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JAPAN'S STAKE IN ASIA

by

Shinichi Ichimura

June, 1973

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THE CENTER FOR SOUTHEAST ASIAN STUDIES

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1. Introduction.

Japan's stake in Asia has always been and will always be painstaking and full of suffering . As an island country at the northeastern corner of Asia, Japan has throughout her history repeatedly alternated between enduring, introspective, and effeminate periods and temporary, extrospective, and expansionary periods. Whenever she entered political involvement in Continental Asia, temporary success and eventual failure have been her experiences. Nevertheless, the nation did not sink into inactivity but instead repeatedly sought some new outlet for her national energy stemming from cultural or political aspirations and an industrious spirit. The modern history of Japan since the Meiji Restoration may be regarded as the latest version of this history. It still remains to be seen whether the postwar economic expansion of Japan in Asia may be a lingering light of the eventually declining sun or a continuing glory of the rising sun temporarily frustrated by the defeat of World War II. Most foreign observers tend to take the latter view, whereas a considerable number of Japanese intellectuals are inclined to accept the former judgement. Needless to say, much depends on how the Japanese nation will act from here on and how the rest of the world will do vis-a-vis Japan. Nobody can be sure which is right. But this paper tries to offer some observations relevant to determining the course of Japan's relations with her nearby countries in Asia and thereby make a modest contribution to the deeper understanding of the difficulties facing Japan, or for that matter any power involved in Asian affairs, at the crossroads of performing a positive and constructive role or remaining as a passive, coward

economic power in world affairs.

Asia is a vast area. In relation to Japanese interests, Asia may be divided into six parts: (i) Northeast Asia: Japan, Korea and Taiwan, (ii) China, (iii) Southeast Asia: the Philippines, Indochina, Thailand, Malaysia, Singapore, Indonesia and Burma, (iv) South Asia: Bangladesh, India, Ceylon and Pakistan, (v) Southwest Asia: Middle and Near East, (vi) Outer Mongolia and Siberia. Japan's stake in Asia is concerned with all six regions, but the nature of their relevance differs considerably from one region to another. Since this paper primarily concerned with Japan's economic interests in Asia, the first three regions are more important than the others. Petroleum in (v) is the only exception to this classification.

One important consideration we must keep in mind in analyzing any problem in the contemporary world is that the social, economic, political and cultural conditions of the world are changing very rapidly. This is particularly important in the case of Japanese relations with other Asian countries, since both Japan and the other Asian countries are undergoing rapid economic development as well as undergoing a process of radical social and political changes. If we observe only the economic trends that have occurred in these countries for the past decade or so and simply extrapolate these trends into the future, then we are bound to make serious mistakes in our judgements and decisions. We must try to understand more deeply the "social, political, and cultural dynamics" of the contemporary world and Asia.

In making these considerations, two factors emerge which are, to

some extent, mutually contradictory. One is nationalism, and the other is materialistic aspirations. The latter is usually taken as the desire for economic development. Although this view is not wrong, it tends to overlook the underlying social changes and the whole process of modernization and nation-building. In contrast to materialistic aspirations, nationalism may be described as the spiritual aspiration for independence and self-respect. To the eyes of a proud Asian, the glory of the West was the humiliation of the East. How strong the sentiment is can best be understood by the fighting spirits of the North Vietnamese in the recent decade. However, an important element of nationalism to consider is its negative aspect. Transforming nationalistic sentiment into a more constructive and mature sense of patience, learning and balance is by no means easy. Moreover, the political leaders of these new Asian nations satisfy the intensive fervor of the common people, who no longer have a specific, blameable target like colonialism to attack. Since the natural, social and political environments of these countries are not very favorable for stability and development, national unification can only be achieved by a combination of strong political leadership and a substantial rate of growth and distribution of material well-being. After the death of "charismatic" leaders of the independence movements, this combination will become more and more difficult to come by. Unless the surrounding advanced countries offer much better guidance than they are now offering, development will proceed at an unnecessarily slow rate. Asia is now at such a crossroad, and Japan must regard herself as or is regarded as one of those surrounding advanced countries with less than adequate preparations for this task.

2. The General Picture of East Asia

Before discussing any problems concerning East Asia the extreme heterogeneity of East Asia must first be understood. It is utterly wrong to view Asia as if it were Europe. "Asia" is just a geographical grouping. No great empire nor any predominant civilization has ever covered any major part of Asia as in Europe. Let us start with the most obvious economic facts shown in the following table.

Table 1: Population, GNP and Per Capita GNP and Growth Rates

	Population (million)	GNP (.1 bill.\$)	GNP/Pop. (\$)	Growth Rate (%)
China	800	800	100	4.0
Japan	105	3000	3000	10.0
Indonesia	120	114	95	3.5
Philippines	40	112	280	5.0
Thailand	38	60	180	6.0
South Korea	32	70	220	9.2
Burma	28	18	65	1.0
South Vietnam	20	40	200	2.0
Taiwan	15	45	300	10.6
Malaysia	11	36	330	5.8
Cambodia	7	7	100	1.0
Hong Kong	4	3	700	7.0
Singapore	2	2	1000	11.4
Laos	3	2	60	1.0

The differences and variety of per capita GNP and their growth rates are hardly comparable to any other part of the world. There is a resemblance only to North and South America, but there is one essential difference between East Asia and the American continents.

There are two giants in East Asia: China and Japan. The figures show that the Chinese population is about twice as great as the rest of East Asia and that the Japanese GNP is slightly more than twice as much as the sum of the national products of the remaining countries. The following is an approximate subtotal of the rest of East Asia: Population, 300 million, GNP, \$ 50 billion, and Per Capita GNP, \$ 150. This is enough to indicate the possible overwhelming influence of China and Japan in East Asia, whereas the United States is the only giant state on the American continents.

Japan's very high standard of living is comparable with the French or West German standard of living, if not now, then very soon. Postwar Japan's unprecedented rapid growth made her a super economic power without military forces in such a short time that she now occupies a very unique position, that of an advanced country standing aloof from the surrounding developing countries. Her standard is almost twenty times the average per capita GNP of other Asian countries. Therefore, even if the present rate of growth is maintained in the rest of Asia, it will take almost a century for them to reach the Japanese level of development. In spite of China's immense population, the overwhelming influence of the Japanese economy in Asia is likely to continue for many years to come. Her position in this respect seems to resemble that of the United States on the American continents.

Since she has no military strength to use outside Japan, she may be more susceptible to easy criticism from the surrounding countries, but on the other hand, she may be less likely to make

political blunders through the use of military force than the United States vis-a-vis Latin American countries. However, one thing that she has to pay extra attention to in dealing with the surrounding Asian countries is the political stability in East Asia in general and within each country in particular, because Japan, armed only with economic power, is very limited in her capacity to handle political instability within and without each country. It is well-known that the income distribution in some Asian countries is very unequal. But inequality in the distribution of income on an international level is by no means less serious. By observing the table above, one immediately notices that even developing countries fall into different income classes. Japan, Singapore and Hong Kong may be called the upper-income class; Malaysia, Taiwan, the Philippines, Vietnam, Korea and Thailand may be labeled as the middle-income class; and the rest as the low-income class. The relative position of the countries on this income scale does not seem to change as time passes by, because the per capita income growth rate seems to be higher for those with high income or high per capita GNP. In terms of the prevailing growth rates in recent years, "fast-growing countries" include Japan, Korea, Taiwan, Singapore and Hong Kong; "gradually growing countries" include Malaysia, the Philippines, Thailand and Indonesia; and the rest are "slowly growing." It may be mentioned here that the countries like Thailand and Indonesia which have enjoyed relatively high growth rates in recent years are likely to slow down in growth in the near future.

The heterogeneity mentioned above is not confined to the economic sphere. East Asia, excluding Japan and China, is unique in several ways. There is no other region in the world where so many super-powers have national interests in the various developing countries. Compare the region with Latin America, Africa or the Near East. The colorful, political and economic interactions of such powers as the United States, Japan, China, USSR, India, and Australia seem to characterize Asian Drama in the theater of East Asia. These powerful countries are exerting their political and economic influence -- and the former colonial countries are by no means negligible in their presense--on the highly, heterogeneous non-power nations of the region.

These new nations are very different in their ethnic characteristics, religions, social conditions, historical backgrounds and political systems. In this sense the region may be termed the "Balkan" of Asia, but in fact it is more "Balkan" than Balkan itself. The drama to be played in East Asia is, therefore, bound to be rather complicated and confusing like the country show without a good director. Bilateral and multilateral relations among powerful countries and new nations are likely to be of many varieties, so that realizing regional cooperation among the developing countries will be difficult. If closer relations develop between one power and some new nation, they will immediately cause the reactions of the other powerful countries and the rest of the developing states. But at the same time it means that there is always room for the new nations to bargain economically and politically with any powerful country by

cooperating with each other or even by acting wisely alone.

One last important point to be made here before moving on to more specific discussions is the fact that this region was the battle field of World War II. There are many sentiments connected with wartime experiences and postwar independence movements which still prevail among the common people and the political and intellectual leaders of these countries. The impact of these postwar mentalities should not be minimized even after twenty-seven years. It would seem that many superficial events in various countries might sometimes be explained by the subconsciousness or underlying psychology of these mentalities. De Gaulle said that the impact of victory or defeat would remain over one generation. Asia is now going through a stage in which old prewar leaders are gradually being replaced by a new postwar generation of technocratic leaders. If this transition in leadership is achieved smoothly and peacefully, this change will contribute to the political stability of the nation. However, any period of change is not easy and may be a source of internal trouble. The exciting phase of independence movements is all over now, and the calm and painstaking process of nation-building has just begun. Whether the Nixon doctrine is well-timed for this stage of the Asian Drama or not remains to be seen. Japan in this context is in a difficult position. She has been bitterly criticized for her "misbehaviors" during the war. Of course there are very good psychological and political reasons for such criticisms. But they are after all, as De Gaulle said, the impact of victory or defeat and will gradually fade away into the concern of historians. How

historians view the past, however, depends on the future of Asia, which will be shaped by the international cooperation of a number of the new nations in Asia and some super-powers including Japan. Japan is carrying the burden of the history of World War II in Asia and is destined to play one role or another as one of the Asian countries which will shape Asia in the future.

3. Contradictory Trade Relations Between Japan and Southeast Asia

With this background information we can now consider Japan's relations with the rest of the East Asian countries. It is convenient to divide our considerations into two parts: the relations with Southeast Asian countries and those with Northeast Asia and China, because they seem to show the different trends that have emerged in the recent past. The most obvious relation between Japan and Southeast Asia is that realized through foreign trade. A simple-minded argument that Southeast Asia is the area on which the vital interests of Japan depend is not entirely wrong but is rather misleading. The warnings made in the introduction are very important here. More careful examination of statistics in the past and extrapolations for perspective will clarify the following points, most of which were succinctly clarified by K. Yoshihara [1].

- (a) The basic characteristics of the foreign trade of Southeast Asian countries are the limiting of exports to a few commodities and the concentration of exports and imports to a few countries. Trade with Japan is no more than a reflection of this pattern.

Table 2: Japan's Trade with Southeast Asia

	Exports	Imports	Major Imports
The Philippines	4.5	5.3	logs (50%), copper (31%)
Singapore	4.2	0.8	petro-products (81%)
Indonesia	3.2	6.4	logs (28%), crude oil (50%)
Malaysia	1.7	4.2	logs (45%), tin (20%)
Thailand	4.5	1.9	rubber (30%)

*Quoted from K. Yoshihara [1].

The following table shows the concentration of foreign trade of Southeast Asian countries with Japan, the US, and a few other countries.

Table 3: The Shares of Major Countries In Foreign Trade of Southeast Asia (1970)

The Philippines	Export	Imports
Japan	39.6	34.6
U.S.A.	38.8	28.4
Thailand		
Japan	25.5	37.4
U.S.A.	13.4	14.9
Malaysia		
Japan	28.2	21.2
U.S.A.	20.0	8.4
U.K.	7.5	18.5
Singapore		
Japan	16.1	28.7
U.S.A.	16.7	16.3
U.K.	15.1	10.2
Indonesia		
Japan	50.0	29.8
U.S.A.	15.7	24.9
West Germany	7.9	8.7

* Quoted from K. Yoshihara [1]

- (b) The dependence of Japanese exports and imports on Southeast Asia has been declining. The share of Asian countries (excluding the Middle and Near East countries and the Communist countries) in Japanese exports declined from 35% in 1955 to 26% in 1969, and a similar decline in Japanese imports also occurred from 26% in 1955 to 15% in 1969. This is a reflection of a Japanese foreign trade pattern which shows a decline in the dependence on imported raw materials (SITC 2-4) from 51% in 1955 to 33% in 1969 and further shows a constancy in the dependence on imported energy sources (SITC 3) of around 20% since 1965. On the export side, the share of manufactured goods declined from 45% in 1960 to 34% in 1969. This has two implications, one being that Southeast Asia is becoming less important as a trading partner to Japan or that the balance of trade is likely to be in Japan's favor for many years to come.
- (c) The trade dependence of the Southeast Asian countries on Japan is increasing. The corresponding figures to those quoted in (b) are the following: Exports was 8% in 1955 and 24% in 1969. According to a forecast made by the Japan Economic Research Center in 1971, Japan's share in the exports and imports of Southeast Asian countries is expected to be about 40% in 1980. This means that the Japanese economy is bound to play a pacemaking role for the other Asian countries, while she, herself, will come to depend on Southeast Asian countries less and less, irritating most countries in the region. Therefore, Japan must carefully examine the policy implications of these

contradictory trade relations.

- (d) The first implication is that Japan's trade policies must be carefully coordinated with her aid policies and private investment abroad, because a balance of payments is not likely to be achieved by trade alone. The second implication is that industrialization of other Asian countries must be promoted--with the transfer of capital, technology and entrepreneurship from Japan. Otherwise, a balance of payments will never be accomplished, and as a result, Japanese exports will have to be curtailed. The case of economic development in Taiwan is a good example of a success story in this regard. The Taiwan economy suffered from an unfavorable balance of trade in the 50's but succeeded in achieving a balance by rapid industrialization in the 60's. This is more or less the kind of process which will succeed in developing economies without great natural resources.
- (e) One word may be worth adding here. The dependence of any advanced economy on energy imports is unlikely to decrease. The Indonesian economy may be thought of as an exception to this. But one important consideration which makes Indonesia differ from the countries in the Near East is that the size of her economy is so large that the mining industry occupies only a small portion of the national economy. The mining industry, which includes tin and others as well as petroleum, contributed only 6% of the Gross Domestic Product in 1970. This can hardly be a sufficiently significant sector of the

economy to bring up the growth rate of the economy above, say 5%, which is needed to absorb the increasing labor force in the 70's. Indonesia is, therefore, no exception in requiring industrialization in the ordinary sense of the word.

- (f) However, since the successful industrialization of Taiwan took ten years, this decade will be one in which Japan must expend a large amount in aid, loans and private investment for Southeast Asian countries to achieve industrialization in manufacturing industries. This creates unfortunately another problem of Japanese domination in these industries. The following points are thoughtfully made by Y. Yasuba [2].
- (g) Trade expansion accelerated during the last half of the 60's and has continued into the 70's. According to the published statistics, the ratio of intra-regional exports to the total exports of the region has declined from 27.6% in 1960 to 25.8% in 1963 and from 9.1% in 1966 to 6.3% in 1970. This information in the late 60's underestimates the intra-regional trade due to the neglect of Singapore-Indonesia trade and unrecorded trade among Southeast Asian countries. Properly estimated, the intra-regional trade may still occupy considerably above 15% of the total trade of the region. In the meantime, Japan's share in the exports of this region increased markedly from 11.2% in 1960 to 14.9% in 1963 and from 26.5% in 1966 to 30.6% in 1970. This development undoubtedly reflects partly the increasing competitiveness of the economies of the region vis-a-vis each other and the enhanced complementarity between this region

and Japan. However, the policy of import substitution pushed forward by most countries in the region and Japan's import liberalization also explains a part of the change in the direction of trade. The failures of countries in the region to exploit the economies of scale through regional trade agreements may also have contributed to this tendency.

- (h) In the past few years, while some high-tariff countries such as Vietnam and Indonesia have liberalized their import policy somewhat, tariff rates on imports have been raised in a number of other countries such as Thailand and Malaysia. Consequently, most countries in the region, with the significant exception of Singapore, now have at least moderately high tariff rates.
- (i) One recent change in trade policy which merits attention is the new emphasis on export promotion. Singapore's export promotion has been famous for some time already, but now most other countries are also very much interested in export promotion. Free trade zones are available or will be made available in Singapore, Malaysia, the Philippines and Vietnam. Most countries are extending tax holidays, exemption or repayment of import duties on machinery, parts and components and special privileges on entry permits. Some have gone so far as to extend low interest loans and provide industrial sites. While import substitution has not been abandoned, its limitations have increasingly been recognized and the emphasis has apparently shifted to export promotion.

4. Aid, Loans and Private Investment--Japan's Dominating Share Against Nationalistic Resentment

The possible danger of Japan's dominating role in the manufacturing industries in many Southeast Asian countries can best be demonstrated by showing macroscopic figures of Southeast Asian economies. As was mentioned in the introduction, the total sum of the GNP of the region is \$50 billion. At the moment, it is increasing by about 5% per year. If, therefore, the capital output ratio is 2.5, the amount of capital required to achieve the 5% rate of growth every year is estimated to be 6.25 billion. The former foreign minister of the Japanese government, Kiichi Aichi has already promised that the Japanese government will give about \$4.0 billion of aid in 1975. Past experience shows that approximately half of the Japanese economic cooperation funds have been given to Asian countries. Thus, we can say that about one third of the annual capital formation in the entire East and Southeast Asian countries is likely to be financed by Japanese capital in one form or another. Since Japanese investment tends to be concentrated in a limited number of sectors, Japan's dominating share in a number of manufacturing industries may be almost a necessity. It is very difficult to say, however, what is the "peril point" to beware of in foreign capital in terms of the number of plants, employees, capital or management. Nevertheless, there is no doubt that after a certain point nationalistic sentiment is easily aroused against Japanese domination.

The picture given here is, however, not the same one seen

in the past. Economic Cooperation Funds or Economic Aid in the broadest sense includes grants, technical cooperation, government loans, export credits and private investment. The total amount of economic aid in this sense is the one mentioned in the Foreign Minister's speech. If we are to analyze the effects of Japan's dominating share in capital formation in Southeast Asian countries, this is an appropriate concept. But economic aid in the narrowest sense is more important in that it can mitigate the dominating influence and its political implications in each country. Economic aid in this sense, exclusive of export credits and private investment, should receive more careful examination. Table 4 shows the recent amount of aid given in this narrow sense. It also shows the large share contributed by the U.S.

Table 4: Annual Average of Economic Aid to Southeast Asia
(1967-1969)

	(million \$)				
	Total	W. Germany	Japan	U.K.	U.S.A.
Indonesia	422.01	25.36	106.07	3.33	160.40
Malaysia	72.83	0.62	4.64	28.84	4.81
The Philippines	91.58	0.82	36.80	0.30	18.93
Thailand	107.81	4.70	12.39	0.95	46.78

*Quoted from K. Yoshihara [1].

The significant amount given to the Philippines from Japan is mainly due to reparation payments, about \$25 million, so that Japanese participation in economic aid programs has been rather limited in the past. This does not mean, however, that it will remain so in the future. Japanese aid to Indonesia in 1973 is

going to be more than the US aid. Given the present rate of growth in GNP and the government's official commitment to reach one % in the total amount of aid and 0.7% in governmental aid, Japanese aid will increase very rapidly. Since, however, Japan's presence in Asia is almost equivalent, if not more than, that of the U.S., she is often compared with the U.S. This may be one of the reasons for criticisms of Japan. But that is not the whole story. There are very strong restrictions on the conditions of Japanese aid. Though the date is a little out of date, the following table will show some reasons for the unpopularity of Japanese aid programs.

Table 5: Conditions on Aid in 1965 Recommendations

(As observed in 1968)

1. Countries Giving More Than 70% Gift

	% in Gift	% in Gift & 3% Loans	% in Gift & Long- Term Loans	Average Loan Period
Australia	100	100	100	21.9
Belgium	95.2	99.5	98.3	23.0
Norway	92.2	100	99.3	36.9
Canada	75.4	90.7	90.2	34.0
Sweden	75.0	100	100	32.9
Switzerland	72.5	92.8	92.8	17.6
France	71.6	82.1	73.8	

Source: OECF [3], 1970.

2. Countries Achieving Three or Two Targets

	% in Gift	% in Gift & 3% Loans	% in Gift & Long- Term Loans	Average Loan Period
Denmark	57.3	100	99.1	24.9
Holland	51.5	83.2	89.4	29.7
U.K.	46.0	91.0	95.5	24.0
U.S.A.	44.5	83.2	79.5	30.0

3. Country Achieving One Target

	% in Gift	% in Gift & 3% Loans	% in Gift & Long- Term Loans	Average Loan Period
Japan	61.7	82.0	61.7	18.1

Source: OECF, [3], 1970.

It must be added that the weighted average rate of interest for Japanese loans is 3.7% comparable with the lower interest rates of other countries like Sweden (1.5) or Canada (2.2). But this is not particularly high if it is compared with U.S. or France. It should also be noted that the countries not listed in Table 5 had stricter conditions than Japan. They are Austria, West Germany, Italy and Portugal. The information was provided by the DAC reports. Criticisms centering around Japan may be due to the fact that Japanese aid is given to the areas where these countries do not participate. It must also be pointed out that Japanese aid is highly concentrated in East and Southeast Asian countries. In 1967, 77.3% of government aid was given to Asian countries. The following table also indicates that the largest share is given to Southeast

Asian countries in the case of loans from Overseas Economic Cooperation Funds from 1961 to 1971.

Table 6: Loans by OECF funds
(billion \$)

	(billion \$)
Asia	259.8
Southeast Asia	189.0
Indonesia	139.4
The Philippines	15.8
Thailand	12.5
Malaysia	11.7
Burma	7.2
Cambodia	1.3
Singapore	.5
Brunei	.4
Laos	.2
Africa	12.3
Latin America	27.6
Others	5.7
<u>Total</u>	<u>305.4</u>

Source: OECF, [3], 1972.

Sometimes it is argued that Japanese aid is directed to the countries supplying Japan with necessary raw materials, as is the case with Indonesia. This is not will supported by facts, however, because careful observations of actual projects supported by Japanese aid are only rather remotely related to natural resources. It is rather American investment and aid programs that are directed to the development of natural resources.

One feature of Japanese economic cooperation as of 1971 is the fact that private investment occupies a small portion of Japanese economic cooperation. In 1968 its ratio to GNP was only 0.17%,

whereas other countries have much higher ratios: France, 15%, West Germany .81%, Italy .53%, Holland .56%, U.K. .33% and U.S.A. .25%. In view of the necessity of covering the unfavorable balance of trade in most Southeast Asian countries, Japanese private investment must be promoted much more vigorously in the future. So far the amount of private investment and its directions have been neither large enough nor diversified enough. The next table may show the direction of Japanese private investment, headed predominantly toward the import-substitution industries in the listed countries.

Table 7: Japanese Joint Ventures in Southeast Asia

(As of March 31, 1971)

	Thailand	Malaysia	Singapore	Philippine	Indonesia	Total
Manufacturing	103	51	54	13	30	251
Food	8	4	2	2	5	21
Textiles	29	3	8	2	6	48
Wood & Pulp	1	8	2	0	0	11
Chemicals	16	8	10	1	6	41
Metal Fabrication	12	6	8	3	5	34
G. Machinery	5	2	3	0	1	11
Elec. Appl.	12	7	2	3	3	27
Trans. Mach.	8	2	5	0	1	16
Others	12	11	14	2	3	42
Agr. & Forestry	0	6	0	1	9	16
Fishery	0	4	0	1	5	10
Mining	7	13	0	6	0	26
Construction	4	2	2	0	1	9
Commerce	34	3	11	6	1	55
Finance & Insur.	3	2	1	2	1	9
Others	13	1	5	2	1	22
Total	164	82	73	31	48	398

Professor Yoshihara classified Japanese private investment in three categories: import-substitution type, resource-development type and export-oriented type. The first type includes not only ordinary joint ventures but also some tie-up agreement to supply technical know-how and brand names on the conditions of importing materials or parts from Japan. The second type is mainly to increase Japanese imports like timber by developing some new areas in Southeast Asia. The third type is to explore the possibility of exporting the products of the countries involved not only to Japan but also to other countries. This is the kind of investment most desirable from the viewpoint of Southeast Asian countries. The increasing wage rates and shortage of certain types of workers are pushing labor-intensive industries out of the country in all of these categories.

5. Intra-Regional Competition and Competition with China

The potential domination of Japanese economic power in Southeast Asia certainly creates a circumstance in which Japan is always the target of attack in one way or another. There are, however, some factors which restrict the criticisms from going to extremes. One factor is intra-regional competition among Southeast Asian countries. Every country is trying to industrialize itself more or less at the same level and at the same time, and most of them are small in the scale of the national economies. Hence, they are bound to compete with each other in attracting enterprises or plants which cannot be duplicated in more than two places. As the scale of economy is very significant in many modern factories,

a large strip-mill, for example, is a serious problem from the viewpoint of intra-regional competition. This competition exists in aid, loans, and private investment.

Another important factor is the competition existing between China and Southeast Asian countries. As was shown in the introduction, the scale of the Chinese Economy is greater than the rest of East and Southeast Asian economies put together, excluding Japan. Hence, China has a great chance in developing modern industries, once she is ready to absorb the productive capacities of Japanese or Western industries. Her close location to Japan makes it very attractive for Japanese businesses to establish complementary relations with China. Needless to say, China, like Burma for that matter, will not allow foreign capital to come in but will be eager to import machinery and technical know-how with it and thereby develop modern import-substituting or export-oriented industries. Even now as we can observe in many Southeast Asian cities, Chinese textile and other products have very strong competitive capabilities. If the investment opportunities in Southeast Asia become less attractive to Japanese businesses, their efforts are likely to be directed towards the development of China to the same extent. However, disenchantment may come rather soon, because in the most optimistic extrapolation Japanese exports to China in 1980 will not exceed 2 billion dollars. This is of course far less than the current trade with Southeast Asia. I do not believe that the expected growth rate of the Chinese economy for the decade can exceed 4% on the average. But even a smaller growth rate implies a considerable growth of the national economy in

the absolute amount of investment. For instance, a 2% growth implies \$1.6 billion, which requires \$4 billion of investment. This is equivalent to the total amount of Japanese aid promised for the year 1975. If things go well, the net incremental national product of China will be larger than that of the whole of Southeast Asia. Southeast Asian countries must not be too optimistic about future economic competition with Chinese manufactures. Transition once this starts,, their political and cultural influence will be greatly strengthened.

One may argue that China may adopt rather inward-looking policies to satisfy her enormous domestic demand for a considerable period of time. This is not a correct prediction, because China must export to import the necessary machines for the development of modern industries. This is exactly what China is already doing to finance her imports from Japan. She is covering a \$300 million deficit by her export surplus to Hong Kong. The main Chinese export market will be in East and Southeast Asia, and the Chinese population of 25 to 30 million in Southeast Asia will more or less be influenced by this emergence of Chinese economic activities. How Southeast Asian countries are likely to react to this problem is essential to judging the future of political stability as well as economic progress of the region.

6. Intra-Regional Cooperation

There is one last consideration to make in regard to Japanese economic relations with Southeast Asia, a consideration which is somewhat contradictory to the points mentioned in section 5. It concerns intra-regional cooperation among Southeast Asian countries.

For a number of reasons, many Southeast Asian countries have been interested in increasing intra-regional cooperation in various fields of activities. In economic fields this is most difficult to achieve because the economic ties binding the countries are very slender indeed. Among Southeast Asian countries, foreign trade with each other is only about 15% of their entire foreign trade. Nevertheless, establishing closer ties among the countries is extremely important for benefitting from the experiences of other countries, as well as for increasing the bargaining power against advanced countries and international organizations, economizing their overlapping activities, creating a more stimulating intellectual atmosphere, coordinating the economic plans and production of major commodities, and as time passes, consolidating the common aims of Southeast Asia. Unless the heterogeneity mentioned in the introduction of this paper is overcome and a somewhat homogeneous culture starts developing in this region in the near future, the enormous progress taking place in other parts of the world may carry away the major concern of human intellect and human energy and leave the development of this region behind.

7. Japan's Role in Asia -- Concluding Remarks

It seems that to bring up the standard of living from \$100 to \$1000, say in 50 years, is not very easy at any place in the world. It is particularly hard in tropical countries. The natural environmental conditions seem to impose on mankind many hardships difficult to overcome in a short time. Moreover, the rise in the standard of living in modern times from the \$100 level to the \$500 level seems to be associated with political instability rather than stability.

For the slow tempo of economic development cannot satisfy the expanding human want in many developing countries, which leads to "dissatisfaction" on the part of the masses of people. In order to mitigate the dissatisfaction, a number of social and institutional changes are required, such as more egalitarian measures for income distribution, land reform, farmers cooperatives, trade unions and so on. There are no general rules for these economic and social policies. But it is generally true that unless appropriate measures are taken and social change is brought about, "social frustration" is an inevitable outcome. If social frustration occurs, there will usually be some social groups which exploit it to organize new political groups or pressure groups. Unless political adjustments are properly made, political instability is unavoidable. Since the degree of growth and social change now required in this part of Asia is so great, the writer believes that political instability in Asia will be almost a certainty for many years in the 70's and the 80's. Surely, the past experiences of Japan herself and the post-war experiences of most Asian countries is an indication of this.

These considerations would seem to point to the role that Japan is to play on the Asian scene. But there is one last important point which should not be left out. This is the fact that Japan's interests are global rather than just limited to Asia. In terms of trade relations, Japanese investment opportunities and necessary natural resources, there are other parts of the world which are equally if not more, important for the development of the Japanese Economy. However, the question to contemplate is not just economics.

Once the problem of the "stomach" is solved, other cultural and religious concerns become more important for the life of the nation. The ultimate concern of the human mind is not economic but much more than that. The concern of the Japanese people and Japan's leading intellectuals will be toward greater civilization. Regarding this matter, what would other countries offer us? Or what can we offer other countries in terms of civilization? In this sense, Japanese economic relations with Southeast Asia--or any country for that matter-- are merely one aspect of more complicated and broader cultural relations between different values and ways of life. In this broader sense Japan's interest is global. For this reason Japan should not follow the Economic Regionalism of the past nor the Regionalism of the E. C. type. She should try to establish a variety of ties with the U. S., European countries, Pan-Pacific countries and, of course, the Asian countries as well.

Thus, the role of Japan in Asia will be to help the countries in Southeast Asia promote intra-regional cooperation, to diffuse her own experiences in the best way she can to other Asian countries and thereby try to create prosperous and great civilizations in Asia which can compete with any other great civilizations of the past and the future.

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Commentary on Paper by Professor Shinichi Ichimura

by

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JAPAN'S STAKE IN ASIA

Professor Ichimura says that in Japan there are some who wonder whether Japan's sun is rising or setting. If this be so, such people must surely be only in Japan. The rising of the Japanese sun, and Japan's capacity to respond with speed and daring to unexpected structural changes in Japan's world environment should be obvious to almost everyone else. To accept without breaking stride rises in the value of the yen by almost forty percent within just over a year should show that.

I agree with Professor Ichimura that forecasts of the future are likely to be worthless unless we also try to take into account cultural and spiritual tendencies within countries and in their relations with each other. Cultural tendencies are often barely glimpsed -- or are even totally disregarded -- as economists focus on their arithmetic.

Professor Ichimura reminds us that Asia shares no common culture like that inherited by Western Europeans. Sinic culture reached far, was of long duration, and had deep influence on North-east Asia but it did not encompass India or Indonesia. And from

the cultural heritage of South Asia, Buddhism spread north, into Japan, and through Southeast Asia, but Asia as a whole never experienced the authority of a Roman Empire, or of a Catholic Church. Asia is culturally diverse, even fragmented.

Professor Ichimura rightly reminds us that in East and Southeast Asia Japan and China are the giants. China's population is twice that of the rest of the area, including Japan. Japan's GNP is twice that of all the other economies in the area, including China's.

At two points in his paper, Professor Ichimura deals with the prospect of instability for East and Southeast Asia -- instability that will flow from great inequalities of wealth (1) within particular countries and (2) between countries. The growth process itself, particularly if rapid, produces it. Though instability is inevitable, and likely to be painful or worse, Professor Ichimura insists, rightly again, I think, that a great Japanese military capability would serve no useful purpose in coping with it.

Professor Ichimura foresees that Japan will be relatively more free in the future to choose from many sources of imports, globally, valuable -- even vital -- as trade with Southeast Asia now is for Japan. Meanwhile, the countries of Southeast Asia will not be similarly free to choose trading partners, and are likely to become increasingly dependent on sales in Japan for their foreign exchange earnings. By 1980 some forty percent of Southeast Asia's trade is likely to be with Japan, while only 25 percent of Japan's trade will be with that area.

Foreseeing imbalances, Professor Ichimura recognizes the great future importance of Japanese aid, loans, and investment in Asia. He gives us an arresting guess: a five percent growth rate in Southeast Asia will require some \$6.2 billion annual investment. With something like \$2 billion annually of Japanese aid likely to be available for Southeast Asia, Japan can furnish one-third of the investment requirement.

This is a high proportion to be coming from one outside source. And Professor Ichimura foresees possibility of animosity towards Japan arising from this degree of dependence, especially in light of Japan's faltering record with respect to aid terms. Prospect of an overly conspicuous "made in Japan" trademark stamped on the Southeast Asian landscape by awkward programming of Japanese aid flows justifies anxiety in Tokyo and in other Asian capitals.

So, I would like to elaborate upon something implicit, I believe, in Professor Ichimura's analysis.

We start with prospect that Japan is likely to be accumulating favorable trade surpluses for a long time to come. We see that Japan must, somehow, draw down reserves, as its contribution to international commercial and financial equilibrium. And Japan must do this within a global, not just a regional, framework.

I hope that Professor Ichimura is hinting that Tokyo is exploring means for transferring resources which can (1) blur the "made in Japan" imprint, and (2) shift actual administration of funds into non-Japanese hands. I have great confidence that Japan will discover the desired method. I fear, greatly, that when it starts

to implement it, Japan will lack the talent to get the credit it will deserve for its initiatives. But at ~~this~~ stage, I would like to offer two suggestions for study in Tokyo:

(1) Large annual over-subscription of untied yen to the IDA under ground rules that might encourage the IBRD family to accord some kind of ~~marginal~~ priority to development programs in Southeast Asia.

(2) Donation annually of ~~something~~ in the order of \$500 million to \$1 billion of ~~grant~~ funds to an institution like an Asian Reserve Bank or a Southeast and East Asian Clearing Union which would be given authority to disburse untied yen for cover of portions of balance of payments deficits of developing countries in East Asia attributable to costs of "development imports".

Programs of this sort -- hopefully, with China, North Korea, and North Vietnam, in due course, participating -- could be Japan's "strategic" contribution to easing tensions caused by the widening gap between very rich and very poor countries of Asia. The programs show a Tokyo trying to correct the appearance of using aid resources simply to serve Japanese commercial self-interest. And, Japan could hope that North American and Western European donors might wish to join it in what would become a strengthened multilateral undertaking of global scope.