces is cursed as a symbol of foreign domination and that this presence exposes the host countries to pre-emptive strikes by U.S. adversaries. Anti-American sentiment is especially strong among the young people who grew up in a relatively stable and prosperous environment. They know nothing of America's contribution to their country's freedom and prosperity, for they have not experienced war nor lived through the tumultuous years of the 1960s. They deplore the American military presence and want it out.

Washington may indeed have to reduce some of its forces in the Asia-Pacific theatre in response to Moscow's Asian initiatives. This would put Japan in a very helpless position since military expansion may induce Asian resentment and animosity. Consequently, Japan is very much behind ASEAN's proposal for "collective security" among ASEAN countries. Japan hopes to involve JSDF in some collective defense effort of ASEAN on an equal partnership basis. In 1981, Japan began training a small number of ASEAN officers and cadets.² The ASEAN's acceptance of JSDF is thus extremely important to Japan. However, individually and collectively, the governments of Japan and ASEAN know that they cannot fully guarantee the region's security without the U.S. and thus favor some sort of military and security cooperation with the U.S. in the event of U.S. withdrawal from the region.

The cultivation of ASEAN elites supportive of Japan's peace and development initiatives is therefore absolutely essential to Japan's quest for security and success in the international power game. And as more and more Japanese capital enters ASEAN economies, an ASEAN population that is more familiar with Japanese culture would facilitate smoother and more productive cooperation.

More personnel contacts through cultural, educational, athletic and various other kinds of exchanges would aid to foster better mutual understanding. These exchanges between Japan and foreign countries, especially with those of the developing world, would have a significant domestic impact on Japan. It would make the new generation of Japanese more conscious of the external environment, encouraging wider support for the Japanese government's aid programs and allow Japanese leaders greater leverage in foreign policy in the pursuit of comprehensive security.

Throughout the 1950s and the 1960s almost all of Japan's personnel exchanges were with the ASEAN countries. These programs were severely limited in scope and scale. The lack of Japanese commitment, as the Japanese government had argued, was due to its lack of experience and the inadequacy of personnel necessary to implement large-scale projects.

In the 1950s, there were the Colombo Plan and some U.N. tech-

nical assistance programs in which Japan took part. These activities were mainly geared towards technology transfer. As a matter of fact, technical aid constituted a substantial proportion of Japanese aid during this period for it did not call for any considerable transfer of financial resources as Japan was already engaged in its reparations program. There were some cultural exchanges but other kinds of coordinated people-to-people contacts were practically non-existent.

In the 1960s, Japan started a number of education exchange programs with ASEAN states. Malaysian, Thai, and Filipino scholars began studying in Japan under Japanese government scholarships.³ The Japanese government sponsored Japanese studies programs at the University of Malaya (Malaysia) and Ateneo de Manila University (Philippines), provided them with office automation equipments and books, and Japanese instructors were sent to teach at these centers.⁴ An Association for Overseas Technical Scholarships (AOTS), funded entirely by the Japanese government, was established to train workers from developing countries. Other personnel contacts included an exchange of journalists between Japan and the Philippines, several Southeast Asian youth goodwill missions to Japan, and under the Colombo Plan many Japanese students were studying in Southeast Asian universities. Cultural and athletic contacts included exchanges of dance troupes, specialists on traditional arts and judo and boxing experts.

By the end of 1970, AOTS had sent some 5,000 Southeast Asians to Japan.⁵ In the same year, Japan made plans to establish a Japanese study center at Thailand's Thammasat University for research on Japan-related subjects.⁶ The Japanese government created JICA in 1974 to handle government-based technical assistance and operation of the Japanese Peace Corps. Educational, cultural and athletic exchanges expanded but the main focus was on technical transfer as ASEAN governments were most eager to obtain Japanese technology. Yet this emphasis on technology transfer was also part of the national economic strategy of Japan in the 1970s. Since Japan was making large capital investments in ASEAN economies, a great deal of them concentrating in the budding ASEAN oil industry, Japan had

to train large number of Southeast Asians the technical know-how for these industrial operations.

From the 1950s to the early 1970s, growth and expansion of the scope and scale of exchanges between Japan and ASEAN were considerable. The ASEAN economies greatly benefitted from the transfer of technology and skills from Japan through education and training programs. Nonetheless, it cannot be denied that Japan, too, was able to advance its economic interests in the region through these exchanges; so much so that, Japan was often sharply criticized for giving technology and conducting exchanges only when they served Japanese economic purposes. For instance, AOTS training programs only taught Japanese industrial practices to ASEAN trainees. Such training would not effectively enable them to find jobs in non-Japanese industrial enterprises in their home countries. In effect, these programs were training workers for Japanese business operations in ASEAN. More often than not, ASEAN requests for more advance technology were either turned down or ignored as they were deemed unnecessary for the largely labor-intensive Japanese enterprises in the region.

Little was achieved in promoting mutual understanding between the peoples of Japan and ASEAN. These cultural contacts carried heavy emphasis on the unilateral transfer of Japanese culture and work ethics. Japan showed little tolerance and respect for Southeast Asian cultures, traditions, values, and customs. Cultural and athletic exchanges were sporadic and usually only for promotional purposes. Not many ASEAN students were keen on studying in Japan because of the language barrier and again because many feared that they may be unable to find jobs with a Japanese degree in their own countries. Job offers from Japanese firms were readily available, but the prospect for career advancement is very low as high management positions are always occupied by Japanese nationals. Gradually, dissatisfaction and contempt for the Japanese grew among these strongly nationalistic and proud Southeast Asians, culminating in the ugly Tanaka Riots in 1974.

Japan's adventure into "cultural diplomacy" could be said to have begun in 1972 with Tanaka's creation of the Japan Foundation. The

organization was the first of its kind to receive strong support from the Japanese government to promote Japanese studies and personnel exchanges with foreign countries.⁷ Immediately after Tanaka's ASEAN visit, Japan wanted to increase exchanges but the Oil Crisis and the ensuing recession impeded all efforts.

So it was in the Fukuda Doctrine announced in 1977 that the Japanese government initiated the first wholesale effort at improving cultural and social ties with ASEAN.

Under the Fukuda aid program, \$5 million was specifically designated for an ASEAN Cultural Fund.⁸ Succeeding administrations continue to increase emphasis on personnel exchanges between Japan and the ASEAN. Ohira introduced an ASEAN Youth Scholarship Program in 1980. In 1981, Suzuki promised "human resources development" during his ASEAN tour and committed \$100 million to the ASEAN to build training centers in their own country and extra funds for a main training center in Okinawa.⁹ Suzuki also set up a Regional Studies Promotion Program the following year.¹⁰ Nakasone came up with a 21st Century Friendship Program in 1984 to boost personnel exchange in the cultural and educational areas.¹¹ Takeshita unveiled his Japan-ASEAN Comprehensive Exchange Program at the Third ASEAN Summit in 1987 that aims at expanding technical, academic, research, athletic, and cultural exchanges between the ASEAN and Japan. Other objectives are greater financial assistance for foreign students, promotion of intra-ASEAN technical exchange and the creation of a Center for Promotion of Cultural Exchange between Japan and ASEAN.¹² Furthermore, Nakasone's 21st Century Friendship Program has been extended for another five years after it expired in 1989 to send an additional 4,000 ASEAN youths to Japan.

Particularly on cultural exchange since the Tanaka Riots, Japan has shown greater sensitivity to compensate for its past callousness. The emphasis is now on the introduction of ASEAN cultures to the Japanese, suggesting "equal partnership" in cultural cooperation instead of its past practice of unilateral transfer of Japanese culture to ASEAN. Under planning is the first-ever ASEAN film festival in Japan, and many ASEAN artists have already been invited to perform or hold exhibitions in Japan.¹³ A recent Japanese cultural mission

recommended reforms in the Japanese education system to better suit the needs of foreign students and to double the Japan Foundation's annual budget to finance more ASEAN scholars to study in Japan.¹⁴ Even aid from the private sector has become less self-centered. Matsushita's PHP Institute has offered post-graduate scholarships to ASEAN students without obliging the recipients to write papers with themes related to Japan or to be in Japan for the duration of his study or research.¹⁵

To satisfy the ASEAN need for more management personnel, Japan set up a \$700,000 scholarship at the ADB. Individuals are to be chosen by the ADB's developing member countries, and recipients may study in any international institution in the area of management, technology, and other development-related fields.¹⁶

To cultivate personnel for the growing ASEAN insurance, finance and banking businesses, Japan has financed several study tours to Japan for ASEAN executives working in these areas, e.g., the Japan-ASEAN Cooperation Promotion Program's tour for ASEAN insurance officials to Japan in 1988.¹⁷

On the exchange of technical personnel, ASEAN has been sending the largest number of trainees to Japan through JICA. From 1954 to 1980, an aggregate of 2,990 Japanese experts went to the ASEAN countries and 11,400 ASEAN trainees were received in Japan under Japanese government sponsorship. Since JICA handles only government-based exchange programs, the total number of experts and trainees sent and received by Japan should be much higher.¹⁸

To overcome the language barrier that discourages foreign students from studying in Japan, Japan and ASEAN governments are working closely to promote the study of the Japanese language. Results have been very encouraging. In Singapore, the Education Ministry's Foreign Language Center holds intensive Japanese language courses for junior highschool students. The Department of Japanese Studies at the Singapore National University and the Japanese government have made plans to jointly develop the center into an international center for Japanese studies in Southeast Asia.¹⁹ In Malaysia, Mahathir designated Japanese as the third foreign language in the country's highschool curriculum. Japanese instructors were in-

vited to teach at the National University of Malaya, the National Administration Institute and other education organs. The Japan-Malay Society and other private organizations are also setting up Japanese courses to meet the rising demand for Japanese studies.²⁰

Yet, all is not well in Japan-ASEAN cultural exchanges. Firstly, Japan is trapped in a very awkward situation. On the one hand, the ASEAN states complain that there is not enough cultural contacts with Japan. On the other, they are not genuinely interested in learning more about Japanese culture or teaching the Japanese their cultures. Rather, they are more keen on getting Japanese finance and technical know-how. Japan has come to realize the importance of cultural exchange to erase the misconceptions they have of each other, but ASEAN have not. New exchange projects and channels are opened up by Japan; ASEAN only take them for granted and criticize when reality does not meet their high expectations. Secondly, Japan is willing to increase cultural contacts, but the country is not mentally and physically well-prepared for it. There are not enough manpower or facilities to handle large number of foreign students. Foreign students are placed in second-grade institutions because of severe domestic competition at top universities like Kyoto and Tokyo University which leaves few spaces for foreigners. The Japanese government locates training centers for third world students in places far removed from the major cities, places like Okinawa. The government justifies this policy by saying that the weather conditions in Okinawa would better suit third world foreign students, since most of them come from tropical places like ASEAN countries, South Asia, Latin America and Africa. It is not clear what the reasons are for keeping foreign students from the major urban centers, especially those from the third world that are often seen as "inferior" to the Japanese. Perhaps the Japanese government does not feel that the majority of Japanese are ready for a large influx of foreigners, but then when would be the right time? Thirdly, Japan sees itself as a teacher of ASEAN, setting the rules and terms for exchange. Rarely does it ever make changes or adopt new ways to make exchanges more productive. A fine example is Japan's chauvinistic attitude towards its language. It is not making any significant effort to raise the English

standard of Japanese instructors. Instead it is encouraging more Southeast Asians to learn Japanese. Since Southeast Asians are generally more familiar with English, they prefer to study in the U.S., Australia, Britain or some other English-speaking countries, leaving Japan as a poor fourth or fifth choice for overseas studies. Fourthly, there are deep-seated suspicions among some Southeast Asians on Japan's political and economic motives for studying their cultures. Even with all the progress made so far and despite their willingness to cooperate with Japan, ASEAN elites are still far more suspicious of Japan than they are of the U.S. or any other ally.

Notes

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2. Sheldon W. Simon, "Davids and Goliaths: Small Power-Great Power Relations in Southeast Asia," *Asian Survey* 23 (March 1983), p. 308.
3. University of Malaya, *Japanese Economic Influence in Southeast Asia* (Kuala Lumpur: University of Malaya, 1970), pp. 207-208, 210-211.
4. *Ibid.*, pp. 213, 215.
5. Charles Morris, Jr., "The Economic Dimension of National Security: Japan's Influence in Southeast Asia," (Ph.D. dissertation, Claremont Graduate School, 1974), p. 154.
6. University of Malaya, *Japanese Economic Influence in Southeast Asia* (Kuala Lumpur: University of Malaya, 1970), pp. 207-208.
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10. Sudo Sueo, "From Fukuda to Takeshita: A Decade of Japan-ASEAN Relations," *Contemporary Southeast Asia* 10 (September 1988), p.134.
11. *Ibid.*
12. *Annual Report of the ASEAN Standing Committee, 1987-88* (Jakarta: ASEAN Secretariat, 1988), p. 126.
13. *Proceedings of a Conference: 21st Ministerial Meeting and Post-Ministerial Conferences with the Dialogue Partners* (Bangkok: ASEAN Secretariat, 1988), p. 94.

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15. "PHP Scholarship," *Japan Foundation Newsletter* 16, no. 4 (March 1989), p. 11.
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17. *Annual Report of the ASEAN Standing Committee, 1987-88* (Jakarta: ASEAN Secretariat, 1988), p. 23.
18. See Nukazawa Kazuo, "Japan-ASEAN Trade Relations," in *ASEAN-Japan Relations: Trade and Development*, ed. Narongchai Akrasanee (Singapore: Institute of Southeast Asian Studies, 1983), pp. 172-174.
19. See Toba Reijiro, "ASEAN Development Strategy and Japanese Cooperation," *Asia Pacific Community* (Spring 1984), p. 80.
20. *Ibid.*

CHAPTER IV

THE DIFFICULTIES OF GIVING AND RECEIVING

BOTH the Japanese and the ASEAN governments would surely agree that economic aid and exchanges have significantly contributed to promoting Japan-ASEAN relations. They have served to foster greater goodwill between the peoples of Japan and ASEAN countries. In 1983, Japan's Ministry of Foreign Affairs conducted opinion polls among ASEAN populations, an overwhelming majority of those questioned expressed their trust in Japan. The average for ASEAN countries was over 74 percent. Indonesia, consistently receiving the bulk of Japanese aid, ranked the highest with 88 percent of Indonesians surveyed replying that they trust Japan. The 1987 poll showed a similar response. This time the Philippines topped the list with 92 percent of those surveyed expressing their trust and goodwill towards Japan.¹ This was likely due to Japan's generous financial support for the new government of President Aquino since its establishment and the fact that the Philippines was desperately in need of economic assistance after nearly three years of negative growth and domestic economic and political instability. In a way, promises of Japanese aid have become a backbone of continuing goodwill and cooperation between Japan and ASEAN.

However well development aid has served to strengthen Japan-ASEAN relations, there are much difficulties for both sides in giving and receiving assistance.

Japan basically feels its economic relations with the ASEAN is a real dilemma — a "no win" situation for Japan. Firstly, the ASEAN constantly ask Japan for more aid. If Japan declines, it is considered stingy, insincere and incapable of acting as "big brother" to the region. On the other hand, when Japan does give more, it is seen as targeting on domination of the region. In the 1960s and 1970s, when

Japan concentrated its aid and investments in the agricultural and mining industries, it was indeed done to advance certain Japanese economic interests, but it is not entirely wrong to expect some economic compensation for its efforts. Furthermore, these assistance had significantly contributed to the early post-war economic development of these fledgling economies. Unfortunately, Japan was accused for not doing enough to develop the bountiful labor resources of these countries.

So Japan began to divert more of its resources into the manufacturing industries of these economies to create jobs and provided training appropriate for the circumstances. Because of this, Japan was criticized for not transferring enough high technology, dumping obsolete Japanese equipments in Southeast Asia and neglecting development of the vastly untapped agricultural and mineral resources of these countries. Japan reasons that it is not unwilling to transfer high technology to ASEAN countries but that ASEAN economies were not ready for such transfer. They did not have the people with the knowledge and training necessary to utilize such technical know-how, so it was doubtful that they could benefit from such transfer. In effect, Japan was inculpated for imposing a development strategy on ASEAN economies that keeps them from attaining their maximum potential. Japan is willing to respond to the development needs of ASEAN, but it always ends up being branded as a "greedy, insensitive, economic animal."

As Japan's international economic role grows, it will have to expend more and more resources on international affairs. Such expenditures depend on domestic approval, particularly that of the private business sector which finances a substantial proportion of the Japanese government's budgets. The Japanese government must then be responsive to both domestic and international demands, while simultaneously reconciling their differences.

To discard its image as an "economic animal" Japan has tried to venture into regional and military issues but it was rebuked as a "dominator," an "aggressor," and accused of toying with the idea of "remilitarization." In recent years, with all the emphasis on cultural exchange with ASEAN, Japan is even accused of "cultural imperial-

ism" for apparently the ASEAN population is only interested in Japanese scholarships and not Japanese culture and ethics.

Japan is simply frustrated. It feels that no matter what it does, it can never satisfy the high expectations of ASEAN governments and peoples. Japan is tired of being continually squeezed to pay for its past and its hard-earned economic success. The country wants equality and acceptance in its relationship with ASEAN, but ASEAN seem to apply a different standard when viewing Japan, one that is unfairly high and often overly critical.

True, at times Japan is not very responsive to ASEAN requests and needs but only because of constraints resulting from its practice of consensus politics. The giving of economic aid is one of the least contentious issues between the various political parties and factions. Budget proposals for development aid are usually passed without much debate and few amendments, there is a consensus among the parties that development aid to ASEAN and other developing countries is an absolute necessity for Japan's national interests. However, on other aspects of aid there is less agreement. A key issue is ASEAN's requests for liberalization of the Japanese market for ASEAN products. There are pressures from farm groups, labor unions, and other interest groups who are wary of the economic consequences of full-scale liberalization on their professions and livelihood. Even the various government ministries find it difficult to reconcile their differences and come to any point of agreement on the aims and terms of aid. The Ministry of Foreign Affairs feels that aid should be more generous as it is a tool to advance Japan's standing and influence in the world community. To MITI, aid is part of Japan's national economic strategy for the development and reorganization of the domestic economy towards "high-tech and clean industries" by moving labor- and resource-intensive industries overseas; aid should be used to facilitate this transformation. The Finance Ministry is against any measure that would compromise Japan's economic interests in the slightest way. It opposes any tariff cut on imports and imposes relatively high interest rate on ODA loans. The Prime Minister uses aid to build up support from ASEAN to strengthen his own standing among the industrialized countries.

Another problem in dispensing aid to ASEAN is that Japan thinks ASEAN governments do not know how to effectively use funds and assistance. There is growing Japanese sensitivity to a more careful monitoring of Japanese aid. Much to the chagrin of the Japanese, ASEAN countries are notorious for their widespread corruption. Another irritation is ASEAN's ineptness in handling Japanese and other foreign assistance. Neither are there any high standard infrastructure to efficiently manage foreign aid donations. Together these realities have made it very difficult for Japan to channel development funds to those that are truly in need. For example, the agricultural sector of ASEAN countries is desperately in need of capital and technology. But domination by small farmers and the absence of effective channels to make known to Japan their needs or for Japan to disburse aid to them without going through a myriad of government procedures have impeded improvement in Japanese assistance.

This is why Japan prefers bilateral to multilateral assistance as the former — much to the vexation of the recipient ASEAN countries — permits tighter Japanese scrutiny of the effective application of transferred funds and technology.

Although ASEAN is still the largest beneficiary of Japanese assistance, the Japanese government had recently cited some problems that may hinder Japan's aid distribution to ASEAN. Firstly, rising protectionism in the industrialized countries may reduce Japan's surplus and ability to assist third world development. Japan will have to channel more resources into overcoming these barriers through overseas investments in the developed countries, a process that is already happening. Secondly, the burgeoning Third World debt will pressure Japan to do more to relieve this problem. Thirdly, persistent food shortages and agricultural development problems in Africa will demand greater aid contributions from Japan. Finally, low export prices for primary commodities may result in Japan directing more resources into the agricultural and agro-industrial sectors and not into the developing countries' manufacturing and service industries.²

There are difficulties for ASEAN as well in accepting Japanese

economic aid. In the past, private Japanese loans bound by largely unfavorable terms dominated Japanese aid to ASEAN, adding to their already heavy debt burdens and enlarging their dependence on Japan. The little government grants that were given were often in the form of goods credits or were tied to purchase of Japanese products. The ASEAN complained that their lack of supervisory control over projects and autonomy in allocating funds cut down the effectiveness of assistance. Although technical assistance was quite substantial, they were ill-designed to suit the ASEAN's needs and not advanced enough to prepare ASEAN economies for their economic development.

Although today Japan has untied most of its aid to ASEAN, many of these difficulties still exist and new ones have emerged. Japanese yen loans still make up a large portion of aid to ASEAN. The yen's spiralling appreciation since 1985 has greatly increased the debt burden of these economies. In the case of Malaysia, its yen debt rose by almost 80 percent from 1985 to 1988.³ Yet ASEAN cannot afford to forego these loans because they have to sustain their rapid development.

Today most of ASEAN are not expressing (or would not want to) any negative sentiments against Japan because they know that their countries' development is tenaciously linked to Japan. Japan is now the largest foreign investor in ASEAN. Nearly half of all foreign investments flowing into the region comes from Japan.⁴ Some interpret Japanese investments as a threat to local indigenous businesses and a detriment to indigenous economic incentives. For example, five Japanese department stores now dominate Singapore's retail scene.⁵ Japanese investments have also inflicted serious environmental problems. Chemical wastes from Japanese industrial plants have polluted rivers and other waterways, the indiscriminate cutting of trees for lumber exports to Japan has caused disastrous landslides destroying lives and properties, affecting the ecology of the tropical rain forests. Albeit Japan is becoming more aware of the environmental impact of its assistance, it is not doing enough to stop or to ameliorate these damages.

Another problem with Japanese investments is that by treating

ASEAN countries as one corporate entity, Japan tends to overlook the geographical and cultural difference among them.

Over the years, Japan has financed many ASEAN industrial and socio-economic development projects, but ASEAN countries do not get any assistance in the maintenance of these undertakings. To sustain operation, ASEAN would have no choice but to borrow more — frequently from Japanese banks.

Although ASEAN economies now welcome Japanese investments and any other type of economic cooperation with Japan, there may come a time when resentment against Japan will affect bilateral relations because of the continuing asymmetry in Japan-ASEAN relations. Some ASEAN elites fear that the region's increasing reliance on Japan may give rise to a dependency syndrome that may influence the indigenous perception of a colonial relationship. Furthermore, Japanese investments may promote economic development, but sometimes they widen the socio-economic gap of the recipient country. Social tensions may cause internal social instability and disrupt the development process.

The ASEAN states fear that economic dependence on Japan may reduce them to economic and political subservience to Japan, so that these states would gradually lose their independence.

Economic nationalism may grow as these economies prosper or when their peoples can no longer accept a domination of Japanese capital and businesses in their economies, or both.

Japan-ASEAN relations will continue to draw closer because of their inter-dependence for security and development. However, persistence of income, trade, dependence and perception gaps would create real and pressing problems between them. ASEAN, the weaker partner, feeling its interests compromised want more and better assistance from Japan; while Japan, the stronger party, is annoyed at what appears to be exaggerated concerns and unreasonable demands of ASEAN. The two sides must try to promote better mutual understanding to erase their mutual misgivings for fruitful cooperation in the years to come.

Notes

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2. Eillen Marie Doherty, "Japan's Expanding Foreign Aid Programs," *Asian Affairs: An American Review* (Fall 1987), pp. 147-148.
3. Michael Vatikiotis, "Lame Duck Talk," *Far East Economic Review*, 18 May 1989, p. 38.
4. "Flight of a Lame Duck," *TIME*, 8 May 1989, p. 18.
5. *Ibid.*

CHAPTER V

ASEAN RESPONSE TO JAPAN: PAST AND PRESENT

THROUGHOUT the 1950s to the 1970s, resentment feelings against Japan ran high among ASEAN population. Japanese investments and aid were interpreted as part of a grand design to control Southeast Asia by establishing their economic dependence on Japan.

At this time, the spread of communism in Asia had reinforced America's obsession with the Domino Theory, causing Washington to send enormous amount of economic and military aid to Southeast Asia to cordon off communist expansion and suppress domestic communist insurgencies. The Philippine government of President Ramon Magsaysay received strong U.S. assistance in eliminating the Huks; Marcos managed to stay in power for nearly two decades with the backing of the U.S. because of his fierce anti-communist stance.

So throughout this period, the fight for political dominance took precedence over economic development. The Asian governments could count on Washington for aid because of the confrontational politics of the time and Washington's determination to build up "free, democratic" states.

By the late 1970s, regional tensions were easing, paving the way for economic development. Because of this, ASEAN's need for foreign capital, technology, and markets was greatly enhanced.

American aid was no longer as generous as it used to be because of the pacific atmosphere of the region and American commitments in the Middle East and its domestic economic crisis. Concurrently, it was the genesis of a new era of Japanese diplomacy. To expand its regional and international role, it significantly raised and improved its assistance to ASEAN countries. Thus, Japan's economic importance to the region was dramatically magnified.

Tanaka's 1975 visit to ASEAN was a watershed in Japan-

ASEAN relations. Since then, Japan's aid to the region has improved significantly beginning with Fukuda's heart-to-heart diplomacy to Takeshita's international village concept. A \$10 billion Philippine Aid Package (PAP) for the Philippines was endorsed by Japan. Imports from the region increased enormously. Disbursement of the \$2 billion ASEAN Fund set up by Takeshita in 1987 is progressing well. As part of its aid doubling efforts, Japanese ODA to the region is expected to reach \$50 billion within the five years from 1988.

Although ASEAN states welcome Japanese aid and investments, many complaints are still waged against Japan. Dumping, inadequate transfer of production technology, and seclusion of indigenous personnel from key management and technical posts in Japanese businesses are grievances carried over from the past.

Some new problems have also surfaced. Some ASEAN nationals feel that there is excessive Japanese cooperation with ethnic Chinese in Southeast Asia. The ethnic Chinese in Southeast Asia (except Brunei) exert great leverage over the ASEAN economies because of their wealth and business connections. Indigenous Southeast Asians charge that Japanese cooperation with the Chinese would only widen the already large socio-economic gap between the ethnic Chinese and the natives, leading to social unrest.

Secondly, since all ASEAN economies adopt export-led growth strategies, it is crucial for them to find markets for their exports. The ASEAN complain that Japanese actions to liberalize the Japanese market are largely symbolic; substantial changes are "too little, too late" to rectify their huge trade imbalances. Although ASEAN exports to Japan have increased tremendously, the complicated Japanese system for goods distribution and Japanese government enforced-product standards are still great obstacles to penetration into the Japanese market.

Close Japan-China economic ties have stirred ASEAN discontentment. Some Southeast Asians regard China as a competitor for Japanese aid. This is especially true for the Indonesians whose country used to receive most Japanese aid for a single country before China became the largest Japanese aid recipient in 1982.

Besides, there is a Japanese image problem. Japanese are

regarded pejoratively as "economic animals" but it is Japanese arrogance and chauvinism that is most unbearable. Southeast Asians regard Japanese as Asians because of the latter's physical appearance and Japan's geographic location; therefore, the two should treat each other as equals. But Southeast Asians feel that Japanese often see themselves as superior and a member of the industrialized West when dealing with other Asian peoples. Moreover, Southeast Asians are annoyed by Japan's frequent emphasis on its people's "uniqueness" and "cultural oneness" when the Southeast Asians take pride in their cultural diversity. Japanese residing in Southeast Asia and other places often distance themselves from the local community, further consolidating Southeast Asians' perception of Japanese aloofness and clannishness.

Furthermore, ASEAN states are dismayed by the absence of a sense of equal partnership in their relationship with Japan. Japan, with its economic strength, practically dictates the region's economies through its bilateral assistance packages and investments.

Within ASEAN, there is much difference in each member state's attitude towards Japan. Indonesia, the largest of the lot, has always favored neutrality of the region from any major power influence so that it can establish its own dominance within the organization. While Singapore, a small city-state, welcomes the Japanese presence to reduce Indonesia's regional dominance and for economic reasons as well. Thailand and Malaysia also welcome greater Japanese presence in the region for the same reasons. The Philippines has been least dependent on Japanese capital and technology because of its close relationship with the U.S. This is gradually changing as U.S. aid falls and anti-U.S. sentiments rise in the country. Aquino has obtained several soft-term loans from Japan since her ascendancy to power in 1986. It is acknowledged that rehabilitation of the Philippine economy will rely heavily on Japanese assistance whether the country likes it or not.

In view of the developments in the international environment, some ASEAN leaders are pleased to see Japan increasing its involvement in the region's political affairs. Japan is accepted as a regional leader. It has acted as spokesman for ASEAN interests at the Big

Seven Summits. But a recent Japanese Ministry of Foreign Affairs opinion poll indicated that over 90 percent of ASEAN nationals surveyed said they appreciate Japan's economic and technical cooperation with the region but would not want Japan to act as a "peacekeeping force" in the region.¹ There are worries that Japanese aid would be used to obtain ASEAN acquiescence to Japanese military expansion and that growing defense spending would affect the size of Japanese aid. (However, an unofficial Diet consensus stipulated that annual ODA increases should be greater than those of the defense budget.)

ASEAN anxieties concerning Japan's military intentions — and economic ones — are not likely to disappear quickly. The ASEAN's criticisms of Japan typifies much of those of the developing countries' reactions to Japanese policies. Japan will have to work hard to overcome ASEAN suspicions and convince Southeast Asians of its peaceful intentions.

The ASEAN governments also feel themselves trapped in a dilemma. On the one hand, an overwhelming inflow of Japanese capital investments and loans would create a dependency syndrome, increase their debt burdens and eventually result in a Japanese domination of their economies. On the other, ASEAN economies need foreign capital and technology to develop and, in contrast to the U.S. and Europe, Japan is ready and willing to offer help.

In an effort to solve this problem, ASEAN governments are seeking more joint-ventures with Japan to have some control over Japanese investments in their countries and more technology transfer from Japan through personnel exchanges.

To erase misconceptions of Japanese economic domination, Japan is initiating more joint-ventures with ASEAN governments and private individuals. Many Japanese investments in Southeast Asia are also made in cooperation with a third country, most often with Taiwan, the U.S.A. or South Korea.

To improve the Japanese image, Japanese companies in Southeast Asia and elsewhere are encouraging their Japanese employees to study the local language, financing activities to introduce the Japanese workers to the local cultures and traditions, and

involving them and the company in community improvement projects. Recreational activities, such as, barbecues, athletic competitions and the like are organized to bring the Japanese and local workers together to promote mutual understanding.

In conclusion, there is still much ASEAN resentment against the overwhelming Japanese economic presence in Southeast Asia, but these feelings are subdued because of the common recognition of the real and pragmatic need for Japanese economic assistance and cooperation in successfully carrying out economic development and in maintaining regional stability. The harmony of Japan-ASEAN relations is sustained by their mutual needs and interests.

As ASEAN's dependence on Japan is great at this stage of their economic development, ASEAN governments and peoples would be willing to yield to certain Japanese requests and to subject themselves to a less advantageous position in their relationship. But the growing prosperity of these economies would raise the economic nationalism of the Southeast Asians, causing them to seek more equal and equitable cooperation with Japan. Dissatisfaction now suppressed may turn into full-blown conflicts and hamper economic and political cooperative efforts between the two. Better mutual understanding is important. In addition, both should re-examine their interests and expectations, adjusting them to a realistic and mutually acceptable level so that neither party would feel cheated or used.

Notes

1. Yamane Hiroke, "Japan as an Asian/Pacific Power," *Asian Survey* 27 (December 1987), pp. 1305-1306.

CONCLUSION

PERHAPS no other country in the world today should appreciate cooperative interdependence and peace more than Japan. Flanked by the intimidating presence of two communist giants and a radical communist regime in North Korea — all at one time spoils of Japanese militarism in East Asia — while legally deterred from rearming, Japan's sense of vulnerability is great and real. This sentiment is further magnified by the country's poverty of natural resources and energy, forcing the country to rely heavily on economic exchange with foreign countries for its own economic survival.

Any form of economic embargo against Japan could gravely threaten its well-being. Without food imports the people would starve. Without raw materials, it cannot produce goods or services for local consumption or export to earn dollars for purchases. Without oil its industries cannot function. Not a single bomb has to be dropped to paralyze the Japanese economy or to strangle its population.

Its insecurity is reflected by the country's aggressiveness in harnessing overseas sources of raw materials and energy and foreign markets for its exports, its huge foreign reserves and the dynamism of the Japanese economy in creating new technology and products.

It is ironic that Japan, being one of the most vulnerable economies in the world, would rise to become the most productive economy, while simultaneously its economic wealth would become its most potent — and perhaps only effective — diplomatic tool. This explains why Japanese foreign policies are almost always economic-oriented. Relations with foreign states generally revolve around trade.

This adds to demonstrate why Japan has to build up a strong Japanese economy not only for economic existence but also to exercise its political influence in a world dominated by ideologies and superpower arm races.

In the 1970s, the two OPEC oil embargoes warned Japan of its economic vulnerability to any sudden external change because of the country's rigid dependence on resource imports. Politically, declining

U.S. military strength vis-à-vis the Soviet Union reinforces Japan's anxieties, further confirming its weakness and helplessness in responding to these developments.

The Comprehensive National Security Strategy came about as a consequence of these and many other international developments. The strategy aims at effectively utilizing Japan's global economic clout to promote the country's intricately inter-woven economic, defense and political interests through economic cooperation with and assistance to foreign states. Financial incentives are used to encourage peaceful settlements of political, economic or military conflicts in the world community and development activities in the third world so that Japan can continue its development in a peaceful and stable international environment.

More recently, the rising tide of protectionism in the U.S. and Europe, the impending unification of the Economic Community, and the souring U.S.-Japan relations due to trade conflicts indicated some very ominous signs for its economic interests in these important high-consumption markets.

Heightening international pressure on Japan to bear greater global responsibilities in commensuration to its economic strength makes Japan more aware of its isolation by the world community in vital global political issues. And with economic strength comes the desire for international political prominence. Japan has therefore made expansion of the country's global status and power one of the main goals of its Comprehensive National Security Strategy aside from advancing its economic interests.

As Communist China and the Soviet Union and the rest of the communist world slowly liberalize their economies, Japan hopes that closer economic ties with them would give rise to more pragmatic, stable, and rational communist governments, thereby minimizing the chances of them attacking Japan or any other states that may be valuable sources of materials and markets for Japan. This in effect would promote its own security as well as the peace, stability, and prosperity of the world.

The ASEAN countries feature prominently in Japan's Comprehensive National Security Strategy due to their strategic economic

and political importance to Japan. The destiny of Japan and ASEAN states is seemingly inseparable. During the last world war, Japan had tried to incorporate these Southeast Asian economies into its own "Co-Prosperity Sphere." Domination was to significantly reduce western imperialist influence in the region as Japan would assert its global political ambitions. Today with the colonial powers gone, the region is no less important to Japan and may have even become more significant to Japan's precarious existence. But with its military prowess gone and replaced by economic muscles, economic cooperation and assistance have become the core of Japan-ASEAN relations.

Their geographic location demands their cooperation and ability to safeguard the freedom and safety of major sea lines of communication that are absolutely crucial for transporting materials and energy to Japan. Their immense agricultural and mineral resources could satisfy many of Japan's domestic resources needs. At the same time, these rapidly developing economies could become important potential markets for Japanese capital and commodities. With their bountiful human and natural resources and craving for foreign capital investments and technology, they could serve to facilitate Japan's own industrial restructuring, transferring many of its labor-, resource- and space-demanding manufacturing operations to ASEAN countries. Moreover, as the Indo-Chinese economies slowly open up to capitalist market incentives, ASEAN economies could help Japan launch its Indo-Chinese policy to tap the resources and markets of these stagnant but potentially vibrant economies. ASEAN's diplomatic support for Japan would be a boon to Japan's position as a regional leader and consolidate and raise Japan's standing among the developed countries, helping it to move closer to attaining some long-desired objectives, including a permanent seat in the U.N.'s Security Council.

Indeed with ASEAN being one of the fast growing regions in the developing world, successful development of these economies with Japanese assistance could become a showcase for Japan and a relevant model for other developing countries. For instance, the Philippine Aid Plan, the multilateral initiative assistance package, sponsored mainly by Japan with U.S. endorsement to bail out the

economically strapped Philippines, would show Japanese generosity and responsibility.

Cooperation with Japan would bring ASEAN economies much-needed capital and technology at a time when Washington, traditionally the most generous benefactor to the region, is under severe economic pressure to cut its federal budget to alleviate the country's serious debt problem. And with rising trade barriers in the U.S. and European markets, these export-led developing economies need the Japanese market for trade to finance their industrialization. Most ASEAN leaders recognize that their country's future is linked to cooperation with Japan.

Their cooperation has been rewarding to both parties. The booming ASEAN economies continue their development with Japanese capital aid and investments and the technology that comes with them. Their exports to Japan enjoy preferential entry. Japan has become the largest aid donor, creditor, foreign investor and trading partner of the region. The group's interests and needs can better be reflected to the developed countries through Japan who may act as the organization's spokesman in Washington and summit conferences of the industrialized countries. Japan has seen its regional and international status greatly enhanced by ASEAN diplomatic support. Its economy has benefitted from the cheap labor, resources and goods of the ASEAN region, assisting its domestic industrial restructuring and helping some of its goods to remain price competitive in international markets. Their cooperation could make both more independent of the U.S. by strengthening their bargaining position against Washington.

Both growing Japanese and Southeast Asian awareness of their strengths and anger at America's "blame it on others" attitude for all its economic woes have made them more independent and more conscious of the need for cooperation in economic, political and defense matters. There are now more talks on collective security among the ASEAN states and collective efforts with Japan and other Asian nations to promote the security and prosperity of the entire Asian-Pacific region.

It is therefore clear that ASEAN is as important to Japan as Japan is to the ASEAN but their intense cooperation has also produced some

problems in their relationship. These problems if not carefully attended to could develop into great obstacles and impede Japan-ASEAN cooperation.

As Japan's economic presence in Southeast Asia grows, worries of Japanese exploitation and dominance pervades among Southeast Asians. Most Southeast Asians and their governments acknowledge their countries' reliance on Japan is an undeniable reality but memories of Japanese hegemony in the last war are vivid in their minds. Strong misgivings of Japanese strategies, tactics and motives persist among many ASEAN leaders and elites. Many of these ASEAN elites accept the necessity for Japan to assume a greater regional and world role for their benefit as much as for Japan's; yet, there are fears of Japan rearming consequent to Japan's expanding political responsibilities.

Japanese investments in ASEAN have increased rapidly in the past few years. In the first half of 1988, Japanese capital investments to the region reached \$1.26 billion, nearly matching the \$1.52 billion invested in all of 1987.¹ Such large investments could arouse defensive nationalist sentiments against this overwhelming Japanese economic presence. In the 1970s, such sentiments erupted during the Tanaka visit. Although at present there is not any strong, visible opposition to Japan's economic dominance within ASEAN, anti-Japanese feelings may build as nationalism grows in a prospering economy. There are already criticisms that Japanese investments could destroy indigenous economic incentives and intensify competition in the host economy.

But despite all the shortcomings and criticisms of Japanese aid and investments in ASEAN, they have contributed immensely to the development of industrial infrastructures and human resources. For example, Japan's Yamata group was responsible for constructing, at a cost of \$75 million, the first Southeast Asian integrated steelwork plant in Malaysia, plus roads and telecommunication networks; in Singapore, the biggest shipbuilding and ship-repair yard in Southeast Asia was erected with Japanese capital and technology, supporting Singapore's busy entrepôt trade and a highly modern telecommunication system to help make this tiny city-state one of the most important

banking and financial centers in the world; and in Indonesia, Japan practically launched the country's domestic oil industry.²

Obviously, Japan's foreign aid and overseas investments are economically motivated in line with its economic policy of "diversification and internationalization," which is a part of its Comprehensive National Security Strategy to overcome barriers to exports and securing resources from a variety of sources. Moreover, rising costs of land and labor and environmental concerns in Japan put pressure on moving many Japanese industries overseas.

Just how far aid should be disinterested and how far the donor should expect commercial returns is hard to say. Some have criticized aid as an instrument that only serves the donor's vital interests. Economically, the recipient country's economy could be controlled by the hegemony of human, capital and material resources. Politically, aid enables the donor to exercise hegemonic influence by maintaining a certain type of political or economic system. Militarily, aid usually leads to the formation of a perimeter of defense. Culturally, aid may facilitate the transfer of values and norms from the donor-country to the recipient-country which may encourage trade and other bilateral activities.

Nevertheless, it is wholly justifiable for the donor to expect some form of commercial compensation for its contributions so long as the assistance is not given solely to exploit. This is because the donor-country's government has to be accountable to its people. Also the government frequently enlist the help of the private sector in these foreign assistance programs. There is much sympathy for the plight of the Third World but private companies cannot just freely give away money for they too have their commitments and have to be accountable to their shareholders and customers. This is especially true for Japan whose private sector contributes much to the country's aid budget in economic cooperation through capital loans and investments and technology transfer.

The problem with Japan's aid policy is that Japan is still trying to define its role and objectives in the international community. It talks about "internationalization" through global cooperation but that should not be the only means to attain this goal. Over-emphasis on

economic cooperation would not change Japan's negative image as an "economic animal." On the contrary, it may reinforce foreign suspicions of Japanese greed, considering all Japanese aid efforts to be economically motivated.

Japan must work to convince foreign states of its benevolent objectives and make them understand Japan's needs and constraints in extending assistance to them. Japan must more actively and constructively participate in the problems of the international community: alleviating the third world debt problem, fostering North-South relations, developing private and public "think tanks" or a collaboration of both to set a meeting ground for developed and developing countries to work together on global economic, political and environmental issues. The participation of the third world is of particular importance as they would know precisely what their needs are and the appropriate solutions to problems. Establishment of research and training centers, promotion of Japanese studies and international cooperation in Japan and in foreign countries could facilitate better understanding of Japan by foreign communities. It would indicate Japanese willingness and capacity to play a larger international role for global peace, prosperity and stability.

Although Japan is now the largest global aid donor in monetary terms, it is still widely criticised for not giving enough in proportion to its GNP. But it must be recalled that the private sector of the Japanese economy is very important in Japan's aid programs, and the Japanese government must therefore mobilize the private enterprises to expand their involvement in their country's aid programs.

The Japanese government should provide greater incentives for private enterprises to assist in the development of manpower, resources and industries in the Third World. For instance, tax breaks may be given for humanitarian efforts at improving socio-economic conditions in the host country in which the Japanese company operates, including the training of teachers, medical aid, housing resettlement projects for the homeless and slum dwellers in overpopulated urban centers, agricultural technology and equipment transfers to farmers. Most developing economies desire the production technology of Japanese enterprises; thus, the latter should be encouraged to transfer

such technical and management know-how to the former either through their own efforts in creating training programs or through work with the Japanese government and international agencies such as the U.N. and the ADB. At the same time, the Japanese government must provide greater access to the Japanese market, breaking down its trade barriers and involve local industries in introducing foreign products into the Japanese market.

To counter the rising of nationalism and ease the debates on the developed countries' role in Third World development by intellectuals and elites, Japan will have to promote greater understanding through personnel exchange and cooperation so that they would appreciate Japan's anxieties and hence its resulting policies. With better understanding, they could work together to reconcile their differences and produce mutually beneficial policies to satisfy each's development needs.

In contributing to regional security, Japan should not engage in any large-scale military build up nor any form of military technology transfer and strictly prohibit the transfer and export of arms to avoid evoking foreign antagonism towards Japan. Many developing countries like ASEAN states welcome Japan's expanding global prominence, but there are deep-seated suspicions of Japanese motives.

The Japanese population is very much behind their government's development aid programs. Gradually they are coming to terms with internationalization. With over 60 percent of the population born after the war and growing up in a prospering Japanese society and having the opportunity to learn what the world thinks of Japan through travelling, the media and other channels, they are more aware of Japan's strength and commensurate responsibilities in the world. They must then be educated to learn not only of their country's strength and what they can do with that for their benefit but also how to use this influence for the betterment of the world community. Their support and belief in the significance of their country's aid programs to their own security and the security of the world are very important to the future of Japan's aid policy and relations with the developed and developing countries.

An unexpected obstacle to growing Japanese largess is Washington's negative attitude towards it. In the past, Washington had complained of Japan's past reluctance to giving aid but today with increasing Japanese generosity, the U.S. is offended by Japan's large contributions to many multilateral agencies. Washington is afraid of losing its voting edge within these organizations and gradually its international dominance and prestige. For example, when Japan offered to give more to the World Bank, the U.S. blocked the move for fear that "trade usually follows aid," giving the Japanese an even larger share of the aid-recipients' markets.³

Despite their differences, Japan and ASEAN states will certainly move closer for their security and development needs. Although with its financial wealth, Japan does have great leverage in cooperative efforts with ASEAN, it does not wholly dominate ASEAN economies because its reliance on ASEAN is no less than their reliance on Japan. Their cooperation could create an epochal change effect on the future of the Asian-Pacific region and contribute to regional and global peace, stability and development.

Although the popularity of Japan's ruling Liberal Democratic Party (LDP) has plunged to its lowest point in post-war Japan because of the embarrassing Recruit Cosmos scandal, the party is still the strongest in Japanese politics. The scandal should not have any real impact on the Japanese government's aid policy as this change of administration was only a political manoeuvre to halt the deteriorating effect of the scandal on the LDP's position in domestic politics. A strong consensus on aid and Japan's overall foreign policy in compliance with its Comprehensive National Security Strategy still exists. Before his departure from the prime minister's office, Takeshita made a farewell tour of ASEAN, indicative of the importance Japan attaches to good relations with these Southeast Asian governments.

Himself troubled by his implication in the scandal and facing an imminent resignation, his lame-duck government was not able to make any substantial promises to ASEAN's requests for lower interest rates on Japanese yen loans and financial and technical support for these governments' development projects. Nevertheless, he assured ASEAN governments of his successors' and the Japanese

government's dedication to improve and increase assistance to these Southeast Asian countries.

His hand-picked successor, Sosuke Uno, was foreign minister in Takeshita's cabinet and once director of the powerful MITI. His tenure as foreign minister familiarized him with the ASEAN region and his country's foreign and aid policies towards ASEAN. Many times he had travelled to the region for the organization's ministerial meetings and accompanied Takeshita during his visit to Manila for the Third ASEAN Summit in 1987. He played an important role in implementing Takeshita's aid packages to the region and development aid to other developing areas and international institutions. Although Uno is only expected to finish his predecessor's two-year term which expires this October, the likelihood of him getting appointed for a second term is great as he is one of the few old guards within the party that is untainted by the scandal. He is expected to carry out party reforms to cleanse the party and restore its public image. As he tackles internal reforms, his experience in the foreign office and MITI will be invaluable to him in defending Japan against aggravating U.S. protectionist policies with bills like the recent Super 301 which targets Japan and in sustaining Japan's friendship with ASEAN.

A strong national consensus now prevails in Japan on the necessity of JSDF for the country's defense as much Japanese wariness pervades on America's faltering commitment to their country's defense. Another problem is that Japan's trade conflicts with the U.S. have spilled over into other aspects of their relationship. Many Japanese are enraged by America's unending whining about unfair Japanese trade practices when they reckon that Japan has been making significant unilateral efforts in addressing the issue since the trade war began in the early 1980s, while the U.S. has done little to improve its own economy other than drawing up one protectionist bill after another with all of them pointing at Japan.

Along with these developments in Japan-U.S. relations, the Japanese public is becoming more conscious of their nation's strength, giving rise to surging nationalism and opposition to America's military presence in Japan. The strength of its defense capabilities there-

fore becomes important in convincing the Japanese people and foreign states that Japan is a sovereign state capable of protecting itself. Such emotions would prompt the government to increase its defense expenditures.

This strong Japanese ambition to safeguard its security is reflected in Japan's eagerness to obtain advance American aerospace technology through joint-manufacture of the FSX. Although this move may be economically motivated to help launch Japan's own commercial aircraft and satellite-launching business (the number of satellites launched by Japan annually is only exceeded by the U.S. and the U.S.S.R.), it can enable Japan to independently improve its own defense capabilities.

But no large-scale militarization is likely to occur because of the impracticality of it due to Japan's demographic distribution and its proximity to China and the Soviet Union, making it extremely vulnerable to pre-emptive attacks. Another worry is the economic repercussion militarization would have on the Japanese economy. For instance, Nakasone visit of the Yasukuni Shrine and controversy over the revision of Japanese history textbooks angered people in Hong Kong, North and South Korea, China and Southeast Asia. People in Hong Kong boycotted Japanese goods which directly compromises Japan's economic, hence, security interests.

Increasing Japanese defense expenditure is not really a foreboding sign of Japanese re-armament. Every country has a right to defend itself; it is a government's obligation to its people. Japan accepts the reality that full-scale military build up is simply not an advisable option because of economic, political and legal constraints. Even with all its financial resources it cannot become totally independent in its defense. Hence, its security arrangements with the U.S. is still firmly supported by the Japanese government. Japan tries to make their implementation as smooth as possible — financially contributing to the upkeep of American personnel and facilities in Japan and engaging in defense-related research and development activities with the U.S. The possibility of nuclear proliferation is most unlikely because of the presence of a non-nuclear policy, a bulwark in Japan's defense

policy, and popular Japanese opposition to it as the Japanese people had been the only victims of atomic explosion.

Much of the defense budget actually goes to compensation for JSDF personnel and maintenance of American troops in Japan. What Japan really wants to achieve with its defense budget is not a physical expansion of the forces; rather it wants to improve JSDF's monitoring and deterring capabilities, e.g., satellites, submarines, etc., and engage in more defense-related research and development activities with the U.S., transferring its technical know-how to the U.S. to help strengthen the U.S. military in order to ensure the security of the entire free world.

It may be a bit early to make any solid projections on the effect of the recent violent suppression of the student democratic movement in China by the Chinese government on Japan-ASEAN relations. The bloody massacre of peaceful demonstrators and the current propaganda to stifle the democracy movement certainly shake the confidence of foreign investors in China. Japan is one of the largest aid donors to and foreign investors in Communist China. Both China and Japan would stand to lose a lot should the Chinese regime fail to restore its credibility, thus further reducing foreign confidence in China. Japan has already evacuated most of its nationals from China and many credit and commercial contracts have been frozen.

Japan's response to China should largely depend on Japan's degree of dependence on Chinese raw materials and the Chinese market, which at the moment does not seem to be severe. Most Japanese investments in China aim at reaping profits in the long-run so Japanese businessmen are willing to suffer a little in the short-term, perhaps suspending operations or sharply reducing investments in the country until its future looks more secure. If circumstances allow, Japan-China trade relations should continue to develop as Japan believes that an economically wealthier and more stable China would allow the whole Asian region peace and stability, hence contributing to Japan's security and fulfilling its aspirations for leadership with the Asian-Pacific region. However, people-to-people contacts between Japan and China would drastically be affected for fear of the safety of Japanese nationals travelling, studying or residing in China. More-

over, the Chinese government may itself seek to limit people-to-people contacts with the Japanese and other foreign nationals as part of its strategy to suppress the students and intellectuals, stressing only economic cooperation.

ASEAN countries were terrified by the fanaticism and expansionist policies of Beijing in the 1950s and 1960s. Although the states have working diplomatic relations with China, they are not particularly close to China for they view the country as a formidable economic competitor and that China cannot be a partner in their economic development as the Chinese can offer little in terms of capital and technology. These countries will certainly maintain their diplomatic ties with China but some of them will most likely opt for broader economic cooperation with the Taiwan government. This include countries like the Philippines and Thailand whose ethnic Chinese population are more closely affiliated to the Taiwan government. And like Japan and China relations, people-to-people ties between ASEAN and China will be severely strained.

So in the short-run, more Japanese investments will likely flow into ASEAN economies and the likelihood of collective security efforts between the two will be enhanced.

On the future of Japan-ASEAN relations a few scenarios should emerge. With closer economic and diplomatic cooperation and developments in the international environments, like a declining U.S. and growing nationalism in these countries, the two may join together and formally establish some sort of Asian-Pacific collective security and economic cooperation organization with Japan assuming a leadership role within this organization, something which has been proposed and speculated upon by many Asian experts and their governments for many years.

The likelihood of this occurring is quite remote as the strong suspicions of Japan still exist among the ASEAN population, and these countries do not want to subjugate themselves to Japanese tutelage. They value their independence, and scars of historical tragedies during the last war remind them of Japanese slyness and greed. Furthermore, Japan has still not proven itself to be a capable leader

with the ideals and sincerity working for the interests of ASEAN and other developing countries.

The worst scenario would be a wild outburst of anti-Japanese sentiments arising out of ASEAN's debt problems which are seriously exacerbated by their large yen-denominated loans. Their inability to service these debts may produce spiralling inflation, stagnation, or worse, a recession, destroying all that these countries have achieved in the past decade. Such sentiments may also be stirred up by the overwhelming Japanese economic presence in ASEAN economies, creating a real or illusive picture of Japanese hegemony. The possibility of this occurring now or within the next three years is not very great as Japan is also trying to reduce. The inequalities in their relationship and the new prime minister, having much experience in dealing with ASEAN, should be aware of the negative consequence for Japan by ignoring the demands of ASEAN and hence should act accordingly to ensure smooth cooperation. ASEAN governments and population see the importance of cooperation with Japan for their own economic development; therefore, they would not want to jeopardize their amiable relations with Japan unless the prevailing circumstances make it absolutely impossible.

The most likely future of Japan-ASEAN relations, at least in the next three to five years, is that the two sides will continue to expand the scope of their economic and diplomatic cooperation. Together they may help open up the Indo-Chinese economies and move towards closer integration of the Asian-Pacific economies, including Australia and New Zealand who host enormous Japanese investments and are also deeply interested in economic cooperation with ASEAN. Closer collective security cooperation may also result but in an informal context. Already there is much less opposition to the JSDF among ASEAN countries, and some like Singapore and Brunei even appreciate a greater Japanese security role in the region for their own political and security interests.

The ASEAN is only one part — though a very important one — of Japan's Comprehensive National Security Strategy. In addition to good relations with ASEAN countries, Japan shall be expected to cultivate good relations with other countries deemed to be crucial to

attaining the goals of this security strategy, viz., peace, stability and prosperity for Japan and the rest of the world. In June 1989's UNHCR conference in Geneva, Japan pledged to accept over a thousand Vietnamese refugees. This decision is remarkable in the sense that this is the first time Japan has ever accepted this many Vietnamese refugees. In the past Japan had only accepted very few refugees and instead financial contributions were given to agencies responsible for the care and relocation of these refugees to "keep the problem from entering Japan." Hence we shall expect to see a greater Japanese role in international affairs, broadening its influence not only in the economic field but also in other areas concerning political and social issues.

Notes

1. See "Flight of a Lame Duck," *TIME*, 8 May 1989, p. 18.
2. See Robert Guillain, *The Japanese Challenge* (N.Y.: L. B. Lippincott Co., 1970), p. 248.
3. See "The Global Philanthropist," *TIME*, 25 April 1988, p. 14.

ABSTRACT

JAPAN is an extremely vulnerable country. Flanked by the intimidating presence of two communist giants and a radical communist regime in North Korea and legally barred from rearming, its sense of insecurity is further magnified by the country's paucity of natural resources and energy. Consequently, the country is forced to rely heavily on exchange with foreign communities for its economic survival. Not a single bomb has to be dropped to paralyze the Japanese economy or to strangle its population.

Japan was preoccupied with nation-building in the first two decades after the Second World War. The country's energy and attention were concentrated on internalizing the new political, economic and legal institutions imposed on it by the Allied Powers. However domestic and global changes beginning the late 1960s drastically altered Japan's perception of its strengths and security needs. Realizing that its own security and prosperity were impossible without political stability and economic progress in the region, Japan was forced to reassess its foreign policy, particularly towards Southeast Asia. Particular events including the enunciation of the Nixon Doctrine in 1968, America's defeat in the Vietnam War and the first oil crisis in 1972 compelled Japan to adopt a "Comprehensive National Security Strategy" beginning the 1970s. Under this strategy, the nation's long-term security interests in defense, food and energy are linked in a "non-military" way; that is, instead of military fortification and alliances, domestic and international concerns are promoted through economic and cultural exchanges. The objective of this paper is to examine how Japan, under its Comprehensive National Security Strategy, uses aid and commercial cooperation to advance its interests among the member states of the ASEAN.

Billions of dollars are being injected into ASEAN states making Japan the largest trading partner, foreign investor and aid contributor to the region. Peace and prosperity in Southeast Asia is crucial to Japan in several ways. The ASEAN states straddle vital sea lines of

communication in the region. For example, oil tankers sailing in these waters carry to Japan 70 percent of its total oil imports. Southeast Asia is richly endowed with natural resources and the rapidly expanding economies were becoming important markets for Japanese capital and commodities. The desire of the region's nations for foreign capital investments and technology also served to facilitate Japan's own industrial restructuring by relocating many of its labor- and resource-intensive manufacturing operations, as well as environmentally damaging ones, to ASEAN countries. Moreover, ASEAN helps Japan to launch its Indo-China policy and tap Indo-China's resources and markets as the region slowly opens up to capitalist market incentives.

In addition, ASEAN's diplomatic support would boost Japan's status as a regional leader and raise Japan's standing among the developed countries. Their support could also help Japan to attain some long-desired objectives, including a permanent seat in the United Nations' Security Council. Already Japan has volunteered to act as spokesman for ASEAN in the United Nations and in the summits of the seven industrialized nations. Indeed, with ASEAN being one of the fastest growing regions in the developing world, successful development of these economies with Japanese assistance could become a showcase for Japan and a relevant model of emulation by other developing countries.

Their cooperation has been mutually rewarding. Cooperation with Japan has brought ASEAN economies much-needed capital and technology at a time when Washington, traditionally the region's most generous benefactor, is financially strapped. Rising protectionist sentiment in the U.S. and Europe means these export-led developing economies need the Japanese market to finance their industrialization. Japan has become the largest aid donor, creditor, foreign investor and trading partner of the region. Their cooperation could make both more independent of the U.S. and strengthen their bargaining position against Washington.

There are now more talks on collective efforts with Japan and other Asian nations to promote security and prosperity in the Asia-Pacific rim. It is therefore clear that ASEAN is as important to Japan

as Japan is to the ASEAN, but their intense cooperation has also produced some apparent frictions in their relationship.

Fears of Japanese exploitation and dominance remain although most Southeast Asians and their governments acknowledge their country's reliance on Japan is an undeniable reality. Yet memories of Japan's hegemony in the last war sustain popular fears of Japanese militarism. Strong misgivings of Japanese tactics and motives persist among many ASEAN leaders and elites. Among their grievances are Japan's reluctance to transfer technology to their economies and the environmental destruction wrought by Japanese economic activities in their countries.

Clearly Japan's foreign aid and overseas investments are economically motivated under its economic policy of "diversification and internationalization." Nevertheless, Japan's aid policy has improved and has become more responsive to the recipient's needs. But to erase Japan's image of an "economic animal" more still has to be done to improve the quality of Japanese aid and other forms of exchange to promote understanding for long-term cooperation; namely, personnel and cultural exchanges, technology transfer and human resource development.

Despite their differences, Japan and ASEAN states will certainly move closer for their mutual security and development needs. Although with its financial wealth, Japan does have great leverage in cooperative efforts with ASEAN, it cannot dominate the ASEAN economies because its reliance on ASEAN is no less than their reliance on Japan. Their cooperation would make more likely the realization of the "Asia-Pacific Century" and contribute to global peace, stability and development.

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