

AN ANALYSIS OF RECENT JAPANESE ECONOMIC INVOLVEMENT  
IN THREE SOUTHEAST ASIAN COUNTRIES:  
MALAYSIA, SINGAPORE, AND INDONESIA

by

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We accept this thesis as conforming  
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## ABSTRACT

This thesis is concerned with Japanese economic involvement during the 1970's in three Southeast Asian countries, Malaysia, Singapore, and Indonesia. The forms of economic involvement examined are aid, trade, and, most importantly, investment. The basic conclusion of the thesis is that, while Japan's economic presence has caused some degree of discontent in these countries, the problems are not insurmountable, and the Japanese presence can continue if certain measures are taken to improve the situation.

The first two chapters look at Japan's historical involvement in Southeast Asia, with emphasis on the three countries concerned, dating from the fourteenth century to the present decade. Chapter three examines Japan's position in the 1970's regarding its economy, aid, trade, and foreign investment policies. Chapters four to six investigate Japan's economic involvement in Malaysia, Singapore, and Indonesia respectively during the 1970's, and also try to give the reactions to this involvement in each country. The final chapter looks at some of the measures that Japan is taking to improve its image in Southeast Asia, and, in

addition, offers some recommendations to further improve the situation.

Examining Committee:

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## CHAPTER I

### THE HISTORICAL PERSPECTIVE

#### Japan's Relations with Southeast Asia up to 1853

Japanese involvement with Southeast Asia dates back to the fourteenth and fifteenth centuries, developing out of the great Mongolian invasion of Japan by Kublai Khan in 1281 A.D. At this time, the successful repulse of the Mongols in what is known as the campaign of the Kōan period, had an effect on the Japanese people similar to the effect which the defeat of the Spanish Armada had on the English. An awakening of Japanese adventurous and sea-faring spirit followed, and merchants and adventurers scattered to all parts of the eastern coast of Asia, including almost all parts of Southeast Asia.<sup>1</sup>

The unification of Japan by Nobumaga, Hideyoshi, and Ieyasu in the second half of the sixteenth century resulted in a period of great economic, military, and naval activity in the last decade of the sixteenth century and the first third of the following century. In Southeast Asia the effects of this were felt to the greatest extent in the Philippines and Siam because other areas were under European colonial domination. It is true that the Spanish were in the Philippines, but their involvement was concerned more with religious

conversion than with economic exploitation. Between 1592 and 1632 large numbers of Japanese travelled to Siam where they participated in trade and took an active part in some domestic wars. The Japanese were treated with a fair amount of respect, but their influence ultimately became too great and they were massacred by the Siamese.<sup>2</sup> Trading activity between Japan and Siam was fairly substantial, as witnessed by the number of Japanese in the country. In Aynthia, the capital of Siam, there were Japanese colonies whose population reached eight thousand.<sup>3</sup> In addition, in the early seventeenth century, Japanese vessels frequented Java, Annam, and Malacca (Fig. 1). As early as 1612, some Japanese were in the service of the Dutch Company as soldiers, and many more were engaged in occupations such as agriculture and trade.<sup>4</sup> It is thought that the Japanese carried on a fairly extensive trade with Malacca. They are thought to be the people referred to as Gores or Guores by the Portuguese, and whose origin is disputed. These people came to Malacca each year in two or three ships, sometimes doing business there in collaboration with the Chinese, and sometimes acting on their own.<sup>5</sup> The trade between Japan and the Philippines lasted for more than fifty years from 1580, and there were at one time more than 3000 Japanese settlers on the island of Luzon.<sup>6</sup> In 1624 Shogun Hidetada refused audience to a mission from the Philippines and ordered the deportation of all Spaniards from Japan. Six years later, two Japanese officials planned the

conquest of the Philippines as a permanent safeguard to the empire and spies were actually sent to Manila, but the scheme fell through when they were impressed by the military strength of the Spaniards.<sup>7</sup> The bulk of the Japanese trading vessels to Manila in the late sixteenth and early seventeenth centuries carried wheat flour and other foodstuffs, weapons, and miscellaneous goods. In return, these vessels were loaded mainly with Chinese raw silk textiles. Native products such as deer skin, sugar, and beeswax as well as goods imported from Spain comprised the balance of goods the Japanese acquired in Manila.<sup>8</sup>

This period of Japanese involvement in Southeast Asia came to an end in 1640, when the Shogunate, fearful of the threat to Japanese culture from Western Christianity, virtually isolated the country from outside contacts. No Japanese were permitted to leave the country, and the only foreigners allowed to remain were a small group of Dutch traders restricted to the artificial island of Deshima in the harbour of Nagasaki (Fig. 1). These traders were continually subjected to indignities and had limitations placed on their activities. The closing of Japan meant that relations with its two closest trading partners in Southeast Asia, Siam and the Philippines, were greatly diminished. Japan's policy of isolation completely cut off from home the Japanese residents in Manila. Eventually they were assimilated into the native population through intermarriage, as were a few Japanese



castaways who drifted to the Philippines at various times between 1660 and 1830. Except for the latter, Japanese-Filipino contact was checked for over two hundred years, and it was not until 1868 that official relations between Japan and Spain, and consequently the Philippines, were restored.<sup>9</sup>

The Changing Nature of Japan's Relations  
with Southeast Asia 1853-1941

Japan was reopened to the rest of the world in 1853 by the American, Commodore Perry. This event was due more to a show of superior force by the Americans than to an actual desire on the part of the Japanese leaders to reestablish outside contacts. In 1868 the Meiji Government took over from the more backward-looking Tokugawa regime, and Japan entered upon an era of unprecedented material progress. Once again, relations with Southeast Asia were established, and these relations were on a greater scale than before because Japan's industrial progress necessitated increased raw materials. In 1887 Prince Devawongs Varapakorn of Siam, then Minister of Foreign Affairs, went to Japan to negotiate a trade treaty, and another one followed in 1898. Trade relations between the agriculturally based Philippines and industrializing Japan opened up by the end of the 1880's. This had long been desired by both countries since their renewal of formal contact in 1868. Experimentally, the Philippine government started in 1888 to use Japanese coal instead of Australian coal to generate power for Manila's streetcars. In the 1880's

and 1890's Japanese nationalists, anxious to augment their country's wealth, power, and prestige, urged the Meiji leaders to step up trade with the Philippines. Japan had the advantage of geographic proximity, for it could easily transport goods to neighbouring countries at a faster and cheaper rate than its competitors from the United States and Europe. On July 19, 1894, Spain, representing the Philippines, extended to Japan the privileges of the reduced conventional tariff it had granted to other countries under the first article of a royal order of December 31, 1893.<sup>10</sup> Trade between Japan and the Philippines increased from 452,000 yen (U.S. \$452,000) in 1890 to 2,669,000 yen (U.S. \$1,334,500) in 1899, and in the same period trade between Japan and Siam went from 246,000 yen (U.S. \$246,000) to 783,000 yen (U.S. \$391,500).<sup>11</sup> The significant increase in the volume of Japan-Philippine trade during this period was due largely to Japan's purchase of Philippine hemp and sugar.

Japan also played a part in Filipino politics during this time, lending some support in the fight for independence against Spain. This was a chance for Japan to assert its expansionist interests, but there was no armed intervention and no financial assistance by the Japanese government. Several Japanese army officers did go to the Philippines to train the Army of General Emilio Aguinaldo, the leader of the Filipino insurgent forces, and through the efforts of strategically placed individuals, the revolutionary government

was able to purchase two shiploads of arms, ammunition, and other military equipment from Japan, neither of which arrived in the Philippines.<sup>12</sup> Japanese involvement in the Filipino Revolution, according to Willard H. Elsbree, was important because it was an early attempt to create friendly bonds between Japan and nationalist forces elsewhere in Asia, and to establish Japan as the leader of an anti-Western, anti-imperialist Asia.<sup>13</sup> Large numbers of Japanese were brought into the Philippines around 1900 by the American builders of a road in central Luzon (Fig. 1). When the road was completed many Japanese workers went to Davao in south-central Mindanao where large hemp plantations were being established. This Japanese colony prospered and grew to a population of 10,000 by 1916.<sup>14</sup>

After 1868, Japan became interested in re-establishing and greatly increasing economic relations with Malaya and the Netherlands East Indies (Fig. 1). This was facilitated by the establishment of Japanese shipping lines in Southeast Asia in the late nineteenth and early twentieth centuries.<sup>15</sup> By 1899, Japanese trade with the Netherlands East Indies amounted to 1,350,000 yen (U.S. \$675,000), and the total for British Malaya, although considerably lower, was increasing rapidly. Exports from Japan included furniture, tobacco, silk and other textiles, and among major imports from Malaya and the Netherlands East Indies were rubber, tin, sugar, cloves, and nutmeg, as well as timber.<sup>16</sup> In the 1890's a large amount

of coal from Japan was shipped to Singapore. This coal was relatively cheap and the shipment was also facilitated by the lifting in 1885 of a ban previously placed on the storage of coal at Tanjong Pagar (Fig. 4).<sup>17</sup> Japanese trade with Malaya increased steadily throughout the first three decades of the present century. In terms of tonnage recorded at the Straits Settlements ports, Japanese shipping showed a generally consistent increase from the years of the First World War onwards. Japanese tonnage occupied fourth place (after Britain, Germany, and the Netherlands) in 1913, but practically equalled, and in some years actually exceeded, Dutch tonnage which was generally in second place throughout the 1920's.<sup>18</sup> The year 1925 was a record trade year for the Straits ports, exceeding the previous best in 1920 by 30%. The value of the import trade from Japan, however, increased by over 80%, cotton piece goods being mainly responsible. In 1932, when the value of trade in all commodities except tin had declined in total, that in cement and dyed cotton piece goods from Japan increased, and by 1933, 68% of the cottons entering the Straits ports were of Japanese origin.<sup>19</sup>

Because of its lack of mineral resources and its growing industrialization, Japan turned to Malaya as a major source of minerals after the First World War. In 1921 the Ishihara Sangyo Company was granted a mining concession by the Sultan of Johore, and a few years afterwards it obtained another concession in Trengganu (Fig. 2). Later, other Japanese

companies, after extensive prospecting throughout the Peninsula, started operations in Johore, Trengganu, and Kelantan.<sup>20</sup> By 1938, the output of ore reached 1,600,000 tons, all of which was shipped to Japan, representing about half of Japan's ore imports. Also, during the 1930's, exploitation of bauxite and manganese ore was in Japanese hands, and the output was shipped entirely to Japan. The other main Japanese involvement in British Malaya during this time were several firms operating in Singapore concerned with transactions in the rubber trade. As well, in the 1930's, the Japanese set up huge hemp plantations in British North Borneo tended by Chinese labour.

Prior to World War II Japanese economic involvement in Malaya was not very important in the total investment picture of the colony. However, there were already signs of discontent directed against this investment. The growing competition in the Malayan market that United Kingdom exports had to face from Japan and other Asian producers, caused British merchant houses to oppose the free trade policy of the Straits ports. This opposition was voiced, for example, by the Penang Chamber of Commerce in 1934 in a bitter speech by a committee member who spoke of Japanese trading as a "deadly menace which (was) threatening the British import trade (of the) colony with extinction."<sup>21</sup> In 1934, legislation was enacted to regulate and control by means of quotas the introduction into the colony, for Malayan consumption, of cotton and rayon

piece goods manufactured in foreign countries, which resulted in a considerable decrease in the import of these goods.<sup>22</sup> A further indication of resentment against the Japanese came on July 20, 1936 when the Straits Times newspaper in Singapore warned of the dangers of Japanese economic domination: "Within a very few years, the whole of trade and banking of this colony will be dominated by the Japanese if effective preventive measures are not taken promptly."<sup>23</sup>

Japanese involvement with the Netherlands East Indies increased slowly but steadily during the late nineteenth and early twentieth centuries. In 1899, the Dutch government gave equality of status to the Japanese with Europeans in the country, and in 1909 Japan set up a consulate in Batavia (Fig. 5).<sup>24</sup> The First World War virtually cut off the Netherlands from its East Indies colony, which had to look for new trading partners in the Asian and Pacific areas. As a result Japan's share in the trade of the Indies began to increase rapidly in volume. During 1909-13, the average Japanese exports to the Indies were worth only 4.4 million guilders (U.S. \$1,760,000), and the imports worth 21.0 million guilders (U.S. \$8,400,000). But during 1914-18, they jumped to 43.2 million guilders (U.S. \$17,300,000) and 32.4 million guilders (U.S. \$12,960,000) respectively. The large increase in Japan's exports was attributable to a flood of Japanese textiles on to the Netherlands East Indies market. Throughout the 1920's, Japan's exports increased markedly, and their

value reached the record figure of 100 million guilders (U.S. \$40,000,000) in 1930, but after 1927, Japanese imports from the Indies were far less than Japanese exports.<sup>25</sup>

The world economic depression of the 1930's enabled Japanese goods, which were comparatively cheap, to flood the market of the East Indies. In 1933 and 1934, Japan's exports constituted 30.96% and 31.87% of the total imports of the Indies, but the colony's exports to Japan for the two years were only 4.8% and 3.9% of its total exports.<sup>26</sup> To facilitate trade, two of the semi-official Japanese banks, the Yokohama Specie Bank and the Bank of Taiwan, and one of the leading Zaibatsu banks, Mitsui, opened offices in the Netherlands East Indies. Japan started to invest in Netherlands Indies resources in the years prior to World War II. The most notable venture was the formation of the Japanese-owned Borneo Oil Company, set up in 1930.<sup>27</sup> Japanese investment in the country did not reach substantial levels in the pre-World War II period. According to H. G. Callis, one per cent of the foreign investment in the Netherlands East Indies in 1937 was of Japanese origin.<sup>28</sup>

Even though Japanese involvement in the Netherlands East Indies was not very great before World War II, there were indications of resentment against the Japanese in the Dutch colony. Many imports after 1933 were controlled by quotas and licensing which protected the existing European commercial houses against Japanese competition. Also, after a long period

in which ships under foreign flags had been free to engage in coastal as well as in foreign trade, regulations were introduced for reserving the coastal trade for Dutch ships and requiring a proportion of the exports to be carried in them. These regulations were aimed chiefly at Japanese competition.<sup>29</sup> As a step mainly against the Japanese, the Netherlands Indies imposed restrictions on immigration during the 1930's. In 1930 there were 7000 Japanese in the country. During Japan's commercial expansion of the next few years, more than a thousand a year entered the country, and nearly all of them were engaged in trade, chiefly in Java. The increase in their numbers provoked some unease in the Indies, and it was with them in mind that the government fixed a quota of 800 a year for immigrants from any single country other than the Netherlands and China.<sup>30</sup>

In the period between 1868 and the 1930's, Japan had grown from a semi-feudal agricultural country to a commercial and military power. In 1895 it defeated Imperial China (annexing Formosa) in war, ten years later administered a similar defeat to Imperial Russia, and in 1910 completed its territorial expansion for some time by annexing Korea. All pretense of party government in Japan was abandoned in 1931 as a result of the occupation of Manchuria, with Admiral Viscount Makoto Saito forming a so-called national cabinet composed chiefly of men who belonged to no party. In its foreign relations, Japan isolated itself from the United

States and the European democracies, and in the mid-1930's signed anti-communist pacts with Nazi Germany and Fascist Italy. Japanese policy in the 1930's was designed not only to organize production for self-sufficiency and to strengthen the military within its sphere of influence, but also to extend that sphere to take in areas rich in vital materials which industrializing Japan lacked.<sup>31</sup> Just beyond the perimeter of expansion was oil, bauxite, tin, rubber, nickel, and other resources in Southeast Asia. This whole area was coveted by the Japanese, and their ultimate object of hegemony was clear. However, there was no prescribed method of expansion, no fixed timetable, and no definite form which their influenced was to assume.<sup>32</sup> The outbreak of war in Europe afforded Japan a great opportunity. With France defeated and England fighting for existence, the path to southward expansion in Asia appeared open. In 1940, with the consent of the German-sponsored Vichy government of France, Japanese forces took over French Indo-China (Vietnam, Cambodia, and Laos) without incident. A few months later, Japan tried to obtain economic and political footholds in the Netherlands East Indies, with the Japanese and Dutch holding talks on economic affairs during late 1940 and early 1941. Japan sent two economic missions and attempted to exact the maximum concessions from the government of the Indies, trying to exploit as much as possible the delicate position of the Dutch authorities after the German capture of Holland. But the government of

the Indies refused to give in, and both economic missions failed in their objectives. In July 1941, after the Japanese occupation of Indo-China, the Netherlands Indies followed the United States in freezing Japanese assets.<sup>33</sup>

The War Experience, Japan's Occupation of  
Malaya and the Netherlands East Indies

On December 7, 1941, without warning and while negotiations between American and Japanese diplomats were still in progress, Japanese carrier-based airplanes attacked Pearl Harbour. Simultaneous attacks were launched by the Japanese army, navy, and air force against Malaya. Within a few months all of Southeast Asia was under Japanese domination.

With the fall of Singapore on February 15, 1942, Japan began its three and a half year occupation of Malaya. Before the start of the war in the Pacific, Japan had gained experience in the occupation and administration of foreign areas such as Formosa, Korea and Manchuria (Fig. 1). The occupation of Malaya, as well as many other areas beginning in 1942, presented new problems to Japan, for it had to occupy and administer many different areas at the same time, while fighting a major war on several fronts. Directly after Singapore fell, the Japanese started their mopping-up operations. The fact that the Japanese had represented themselves as the 'Liberators of Asia' was a thing to be forgotten until the needs of security had been met.

It was the Chinese in Malaya for whom the Japanese held the most suspicion, especially Communist Chinese. The Chinese Communist armies in China had given them the most trouble, had hindered their progress and killed the greatest number of their men.<sup>34</sup> An enormous number of Chinese were shot by the Japanese in Malaya, while others were forced into atap houses and burned alive. Young able-bodied men were taken away and seen no more, but it was thought that they were ordered to fight elsewhere for the Japanese or to work in the labour camps, and murdered if they refused.<sup>35</sup> The largest concentration of Chinese in Malaya was on the small island of Singapore, whose war-time population of one million was over 70% Chinese. It was here that fear of the Japanese secret policy (kempeitai) was greatest. People began to fear denunciations, whether anonymous or not, for generally action was taken upon the flimsiest word.<sup>36</sup> The Chinese were informed that all of them who had in any way resisted the Japanese deserved execution or enslavement. Soon after the occupation began in Singapore, identification parades were organized to pick out the Communists and others who had resisted the invading forces. There was a mass execution lasting for days and the numbers who perished in the purge have been estimated variously as between 40,000 and 100,000.<sup>37</sup> In the city of Singapore, orders were given for the segregation of the Chinese people so they could be better regulated, and Japanese military detachments called Butai

were allotted their respective areas of control.

Japanese restrictive measures and use of terror was not nearly so great in the rest of Malaya as it was in Singapore. There was not the great concentration of Chinese in other areas, so the Japanese could generally work in harmony with the local populations. These people, predominantly Malays and Indians, were just as happy to see the Japanese occupying the country as the British, and in many cases preferred the Japanese.

There can be no doubt that the Japanese over-reacted in their first few months of occupation of Singapore. Many of the people that they killed, tortured, or interned were potential allies who could have helped them. It is true that the majority of the Chinese had little respect for the Japanese because of what was happening in China, but Japanese actions caused the alienation of virtually everyone on the island, including Malays and Indians.

The Gunseikan, or President of the military administration of Malaya during the occupation, was always a civilian official from Japan. The city of Singapore was renamed Shonan, or 'Light of the South', and was made a special municipality because of its small size and strategic importance. The mayors of the city were also Japanese civilian officials. Apart from Singapore, the Japanese divided Malaya into eight provinces, to each of which a Japanese official was appointed as administrator. The Japanese put an end to

the former distinction between the Straits Settlements and the Federated and Unfederated Malay States. Such differences, they alleged, had been a sinister British device to promote disunity and so make British domination easier.<sup>38</sup>

The Japanese administration of Malaya during the occupation was far from efficient because of the lack of qualified personnel. Many officials were not qualified for the responsible positions they held. By 1943, allotments to the area were limited to foremen and special technicians, and the number of these was to be kept down as much as possible.<sup>39</sup> Such activities as education, medical services and public works were deprived of funds, material and personnel by the Japanese. Semi-starvation was widespread in the towns since the Malays, the rice farmers of Malaya, grew roughly enough to feed themselves, but not the Chinese and Indians as well. Before the war, two-thirds of the rice was imported, so when the Japanese failed to bring in a sufficient quantity, the principal sufferers were the Chinese and the Indians of the towns.<sup>40</sup> For all the people, cotton clothing and other consumers' necessities were very scarce throughout the occupation due to problems in both manufacturing and distribution.

Early in the occupation of Malaya, economic exploitation was a very high priority. Even before the war, Malaya, with plentiful supplies of tin, rubber and iron ore, was one of the richest prizes for inclusion in the planned Greater East

Asia Co-Prosperity Sphere. When the Japanese overran the southern areas of Asia, and in the first flush of victory optimistically anticipated long-term exploitation of the resources of the region, they established a new financial institution, The Southern Development Treasury, to finance long-term development. Theoretically, financial activity in the occupied areas was to be divided between the Treasury and the Yokohama Specie Bank, with the former handling long-term finance and the latter short-term. However, when it became apparent that the anticipated development of resources would not materialize on the expected scale, the Southern Development Treasury was quickly turned to other purposes. It was given the authority to issue bank notes without limitation and played the role of central bank in many areas.<sup>41</sup>

Economic exploitation of Malaya was mainly in the hands of the great Zaibatsu concerns (conglomerates), as the military government, which held supervisory powers over business activities, was not able to do without the technical experience of businessmen.<sup>42</sup> However, business firms had to obtain prior permission from the army before they could enter Malaya. Although it was, at first, somewhat averse to allowing one firm to have a complete monopoly in any field, army policy eventually fostered such a development, largely because it was deemed easier to deal with one central authority rather than with several.<sup>43</sup>

Mitsui and Misubishi were the first firms to move into Malaya after the conquest, with Mitsui given the monopoly on salt and Misubishi on rice. The rubber industry was controlled by a group of large companies, and the best of the tin mines were allocated to the Mitsui Kozan Kabushiki Kaisha and another company with the initials T.K.K.K.<sup>44</sup> Iron works and foundries, coconut and palm oil estates, everything that could yield or produce wealth, was handed over to a large company or group of companies. At the same time, lesser Japanese civilian traders came for what was left. They formed kumiais, which were syndicates or guilds, intended to rationalize supply and to distribute equitably to the public the goods under its control.<sup>45</sup> However, these business concerns, which tended to operate on a small scale, did not work out in Malaya because the country was domestically based more on a subsistence economy than on a market economy. Also, the economic exploitation carried out by the large companies in Malaya did not reach the anticipated scale because Japan lost its control of the seas to the United States in the Battle of the Coral Sea and the Battle of Midway in 1942. After this, the Japanese had great difficulty transporting goods between Japan and Malaya, and it was on export of raw materials to Japan that the economic exploitation of Malaya was based.

As the war progressed, and Japan's situation deteriorated, emergency demands necessarily relegated the southern regions, of which Malaya was a part, to a subordinate position in economic planning.<sup>46</sup> Malaya's economy was badly disrupted

due to the termination of trade with Great Britain and other western countries. Singapore, because of its lack of agricultural land, was affected by a serious food shortage. To counteract this, the Japanese tried to spur on the population to increase the production of rice, millet, and vegetables. They encouraged an exodus from Singapore, and organized agricultural settlements of ex-townspeople, especially near Endau in Johore and Bahau in Negri Sembilan.<sup>47</sup> These enterprises were described in glowing terms by Japanese propagandists, but they were on a small scale, and such efforts could obviously do little to ease the food shortages of Singapore.

There can be little doubt that Japan's economic exploitation of Malaya during the war years did not reach expectations and seriously disrupted the Malayan economy. Japan never did receive large quantities of Malaya's plentiful resources such as rubber, tin, and iron ore. As well as decreasing Malaya's trade, the Japanese also mishandled the country's production capacity in their desire for short-term gains. Much capital equipment was destroyed in the fighting or was overworked during the occupation. The tin industry and the railways suffered severely. Dredges were destroyed and the smelters of Singapore and Penang heavily damaged, while a quarter of the total railway mileage was torn up and the rails sent for use on the Burma-Siam line. A third of the locomotives and much of the rolling stock was removed, and to add to the

problems, the railway workshops were bombed by the Allies.<sup>48</sup> In the plantation sector, the Japanese cut down several thousand rubber trees, to supply wood for the operation of the railways. Also, there was a deterioration in working men's housing, sanitation, and the control of malaria. This resulted in direct losses estimated at U.S. \$200,000,000, and was mainly due to the lack of money and qualified personnel provided by the Japanese to run the rubber industry.<sup>49</sup> The Japanese did not consider it worthwhile to expend money and personnel in developing and maintaining Malaya's economy when trade was greatly curtailed by the Americans' control of the sea lanes.

The Japanese occupation of Indonesia followed a pattern similar to that in Malaya. There was not the degree of anti-Chinese measures as in Malaya because only 3% of the Netherlands Indies population was Chinese as opposed to over 40% in Malaya. As far as the Japanese were concerned, in the Netherlands Indies all other considerations were subordinate to the economic exploitation of the islands, which they regarded as their richest prize in terms of natural resources.<sup>50</sup> As in Malaya, the period of occupation disrupted the economy of Indonesia. Many industrial plants, including oil installations, were destroyed by the Allies before Japan occupied the country. Further damage was done, especially to harbour works and to transport equipment, during the remaining years of the war. The country's great international trade

diminished to such goods as could be moved within the sphere of Japan's dominion on lines of communication vulnerable to Allied attacks. This led to a diversion of resources from export crops to food stuffs for local consumption. The acreage under rubber and sugar decreased substantially and equipment deteriorated badly.<sup>51</sup>

The Japanese occupation was beneficial to the development of nationalism within the Netherlands East Indies. During the occupation, the Dutch and other western managers were replaced by Japanese administrators, and, more importantly, for the first time Indonesians had a chance to rise to middle management positions. The period of Japanese rule stimulated social and political development in Indonesia, and made the people realize that the Dutch were far from invincible.<sup>52</sup> The same sort of situation occurred in Malaya, and was an important factor in post-war developments in the two countries.

#### Postwar Japan Moves Back into Southeast Asia

After the atomic bombing of Hiroshima and Nagasaki in August 1945, the war quickly came to an end, and Japan was left in economic and political chaos. It surrendered on August 14, 1945 with the understanding that the government would continue to function, but completely subject to the orders of the Supreme Commander for the Allied Powers (SCAP), General Douglas MacArthur.<sup>53</sup> In the years that followed Japan was preoccupied with rebuilding its economy, with the help of

a great deal of American money and expertise. Different from the pre-war situation was the fact that the Japanese economy in the post-war period was geared to the international economic system. Control over Japan by SCAP meant that Japan did not have to spend money on defence in the immediate post-war period, and this allowed for greater expenditures to build up the economy. Also, capital accumulation was assisted by a very high rate of saving which resulted from the thrifty habits of the people.<sup>54</sup>

The industrialization of Japan after the war was conditional upon it being able to obtain imports on good terms. This included all the cotton, wool and rubber needed by Japanese factories, most of the ores (ferrous and non-ferrous), coal and mineral oil, as well as much of the pulp, metal scrap and the materials used by the chemical industry.<sup>55</sup> However, it was difficult for Japan to set up economic relations immediately after the war, especially with countries that had been occupied, because of bitter war-time memories. Southeast Asia was an area which had many of the resources that Japan needed, and was of prime interest to the country, which had lost its former colonies of Manchuria, Korea and Formosa.

The lever that the Japanese needed to get back into the Southeast Asian economic scene after the war was provided by the payment of reparations. At first, the various Southeast Asian nations occupied by Japan during the war were bitterly

resentful of what they had suffered, and demanded exorbitant reparation payments. For example, the Philippines first demand was for eight billion American dollars. However, as time went on, much of the animosity and suspicion gave way to a more practical and conciliatory approach.<sup>56</sup> A Reparations Technical Advisory Committee was set up, composed of the heads of the Reparations and Restitution Missions which each claimant country was authorized to send to Japan. To insure that the recipient countries would get something of value, reparations were to be in form of capital equipment as opposed to money and consumer goods. Also, to insure that Japan was left with an economic base to build upon, the removals of capital equipment were to be mainly from the armaments industries known technically as secondary war industries and war-supporting industries.<sup>57</sup>

The period 1945 to 1947 was taken up with negotiations for reparations. In April 1947 the Far Eastern Commission authorized SCAP to make available as interim reparations 30% of the surplus industrial capacity above the 1930-1934 average production level in certain specified industries. Although some transfers on this interim program began in 1948, the United States cut back the program drastically the next year to ensure the revival of Japan's industries.<sup>58</sup> The Basic Post-Surrender Policy for Japan was prepared by the United States Department of State and forwarded to the Supreme Commander for the Allied Powers on June 26, 1947.

The shares of particular countries of the total reparations from Japan were determined on a broad political basis. Taken into account were the scope of material and human destruction and damage suffered by each claimant country as a result of Japanese military aggression, and also each country's contribution to the cause of the defeat of Japan, including the extent and duration of its resistance to Japanese aggression.<sup>59</sup>

The first phase of Japanese reparations, under the Advance Transfers Program, was completed in May 1950. Under the final accounting, China received equipment valued at approximately U.S. \$20 million, the Philippines U.S. \$8 million, the United Kingdom (for Burma, Malaya, and Hong Kong) U.S. \$7 million, and the Netherlands (for the Netherlands Indies) U.S. \$5 million.<sup>60</sup>

By 1951 it was evident, from a realistic point of view, that Japan could not possibly pay all of the money demanded by the countries that it had occupied. Consequently, certain Japanese surplus assets, such as skilled workers and industrial capacity, were made available in lieu of reparation payments. If the countries desired it, they could negotiate arrangements whereby Japan would process their raw materials or supply them with technical assistance.<sup>61</sup>

Japan's return to independence came in 1952 with the question of reparations largely unsettled. It took several years of negotiations before agreements could be reached.

Burma came to terms in 1954 and again in 1963, the Philippines in 1956, Indonesia in 1958, and South Vietnam in 1959. Amounts ranged from U.S. \$39 million for Vietnam to U.S. \$50 million for the Philippines, and Japan also agreed, in lieu of reparations, to give economic assistance to Laos, Cambodia, and Thailand. The former two countries were to receive U.S. \$6.95 million, and Thailand was given a special yen account equivalent to U.S. \$26.5 million.<sup>62</sup> Malaya and Singapore did not settle their reparations negotiations with Japan until the mid-1960's, mainly due to the fact that they were more concerned with gaining political independence. Also, Japan was preoccupied with settling reparation payments with larger countries such as Indonesia and the Philippines before settling with the smaller countries, which would involve far less money.

It took a great deal of negotiating for Japan to reach an agreement with Indonesia. Although Indonesia was the first Southeast Asian nation with which Japan opened reparations negotiations, it was not until January 1958 that agreement could actually be reached. It was only after the formation of the Kishi Cabinet in Japan in February 1957 that the negotiations began to take a more decisive turn. Talks revealed that Japan and Indonesia had broadly agreed on a total volume of U.S. \$800 million, and that the differences related only to the content. According to the final agreement, Japan was to supply Indonesia with the

products of Japan and the services of the Japanese people to the sum of U.S. \$223,030,000.<sup>63</sup> An exchange of notes for commercial loans and investments provided that Japan would extend loans to the value of U.S. \$400 million on a commercial basis either to the Indonesian government or to its nationals. The loans were to be mainly in the form of machinery and equipment. The loan arrangements were to be in force for a period of twenty years, but liable to be extended if the amount had not reached the stipulated \$400 million during that period. More importantly to Japan, the two countries signed a bilateral peace treaty in which they expressed their desire to strengthen further "the economic relations between them in accordance with the spirit of the decisions made at the Afro-Asian conference . . . ," held in Bandung, Indonesia in 1955.<sup>64</sup> In all, Japan paid U.S. \$800 million war reparations to Indonesia, and undertook to construct several multi-purpose dams, textile and paper mills, shipyards, hotels and a department store.<sup>65</sup>

Reparation negotiations and the subsequent flow of goods and services opened the door for Japanese post-war economic involvement in Southeast Asia. From Japan's viewpoint the importance of settling the reparations question with Southeast Asia was paramount for a number of reasons. First, Southeast Asian countries formed part of the immediate trading zone of Japan, with whom it could not afford to be on unfriendly terms. Second, post-war political developments in the Far

East made Japan and the Southeast Asian region interdependent. They were both in the western, 'democratic' sphere of influence controlled by the Americans, but at the same time both were striving to maintain some semblance of an independent stance. Also, following its defeat in the war, Japan had lost the whole of its China market, which had played an important role in Japan's pre-war economy, and had also lost the colonies of Korea and Formosa.<sup>66</sup> Consequently, Southeast Asia was of prime importance to Japan from an economic standpoint.

Because of bitter war-time memories, temporary loss of political independence, and the need for economic reconstruction, Japan was slow to move into Southeast Asia economically after the war. In February and March 1950 a Southeast Asia Food and Trade Mission comprised of U.S. government and SCAP officials examined agricultural and trade conditions and opportunities in the area, recommending that every effort be made to exploit the considerable opportunities for expanded trade between Japan and the primary-producing countries of Southeast Asia.<sup>67</sup> At the same time, provision was made in the 1950-51 Japanese budget for funds from the foreign trade account to permit approximately a thousand Japanese technicians, engineers and industrial leaders to visit the U.S. and other countries during the year to study technological advances and re-establish business connections.<sup>68</sup> Two years later, under John Foster Dulles, the Americans initiated a triangular program to boost Japanese exports and make the

Japanese economy self-sufficient. The U.S.A. established funds for Southeast Asian countries to purchase Japanese exports, and also gave these same countries 'privileges' in the American market.<sup>69</sup>

### Japan's Postwar Economic Progress

Japan's economic progress after the war was quite remarkable. In 1945 the economy was in ruins, with cities and chief factories destroyed, almost all ships sunk, the empire dismembered and foreign trade non-existent. There are several reasons for the rapid growth, not the least of which was the fact that Japan was a cohesive society, willing to make sacrifices to meet national goals.<sup>70</sup> In addition, during the early post-years the U.S., as the chief occupying power, played a major part in rehabilitating the ruined economy.

From 1945 until 1952 commercial policy in Japan was determined by the occupiers. At first, foreign trade was under the direct control of SCAP, and then, from April 1947 until the end of 1949, foreign transactions were entrusted to a number of official trade corporations. An approach to normal trading methods was made when a single exchange rate was introduced in 1949 and the Ministry of International Trade and Industry (MITI) was set up in place of the emergency organization for trade control. In 1950 the official trading corporations were abolished and controls over private business relaxed. From then onwards the former trading concerns began

to re-establish themselves, and exchange and mercantile business began to resume its former character. The most progressive of the cotton merchants adapted themselves to the changed character of Japan's industry and trade. Some of them merged with dealers in other products, such as metals, chemicals or engineering goods, and two of them Marubeni-Iida and C. Itoh, came to rank among the four largest merchant houses. The Zaibatsu, very large companies composed of the merger of smaller companies with diversified interests, were dissolved during the American Occupation. After 1952 the Zaibatsu were reconstructed, and several other large business groups emerged.<sup>71</sup>

Japan's policy towards overseas investment was developed originally to protect its foreign exchange reserves and to avoid balance-of-payments difficulties. Under the Foreign Exchange and Foreign Trade Control Law of 1949, Japanese enterprises required permission to invest abroad. In October 1949 this law was relaxed to allow automatic approval on overseas investment up to U.S. \$200,000, except in certain specific industries, such as banking and securities.<sup>72</sup>

Japan's trade began to increase considerably in the early 1950's as it gained its independence, and the Korean War created an economic surge in the Far East. In addition to increasing exports, the war earned Japan a large amount of foreign exchange from the sale of goods and services to the UN forces stationed in the Far East.<sup>73</sup> JETRO, the Japan

External Trade Organization, was set up in 1951 for the purpose of export promotion and marketing administration of trade centers, and collection and dissemination of commercial information.<sup>74</sup> This organization was instrumental in finding new markets for Japanese products and opening the Japanese market to foreign companies.

Inflation in the period of economic recovery in the 1950's caused difficulties in international trade and payments. The disparity between high domestic prices and low international prices resulted in rapidly growing imports and relatively stagnant exports for Japan. The regulation of trade and foreign exchange conferred wide powers on the government to influence domestic prices, investment and output. Inflation receded by 1954, as domestic production began to meet demand within the country. In the latter part of the 1950's, Japan was put under strong pressure by the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT), and the Organization for Economic Cooperation and Development (OECD) to free its commerce and international payments system.<sup>75</sup> By 1959, Japan's balance of payments displayed such strength that it became increasingly difficult to justify the trade and foreign exchange control measures, and in 1960 the government decided to adopt a policy of trade liberalization. For much of the period up to this time, Japan's capacity to finance the volume of imports it required was greatly assisted first by aid and

later by the special procurement expenditure of the U.S. In the whole period between 1945 and 1962 it is estimated that aid and special procurement paid for about 20% of Japan's imports of goods and services.<sup>76</sup>

During the 1950's, Japan was becoming a respected power in the world economy. In 1955 it had been admitted into the General Agreement on Tariffs and Trade (GATT), and the next year was accepted into the United Nations. The efforts of the Japanese Government to promote relations with Southeast Asia during 1952-60 passed through two phases. The first phase covered broadly the years from 1952 to 1956, and the second period covered the years of Kishi's Premiership, from February 1957 to July 1960. Caution was the characteristic mark of both phases because there were still very strong wartime memories in the region. The major difference between the two phases was that the first phase was conducted from a position of weakness, while the second phase was carried through with a sense of national strength and self-confidence. The first phase was a formative period in Japan's relations with Southeast Asia, witnessing two important developments which had a great impact on the future of the region. One was the formation in 1955 of SEATO, a military arrangement intended to stem the tide of communism in Southeast Asia. The second was the convening of the Bandung Conference, also in 1955, aimed at expressing the solidarity of the countries of Asia and Africa, an objective which was a major foreign

policy goal of Indonesia. Japan was not a member of SEATO, because it did not possess military forces, but it did play an advisory role in the organization and was very much interested in its affairs. The Japanese did send a delegation to the Bandung Conference, which definitely established it in the eyes of third world countries as a member of the non-Western world.<sup>77</sup>

Kishi Nobusuke became Premier of Japan in February 1957. He developed a Southeast Asian policy which had three important characteristics. First, it was anti-communist, second it strove to promote Japan's economic diplomacy in the area, and third, it sought to foster diplomatic relations with the region by encouraging an exchange of visits.<sup>78</sup> Kishi contended that the greatest threat to Southeast Asian countries was communism and unless they made rapid economic progress, they would not be in a position to withstand Communist pressure. He proposed a Southeast Asian Development Plan which was to be formulated with the financial contributions of the U.S. and the other 'free' nations which wished to join it. The plan was aimed at providing the long-term, low-interest capital needed for the economic development of Southeast Asian countries by granting aid with very few strings attached. It never came about because of the lack of support from the U.S. and also because of the lack of enthusiasm on the part of the Southeast Asian countries due to their memories of the pre-war Tojo Plan.<sup>79</sup>

By 1955 the Japanese government and business circles were speaking of Southeast Asian economic development. At that time, the concept of combining American capital with Japanese technology for the development of Southeast Asia was a popular one. However, this idea never materialized, due in part to the rather unsympathetic reception given it by Southeast Asian nations.<sup>80</sup> Japanese industry around the year 1955 regarded Southeast Asia as a crucial export market and as a source of natural resources needed by industry. Roughly 40% of Japan's exports were going to Southeast Asia, and there was little hope for any significant increase in trade with mainland China because of the international political situation. It was in this stage that the 'rice bank' concept, the concept of increasing food production in some Southeast Asian countries for export to Japan, and other such ideas were widely discussed.<sup>81</sup>

Economic Conditions in Postwar  
Indonesia and Malaya 1945-1960

After the end of the war in 1945, the Indonesians began a struggle for independence from the Netherlands, and four years of confused warfare and negotiation followed. During this time the economic life of the country sank into decay, and when the Dutch recognized Indonesian independence in December 1949 the task of reconstituting an ordered society proved formidable. However, Indonesia's pre-war reputation as a profitable field for foreign investment in resource

development, and the existence of a pool of experience and knowledge in the western world, mostly embodied in Dutch reports and among European technicians, contributed to the early resumption of interest. The fact that new investors were not immediately committed to large investments but only to a million dollars or so over a couple of years for survey and exploration, and had at least four years to make up their minds or sell their interest, also provided a hedge against uncertainty.<sup>82</sup> The first group of industrial firms in the country consisted of the enterprises returned to their original foreign owners and a few major international firms with an existing export share in the Indonesian market.

Although a few Indonesian leaders expressed misgivings about the re-entry of Japan into the world community, the country as a whole remained unapprehensive about it, and Indonesia signed the 1952 peace treaty with Japan. Japanese-Indonesian trade during 1952-60 was beset with problems of trade imbalance. Except in 1955 and 1956, Japan always had a favourable balance of trade. The post-war trade between the two countries started in July 1950, when SCAP concluded a trade agreement with Indonesia, and after the end of the Allied Occupation in 1952, Japan concluded more trade and payment agreements. Japanese exports to Indonesia during 1952-60 were second only to those of the United States in volume. The main Japanese exports to Indonesia during this period were cotton and textiles, metals, machinery, non-metal

products, chemicals and electrical goods. During 1952-54, cotton and textiles constituted over 70% of the total Japanese exports to Indonesia.<sup>83</sup> Although Japan was the second biggest exporter to Indonesia during 1952-60, it could not keep pace with imports from Indonesia, because it was still rebuilding its economy and did not have the purchasing power. It therefore remained a poor buyer from Indonesia, ranking far behind countries such as the United States, Singapore, the United Kingdom, and West Germany. The Japanese imports consisted mainly of raw materials such as rubber, copra, bauxite, manganese ore, and petroleum products and crude oil.<sup>84</sup> In 1960, Japan's exports to Indonesia amounted to U.S. \$110,193,000 and its imports from Indonesia were U.S. \$70,315,000.<sup>85</sup>

Kishi was the first post-war Japanese Prime Minister to undertake a tour of Indonesia. The immediate result of his visit in December 1957 was the settlement of the reparations question, which had been under negotiation since 1952. As well, Japan sent a number of trade and cultural delegations to Indonesia and President Sukarno paid an official visit to Japan. One important feature of the reparations accord related to the cancellation by Japan of the Indonesian trade deficit worth U.S. \$177 million.<sup>86</sup>

Investment in Indonesia after the war was not great because of political and economic instability in the country caused by the chaotic transition to independence. At the end

of 1949 the formal transfer of sovereignty took place and, as a result of political compromise, the Dutch enterprises were returned to their owners. The following seven years were a spell of relative quiet in the economy during which foreign enterprises resumed their once dominant position. In 1957, the continuing controversy with the Dutch culminated in the dispute over the future of West Irian. The Dutch wanted to hold onto this western portion of New Guinea, and the Indonesians felt that it was only natural that the area be added to their country. Because of this issue, the Dutch-owned enterprises became the victims of political conflict. In 1958 they were taken over and subsequently nationalized. They were administered as state enterprises and became the cornerstone of an experiment to set up a socialist mixed economy in which public enterprise controlled the 'commanding heights'.<sup>87</sup> New foreign direct investment was not welcome in this period, although many new industrial projects were financed by foreign credits, mainly government-to-government credit but also some private suppliers' credit. Before long, control by the Indonesian government was extended to British and other western enterprises ostensibly to protect the factories against hostile labour organizations.<sup>88</sup> This political and economic climate dissuaded most potential Japanese investment before 1960.

A very important difference between Indonesia and Malaya after the war was that Malaya returned to its pre-war position

as a colony of Great Britain. As a result, its interaction with other countries remained at a low profile. After the war, Malaya's economy was rehabilitated with utmost speed in comparison with what occurred in Indonesia. It is true that on the railways and in the tin mines re-equipment was delayed through the difficulty of obtaining plant from abroad, but the rubber estates recovered very quickly, and the output of rubber soon exceeded the pre-war record. The payment of war damage compensation by Japan, to the amount of 55 million pounds sterling, helped in the reconstruction.<sup>89</sup>

The development of Malaya's post-war economy, especially in the rural areas, was retarded to a certain extent by the Malayan Emergency of 1948-1960. This was a communist insurgency, which was directed mainly against the rubber estates, tin mines, and Malay villages. One of the major aims of the communists was to disrupt the Malayan economy to such a degree that a takeover of the country would be possible. There was a considerable amount of fighting during the twelve year period between the communists, mostly Malayan Chinese, and the counter-insurgency forces, mostly Malay, British and Commonwealth soldiers. The insurgents were defeated mainly as a result of the innovations adopted by the counter-insurgency forces such as the creation of 'new villages' and the ability of these forces to win the support of the rural people by providing them with material benefits and social services.<sup>90</sup> However, while it lasted the Emergency was very

expensive to Malaya in terms of both money and personnel, and the production of rubber and tin, the two biggest revenue earners, was adversely affected for several years.

Japanese involvement, except for the reparation payments, kept a very low profile in Malaya up to 1957, when the country became independent from Britain. As well, Japanese involvement kept a low profile in Singapore, which remained a British possession until 1963. However, the situation changed substantially during the 1960's as Japan began to realize its economic potential and greatly increased foreign trade and investment became an important part of its economic growth.

FOOTNOTES

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<sup>3</sup>Kinoshita, Past and Present, p. 73.

<sup>4</sup>K. V. Kesavan, Japan's Relations with Southeast Asia 1952-60 (Bombay: 1972), p. 19.

<sup>5</sup>M. A. P. Meilink-Roelofs, Asian Trade and European Influence in the Indonesian Archipelago Between 1500 and about 1630 (The Hague: 1962), pp. 78-79.

<sup>6</sup>Kinoshita, Past and Present, p. 73.

<sup>7</sup>Morse and MacNair, Far Eastern, pp. 40-41.

<sup>8</sup>Josefa M. Saniel, Japan and the Philippines 1868-1898 (Quezon City: 1969), p. 28.

<sup>9</sup>Ibid., p. 35.

<sup>10</sup>Ibid., p. 121.

<sup>11</sup>Kinoshita, Past and Present, p. 155.

<sup>12</sup>Willard H. Elsbree, Japan's Role in Southeast Asian Nationalist Movements 1940 to 1945 (New York: 1953), p. 3.

<sup>13</sup>Ibid., p. 6.

<sup>14</sup>Grant K. Goodman, Davao: A Case Study in Japanese-Philippine Relations (Lawrence, Kansas: 1967), p. 6.

<sup>15</sup>G. C. Allen and Audrey G. Donnithorne, Western Enterprise in Indonesia and Malaya (London: 1954), p. 212.

<sup>16</sup>Kinoshita, Past and Present, p. 155.

<sup>17</sup>G. Bogaars, "The Tanjong Pagar Dock Company, 1864-1905," Memoirs of the Raffles Museum, no. 3 (1956), p. 135, cited in P. P. Courtenay, A Geography of Trade and Development in Malaya (London: 1972), p. 229.

<sup>18</sup>Courtenay, Trade and Development, p. 129.

<sup>19</sup>Ibid., pp. 129-30.

<sup>20</sup>H. G. Callis, Foreign Capital in South East Asia, p. 56, cited in Allen and Donnithorne, Western Enterprise, p. 166.

<sup>21</sup>Penang Chamber of Commerce, "Report for 1934," Penang (1935) cited in Courtenay, Trade and Development, p. 130.

<sup>22</sup>Straits Settlements Government Gazette Extraordinary 20th June, 1934, "The Importation of Textiles (Quotas) Ordinance, 1934," cited in Courtenay, Trade and Development, p. 130.

<sup>23</sup>Straits Times, quoted in John K. Emmerson, Arms, Yen and Power The Japanese Dilemma (New York: 1971), p. 279.

<sup>24</sup>Bernard H. M. Vlekke, Nusantara: A History of Indonesia (The Hague: 1959), p. 341, cited in Kesavan, Japan's Relations p. 20.

<sup>25</sup>Kesavan, Japan's Relations, p. 20.

<sup>26</sup>Jan O. M. Brock, Economic Development of the Netherlands Indies (New York: 1942), p. 113, cited in Kesavan, Japan's Relations, p. 21.

<sup>27</sup>Allen and Donnithorne, Western Enterprise, p. 178.

<sup>28</sup>H. G. Callis, Foreign Capital in South East Asia (New York: 1942), p. 34 cited in Allen and Donnithorne, Western Enterprise, p. 288.

<sup>29</sup>Allen and Donnithorne, Western Enterprise, p. 35.

<sup>30</sup>J. van Gelderen, The Recent Development of Economic Foreign Policy in the N.E.I., p. 65, cited in Allen and Donnithorne, Western Enterprise, p. 36.

<sup>31</sup>Jerome B. Cohen, Japan's Economy in War and Reconstruction (Minneapolis: 1949), p. 38.

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<sup>33</sup>H. J. Van Mook, The Netherlands Indies and Japan (London: 1944), pp. 98-99, cited in Kesavan, Japan's Relations, p. 23.

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<sup>37</sup>Purcell, Chinese, p. 251.

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<sup>43</sup>Elsbree, Japan's Role, p. 68.

<sup>44</sup>Purcell, Chinese, p. 253.

<sup>45</sup>Ibid., p. 254.

<sup>46</sup>Bisson, War Economy, p. 90.

<sup>47</sup>Jones and others, Far East, p. 71.

<sup>48</sup>Allen and Donnithorne, Western Enterprise, p. 46.

<sup>49</sup>Lennox A. Mills and Associates, The New World of Southeast Asia (Minneapolis, 1949), p. 201.

<sup>50</sup>Elsbree, Japan's Role, p. 22.

<sup>51</sup>Allen and Donnithorne, Western Enterprise, p. 37.

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<sup>54</sup>G. C. Allen, Japan as a Market and Source of Supply (London: 1967), p. 5.

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<sup>56</sup>Hugh Borton, Japan's Modern Century (New York: 1970), p. 86.

- <sup>57</sup>Martin, The Allied Occupation, p. 24.
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- <sup>63</sup>Kesavan, Japan's Relations, p. 104.
- <sup>64</sup>Ibid., p. 105.
- <sup>65</sup>Sadli, "Foreign Investment," Drysdale, ed., Direct Foreign Investment, pp. 211-212.
- <sup>66</sup>Kesavan, Japan's Relations, pp. 74-75.
- <sup>67</sup>Fearey, The Occupation of Japan, p. 199.
- <sup>68</sup>Ibid., p. 109.
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<sup>81</sup>Ibid., p. 101.

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<sup>83</sup>Kesavan, Japan's Relations, p. 200.

<sup>84</sup>Ibid., p. 201.

<sup>85</sup>Ibid., p. 202.

<sup>86</sup>Ibid., p. 105.

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<sup>89</sup>Allen and Donnithorne, Western Enterprise, p. 142.

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## CHAPTER II

### JAPAN IN SOUTHEAST ASIA DURING THE 1960's

#### Japan's Economic and Political Stature

Japan was averse to embroiling itself in the world political scene for many years after the war because it needed time to establish a new international reputation. Finally, in 1964, it offered to mediate in the settlement of the Malaysian-Indonesian confrontation over Borneo and played host to a summit conference of the parties concerned in Tokyo. Hopes of a settlement were deflated by the hard-line attitude of President Sukarno of Indonesia. As a result of this, Japan lessened its mediation efforts, and the country was not directly involved in the 1966 settlement. However, it was the first major Japanese initiative in Southeast Asian politics and marked the acceleration of Japanese economic influence in the region.<sup>1</sup> In April of 1966, Japan played an important part in organizing the Southeast Asian Ministerial Conference, as it continued to play a greater role in the region's affairs.<sup>2</sup>

The increased interest by Japan since 1965 in Southeast Asian development has been due to a number of factors. Trade began to show a modest upward trend, due mainly to Japan's increased demand for raw materials. Also, it was expected

that Japan's trade with the region would shift from a simple vertical pattern (raw materials in exchange for finished goods) to a horizontal pattern in which various manufactured goods were exchanged.<sup>3</sup> This development was expected because of the desire of Southeast Asian governments to build up the manufacturing and processing sectors of their economies and reduce the export of primary products. Such expectations stimulated various kinds of Japanese investment in the region. As well, in Southeast Asia, fears of economic imperialism and opposition to foreign investment gave way somewhat in the 1960's to a more pragmatic willingness to welcome foreign technology, management and capital to stimulate economic development.<sup>4</sup> Most of the countries of the region had received independence after World War II and by the 1960's were stabilizing politically. Notable exceptions to this situation were the countries formerly encompassing French Indo-China, especially North and South Vietnam and Laos. They were in a great deal of political and social turmoil which hampered their economic development.

It was in 1966 that the Asian Development Bank was set up largely to systematize the U.S.A.-Japanese investment relationship, with the United States and Japan being the two largest investors in the area. The headquarters of the ADB was set up in Manila, with a Japanese head (Watanabe). This organization has been very instrumental in providing funds for projects in the developing countries of Asia. As well,

the World Bank opened an office in Tokyo in November 1970, and this has already become the headquarters for its entire Asian operations, providing funds for many projects. In the words of Sir Denis Rickett, Vice-President of the World Bank, since the poor countries of Asia are important suppliers of raw materials to Japan, Japan "has a vital interest" in their political stability.<sup>5</sup>

Japan became a member in the Asian and Pacific Council (ASPAC), an organization formed at the initiative of South Korea in 1966 to give some degree of unity to the non-communist countries of the area. The Japanese gave the project support, without which it might have had early difficulties, and also set conditions which ensured that it would not assume an ideological, anti-Chinese character and that it would have no military aspect.<sup>6</sup> The organization went out of existence with the withdrawal of Malaysia and Australia in 1970 because it was aligned too strongly with the policies of the United States. Since that time Japan's interest has focused on strengthening ASEAN (the Association of Southeast Asian Nations). This organization, formed in 1971, is composed of Malaysia, Singapore, Indonesia, Thailand, and the Philippines. Japan is not a candidate for membership in ASEAN, one of whose main purposes is to promote the concept of a neutralized Southeast Asia, but supports the ASEAN concept and hopes to establish some sort of collateral relationship.<sup>7</sup>

As a percentage of its total trade, Japan's trade with Southeast Asia has been declining. However, in actual volume, it has increased substantially, but not as much as it has with other areas of the world. This increase was partially facilitated by Japan's trade liberalization in the mid-1960's which qualified it for membership in GATT (General Agreement on Trade and Tariffs) in 1963, in the IMF (International Monetary Fund) in 1964, and the OECD (Organization for Economic Cooperation and Development) in 1964. Its new status in these organizations enabled Japan to negotiate with other members on an equal basis for the lifting of their trade restrictions.<sup>8</sup>

By the end of the 1960's, there was a strong trade dependence among the nations in the region on Japan. The country had become involved in such a large proportion of the international transactions of most Southeast Asian countries that any sharp alteration would result in severe economic dislocation.<sup>9</sup> As well, during the 1960's, Japanese trade with Southeast Asia was increasingly becoming more imbalanced. This was due to the fact that there was increasing demand in the region for Japanese goods while Japan could increasingly rely on other areas, such as the Middle East, Australia, and South America, for its supply of raw materials. Between 1965 and 1968, Japan's exports to Southeast Asia were expanding at the annual rate of 18%, whereas its imports from the region were only growing at 10.4% a year.<sup>10</sup>

The 1960's saw a rapid increase in the amount of Japanese investment in Southeast Asia. The main reasons for this increase have been the growing needs of Japanese industry for raw materials, the big shift in Japan's trade balance and reserves (towards a deficit situation caused by the demands of industry), and America's political pressure on Japan to take a greater role as 'ring-master' in East Asia, especially after the escalation of the Vietnam War in 1965.<sup>11</sup>

The increase in capital investment was greatly aided by certain Japanese government measures in the 1950's and 1960's. These included the Investment Insurance Scheme set up under the Ministry of International Trade and Industry (MITI) in the 1950's to reduce some of the risks of investment. As well, since the early sixties, a number of fiscal measures have been taken by the Japanese government to harmonize regulations governing domestic and overseas investment.<sup>12</sup> Noteworthy among the measures introduced was the adoption in 1962 of a more liberal method of calculating tax credit on foreign sources of income and expansion of the type of income entitled to tax credits. In 1964 a system was set up for tax deferral on investment in developing countries. The system stipulates that any Japanese company investing capital in developing countries since 1964 can deduct as expenses half the total amount of new investment for the purpose of computing its taxable income.<sup>13</sup>

The accumulated value of world-wide Japanese foreign investment at the end of 1969, at little more than U.S. \$2 billion, was still substantially less than the annual outflow from the United States, and well below the accumulated foreign investment of Canada, a much less populous and traditionally capital-importing country.<sup>14</sup>

By the late 1960's, most of the Japanese investment in Southeast Asia was involved in either development enterprises or manufacturing. Development enterprises were established mainly to ensure a steady flow of raw materials into Japan and manufacturing firms were set up primarily to take advantage of the cheap labour and industrial incentives of the region. In 1969, there were 266 Japanese development enterprises in Southeast Asia (mining, forestry, fisheries, etc.) and there were 233 Japanese manufacturing ventures in the region.<sup>15</sup> It must be kept in mind that the vast majority of these enterprises also involved a substantial input of capital and personnel from the country in which the investment was made.

Despite the fact that the United States also had a great deal of investment in Southeast Asia, animosity against the Japanese presence was beginning to be felt by the 1960's. Lawrence Olson stated in the late 1960's that: "Stories of the business subterfuges of young Japanese executives were the staple of bar gossip all over Southeast Asia."<sup>16</sup> He also stated that some Japanese in Kuala Lumpur freely admitted

that the Malaysian government was open to bribes, although it was 'easier' to silence the Filipinos or Indonesians.<sup>17</sup> By the late 1960's, thousands of Japanese had moved into Southeast Asia to operate various business ventures, and almost all of them were dependent for their livelihood in some form or other on their parent company in Japan. This made them somewhat isolated from the local people.

At this time, Japan had also followed the idea of the American Peace Corps and had sent out contingents of young workers to some of the lesser developed Asian countries. Unfortunately, these workers, including rice farming experts, horticulturalists, doctors, and nurses, have often been hopeless linguists who seldom, if ever, learn other languages well enough to converse with the local inhabitants. Furthermore, they are often woefully unaware of local customs and culture.<sup>18</sup> This general lack of understanding of the local people by the Japanese has not been restricted to these young workers, also being noticeable among members of the Japanese businessmen in Southeast Asia. This situation has been partly caused by the feudalistic upbringing of the Japanese people, which makes them tend to harbour feelings of inferiority to those in higher orders of the social strata, and to often cover up their inferiority complex with feelings of superiority toward those in the lower social brackets.<sup>19</sup> Because of this the Japanese have been very reticent about socializing with the people of Southeast Asia, and therefore

their efforts in the economic field have been compromised to a degree.

### Japanese Involvement with Malaysia

Japanese economic association with Malaysia accelerated greatly during the 1960's. This was due mainly to increased demand by Japan for Malaysian raw materials, and the development of the Malaysian economy which allowed for greater internal purchasing power and an acceleration of capital investment. Also, as Malaysia developed economically, it became increasingly attractive to Japanese investors, who, because of the healthy situation of the Japanese economy, had a great deal of capital to invest. Economic involvement between the two countries really began to gain momentum after the 1964-65 Japanese mediation in the Indonesian confrontation with Malaysia. This action by the Japanese enhanced their position in the world scene, and especially in the eyes of Malaysian officials. For the year 1965 Japan invested U.S. \$30 million in Malaysia, well below the United Kingdom with U.S. \$1600 million and the United States with U.S. \$100 million.<sup>20</sup> Japanese investment in Malaysia increased quite substantially during the mid-1960's, as firms began to come in under the "pioneer industries" law of Malaysia designed to protect local markets against foreign goods and open new ones.<sup>21</sup> Most Japanese economic activity dated from late 1966, when a yen credit for U.S. \$50 million worth of goods and services was granted to the Malaysian government for

project aid in its first Five-Year Plan. Two-thirds of the Malaysian credit was extended through the Exim Bank of Japan at 5.75%, with repayment in from 15 to 18 years, the remainder through the OECF (Organization for Economic Cooperation Fund) at 4.5% with repayment in 20 years. Projects included improvements to the Malaysian Railways, the telecommunications network, and the city water system in Penang.<sup>22</sup>

In 1967, Japan settled its "blood debts" with Malaysia as compensation for wartime destruction of life and property by paying the equivalent of \$8.3 million in ships and other capital goods in lieu of reparations. The same year, Japanese equity investment in Malaysia totalled about \$22 million, or about 10% of all foreign investment in the country.<sup>23</sup> By 1967 some 300 representatives of Tokyo or Osaka firms were busy in more than 30 joint ventures, with the prime lending institution being a branch of the Bank of Tokyo in Kuala Lumpur. Among these ventures was a tin smelter with a capacity of 1200 long tons monthly, at Butterworth (Fig. 2), a blanket company, a cement works, and a toothpaste company.<sup>24</sup> The high degree of Japanese influence in Kuala Lumpur became obvious in 1967 when the Japanese residents of that town opened a school and a club. The Malayawata steel mill in Prai went into operation in late 1967 with 39% Japanese ownership and lost money heavily in its first year. It had problems with a small local market and the "Malayanization" of management. A second stage blast furnace was built in 1969.

Like the Jurong shipyard in Singapore, Malayawata has been described as a long-term investment by which Japan hopes to establish a base in the Malaysian economy and which could widen Japanese influence throughout Southeast Asia.<sup>25</sup>

During the 1960's, Japan became an important supplier of aid to Malaysia. The main projects were the damming of the Muda and Pedu Rivers in the northwest of the Malay Peninsula. In the Muda project, two Japanese construction companies, Kajima and Taisei, jointly received the contract to build two dams, the tunnel and reservoir. Begun in 1966, the project's total construction costs were estimated at about U.S. \$70 million and at the peak of construction, 130 Japanese were housed nearby. According to Lawrence Olson, no other enterprise brought out better the positive aspects of Japan's activities in Southeast Asia.<sup>26</sup> By the late 1960's, there were forty-six Youth Volunteer Corps from Japan in Malaysia compared with 550 American Peace Corps in the country. They were between twenty-five and twenty-eight years of age, came from diverse backgrounds, and were engaged in a variety of teaching positions.<sup>27</sup>

By 1967, Japan's economic relations with Malaysia were flourishing, but because Japanese need for raw materials far exceeded Malaysia's ability to buy finished products, actual trade was rather one-sided. In that year, nearly half of Japan's imports from Malaysia were in the form of timber and logs, with the remainder consisting mainly of tin, rubber,

and iron ore. Malaysian imports from Japan were mainly in the form of finished products such as machinery, automobiles, electrical appliances, and textiles. In 1967 Malaysia exported U.S. \$334.4 million to Japan, while it imported only U.S. \$87.3 million from Japan. By 1969 the totals were U.S. \$406.7 million for Malaysian exports to Japan and U.S. \$133.4 million for Malaysian imports. Japan had by then become the first or second leading trading partner of every country in Southeast Asia.<sup>28</sup> For Malaysia during the late sixties approximately 30% of its exports went to Japan while about 15% of its imports were supplied by Japan.<sup>29</sup> By this time, it was certain that Japan had become a major buyer of Malaysian products and considered Malaysia to be an important source of raw materials.

By the end of the 1960's, there was some evidence of anti-Japanese sentiment in Malaysia, and the Japanese were becoming aware of this sentiment. Because of bitter war-time memories, the Chinese in Malaysia were somewhat more anti-Japanese than the Malays, and it was the Chinese who had been behind the 'blood debt' issue. The Japanese were accused, rightly or wrongly, of bidding low on 'pioneer industries', then stalling on plans to build factories in order to protect their exports while preventing rivals from setting up operations. There were also complaints from Malaysian academic and business communities that not enough value was being added to raw materials before they were taken out of the

country by the Japanese.<sup>30</sup>

### Japanese Involvement with Singapore

Singapore went through major political changes during the 1960's but Japanese economic influence grew throughout the decade. In 1963 it joined the Federation of Malaysia, but dropped out in 1965 when the island felt it did not have enough political influence in the Federal Legislature. Japanese investment in Singapore more than doubled between 1965 and 1970, from U.S. \$27 million to U.S. \$61 million, putting Japan third in foreign investment in Singapore behind the U.S.A. and Britain.<sup>31</sup> One of the major factors which opened the doors to increased investment was the 1967 payment of U.S. \$16 million by Japan to Singapore which ended the reparations question between the two countries. Another major factor, probably the most important, was the incentives offered to foreign investors by the Singapore government. Among these were a series of legal enactments in the 1960's allowing for significant tax concessions and the lifting of certain restrictions on bank overdraft and other credit facilities.<sup>32</sup> With these incentives and the settlement of the reparations question, Japanese capital began to enter the island to participate in government-sponsored industrial projects or to set up joint ventures with local Chinese partners.

Actually, Singapore's industrialization program was launched in 1962. Some S. \$350 million (U.S. \$151 million)

in capital, half of it foreign, was invested in new industries between 1962 and 1967. By 1967 Singapore government officials estimated that S. \$300 million (U.S. \$129 million) would have to be invested annually over the next five years in order to create the fifteen thousand jobs a year in industry required to overcome the unemployment situation and cope with the rising number of young people on the labour market.<sup>33</sup> To encourage the flow of capital into Singapore, the tax rate on interests earned from deposits in Singapore banks by non-residents was reduced from 40% to 10%.<sup>34</sup> In July of 1967, the Singapore Government abolished blocked accounts, an action which greatly helped in the attraction of foreign investment. Under the blocked accounts system, as operated under the Exchange Control Ordinance, foreign holders of local assets who sold them had their money paid into blocked accounts which could only be operated on instruction or permission from the Controller of Foreign Exchange. Under the new set-up, all a foreign or local resident, wishing to transfer money, has to do is to use the services of local banks who can remit funds to any place in the world.<sup>35</sup>

In 1967, the Singapore Government announced a massive Urban Renewal Scheme which required large amounts of foreign investment. To encourage development, generous tax concessions and easy, interest-free payments were offered. Involved in this was the massive Bedok land reclamation scheme in the southeast of the island carried out by the Housing and

Development Board of Singapore. Six miles of coastal land was created, with an area of about two square miles. The contract was given to a Japanese engineering firm which had the necessary expertise.<sup>36</sup>

Singapore's industrial development plans were initially laid in 1960 based on the recommendations of a UN Survey Mission appointed by the government. Since then foreign investment has been handled by the Economic Development Board (EDB) which has provided the necessary infrastructure for new industries, devised attractive financial assistance and tax incentive schemes, organized crash training programmes to equip local citizens with new techniques, and has implemented new schemes and revised old rules to make investment in Singapore more attractive.<sup>37</sup> By the late 1960's it was quite evident that Singapore was the leader among non-communist Southeast Asian nations in terms of both economic planning and incentives offered to foreign investors.

During the 1960's, most Japanese manufacturing activity was focused in the Jurong industrial estate in the southwestern sector of the island, where the largest single cluster of industrial plants in Southeast Asia was under construction. Operations started during the 1960's included a cement plant, a motorcycle assembly plant, and a cotton yarn spinning mill.<sup>38</sup>

Joint ventures, some with other foreign interests, were becoming fairly widespread. As an example, construction of

Standard Oil's U.S. \$200 million oil refinery in Singapore was undertaken jointly by Chiyoda Chemical Engineering and Construction of Japan and the Sante Fe-Pomeroy Inc. of the United States.<sup>39</sup>

Trade between Singapore and Japan increased substantially between 1965 and 1969, from U.S. \$533 million to U.S. \$1355 million, as both countries experienced steady economic growth.<sup>40</sup> Singapore exports were largely in the form of petroleum products, rubber, and plywood, while imports were mainly composed of iron and steel, industrial and construction machinery, textiles, and automobiles. Unlike, Malaysia, Singapore had a large trade deficit with Japan, amounting to U.S. \$682.6 million in 1969.<sup>41</sup> This imbalance was mainly due to the fact that Singapore lacked the natural resources which Japan required, and most of the finished goods that it produced were also being made in Japan.

There were very few manifestations of anti-Japanese sentiment in Singapore during the 1960's. This can be attributed to the fact that the country was newly independent and was in great need of capital investment for industrial development, and also because none of the investment was going into projects involving the extraction and export of natural resources. What little anti-Japanese sentiment there was in Singapore during the 1960's was mostly due to the large trade imbalance in Japan's favor. Trade deficits are unpopular because the exports cannot entirely pay for the imports, and

the balance must come from revenue within the country.

### Japanese Involvement with Indonesia

Indonesia was governed by two quite different regimes during the 1960's. Until 1965, the leftist-leaning but unpredictable Sukarno held power, while from 1966 it was the pro-American Suharto. Between 1960 and 1965, Indonesia concluded a number of so-called 'production-sharing' agreements with foreign contractors. Put forward by the Sukarno government as 'the preferred form of foreign investment' since it involved no foreign equity of control in the Indonesian enterprises, these agreements were frequently interpreted abroad as profit-sharing arrangements. They involved supplier credit, with repayment scheduled on the basis of 'production-sharing', that is, the foreign supplier agreed to take a pre-determined proportion of the output in payment for principal and interest, with an Indonesian central bank guarantee covering risks.<sup>42</sup> Most of these agreements were concluded with Japanese firms in resource development projects, such as petroleum, timber, and pearl and other fisheries.

Special provision, outside the Foreign Investment Law, was made for the oil industry. Until 1963, the Indonesian oil industry was dominated by three major international oil companies, Shell, Stanvac, and Caltex, operating on the basis of 'concessions' which stemmed from contracts concluded with the Dutch colonial administration. In 1963, the Sukarno

government had forced the oil companies to change these concessions into 'contracts of work', basically profit-sharing arrangements between them and the Indonesian government. Just before the replacement of Sukarno, Shell sold out to the government oil corporation, Pertamina, which also expanded in other ways in the following years and became responsible for negotiating and administering all new foreign contracts in the oil industry.<sup>43</sup> The foreign party is still a contractor but in principle management is in Indonesian hands.

Japan was the last of the non-communist countries to give up on Sukarno, with the Mitsui and Nomura interests in particular being active in Indonesian matters during his time. The principal political agent for the Japanese was Shōjirō Kawashima, a conservative leader in the mainstream of the Liberal Democratic Party. The last yen credit before the successful 1965 coup against Sukarno, granted in April of that year and amounting to U.S. \$37 million worth of textiles and other consumer goods, was known in Tokyo as the 'Kawashima credit'.<sup>44</sup>

With Sukarno's departure from power, Japan's relations with Indonesia entered a new phase. A different group of men, mainly army officers, led by General Suharto, emerged to run the country. Most of them had little experience with Kawashima or other Indonesia experts from Tokyo. Japan tried to keep contracts open, giving an emergency food grant of U.S. \$2.5 million in March 1966 and another emergency credit

of U.S. \$30 million in May of that year. The Japanese government found itself drawn into an international attempt to rescue Indonesia from almost complete collapse.<sup>45</sup> There could be no doubting that Indonesia was increasingly seen to be vital to Japan's long-run political interests in Southeast Asia, as well as to its long-run economic interests in the region.<sup>46</sup>

Japanese interest was shown by the Foreign Ministry's initiative in calling the first conference of the members of the consortium to aid Indonesia in Tokyo in the fall of 1966. It was there that Japanese delegates found themselves under pressure to give aid on soft terms to stem the rapid inflation and help stabilize the Indonesian economy.<sup>47</sup> Bureaucrats in MITI and other ministries who, when they spoke of 'aid', meant the sale of Japanese goods, reacted negatively to demands for stop gap assistance to Indonesia, refusing to look at the long-term benefits. The Indonesia aid issue was debated heatedly in Japanese Diet committees, where, in 1966 and later, conservative rivals of Premier Satō charged giveaways while the socialists loudly deplored Japan's 'imperialistic plottings' in Southeast Asia.<sup>48</sup> The Foreign Ministry countered by pointing out Indonesia's strategic importance and unexploited riches.

After the replacement of Sukarno, Indonesia's new leaders tried to open the country to the world on a scale unprecedented since 1945. The World Bank, teams of American

economists, the Ford Foundation, and other Western organizations moved into the country. A foreign investment law was passed, although the climate for investment was still risky. Japan was very much interested in the country because of its own present and future requirements, with interest focused on offshore oil concessions, Borneo timber, and Celebes nickel.<sup>49</sup>

Production-sharing schemes in oil, timber, and nickel were the most notable commercial projects in which the Japanese were involved. In addition, after Sukarno's fall, two Japanese firms acquired oil-drilling rights offshore from north Sumatra and southern and eastern Borneo. Japex Indonesia, which began exploration in 1966, was organized by the official Japan Oil Resources Development Corporation. Mitsubishi Shōji, Mitsui Bassan, Marubeni-Iida, Nippon Kōkan, and Sumitomo interests also subscribed capital to this undertaking.<sup>50</sup>

By 1967, the Indonesian government's economic advisors believed that new capital and technical managerial know-how for natural resource development and industrialization would have to be secured largely through private foreign investment.<sup>51</sup> This was partially due to the fact that the Chinese dominated the Indonesian business communities, and it was they who were persecuted the most during the aftermath of the attempted coup. The Foreign Investment Law of 1967 was designed to attract such investment by providing fiscal

incentives, transfer guarantees, legal security against nationalization, procedures for settlement of disputes and assurance of management autonomy. Permits to operate under the Law were to be limited to 30 years, but subject to the right of the foreign company to negotiate in the last two years of the period for extensions.<sup>52</sup>

According to the Far Eastern Economic Review, from January 1961 to December 1970 there were fifty-three Japanese projects undertaken in Indonesia with a capital outlay of U.S. \$156,620,000. This put Japan behind the United States which had U.S. \$516,020,000 invested and the Philippines which had U.S. \$261,500,000 for the same period.<sup>53</sup> No treaty of friendship, commerce and navigation had been signed, and therefore branches of Japanese companies were not legally authorized to operate. But in early 1968 the Bank of Tokyo, Japan's largest foreign exchange bank, opened a branch in the same building in Djakarta as the Japanese Embassy and Japan Air Lines. The re-entry of foreign banking was provided for by banking legislation passed early in 1968. Foreign banks were required to pay substantially for the licence to operate in Indonesia, U.S. \$1 million in commercial banking, and U.S. \$2 million in development banking.<sup>54</sup>

By the beginning of 1968, some fifty-eight Japanese companies had several hundred representatives in Djakarta.<sup>55</sup> In October 1968, Japan fielded the largest and most impressive foreign business mission to visit Djakarta since 1945. The

mission was designed primarily to assess Indonesia's investment opportunities.<sup>56</sup>

For the country as a whole, at the end of the decade Japan had interests in such diversified activities as textiles, automobile assembly, tin mining, shrimping, and pearl fishing. In the agricultural sector, some of the projects ran into difficulties. A scheme to open 175,000 acres in south Sumatra to rice and corn production encountered the problem of unrealistic costs in land clearing. Mitsui Bussan began a more modest feed corn project on 10,000 hectares, with Mitsui holding 51% and local interests 49%. Sumitomo Shōji planned to grow corn in Java, but poor transport and communications were serious drawbacks to such plans.<sup>57</sup> The Indonesian government encouraged foreign investment in agricultural projects because they tended to decentralize development away from the Djakarta area of Java into areas which were capital deficient such as Sumatra, Borneo, and the Celebes.

As far as aid was concerned, the Japanese government decided to make a grant of U.S. \$10 million, a twenty year loan of U.S. \$50 million at 5%, and to refinance its \$38 million in previous loans secured by reparations, all to count as its 1967 contribution to the aid consortium. U.S. monetary aid approximately equalled the Japanese contribution, and a pattern was established whereby America and Japan would each contribute about one-third of the total decided

upon each year, with the remaining members of the consortium making up the rest.<sup>58</sup> Japan's contribution differed from its previous yen credits in that the U.S. \$50 million loan was made available to the Indonesian government essentially as programme aid, with its use to be determined by Indonesians, rather than for export of Japanese equipment for individually-contracted projects. The Indonesian government used the money to issue certificates which were valid for import of desperately needed goods to help control inflation. In this way Japanese fertilizer, textiles, electric equipment, chemicals, spare parts, and other necessities entered the country. No allotments for engineering or other industrial projects were included in Japan's 1967 aid, since the Indonesian government had no local funds to spend. In 1968, after another round of protracted negotiations, Japan pledged a total of U.S. \$110 million, of which U.S. \$80 million was to be given in that year, and U.S. \$30 million in 1969. Of this, U.S. \$65 million was for programme aid, U.S. \$5 million for rice, and U.S. \$10 million for project aid to be applied to dam construction projects in Java and Borneo that were begun but not finished under reparations.<sup>59</sup>

Trade between Indonesia and Japan increased during the 1960's, with a large imbalance in Indonesia's favour the dominant characteristic. Halliday and McCormack show that Indonesia exports to Japan were U.S. \$196.6 million in 1967, increasing to U.S. \$636.5 million in 1970. Conversely,

Japanese exports to Indonesia for the same years were U.S. \$155.3 million and U.S. \$315.7 million.<sup>60</sup> The imbalance was caused mostly by the fact that Indonesian raw materials such as oil, iron ore, timber, and rubber were in great demand by Japan, but Indonesia was too poor a country to have the purchasing power among the people to buy Japanese manufactured goods.

Between 1965 and 1970, only one Japanese was appointed advisor to the Indonesian government, showing that the Suharto regime took some time before it realized the importance of the Japanese to them. However, by the end of the 1960's, there was developing in Indonesia some degree of anti-Japanese sentiment because of their increasing business activities in the country. Japan was accused of limiting aid to projects narrowly connected with its own equipment and machinery exports. It was hoped that Japan would invest in manufacturing that would provide employment and train Indonesians in a variety of new skills. Another irritant occurred when the Indonesians asked for more advanced oil technology, and the Japanese suggested that the cost would be a piece of the industry.<sup>61</sup>

By the end of the 1960's, some degree of anti-Japanese sentiment was therefore being experienced in many parts of Southeast Asia. In the next few years, the reaction was to become more pronounced, as the Japanese increased their business activities in the region.

FOOTNOTES

<sup>1</sup>K. V. Kesavan, Japan's Relations with Southeast Asia 1952-60 (Bombay: 1972), p. 19.

<sup>2</sup>Ibid., p. 214.

<sup>3</sup>Saburo Okita, "Japanese Economic Cooperation in Asia in the 1970's, Gerald L. Curtis, ed., Japanese-American Relations in the 1970's (Washington: 1970), p. 104.

<sup>4</sup>Ibid., pp. 104-105.

<sup>5</sup>Jon Halliday and Gavan McCormack, Japanese Imperialism Today (Middlesex, England: 1973), p. 52.

<sup>6</sup>A. M. Halpern, "Japan: Economic Giant's Quiet Diplomacy," International Affairs, 49, no. 4, (October, 1973): 590.

<sup>7</sup>Ibid., p. 590.

<sup>8</sup>Alfred K. Ho, Japan's Trade Liberalization in the 1960's (White Plains, N.Y.: 1973), p. 52.

<sup>9</sup>Donald C. Hellman, Japan and East Asia (New York: 1972), p. 39.

<sup>10</sup>Halliday and McCormack, Japanese Imperialism Today, pp. 54-55.

<sup>11</sup>Ibid., p. 34.

<sup>12</sup>Organization for Economic Co-operation and Development, Investing in Developing Countries (Paris: 1972), p. 63.

<sup>13</sup>Ibid., p. 63.

<sup>14</sup>Comment by Donald, cited in Koichi Hamada, "Japanese Investment Abroad," Peter Drysdale, ed., Direct Foreign Investment in Asia and the Pacific (Canberra: 1972), p. 196.

<sup>15</sup>MITI, Tsusho Hakusho, Soron, 1971, p. 374, cited in Halliday and McCormack, Japanese Imperialism Today, p. 35.

<sup>16</sup>Lawrence Olson, Japan in Postwar Asia (New York: 1970), p. 24.

<sup>17</sup>Ibid., p. 204.

<sup>18</sup>Ichiro Kawasaki, Japan Unmasked (Tokoyo: 1969), p. 53.

- <sup>19</sup>Ibid., p. 208.
- <sup>20</sup>Iain Buchanan, Singapore in Southeast Asia (London: 1972), p. 95.
- <sup>21</sup>Olson, Japan, p. 203.
- <sup>22</sup>Ibid., p. 202.
- <sup>23</sup>Ibid., p. 203.
- <sup>24</sup>Ibid., p. 203.
- <sup>25</sup>Ibid., p. 203.
- <sup>26</sup>Ibid., p. 206.
- <sup>27</sup>Ibid., p. 208.
- <sup>28</sup>Japan, Ministry of International Trade and Industry, Tsusan Hakusho, cited in Olson, Japan, p. 203.
- <sup>29</sup>Hellman, Japan and East Asia, p. 38.
- <sup>30</sup>Olson, Japan, p. 204.
- <sup>31</sup>Halliday and McCormack, Japanese Imperialism Today, p. 39.
- <sup>32</sup>"Industry," Singapore Trade and Industry, October 1967, p. 62.
- <sup>33</sup>William Campbell, "Magnifique-out go the incentives in French and German," Singapore Trade and Industry, (November 1967), p. 29.
- <sup>34</sup>"The Way Ahead," Singapore Trade and Industry, November 1967, p. 37.
- <sup>35</sup>Geoffrey Boland, "For the Foreign Investor, A New Freedom to Move Profits and Capital," Singapore Trade and Industry, August, 1967, p. 54.
- <sup>36</sup>Mok Kwang Loun, "Building a Future on Land Won From Swamp and Sea," Singapore Trade and Industry, November 1967, p. 55.
- <sup>37</sup>"The Way Ahead," Singapore Trade and Industry, p. 34.
- <sup>38</sup>Olson, Japan, p. 198.

- <sup>39</sup>Buchanan, Singapore, p. 259.
- <sup>40</sup>Ibid., p. 115.
- <sup>41</sup>Ibid., pp. 115-116.
- <sup>42</sup>Sadli, "Foreign Investment," Drysdale, ed., Direct Foreign Investment, p. 213.
- <sup>43</sup>Ibid., p. 205.
- <sup>44</sup>Olson, Japan, p. 185.
- <sup>45</sup>Ibid., p. 186.
- <sup>46</sup>Ibid., p. 186.
- <sup>47</sup>Ibid., p. 186.
- <sup>48</sup>Ibid., p. 187.
- <sup>49</sup>Ibid., p. 187.
- <sup>50</sup>Ibid., p. 189.
- <sup>51</sup>Sadli, "Foreign Investment," Drysdale, ed., Direct Foreign Investment, p. 203.
- <sup>52</sup>Ibid., p. 204.
- <sup>53</sup>O. G. Roeder, "IBI Ditches the Gimmicks," Far Eastern Economic Review, 73, no. 35 (August 28, 1971), p. 62.
- <sup>54</sup>Sadli, "Foreign Investment," Drysdale, ed., Direct Foreign Investment, p. 205.
- <sup>55</sup>Olson, Japan, p. 189.
- <sup>56</sup>Ibid., p. 191.
- <sup>57</sup>Ibid., p. 190.
- <sup>58</sup>Olson, Japan, pp. 187-188.
- <sup>59</sup>Ibid., p. 188.
- <sup>60</sup>Halliday and McCormack, Japanese Imperialism Today, p. 55.
- <sup>61</sup>Olson, Japan, p. 192.

## CHAPTER III

### JAPAN IN THE 1970's

#### Japanese Business Tactics

The 1970's have witnessed a large increase in Japanese economic involvement in Southeast Asia. Most overseas activities are monitored by the Japanese government, which keeps a watchful eye on investment by Japanese firms in other countries as well as on foreign investment in Japan. Foreign investment in Japan has been heavily restricted because the government has felt that foreign control of its firms would result in the introduction of outside management techniques, which would not work easily within the traditional framework of close Japanese government-business relations.<sup>1</sup>

While in many Western countries any attempt to fuse private and public organization has been suspect, in Japan such activity is both commonplace and expected in the pursuit of national goals. This is important to the Japanese government because it facilitates the transmission and implementation of government policies to firms outside the government's territorial jurisdiction.<sup>2</sup>

The Japanese approach to international business is a model of planning and preparation. The elements include

market research preparations, the formulation of alternative and complementary strategies, and the specific tactics to be used in achieving the intended target objectives.<sup>3</sup> The motivation of the Japanese investor is almost always to obtain some degree of lasting control over, or continuing connection with, the foreign operation. With the encouragement and frequently, the assistance of their government, Japanese firms have invested overseas mainly to obtain a constant and assured supply of raw material imports, but also to secure export markets, the earnings of which can be used to pay for the raw materials.<sup>4</sup> A steady supply of raw materials from foreign sources is essential for the successful operation of Japanese industry.

#### Japanese Government Help to Investors

Japan's policy towards overseas investment was developed originally to protect its foreign exchange reserves and to avoid balance-of-payment difficulties. Under the Foreign Exchange and Foreign Trade Control Law of 1949, Japanese enterprises required permission to invest abroad. In October 1969, this law was relaxed to allow automatic approval on overseas investment up to U.S. \$200,000, except in certain specific industries, such as banking and securities. In September 1970 the ceiling for automatic approval was raised to U.S. \$1 million, and it was lifted completely in July 1971.<sup>5</sup>

Potential Japanese investors can apply for information on investment possibilities to the Export-Import Bank of

Japan and the Overseas Economic Co-operation Fund (OECF), which both offer important investment information and consulting services. The Japan External Trade Organization (JETRO), a semi-official body instituted for the promotion of Japanese foreign trade, also provides general information on the investment climate, such as the conditions of overseas markets of developing countries. The Institute of Developing Economies, a semi-official body as well, conducts, especially in its Economic Co-operation Research Office, comprehensive economic analyses of various developing countries.<sup>6</sup>

The Japanese government extends financial facilities to Japanese investors mainly through the Export-Import Bank of Japan and the Overseas Economic Co-operation Fund (OECF). The Bank, established in 1950, provides an easier access to overseas investments by lending to Japanese investors the long-term funds necessary for undertaking business abroad, either alone or in co-operation with local enterprises. Established in 1961, the OECF operates with regard to developing countries only. While it primarily extends official development loans to foreign governments, it also supplies loans to Japanese companies. When private projects are involved, it supplies funds in the form of long-term soft loans for projects carried out by Japanese enterprises, if such projects are considered likely to promote industrial and economic development in the developing countries concerned. Financing is also available for pre-investment surveys, and

in some cases the Fund may invest directly in overseas ventures.<sup>7</sup>

Besides these two public financial institutions, the Japan Petroleum Developing Corporation and the Metallic Mineral Exploration Agency of Japan, both public corporations, may supply funds for overseas investment which are aimed at the exploration of petroleum or other important mineral resources. Finally, the Japan Overseas Development Corporation, a semi-public corporation established in 1970 for the purpose of promoting imports from developing countries, also provides financing to Japanese firms and nationals.<sup>8</sup>

Also helping Japanese investors overseas are investment insurance schemes which are operated by the government. Until mid-1970, there were two such schemes established under the Ministry of International Trade and Industry (MITI). The first scheme, created in 1956, was concerned with capital, and the second, inaugurated in 1957, with profits. These two programmes remained modest ventures until May of 1970 when Japanese authorities instituted the Overseas Investment Insurance Scheme, which amalgamated the two programmes and extended their scope of application. Administration is handled by the MITI, and insurance for investment is available to any Japanese company or individual. The scheme provides cover for the three categories of political risks (expropriation, war and transfer) and normally insurance is provided for the three risks collectively. The programme applies to

direct investment in the form of equities, long-term loans (5 years or more), or to management-controlled enterprises involving real estate and equipment.<sup>9</sup>

The Japanese government subsidizes various private technical assistance activities which may encourage direct investment in developing countries. For example, private organizations such as the Association for Overseas Technical Scholarships and the Japan Productivity Center, are subsidized for the acceptance of trainees from developing countries. The International Management Association of Japan is also subsidized to cover up to 75% of the expenses necessary for the dispatch of experts for managerial guidance or advice in developing countries. Subsidies are also provided to the Engineering Consulting Firms Association for its pre-investment survey activities as well as to other private bodies for surveys of investment climate. In the field of agricultural investment, the government subsidizes the Overseas Agricultural Development Foundation for the training of experts.<sup>10</sup>

It is quite evident that the Japanese government, through various departments and organizations, is closely aligned with Japanese economic activities overseas, especially foreign investment. This association is important when one considers the behaviour of Japanese ventures overseas.

The Japanese economy, both domestic and overseas, is monopolised by six giant trading combines, according to a

report of the Fair Trade Commission which was recently published in Tokyo. Investigations by the Commission reveal that in 1972, the combined sales of the six companies were U.S. \$184,800 million and accounted for 70% of business transacted by 88 wholesale firms listed on the stock market. The Commission named the six as Mistubishi Corporation, Mitsui, Marubeni Corporation, CCC Itoh, Sumitomo Shoji Kaisha and Nissho Iwai. It claims that the six companies have used their enormous financial reserves to slowly acquire control over more than half of the 19,000 companies listed on the stock exchange. The companies command a monopoly over 70% of the primary wholesale trade. The report also reveals that 40% of Japan's total volume of exports and 50% of imports are handled by the companies.<sup>11</sup> These six companies handle the bulk of Japanese investment and trade in Southeast Asia. The small number of companies means that it is easier for the Japanese government to exercise control over the country's economic activities in the region.

#### Types of Japanese Foreign Investment

Japanese investment abroad is mostly either in the form of equity purchases or the provision of credits. In the first case, Japanese companies obtain equities of the firms in host countries in return for supplying funds, commodities, or know-how. In the second case, Japanese companies lend equipment, patents, or long-term funds to the firms in the host country.

This type of investment is common where there is some restriction by the governments of the host countries on the acquisition of equities.<sup>12</sup>

In spite of the essentially competitive nature of much of the foreign investment in Southeast Asia, various forms of shared control of capital have emerged to dominate the scene. There are four main types of such co-operation: (1) a consortium of foreign investors from one country; (2) a consortium of foreign investors from more than one foreign country; (3) a consortium of foreign and local private investors; and (4) a consortium of foreign and local private investment and government investment funds, where local private and public funds are invested alongside foreign capital.<sup>13</sup> It is the third and fourth types which are the most popular among Japanese investors in Southeast Asia because they feel that the host country should be financially involved if only to improve the credibility of the operation. Many countries of the region also require domestic involvement in foreign investment.

#### Reasons for Japanese Foreign Investment

The energy crisis has been an important factor in the growth of Japanese investment abroad in the last few years. It brought home to the Japanese the need to secure resource imports through foreign investment. Japan has already earned a reputation as a sophisticated trading nation, and to grow

domestically it has to go abroad for food, materials, and energy. The developing countries of the world have had a great need for technology and capital, and Japanese business is now meeting these needs aggressively in a trade-off for basic resources.<sup>14</sup>

There are several other reasons why the Japanese have been investing heavily abroad during the 1970's. The growing shortage of labour in Japan has encouraged investment in areas where there is a surplus of labour, and also where often the wage structure is substantially lower. Secondly, in recent years many Japanese firms have accumulated large capital surpluses, mainly due to the success of Japanese goods in world markets, and foreign countries supply the main outlet for this surplus capital. As well, many Japanese overseas operations have been established in order to sell low-technology products in a tariff-protected market. This type of investment is an alternative to exports from Japan and a way of maintaining a hold on a market.<sup>15</sup> Another motive for Japanese firms to invest in developing countries is in order to remove pollution-creating activities from the Japanese landscape. The severity of environmental problems in Japan in recent years has led to a general concensus that more pollution-creating industries would only worsen the already serious situation, especially in the areas around Tokyo and Osaka.

The Importance of Southeast Asia to  
Japanese Foreign Investment

The Japanese economic presence abroad has expanded rapidly since revaluation of the yen in December 1971. An upward revaluation of 16.88% caused a capital surplus within Japan, and overseas investment was seen as the major outlet for this surplus (Table I). It is estimated that the total of Japanese foreign investment at the end of the fiscal year ending March 1974 was in the order of U.S. \$10,000 million, more than six times the figure six years before. This total is expected to rise to U.S. \$50,000 million by 1980 and U.S. \$100,000 million by 1985.<sup>16</sup>

Southeast Asia is expected to increase in importance as an area for Japanese investment. This is due mainly to the region's supply of raw materials, especially oil and timber, its incentives offered to foreign investors, and its low wage levels. In 1968, 14% of Japan's overseas investment was in Southeast Asia, while 26% was in Latin America.<sup>17</sup> According to the Straits Times, about U.S. \$4000 million will be invested in the Southeast Asian region by Japan in the ten-year period 1974-1984. Since this prediction puts Japan's total overseas investments for the period as approximately U.S. \$20,000 million, investment in Southeast Asia would comprise about 20% of the total.<sup>18</sup>

Southeast Asia has been a fairly successful region for Japanese investment. One survey, conducted in 1971, revealed

that almost 60% of the Japanese firms in Southeast Asia showed a surplus compared to just over 51% for Japanese firms in Latin America. The total figure, which excluded North America and Oceania, was approximately the same as for Southeast Asia<sup>19</sup> (Table II).

### The State of Japan's Economy

Despite projections for continued fast growth, there have been signs in the past few years that Japan's economy is beginning to level off. In 1974, the Economic Planning Agency announced that Japan's real economic growth during the second quarter of 1974 showed a 'near zero' increase of 0.6% over the preceeding quarter, and a decline of 2.8% from the corresponding quarter of 1973.<sup>20</sup> As well, it was predicated by the MITI in July 1974 that Japan's trade deficit may reach U.S. \$8000 million in fiscal 1974 because of growing oil bills.<sup>21</sup> Higher wages at home are beginning to price the Japanese out of world markets, and the stunning election setback suffered by the ruling Liberal Democratic Party in July 1974 may be a sign that the Japanese public is heading away from the total acceptance of unbridled economic growth.<sup>22</sup>

In April of 1974, the Finance Ministry took steps to restrict Japan's overseas investments by tightening the supply of yen funds in view of the nation's deteriorating balance of international payments. The ministry requested Japanese banks to cut back their loan issues for overseas investments as much

TABLE I

JAPANESE PRIVATE INVESTMENTS OVERSEAS  
1961-1971

Fiscal Year	World Total Approved investments in U.S. \$'000	Asia Approved investments in U.S. \$'000	% of total
1961	165,786	28,434	17.2
1966	227,676	28,772	12.6
1971	876,240	255,023	29.1

Source: Ministry of International Trade and Industry (MITI),  
(Economic Cooperation-Present Status and Problems),  
1962, 1965, 1968, 1970, 1972.

TABLE II

PROFITABILITY OF JAPANESE FIRMS ABROAD  
(survey conducted in 1971)

	Surplus	Break-even	Deficit
Southeast Asia	70	4	44
East Asia	71	5	43
Latin America	34	7	25
Europe	24	0	12
Others	15	2	3
Total	214	18	127

Source: The Export-Import Bank of Japan.

as possible, especially in real estate, restaurant, and other leisure related businesses. It also told the semi-official Export-Import Bank of Japan to reduce the supply of loans for overseas investments during the 1974 fiscal year by 20% from the 1973 level.<sup>23</sup>

However, Japan has a fairly stable economy, and foreign investment is likely to be quite heavy into the foreseeable future, as supplies of raw materials have to be secured. Asia will receive a great deal of this investment because of its supply of natural resources and availability of cheap labour (Table III).

#### Japanese Foreign Aid

In order to help relations with foreign countries, Japan has become heavily involved in foreign aid. The Japanese Government has in recent years been working towards the international goal of a 0.7% ratio of the Gross National Product for official development assistance. In August of 1974 the government set up a new special agency, the Economic Cooperation Agency, to handle foreign aid. In 1973 Japan's 'economic cooperation' topped the U.S. \$5800 million mark. That is more than double the figure for 1972 and equal to 1.42% of the GNP.<sup>24</sup> However, a large percentage of this amount was not official development assistance, but funds which could be considered as out-and-out trade promotion of one kind or another. Interest rates on loans have been high.

TABLE III

JAPANESE PRIVATE INVESTMENTS IN ASIA BY INDUSTRY  
MARCH 1972

Industry	No. of investment projects	U.S. \$'000	% of total value
Primary	182	385,055	37.2
Secondary	1250	466,660	45.1
Tertiary	738	182,870	17.7
Total	2170	1,034,585	100.0

Source: MITI, Keizai Kyoryoku no Genjo to Mondaiten, 1972.

TABLE IV

GEOGRAPHICAL DISTRIBUTION OF JAPANESE IMPORTS  
1960-1980

	Percentage of Total		
	1960	1970	1980
U.S.A.	37.1	29.4	27.8
Southeast Asia	19.6	15.1	13.6
West Asia	7.7	13.3	12.1
Others	35.6	57.8	46.5

Source: MFA, Economic Research, No. 3, June 1973.

The average terms of Japanese loans in 1970 were 3.7% interest, repayment over 21.4 years, and 6.7 years deferment. The DAC (Development Assistance Committee, an organization of economically advanced countries) average in the same year was 2.7% interest, 29.7 years repayment, and 7.5 years deferment.<sup>25</sup> Also, a very big proportion of Japan's loans have been tied to the purchase of Japanese goods. In 1973, about 54% of Japan's worldwide official development assistance went to Southeast Asia. This amounted to U.S. \$412 million in Japanese official development assistance to the region for the year.<sup>26</sup>

In the last few years, the goals of Japan concerning aid have been to reduce proportionally the hard loans made through the Export-Import Bank and increase the soft loans made by the Overseas Economic Cooperation Fund, to accept internationally recommended programme goals, to shift emphasis from tied to untied aid, and to favour participation in multilateral arrangements, including the Asian Development Bank.<sup>27</sup> Established in 1968, the A.D.B. is basically the 'regional brother' of the World Bank, and represents the private enterprise interests of seventeen non-socialist Asian nations and fifteen Western nations.<sup>28</sup> It also plays a large part in allocating aid funds to Southeast Asia.

### Japanese Trade

Foreign trade is extremely important to the Japanese economy because the country is lacking in a great many raw materials such as oil, timber, iron ore, and copper. Japan is now the largest resource-importing country in the world, taking 18.2% of the total resource imports of the OECD countries and surpassing the USA in terms of the value of raw material imports. Most of these imports, some 60%, come from other developed countries, but Southeast Asia is also an important source<sup>29</sup> (Table IV). Japan's imports from Southeast Asia were cited at U.S. \$4.2 billion in 1972, while its exports to the region in that year reached U.S. \$6.3 billion. In percentage terms, in 1972 Southeast Asia provided 17.8% of Japan's imports and 22.1% of its exports.<sup>30</sup> Despite the oil crisis, which cut back Japan's exports 15% to 25%, it is still the largest single exporter to all the non-communist countries of Southeast Asia.<sup>31</sup> Trade between Japan and Southeast Asia remains along 'colonial' lines for the most part, with Japan exporting finished products in return for raw materials.

### Japan, The United States, and The Arab Countries in Southeast Asia

Japan's major economic competitor in Southeast Asia has been the United States. But it is a competition blunted by expediency, for there is a degree of co-operation which implicitly recognizes the far greater power and influence of

the United States. Buchanan calls it a 'co-operative imperialism', with the two countries acting in a partnership.<sup>32</sup> This is particularly evident in the operations of the World Bank and its Asian off-shoot, the Asian Development Bank, and in the mutual recognition of individual expertise and advantage in specific fields.<sup>33</sup>

In May 1974, Japanese Foreign Minister Masayoshi Ohira, speaking in New York, announced that Japan and the United States had agreed to co-operate in the field of energy research and development. In his prepared speech at the annual dinner of the Japan Society, Mr. Ohira said:

"For its ultimate security, Japan will continue to rely on the U.S. deterrent, while limiting the mission of the self-defence forces to protection of its own territory against conventional attack. I restate these policies to emphasise how groundless is the speculation in some quarters that Japan, especially in the wake of the energy crisis, may be contemplating substantial rearmament and possibly even the development of nuclear weapons. The basic challenge is to strengthen our international trade and financial structures in response to the new economic realities."<sup>34</sup>

Judging from policy statements such as this, it appears that Japan is ready to challenge the United States economically while remaining under its military hegemony.

Another factor, which has developed in recent years, has been the influx of Arab money into Southeast Asia. Arab nations are in a favourable position because Islam is the predominant religion in both Malaysia and Indonesia. Some degree of cooperation between Arab and Japanese financiers

can be evidenced by the 1974 launching of URBAN, a consortium with five Japanese and ten Arab partners, whose paid-up capital was placed at U.S. \$5 million, with the Arabs controlling 60% of the equity and the Japanese holding the rest. The fifteen partners claim that URBAN is backed by their combined assets amounting close to a staggering U.S. \$1000 billion.<sup>35</sup> The Japanese partners are Nomura Securities, Bank of Tokyo, Mitsui Bank, Sanwa Bank, and Long-Term Credit Bank. The principal activities of URBAN are foreign trade financing, short, medium and long-term loans (including syndication), management and underwriting of securities, promoting Arab investment and re-cycling of funds in Asia, and the conducting of special studies and research on the economies of Asian nations.<sup>36</sup> In the next few years, the Arabs are likely to obtain equity holdings, and participate in joint ventures in manufacturing and resource-based industries in Southeast Asia, using the tremendous capital reserves they have accumulated from oil sales. Politically, the Arabs are likely to give economic support to Muslim nations such as Indonesia and Malaysia, and also to use 'petro-dollars' as a lever to steer other nations in the region to the Arab cause in the Middle East conflict.<sup>37</sup>

However, for the time being, Japanese and U.S. influences will remain dominant in Southeast Asia, with Japan having the slight edge economically, and the United States being clearly ahead politically, mainly because of Japan's lack of military power.

FOOTNOTES

<sup>1</sup>Isaiah A. Litvak and Christopher J. Maule, "Japan's Overseas Investments," Pacific Affairs, 46, no. 2 (Summer 1973): 257.

<sup>2</sup>Ibid., p. 258.

<sup>3</sup>Ibid., pp. 259-260.

<sup>4</sup>Ibid., p. 260.

<sup>5</sup>Ibid., p. 257.

<sup>6</sup>Organization for Economic Co-operation and Development Investing in Developing Countries (Paris: 1972), p. 63.

<sup>7</sup>Ibid.

<sup>8</sup>Ibid., pp. 64-65.

<sup>9</sup>Ibid., p. 62.

<sup>10</sup>Ibid., p. 65.

<sup>11</sup>"Six giants dominate the Japanese economy," Business Times section of the Straits Times, February 4, 1974, p. 11.

<sup>12</sup>Koichi Hamada, "Japanese Investment Abroad," Peter Drysdale, ed., Direct Foreign Investment in Asia and the Pacific (Canberra: 1972), pp. 176-177.

<sup>13</sup>Iain Buchanan, Singapore in Southeast Asia (London: 1972), p. 26.

<sup>14</sup>Robert Mathieson, "Economic miracle over: Now Japan steps up overseas investment," Business Times section of Straits Times, February 4, 1974, p. 11.

<sup>15</sup>Litvak and Maule, "Japan's Overseas Investments," Pacific Affairs, p. 262.

<sup>16</sup>"Japan seeks better image overseas," Singapore Trade and Industry, October 1974, p. 52.

<sup>17</sup>Jon Halliday and Gavan McCormack, Japanese Imperialism Today (Middlesex, England: 1973), p. 31.

<sup>18</sup>"Japan to invest 20pc in S-E Asia," Straits Times, August 10, 1973, p. 6.

<sup>19</sup>Hamada, "Japanese Investment Abroad," Drysdale, ed., Direct Foreign Investment, p. 187.

<sup>20</sup>"Japan's 'near zero' growth," Straits Times, September 3, 1974, p. 26.

<sup>21</sup>"Briefs," Straits Times, July 15, 1974, p. 5.

<sup>22</sup>Mark Murray, "Japan Heads For an Economic Change," Straits Times, August 29, 1974, p. 11.

<sup>23</sup>"Cut in Japanese Investment," Straits Times, April 13, 1974, p. 3.

<sup>24</sup>"Japan seeks better image," Singapore Trade and Industry, p. 52.

<sup>25</sup>Kawata Tadashi, "Southeast Asia and the Japanese Economic Thrust," Sekai, November 1971, p. 197.

<sup>26</sup>Dick Wilson, "Shrinking Asian handout from Japan," Far Eastern Economic Review, 86, no. 49 (December 13, 1974): p. 60.

<sup>27</sup>A. M. Halpern, "Japan: Economic Giant's Quiet Diplomacy," International Affairs, 49, no. 14 (October 1973): 589-590.

<sup>28</sup>Asian Development Bank Annual Report, 1969, pp. 68-69 cited in Buchanan, Singapore in Southeast Asia, p. 97.

<sup>29</sup>Halliday and McCormack, Japanese Imperialism Today, p. 54.

<sup>30</sup>Halpern, "Japan: Economic Giant's," International Affairs, p. 585.

<sup>31</sup>Fox Butterfield, "How Japan's export cutback affects Asia," Straits Times, January 1, 1974, p. 8.

<sup>32</sup>Buchanan, Singapore in Southeast Asia, p. 258.

<sup>33</sup>Ibid., p. 258.

<sup>34</sup>"Japan: Our Role is Peace," Straits Times, May 23, 1974, p. 3.

<sup>35</sup>Soh Tiang Keng, "Arab oil funds trickle into Asian \$ market," Straits Times, August 6, 1974, p. 11.

<sup>36</sup>Ibid., p. 11.

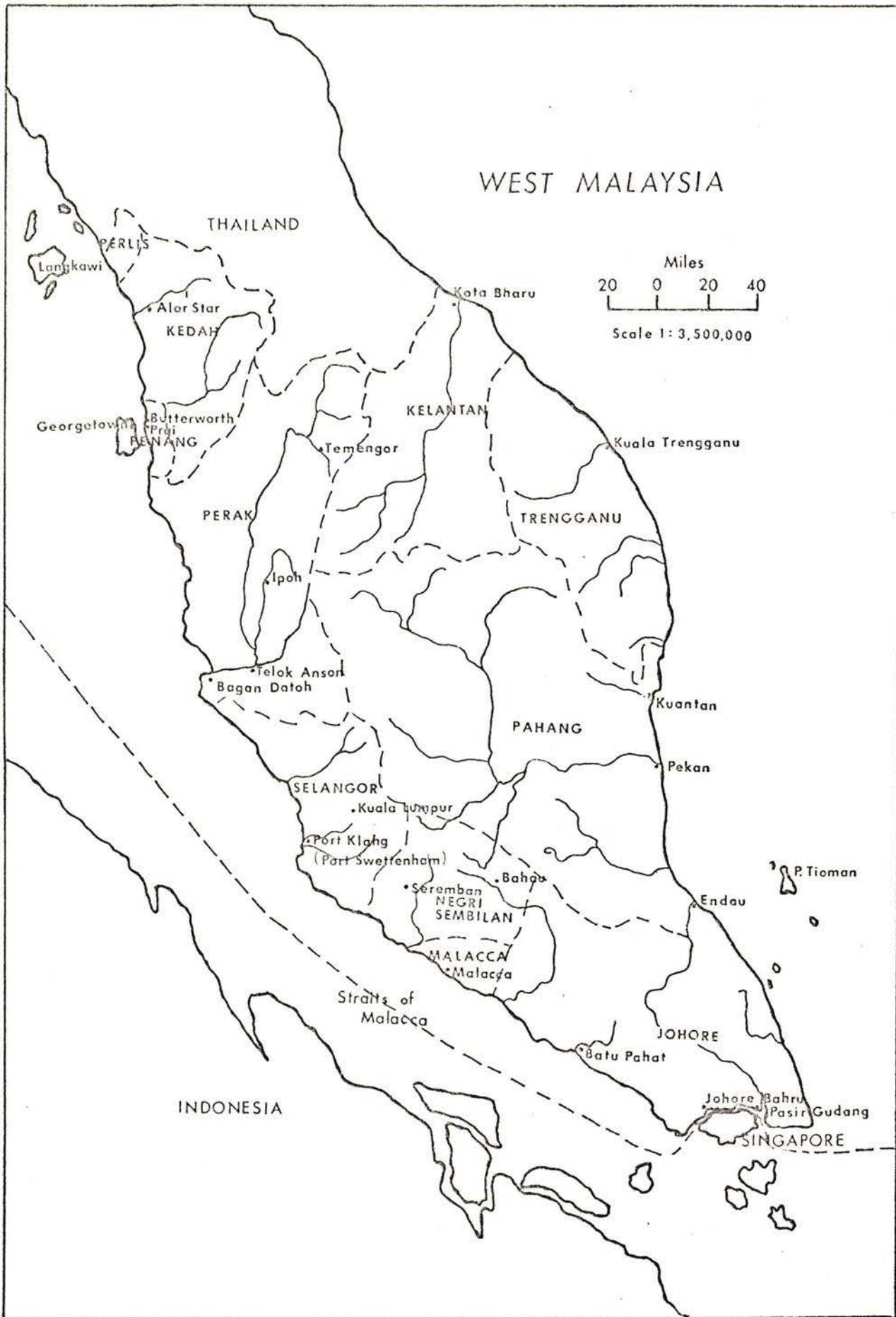
<sup>37</sup>Ibid., p. 11.

## CHAPTER IV

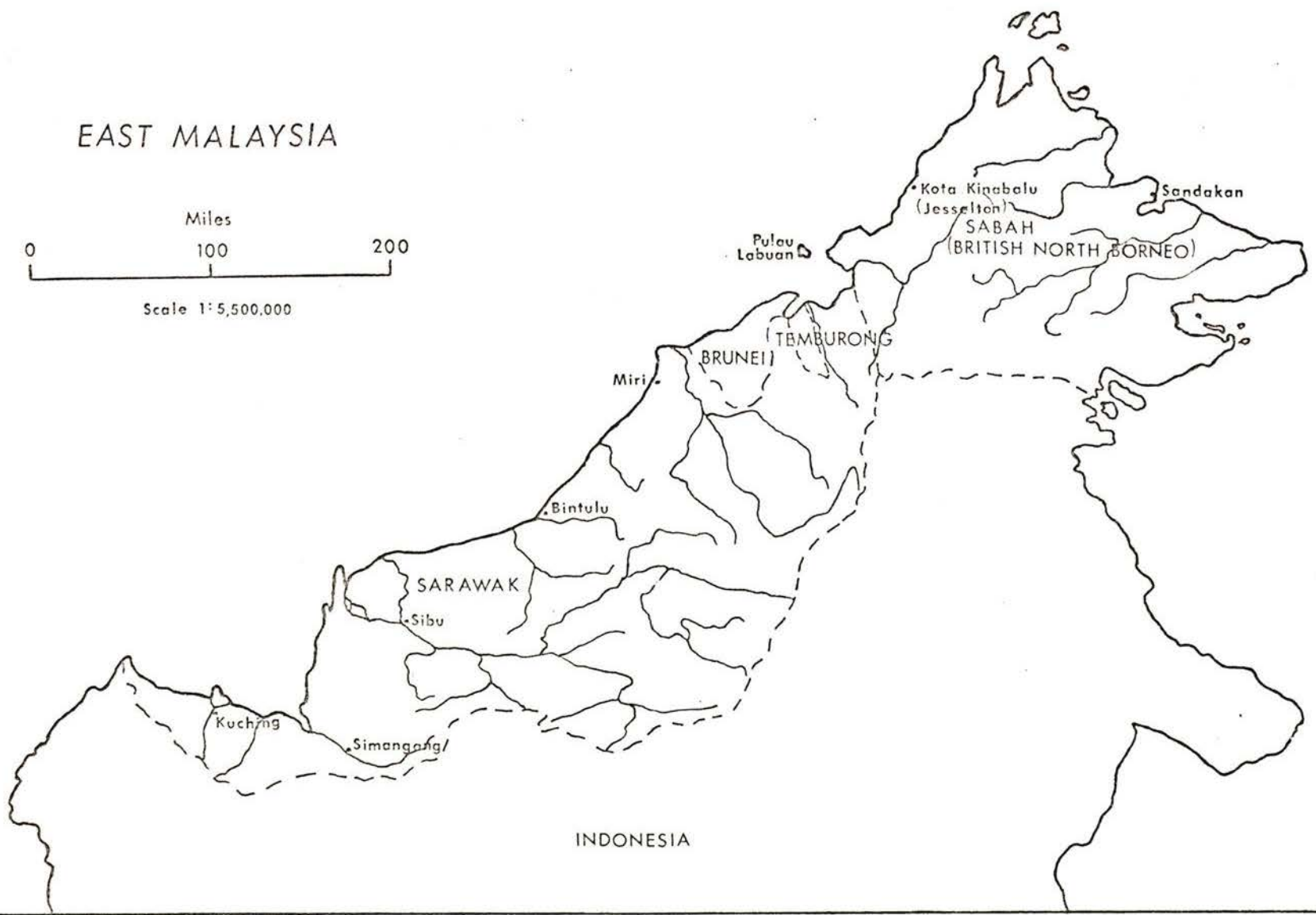
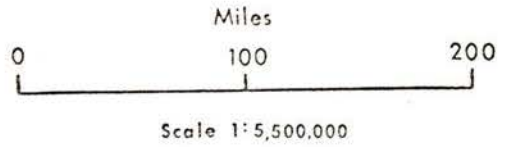
### JAPAN IN MALAYSIA DURING THE 1970's

#### The Malaysian Setting

Malaysia consists of two main component parts, West Malaysia comprising the Malayan Peninsula, and East Malaysia encompassing Sarawak and Sabah in the northern part of Borneo. These two parts are separated by hundreds of miles of ocean which makes the achievement of national unity a major problem. Sarawak and Sabah, together with Singapore, joined with Malaya to form the Malaysian Federation in September 1963 (Singapore subsequently left the Federation in 1965). The union occurred despite the fact that Sarawak and Sabah have very little in common with West Malaysia except for the fact that they are both former British colonies. East Malaysia does not have as large a population of Malays as West Malaysia. It has a large population of aboriginal groups such as Sea Dayaks, Land Dayaks, Kadazan, and Bajau. Also East Malaysia is not as economically developed as West Malaysia. This situation together with the fact that West Malaysia contains the bulk of the people of the country and holds the centre of government, makes East Malaysia feel that it is in a subordinate position on the national scene. In spite of this, with an area of 77,000 square miles, East Malaysia is 26,000 square



# EAST MALAYSIA



Source : New Secondary Atlas for Malaysia and Singapore, 1970, p.35

miles larger than West Malaysia.

The population of Malaysia is approximately 10,500,000 with 8,800,000 in West Malaysia, 976,000 in Sarawak and 654,000 in Sabah.<sup>1</sup> West Malaysia is economically diversified, with the production of tin, rubber, timber, and palm oil being the most important. Most of the country's manufacturing is concentrated here. The East Malaysian economy is dominated by the timber industry, with oil, pepper, rubber, and coconut also important. The Malaysian government is currently expending a considerable amount of money to improve the economic development of East Malaysia.

Besides the economic differences between West and East Malaysia, there are also different degrees of development within West Malaysia. Most of the population and economic development is in the western sector of the Peninsula which is separated from the eastern sector by a rugged mountain range. The population difference has been caused by both the historical impact of settlement in the western sector and its generally more attractive physical environment. As in East Malaysia, the eastern sector of West Malaysia feels that it is in a subordinate position and is not receiving enough attention from the government in Kuala Lumpur.

Ethnic diversity has caused difficulties in the attainment of national unity within Malaysia. At the present time the major ethnic groups are Malays with 44% of the total population, Chinese with 35% of the total, and Indians with

10%.<sup>2</sup> The majority of Malays are villagers, many of them engaged in subsistent rice cultivation or small-holder rubber cultivation. They have a strong sense of solidarity as Muslims. On the other hand, trade and commerce in Malaysia remain a preserve of the Chinese. The Malays consider that they are exploited by Chinese businessmen, and there is also a feeling that the towns, where the population is mainly non-Malay, have had more than their fair share of the schools, hospitals, and other services.<sup>3</sup>

The Indians in Malaysia are employed mainly as rubber tappers, dairy farmers, or municipal workers. There has not been the animosity between them and the Malays that there has been between the Chinese and the Malays; Indians are not in the strong economic position of the Chinese, nor do their numbers constitute a threat to the Malays.

Malay is the official language of Malaysia and the civil service is predominantly Malay. Governing the country has been the United Malay National Organization, which is a loose alliance of Malay, Chinese, and Indian groups, but the Malays predominate in the important positions. The main opposition party is the Pan Malay Islamic Party, which supports Malay nationalism as opposed to Chinese and other influences. Political violence broke out in Malaysia in May of 1969 when election results led the Malays to believe that the Chinese were gaining influence. For the most part, however, animosity between the Chinese and the Malays has remained just below

the surface.

Economically, Malaysia is well endowed with natural resources. The majority of people in both rural and urban areas have a reasonably good standard of living compared to the rest of the 'third world'. This economic situation means that the problems caused by regional and ethnic diversity have been somewhat attenuated.

#### Investment in Malaysia

Malaysia's supply of natural resources and level of economic development are such that foreign investment can provide a supplementary role in the nation's economy. The British did a great deal to build the economy of the country during the colonial period, especially in West Malaysia. The Malaysian investment policy is aimed at a gradual redistribution of wealth from foreigners to local people, and to ensure that Malaysians have their just share of the country's commerce and industry. This policy statement was presented by Tengku Razaleigh Hamzah, the chairman of the Malaysian state petroleum corporation, PERNAS. He also said that Malaysia is trying to ensure a proper balance in the ownership and management of firms, and that private investment, whether local or foreign, contributes to socioeconomic development in accordance with government policy.<sup>4</sup> Foreign investors are welcome in Malaysia if they can prove that they will be of benefit to the country.

As of April 1973, there were 106 Japanese firms in either independent or joint-venture operations with local interests, including the government, in Malaysia. In contrast, there were 142 such firms in Singapore and 134 in Indonesia. Of the 106 firms, 60 were joint Japanese-Malaysian firms in West Malaysia and 6 in East Malaysia. Japanese capital investment in these ventures, which provided employment for 10,000 Malays, amounted to U.S. \$86 million, excluding plant and equipment.<sup>5</sup> By early 1974 four more Japanese-Malaysian joint ventures had been established in Malaysia and another seventy-five were being built, giving some indication of the increase in Japanese investment in the country. Major Japanese firms in Malaysia include Matsushita, Mitsui, Kanebo, Tokyo Shibaura, Kojima, Minolta, Sankyo, and Toray. They are involved in a wide variety of endeavours, ranging from steel plants to toothpaste and textile factories.<sup>6</sup>

The most reliable figures for Japanese investment in Malaysia are to be had from the Ministry of Finance, Tokyo, and show U.S. \$106 million in equity investment, U.S. \$92 million in bonds, U.S. \$2 million in real estate, and U.S. \$1 million in branch offices as of late 1974.<sup>7</sup> These figures do not include the capital invested in plant and equipment. According to Professor Ryokichi Hirono of Seikei University, Tokyo, Japan was responsible for 11% of the total accumulated foreign investment in Malaysia in 1973, behind the investment totals in the country by the United Kingdom, Singapore, and

the United States.<sup>8</sup> However, judging from the figures for the Japanese-Malaysian joint ventures under construction, it would seem reasonable to assume that the Japanese now have a larger percentage of the total foreign investment in Malaysia than the 1973 figures indicate.

Japan has not been investing heavily in pioneer industries, which are defined by the Malaysian government as those which are the first of a kind in the country regardless of the level of sophistication. According to the Malaysian High Commission, Singapore was the top foreign investor in pioneer industries in Malaysia in 1973. Singapore's investment of S. \$139.8 million (U.S. \$60 million) was followed by an American investment of S. \$91.7 million (U.S. \$39 million), with British investment third at S. \$91.2 million (U.S. \$38.5 million), and Japan fourth, although its total was not given.<sup>9</sup> Pioneer industries are preferred by the Malaysian government because they tend to introduce new technology and products into the country and the firms do not compete with those already established.

Japan has invested quite heavily in Malaysian natural resources in order to ensure a steady supply of raw materials for its own utilization. The country consumes more wood than any other nation in the world because of its huge paper products industry, and because so many of its houses, and their contents, are still made of wood. Both the USA and Canada are becoming restrictive in their timber export

policies and Southeast Asia now supplies more wood to Japan than does the United States.<sup>10</sup> To secure the Malaysian supply, Japanese capital continues to be invested in the timber industry, particularly in East Malaysia. For example, a Japanese-Malaysian venture for the production of pulp was recently launched under an agreement between Kohjin Company and the Sarawak Economic Development Corporation. The joint company, Sarawak Pulp Industries, is to build a plant at Sibu to produce 65,000 tons of pulp annually for chemical fibre beginning in 1977. Kohjin already has a joint woodchip company, known as Sarawak Woodchip, which will supply raw material to the new pulp company.<sup>11</sup>

Japan is also increasing its involvement in the Malaysian mineral industry, although not all of its ventures have been successful. Malaysia's third tin smelting works was opened in 1964 at Port Klang (formally Port Swettenham). It was a joint Japanese-Malaysian company called Oriental Tin Smelters Ltd. Initial output at the plant was 500 tons per month. By 1969 output had reached 800 tons and plans were made to further increase capacity to over 1000 tons per month. At the end of 1969, however, the plant was shut down indefinitely because it was doubtful that production levels could be maintained in the face of declining market conditions.<sup>12</sup> The smelter was supplying about 500 tons of tin metal per month to Japan before its closure. Malaysia Gold and Tin Dredging Ltd., another joint Malaysian-Japanese venture, began

construction of a tin plate works in 1970 near Kuala Lumpur.<sup>13</sup> The plant is now operating with technical assistance from the United States and Britain. As far as Japanese involvement with other metals is concerned, Malayawata steel has a large plant at Prai, and Kawasaki steel also operates in the country. As well, Kawasaki steel is involved in the joint venture Steel Pipe Ind. of Malaysia Sdn. Bhd. The Japanese are involved in Mamut copper mine in East Malaysia, which ships ore regularly to Japan.<sup>14</sup>

Japan is also interested in investing more in oil exploration in Malaysia, according to the executive vice-president of Japan Petroleum Development Corporation, Mr. Hiroshi Tanikawa.<sup>15</sup> He stated there were a lot of 'untouched areas' in Malaysia for offshore exploration. In July of 1974 a new formula was being studied to increase the production-sharing ratio in favor of the Malaysian Government. Primary Industries Minister, Datuk Haji Abdul Taib Mahmud, said that the new formula would be based on a direct ratio of 85-15 in favour of the Malaysian Government.<sup>16</sup>

Sabah Marine Areas Co. Ltd., set up by Sumitomo Shoji and six companies of the Sumitomo group and Teikoku Sekiju K.K., is engaged in offshore oil exploration in Sabah in association with Aquitaine Petroleum Company of the United States.<sup>17</sup> One of Japan's most ambitious projects in Malaysia is a U.S. \$2000 million liquefied natural gas plant being constructed at Bintulu in the Fourth Division of Sarawak.

This is a joint venture between the Malaysian and Sarawak governments, Sarawak Shell, and Mitsubishi. The Bintulu plant is expected to be one of the largest in the world, with an initial annual capacity of 5.2 million tons of liquefied natural gas (LNG). Production, mainly of methane gas, is estimated at 1,000 million cubic feet a day. Sarawak Shell was contracted to sell all the gas to Japan, with production expected to begin by late 1976 or early 1977.<sup>18</sup> In addition the Japanese are in the process of developing facilities for shipping LNG from the Miri fields in Sarawak.<sup>19</sup>

The Japanese are also becoming involved in manufacturing in Malaysia. For example, Marubeni is involved in four joint ventures, making textiles, chemicals, steel pipe, and electrical products; Omron, a company pioneering in cybernation equipment, is in the process of opening a plant in Malaysia.<sup>20</sup> Indicative of the diversity of Japanese firms in Malaysia are the joint ventures of Sumitomo Shoji, which consist of Synthetic Resins Malaysia Berhad making PVC resin, and Asia Automobile Industries Sendirian Berhad assembling automobiles.

Finally, there are two major developments in the fields of transportation and energy supplies. First, there is the proposed new shipyard to be established jointly by Sumitomo Shipbuilding and Machinery and the Malaysian government at Pasir Gudang on the Johore Straits.<sup>21</sup> Second, the Japanese firm, Hazama-Gumi has been awarded the tender for the Temengon

Hydro-Electric Project in Perak, West Malaysia, which involves the creation of Southeast Asia's biggest rock-filled dam measuring 1570 feet wide and 375 feet high.<sup>22</sup>

#### Aid to Malaysia

In order to further good relations, Japan has become an important supplier of aid to Malaysia. It extended a U.S. \$150 million loan to the country in 1966 and six years later loaned \$300 million for the construction of dam and harbour facilities and the purchase of three palm oil carriers.<sup>23</sup>

In early 1974, Japan announced that it was lending U.S. \$320 million to finance projects in the last stages of the second Malaysia Plan. The loan was to be raised from the Export-Import Bank of Japan and the Overseas Economic Co-operation Fund.<sup>24</sup> More than twenty projects have been recommended for yen credit financing under the loan. These include road and communication projects, hydro-electric power development, the National Shipping Line and the Pasir Gudang Shipyard in Johore. The loan may also be used to finance part of a project to build a bridge linking Penang with the mainland. A nine-member Japanese survey mission arrived in Malaysia in September 1974 to appraise the various projects intended for financing.<sup>25</sup>

Japan has also agreed to help cottage and other small industries in Malaysia produce more goods for export. With

such cooperation and expertise, small industries in Malaysia can be reorganized or coordinated to cope with large overseas orders.<sup>26</sup>

Japan has recently sent qualified personnel to Malaysia in order to facilitate economic development and the growth of social services. About 90 Japanese youths are now engaged in volunteer activities in Malaysia in response to a request made by the Malaysian Government. These Japan Overseas Co-operation Volunteers (JOCV) cover fields related to economic and social development, and also teach the Japanese language and traditional sports. Up to April 1973, 227 JOCV's had been posted in Malaysia at one time or another.<sup>27</sup>

When a high standard of expertise is required, Japanese experts are dispatched under the Colombo Plan. Eight experts have been working in Malaysia in such diverse field as telecommunications, marine engineering, shipping, and city beautification.

Japan has also become interested in bringing Malaysians to Japan for educational or technical upgrading. The Japanese Government scholarship scheme has been extended to about fifteen Malaysian students every year for undergraduate and post graduate courses. In 1972, fifteen Malaysian teachers were invited to Japan by the Japanese Foundation. The Foundation also extended an invitation to Malaysian cultural leaders and students for study and observation in Japan, and has also assisted in promoting Japanese studies at the

University of Malaya through the supply of necessary personnel and reference material.<sup>28</sup> Also in 1972, more than 60 Malaysians attended training courses in Japan under the auspices of the Overseas Technical Co-operation Agency (OTCA). Almost all Japanese joint ventures regularly send Malaysian personnel to Japan for advanced training in both managerial and technical fields.<sup>29</sup>

By third world standards, Malaysia is economically advanced, so it does not require as much aid as other countries. However, the aid that it has received has played an important role in the development of the country, especially in rural areas. Japanese aid has been helpful to Malaysian economic development and has also made the Japanese investment position in the country more secure by improving relations between the two countries.

#### Trade with Malaysia

The balance of trade between Japan and Malaysia runs in the latter's favour. This is mainly because Malaysia has many raw materials which Japan desires, but is able to purchase many of its finished products from Singapore instead of Japan. In January of 1975, Malaysia exported U.S. \$56.7 million worth of goods to Japan and received U.S. \$32 million worth in return.<sup>30</sup> This put Malaysia in tenth place among world exporters to Japan, and behind Indonesia and the Philippines among Southeast Asian countries. Malaysia was much farther

down the list among importers from Japan, being well behind Indonesia, Singapore, Thailand, and the Philippines in South-east Asia. From Malaysia's point of view, Japan is its second most important trading partner, after Singapore. Even though Malaysia has a favourable balance of trade with Japan, the nature of the trade works in Japan's favour. This results from the fact that most of Malaysia's exports to Japan are raw materials such as timber, rubber, oil, and tin which undergo little or no processing before they are shipped out. Consequently Malaysia is actually exporting employment and industrialization along with its natural resources. On the other hand, Japan gains by being able to produce goods at home instead of having to import the finished product.

#### Reaction to Japanese Involvement in Malaysia

Relative to other countries in Southeast Asia, Malaysia has had few problems in its relationship with Japan. This has resulted mainly because Malaysia has a stable and growing economy, and because Japan's economic involvement with the country is not that large. During former Japanese Prime Minister Tanaka's visit to Southeast Asia in early 1974 the reaction in Malaysia amounted to only a few 'jeering' incidents. The atmosphere was far different in other Southeast Asian countries, where large demonstrations and several outbreaks of violence occurred.

In contrast to other ASEAN countries and Hong Kong, more people in Malaysia and Singapore value Japanese investments above all other foreign investment. Nearly 70% of those interviewed in a survey in Malaysia and Singapore said that Japanese investments in their countries were of greatest value to them, but ranked British investment second.<sup>31</sup> Goods made in Japan also proved more popular in these two countries where the people are of the opinion that Japanese goods are of 'high quality' and 'very good value for money'.<sup>32</sup> These are some of the findings of a six nation survey carried out in 1973 by the Survey Research Group for a major international advertising and consulting firm.

The South East Asian Promotion Center for Trade, Investment and Tourism was established in Tokyo in 1973. This is an organization dedicated to the strengthening of trade and economic ties between Japan and the countries of the area. The 1973 Malaysian Trade, Investment and Holiday Exhibition in Tokyo was co-sponsored by the Malaysian government and the Tokyo Centre. It introduced many Malaysian products into the Japanese market and resulted in more than one hundred contacts with Japanese businessmen. The exhibition also helped to publicize investment potential and tourist attractions in Malaysia.<sup>33</sup>

In early April 1974, the Malaysian Deputy Minister of Trade and Industry, Datuk Musa Hitam, headed a mission to Japan looking for more investment from the Japanese. The

mission's visit coincided with the official opening of the Malaysian Investment and Tourist Information Centre in Tokyo.<sup>34</sup> To improve relations between the two countries, in late 1974 the Japanese Ambassador to Malaysia, Mr. Michiaki Suima, called on Japanese living in the country to mix freely with Malaysians and use more local commodities. Also, he recommended they should change their present attitude and fraternize more with the Malaysians instead of keeping themselves aloof. He was quoted as saying, "We must not impose our way of life and culture on the Malaysians, but we should mix more freely to learn the local way of life and culture."<sup>35</sup> Mr. Suima said that he had already started to improve the situation by talking to Japanese families in Malaysia on this score, and intended to start a programme to get University of Malaysia students to stay for a few days with Japanese families in Malaysia.<sup>36</sup>

Despite the fact that foreign investment has not received too much criticism in Malaysia, the government is still very much interested in ensuring that certain controls are enacted. According to the chairman of Pernas, Tengku Razaleigh Hamzah, the requirement that control of commerce and industry should rest in local hands is not out of the ordinary. Many advanced industrial nations, among them France, Canada and Australia, have in recent years become extremely sensitive about foreign domination of their industrial interests. Tengku Razaleigh Hamzah said that the existing pattern and extent of foreign

ownership and control of the Malaysian economy necessitated safeguards and corrective action. In 1970 nearly 61% of the share capital of limited companies in Malaysia was owned by foreigners. Within this overall percentage, it was found that foreign interests controlled 75% of agriculture and fisheries, 72% of mining and quarrying, 63% of commerce, and 59% of manufacturing industries.<sup>37</sup> Razaleigh said Malaysia intended to bring about a gradual redistribution, and that over a twenty year period total foreign holdings were to be reduced to some 30%. But, he added that although the foreign percentage of involvement would decline, the actual volume would in fact grow because of an expected growth in the Malaysian economy.<sup>38</sup> Razaleigh envisaged that foreign capital holdings in 1990 would be five times what they were in 1970. A large fall in the overall share of the foreign sector would be brought about by a continuing decline of foreign private investment in agricultural estates and tin mining; these two sectors accounted for nearly 45% of total foreign investment in 1974. He said the growth of foreign investment from the present decade to 1990 would come from investments in the industrial and commercial sectors of the Malaysian economy, adding that foreign investment was welcomed.<sup>39</sup>

In February 1974 the Malaysian government's guidelines for mergers and takeovers made it quite plain that it was not interested in playing host to professional 'asset-strippers'. The country intended to make life very difficult for foreign

investors who did not play along with Kuala Lumpur's determination to increase the Malaysian share of ownership of industrial enterprises.<sup>40</sup> In March of 1974 Malaysians were urged to mobilize their business know-how and capital to establish joint ventures between the various races in the country instead of relying on foreign capital. Besides this, the Malaysian government is interested in increasing the Malay involvement in joint ventures as opposed to Chinese involvement. It is the Chinese who have dominated the Malaysian business communities, and it is mostly with them that the Japanese have established joint ventures. This is despite the fact that the Malays are the dominant ethnic group in the country.

The Malaysian business community is also agreeable to restrictions on foreign investment. A resolution for the government to review its 'too liberal' policy on foreign investment was passed by the Malay Chamber of Commerce and Industry at a general meeting in June of 1974. The Selangor Branch of the Chamber noted that such a review was deemed necessary to avoid foreign economic domination of the country and to ensure that not more than 30% of capital investment in the country was in foreign hands by 1990.<sup>41</sup> The meeting also passed another resolution by the Negri Sembilan Branch that in future all foreign investors wishing to invest money in the country do so directly through bumiputra (local) companies on a joint basis with statutory bodies and bumiputras.<sup>42</sup>

Due to its level of economic development, Malaysia is in an advantageous position with respect to foreign investment. The country is able to accept investment on its own terms and can afford to reject what it considers to be unacceptable proposals. Since Malaysia is well-endowed with natural resources, foreign investors should continue to be attracted to the country in spite of any restrictions. Japan will continue to be an important investor in the country as it attempts to meet its growing requirements for raw materials.

FOOTNOTES

<sup>1</sup>Rudolph Wikkramatileke, "Malaysia: Inherent Disparities and the Quest for Stability and Continued Development," M. C. R. Edgell and B. H. Farrell, eds., Themes on Pacific Lands (Victoria: 1974), pp. 44, 66.

<sup>2</sup>Ibid., pp. 58, 70.

<sup>3</sup>J. M. Gullick, Malaysia and its Neighbours (London: 1967), p. 6.

<sup>4</sup>"Malaysia's policy to divert wealth from foreigners to her people, says Razaleigh," Straits Times, April 30, 1974, p. 5.

<sup>5</sup>"Japan's Economic presence in S'pore, Malaysia increases," Straits Times, April 29, 1973, p. 3.

<sup>6</sup>Derek Davies, "Malaysia: Wooing the World," Far Eastern Economic Review, 84, no. 14 (April 8, 1974): 47.

<sup>7</sup>Ministry of Finance, Tokyo, cited in Dick Wilson, "Shrinking Asian handout from Japan," Far Eastern Economic Review, 86, no. 49 (December 13, 1974): 60.

<sup>8</sup>Kernal Sandhu and Eileen Tang, eds., Japan As An Economic Power and Its Implications For Southeast Asia (Singapore: 1974), p. 142.

<sup>9</sup>"S'pore Top Investor In Malaysia," Straits Times, June 29, 1974, p. 6.

<sup>10</sup>Jon Halliday and Gavan McCormack, Japanese Imperialism Today (Middlesex, England: 1973), p. 70.

<sup>11</sup>"Plant to make pulp from woodchips," Straits Times, October 4, 1974, p. 13.

<sup>12</sup>P. P. Courtenay, A Geography of Trade and Development in Malaya (London: 1972), p. 172.

<sup>13</sup>Ibid., p. 175.

<sup>14</sup>"Japan's Economic presence," Straits Times, p. 3.

<sup>15</sup>"Keen interest by Japan," Straits Times, November 8, 1974, p. 10.

<sup>16</sup>"A new basis for oil output sharing," Straits Times, July 19, 1974, p. 22.

- <sup>17</sup>"The Samurai Spirit," Japan Review (February 8, 1973), p. 21.
- <sup>18</sup>"2 bil natural gas plant project for Sarawak," Straits Times, July 24, 1973, p. 6.
- <sup>19</sup>Straits Times, July 24, 1973, p. 6, cited in Wikramatileke, "Malaysia: Inherent Disparities," Edgell and Farrell, eds., Themes On Pacific Lands, p. 86.
- <sup>20</sup>"The Cybernation Revolution," Japan Review (February 8, 1973), p. 20.
- <sup>21</sup>"The Samurai Spirit," Japan Review, p. 21.
- <sup>22</sup>"Tractors (M) concludes \$23m deal," Straits Times, March 15, 1974, p. 14.
- <sup>23</sup>Koji Nakamura, "Dollar Tussle," Far Eastern Economic Review (Singapore '73 Focus), p. 36.
- <sup>24</sup>"\$320m loan to Malaysia by Japan," Straits Times, February 4, 1974, p. 8.
- <sup>25</sup>"Japanese Mission In To Survey Loan Projects," Straits Times, September 29, 1974, p. 10.
- <sup>26</sup>"Japan to help boost cottage industry," Straits Times, May 20, 1974.
- <sup>27</sup>"Japan's Economic presence," Straits Times, p. 3.
- <sup>28</sup>Ibid., p. 3.
- <sup>29</sup>Ibid., p. 3.
- <sup>30</sup>Susumu Awanohara, "The Japanese: Importing less from Asia," Far Eastern Economic Review, 87, no. 9 (February 28, 1975): 33.
- <sup>31</sup>"Japanese investment popular in S'pore, Malaysia," Straits Times, November 6, 1973, p. 5.
- <sup>32</sup>Ibid., p. 5.
- <sup>33</sup>"Japan's Economic presence," Straits Times, p. 3.
- <sup>34</sup>Davies, "Malaysia: Wooing the world," Far Eastern Economic Review, p. 46.
- <sup>35</sup>"Mix more, Japanese urged," Straits Times, November 28, 1974, p. 11.

<sup>36</sup>Ibid., p. 11.

<sup>37</sup>"Malaysia's policy," Straits Times, p. 5.

<sup>38</sup>Ibid., p. 5.

<sup>39</sup>Ibid., p. 5.

<sup>40</sup>Davies, "Malaysia: Wooing the world," Far Eastern Economic Review, p. 46.

<sup>41</sup>"Foreign investment policy 'too liberal'," Straits Times, June 16, 1974, p. 19.

<sup>42</sup>Ibid., p. 19.

## CHAPTER V

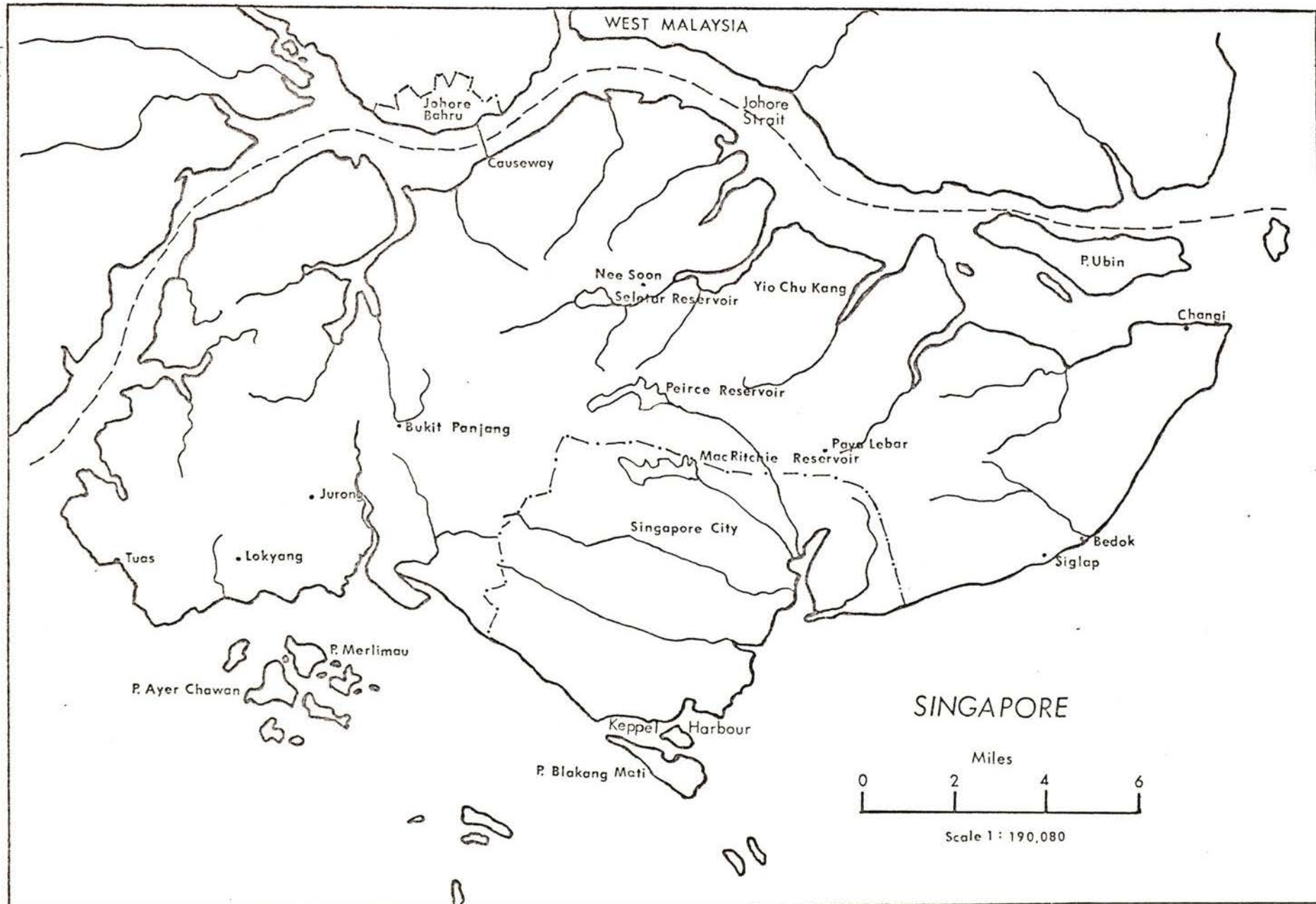
### JAPAN IN SINGAPORE DURING THE 1970's

#### The Singapore Setting

Singapore left the Malaysian Federation in 1965. Since then, in spite of its small size and lack of natural resources, it has managed to do well economically because of its position as a leading world port and also because of its industrialization programmes.

The main island of Singapore covers only 207 square miles, with a maximum extent from west to east of 25 miles and from north to south of 14 miles. If the offshore islands within its territorial waters are included the total land area of the country is 224.5 square miles. This figure is increasing due to land reclamation schemes in and around the city of Singapore. The country's average population density is almost 10,000 persons per square mile, and within the urban limits the figure reaches 35,000 persons.<sup>1</sup>

It is quite remarkable that the country is economically viable when one considers that it has to import most of its foodstuffs and almost all of its raw materials. A major reason for Singapore's success is that it is international in outlook, acting as a 'middle-man' in the trade between several Southeast Asian countries and the rest of the world.



Source: New Secondary Atlas for Malaysia and Singapore, 1970, p.27 from a map prepared by Professor R. Wikkramatileke, University of Singapore

Singapore's economy is that of a colonial metropolis, dependent for its survival upon handling raw materials from a large primary-producing hinterland and manufactured goods from more industrialized countries. In this respect, it plays a vital entrepot role for Malaysia and Indonesia on the one hand, and Japan, Western Europe, the United States, and Great Britain on the other.<sup>2</sup>

Also, the dynamism which characterizes Southeast Asia's recent development of natural resources is enhancing Singapore's importance as a financial center for the region. It is now the indisputable financial center of the region, acting as a 'capital base' for resource development in other countries, especially Malaysia and Indonesia.<sup>3</sup> As well, in the past fifteen years Singapore has transformed itself into the leading industrial city of Southeast Asia. It manufactures or assembles a variety of products from ships to automobiles, appliances to leather goods. During the present decade, Singapore's Gross Domestic Product has increased annually by 10%, indicative of a stable and progressive economy.

Of the total population of 2.1 million in Singapore, 79% are Chinese, 11% Malays, and 7% Indians and Pakistanis, with most of the balance composed of Europeans, Eurasians, and Ceylonese. It is the only country in the world outside of China itself which is predominantly Chinese. The Chinese dominate the business sector, as could be expected, and are

also engaged to a considerable extent in market gardening outside of the urban core. Many of the Malays live outside of the city of Singapore and are mainly rice cultivators and labourers. The Indians and Pakistanis are basically involved as municipal workers and labourers, with some of them also working as shopkeepers.

Politically, Singapore has been ruled by the People's Action Party since 1959. It describes itself as democratic socialist, but is actually so pragmatic that political labels mean very little. For instance, the government is very receptive toward private capital investment, including foreign investment, which one would not expect from a 'socialist' regime. Under the leadership of Prime Minister Lee Kuan Yew, the government has become extensively involved in a programme of building low cost highrise complexes to help alleviate the population pressures and provide better living conditions for lower income groups.<sup>5</sup> The government is able to move boldly into many ventures because there is a distinct lack of political opposition in Singapore. In fact there are no opposition members in the parliament at the present time, nor have there been any for fourteen years. This is in spite of the fact that elections are held on a regular basis.

Economically and socially Singapore is a stable country. Racial tensions are not so evident as in Malaysia because the Chinese are clearly the dominant group, both in business and government. The economic and social situation in the country

makes Singapore an attractive area for foreign investors.

### Investment in Singapore

According to statistics issued by the Bank of Japan, the accumulated amount of investment in Singapore at the end of March 1973 was U.S. \$195 million, including direct investment of U.S. \$172 million.<sup>6</sup> These figures indicate an increase of 64% compared with those at the end of March 1971. However in 1973 Japan was still far behind the United States in terms of total foreign investment in Singapore. In that year the Japanese share of the foreign investment in Singapore was 5% of the total compared to the United States with 44%.<sup>7</sup> The United Kingdom also had more money invested in Singapore than Japan, but Japan's total was increasing at a rate higher than that of either the U.S. or the U.K.

As of May 1973 there were a total of 141 Japanese joint ventures operating in Singapore, with about 100 of them involved in the manufacturing sector.<sup>8</sup> Japanese investment in the Singapore manufacturing sector grew by 348% between 1970 and 1973.<sup>9</sup> Japanese investors have been attracted to Singapore because of the large labour force which is highly skilled by Southeast Asian standards, and also because of the low wage rates which have been purposely held down by the government to make investment more attractive. Contributing to the situation are the many incentives offered to foreign investors by the Singapore Government since the 1960's.

The most ambitious Japanese undertaking in Singapore has been its involvement in the Jurong shipyard, a joint enterprise between the Singapore government's Economic Development Board and the Japanese shipbuilding firm, Ishikawajima-Harima Industries. Incorporated in 1963, about 51% of the shares in the shipyard are held by IHI, 49% by the Singapore government and several private interests, all of them relatively minor.<sup>10</sup> Financial and operational control of the yard is vested firmly in Japanese hands. An initial loan of approximately U.S. \$4 million was provided by the Exim Bank of Japan to establish the firm. The Jurong shipyard was the first stage in a design to make Singapore the most important ship repair and servicing center between the Mediterranean and Japan. Employing over a thousand workers, it can handle ships of 150,000 tons in drydock. Expansion of shipbuilding facilities has taken place in the last few years, and there has also developed a full range of subsidiary industries.<sup>11</sup>

On December 31, 1973, the Jurong Port Authority announced a U.S. \$47.7 million expansion programme. The Jurong wharf is being extended 2865 feet by a Japanese construction firm, and should be completed at the end of 1976. The port extension contract was signed between the chairman of the Jurong Town Corporation, Mr. Woon Wah Siang, and the president of the Penta Ocean Construction Company Ltd. of Tokyo, Mr. Tetsutaro Mizuno. Jurong Town Corporation obtained a loan of U.S. \$25 million from the Asian Development Bank for the project, with

the rest of the money coming from the Government and JTC. Twenty Japanese engineers were brought in and over two hundred Singapore workers have been employed.<sup>12</sup>

In 1970 another shipbuilding firm was created in Singapore with the merger of Hitachi Zosen of Japan and Robin Shipyard of Singapore in a 50-50 joint venture. The firm has gone into ship-repairing on a big scale with a 300,000-dwt dock put into operation early in 1974. Administration is based on Japanese methods, emphasising harmonious relationships between management and workers, and also among the workers themselves.<sup>13</sup>

The Jurong Industrial Estate has attracted Japanese investment in areas other than shipbuilding. A joint Singapore-Japanese-Thai factory costing S. \$12 million was started in 1970. It is now complete, with three different sections, each producing a different line of products. One turns out Thai silk and carpets with technical know-how from Thailand, another makes microwave equipment, while the third manufactures autowax polish. The two latter sections use Japanese expertise.<sup>14</sup> As well, Mitsui has fourteen joint ventures at Jurong, manufacturing such products as cement, adhesives, paper goods, wires and chemicals.<sup>15</sup>

There are many other Japanese manufacturing establishments recently created in Singapore. The Japanese electronics giant, Nippon Electric Co., teamed with Pemas Engineering of Singapore in 1973 to manufacture electronic equipment and

components at a six acre plant in Ulu Klang. In addition, Daikin, the Japanese maker of air conditioners, is planning to set up a plant in Singapore. The firm is represented in Singapore by A.C.E. (Sing.) Pte. Ltd. Trainees from the Singapore company have been given specialized instruction and refresher courses at Daikin's training headquarters in Osaka.<sup>16</sup>

Making watches for world export is Singapore Time (Pte) Ltd., a subsidiary of Daini Seikosha Co. Ltd. of Japan, the watch manufacturing branch of the Seiko group of companies. The factory, which began production in 1973, employs about two hundred workers and makes stop watches at the rate of ten thousand units a month. The production of regular Seiko watches is expected to start in 1976.<sup>17</sup> Mr. Ichiro Hattiro, senior Management Director of the parent company, said that Singapore was chosen from among various possible locations in Southeast Asia because of the overall advantages it can offer as a host country to the foreign industrial investor. These are high average level of education, good availability of supporting industries, and orderly superstructure for maintaining business organization. Watches are not the only items produced by Seiko in Singapore as precision tooling and production machinery are also manufactured, with investment in the complex of activities exceeding S. \$30 million. In 1974, sixty-nine Singapore workers went to Japan to receive specialized training in preparation for the opening of the firm.<sup>18</sup>

A major Japanese project in Singapore is the petrochemical complex now being constructed by Sumitomo Chemical. The U.S. \$879 million complex, expected to be completed in 1979, is situated on Pulau Ayer Nerbau, a small satellite island off Singapore, and will include a naphtha gas and oil cracker, and various derivative plants.<sup>19</sup> Ethylene producing capacity will total about 300,000 tons per year. Sumitomo Chemical and the Singapore Government will share a 50-50 partnership in the primary portion of the venture. The Singapore move has added significance because it comes at a time when petrochemical plant construction in Japan is being cut due to problems of pollution and land shortage.<sup>20</sup> High labour costs and severe restrictions on industrial pollution at home have forced a Japanese firm to manufacture penicillin in Singapore. The drug is shipped to Singapore in bulk form, is then processed, and shipped back to Japan for marketing. Beecham Yakuhin was established in March 1973, and since then it has been exporting various synthetic penicillin drugs in bulk form for its Japanese subsidiary. The president of the company, Mr. Kazuo Tamayama, said: "The move additionally benefits from preferential tariff privileges which Japan grants to Singapore."<sup>21</sup>

Japan has also become quite heavily involved in the Singapore banking scene. The Daiwa Securities Co. Ltd. of Japan is a leading world financial organization and is closely allied with the destiny of Singapore and Southeast

Asia through its joint venture with the Development Bank of Singapore. The venture, DBS-<sup>Daiwa</sup>DAIWA Securities International Limited, was established in June 1972, with 60% owned by DBS and 40% by Daiwa.<sup>22</sup> An international bond market was established to set the stage for an Asian capital market centered in Singapore. This focussed the attention of world investment circles on Singapore and highlighted its potential as an international financial center. DBS-DAIWA Securities International Limited functions include maintenance of a secondary market in Asian Dollar Bonds, financing local and overseas issues, brokerage of stocks and bonds, and financial advisory service.<sup>23</sup> The Sumitomo group also holds a position of growing importance in Singapore banking. In 1974 it joined the government-controlled Development Bank of Singapore in a merchant bank venture designed in part to funnel Arab capital into the Singapore Asia-dollar market.<sup>24</sup> Other Japanese banks, or banks with Japanese interests, operating in Singapore include the Fuji Bank, the Tokai Bank, Taiyo Kobe Bank, and the Singapore-Japan Merchant Bank.

Although Japanese investment in Singapore is small compared to its investment in several other countries in Southeast Asia, it is very much in evidence. This results from the fact that the investment is concentrated in such a small area. Besides its concentration in a physical sense, Japanese investment in Singapore is also very heavily concentrated in the manufacturing sector as opposed to the resource

sector. In other areas of Southeast Asia, Japanese investment tends to be fairly evenly balanced between that in the manufacturing sector and that in the resource sector.

#### Trade with Singapore

In January of 1975 Japan's exports to Singapore amounted to U.S. \$83.0 million while imports to Japan from Singapore were U.S. \$22.4 million.<sup>25</sup> The large imbalance in Japan's favour is caused mainly by the fact that Singapore is distinctly lacking in natural resources. It is natural resources which comprise the bulk of Japan's import requirements. However the trade imbalance between Japan and Singapore is narrowing, according to an official of the Japan Trade Centre (JETRO) in Singapore. Mr. Sumiyoshi Miura, manager of the Trade Services Division, said Singapore's exports to Japan increased by 82% in 1973 compared with 3% in 1972 while its imports from Japan rose from 10% to 22% in the same years.<sup>26</sup> There have been two reasons for the reduction in the trade imbalance between the two countries. First of all, Japan has liberalized its policy of importing manufactured goods from Singapore under the Generalized System of Preferences. The Japanese Government is now allowing duty free entry of a number of electronic goods which were earlier admitted on payment of 50% import duty. Exporters may also exceed 50% of the ceiling for a wide variety of manufactured consumer goods including cotton yarn, woven fabrics and carpets.<sup>27</sup>

Secondly, Japanese joint ventures in Singapore have been increasing in number in recent years, and they export a good proportion of what they produce to Japan. A survey, jointly conducted by the Japanese Chamber of Commerce and Industry in Singapore and the Japan Trade Center, Singapore in 1973, revealed that about half of the \$1,125 million worth of goods exported by 36 joint ventures and 13 branch offices of Japanese trading companies in Singapore went to Japan.<sup>28</sup>

Singapore's exports to Japan are mainly composed of petroleum products, rubber, plywood, and ship and aircraft supplies. Conversely, the bulk of Japan's exports to Singapore are in the form of iron and steel construction and industrial machinery, automobiles, textiles, appliances, and a variety of consumer goods such as cameras, tape recorders, and watches.<sup>29</sup>

#### Methods to Improve Relations with Singapore

Japan does not give official development aid to Singapore because it feels that the country is sufficiently advanced economically and that the money would be better spent in less-developed countries. However, Japanese firms and organizations have unofficially contributed a great deal to Singapore. The president of the Japanese Chamber of Commerce in Singapore, Mr. T. Isobe, in 1974 estimated that Japanese enterprises had donated a total of over S. \$700,000 to institutions in Singapore, and, he added, the Japan Club had

contributed towards Singapore social welfare work in many ways.<sup>30</sup>

Some of the donations made by Japanese firms in Singapore include Seiko's donation of a S. \$50,000 (U.S. \$21,500) clock to a local High School, S. \$200,000 (U.S. \$86,000) to the Health Ministry by the president of the Bank of Tokyo, and Mitsui Bank's S. \$150,000 (U.S. \$64,500) donation to a university scholarship fund in 1973.<sup>31</sup> To improve their image, Japanese firms in Singapore have at times gone to considerable expense to make themselves more acceptable in the public's eye. For example, Matsushita Electric Company did not accept any compensation for its S. \$750,000 (U.S. \$322,500) National neon tower and showroom which the Singapore Government tore down in June 1974 to make way for an urban renewal project. This, says its spokesman, is because it is the company's policy to contribute to the development of the country and not to stand in the way of its progress.<sup>32</sup> Helping relations between the two countries is the Japanese Chamber of Commerce in Singapore. Its aim is to promote commercial and industrial relations between Singapore and Japan, and also to promote friendship and cooperation among its members and between the members and the Singapore public.<sup>33</sup>

There are numerous goodwill and cultural exchanges between Japan and Singapore to help facilitate better relations. For instance, a Japanese goodwill mission from Japan visited Singapore in November of 1974 for three days. The

fifteen members of the mission comprised top officials of IOSCA International (Organization for Industrial, Spiritual and Cultural Advancement).<sup>34</sup> At about the same time, a group of Singaporeans visited several Asean nations as well as Japan. Urged to project Singapore as 'a small model of international brotherhood in action', thirty youths travelled on the Southeast Asian Youth Ship, an idea of then Japanese Prime Minister Tanaka. In late 1973, a study mission from the Japanese National Teachers Union came to Singapore and praised that country's policy of bilingualism in schools. The forty-two member mission expressed hope that teachers from both countries could exchange visits to foster closer friendship between them.<sup>35</sup>

Many Singaporeans are keen to study the Japanese language, according to Japan's Ambassador to Singapore, Mr. T. Uomoto. Speaking at the opening of the S. \$360,000 language laboratory donated by the Japanese government to the Institute of Education, Mr. Uomoto said more than 600 students have attended the Japanese language course over the past fourteen years since the classes started in 1960 under the Colombo Plan.<sup>36</sup> He said students learning the Japanese language were indirectly contributing to the strengthening of the mutual understanding and cordial friendship between Singapore and Japan. The gift, a forty-eight booth language laboratory, is a sophisticated and advanced technological product of Matsushita Electric, Japan.<sup>37</sup> Donations such as this pay for

themselves many times over in furthering relations between Singapore and Japan.

Reaction to Japanese Involvement  
in Singapore

Singapore's experience with foreign investment has been generally positive. Without the influx of such large amounts of foreign capital, the country would not have been able to achieve its economic growth so rapidly.<sup>38</sup> Perhaps as a result of the conviction and regularity with which Singaporeans are told this by their government, the country has been insulated from the growing dissatisfaction felt by other nations of Asia towards foreign investment. To Prime Minister Tanaka making his way down from Bangkok and Kuala Lumpur to Jakarta in his visit in early 1974, Singapore, like Malaysia, must have seemed like a storm cellar in the midst of a hurricane.<sup>39</sup> During Tanaka's protest-filled tour, the only evidence of overt anti-Japanese sentiment in Singapore was the submission of a memorandum to the government by a group of students on their grievances against the Japanese economic style.<sup>40</sup> This lack of protest was due in part to the tightly leashed Singapore society where demonstrations and anti-government activities are frowned upon by the government.

The fairly amicable relationship between the Singapore people and the Japanese in the country may seem somewhat incongruous when one recalls the Japanese occupation of Singapore from 1942 to 1945. At that time the people of Singapore

were treated worse than any other group in Southeast Asia because they were predominantly Chinese and many were suspected of being communists. However, the Japanese Cultural Society in Singapore, winner of a Japan Foundation Special Prize for 1974, believes that the younger Singaporeans have forgotten the bitterness of the Japanese military occupation. The Cultural Society, founded in 1963, promotes mutual understanding by offering instruction in the Japanese language, dance, music, handicrafts, and in other aspects of Japanese culture. Commenting on the award, Dr. L. Y. Loi of Singapore, president of the society, said:

" . . . . The Occupation is well over 20 years now. Of course, it brings back bad memories, but war is war and we cannot hit out at a nation for that. I believe Singaporeans are practical and mature enough to realise this and to realise that Japan is a close and progressive neighbour . . . ." <sup>41</sup>

Although there is very little criticism levelled against the Japanese in Singapore over the amount of investment, there have been some criticisms of the Japanese methods of conducting business. One criticism is that the process of replacing Japanese management and technical experts by local personnel is not fast enough. The situation in Singapore, however, is not so bad as it is in other areas of Southeast Asia because there are more people with the education and skills to assume important positions. Also, there is a general feeling among Singapore employees that their pay levels are lower than those of Japanese employees in comparable positions.<sup>42</sup> Another

criticism is that Singapore workers and technicians are not properly 'orientated' before they are sent to Japan for industrial training. As a result they often experience 'culture shock' during their stay in Japan and also do not have a proper understanding of the Japanese industrial hierarchy and staff development patterns.<sup>43</sup> However, when one looks at the overall situation, Japan's image concerning investment in Singapore is much better than its image in many other areas of Southeast Asia. This results mainly from Singapore's large need for foreign capital and technology and the fact that the investments are made in sectors which are job creating and not resource exporting.

The large trade imbalance causes some resentment in Singapore against the Japanese. The chairman of the Singapore Manufacturer's Association, Mr. Ong Leng Chuan, two years ago voiced the opinion that Japanese firms should buy more Singapore-made goods to help reduce the deficit.<sup>44</sup> Mr. Michael Yeo, chairman of the Singapore Manufacturer's Association's trade development committee, said in 1974 that although Japan had in the recent past liberalized its import policy, in practice this did not work because there still existed non-tariff barriers in the form of import houses. These import houses determine what can or cannot be made available to the Japanese consumer. The SMA has sent trade missions to Japan, welcomed reciprocal visits by Japanese businessmen, opened negotiations with various companies and produced product

samples to specifications.<sup>45</sup> In recent years the trade imbalance has decreased due to these efforts and the increase in the number of Japanese firms in Singapore sending goods back to Japan. However, the imbalance is caused mainly by Singapore's lack of natural resources, and, because Japan can produce most of its own finished products, the problem is very difficult to alleviate.

FOOTNOTES

<sup>1</sup>Rudolph Wikkramatileke, "Singapore: Reflections on a City State in the Twentieth Century," M. C. R. Edgell and B. H. Farrell, eds., Themes on Pacific Lands (Victoria: 1974), p. 28.

<sup>2</sup>Iain Buchanan, Singapore in Southeast Asia (London: 1972), p. 55.

<sup>3</sup>Ian Lian Choo, "S-east Asia's dynamism benefits S'pore," Business Times section of Straits Times, May 27, 1974, p. 13.

<sup>4</sup>Wikkramatileke, "Singapore," Edgell and Farrell, eds., Themes on Pacific Lands, p. 21.

<sup>5</sup>Ibid., p. 31.

<sup>6</sup>"Japanese now buy more local products," Straits Times, November 12, 1973, p. 9.

<sup>7</sup>"Discussion," Kernial Sandhu and Eileen Tang, eds., Japan As An Economic Power and its Implications for South-east Asia (Singapore: 1974), p. 142.

<sup>8</sup>"Japanese now buy more," Straits Times, p. 9.

<sup>9</sup>"Mutual benefits in working with Japan: MP," Sunday Times, October 6, 1974, p. 7.

<sup>10</sup>Lawrence Olson, Japan in Postwar Asia (New York: 1970), p. 198.

<sup>11</sup>Ibid., p. 199.

<sup>12</sup>Ngiam Tong Hai, "\$47.7m 3-year plan to expand port at Jurong," Straits Times, January 1, 1974, p. 9.

<sup>13</sup>"Building A Richer Future," Japan Review (February 8, 1973), p. 7.

<sup>14</sup>"News of the Month," Singapore Trade and Industry (September 1969), p. 55.

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- 17 "\$30 mil watch factory for S'pore," Straits Times, November 1, 1973, p. 13.
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- 26 "Trade gap with Japan narrows," Straits Times, April 9, 1974, p. 18.
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- 28 "Japanese now buy more," Straits Times, p. 9.
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- 31 "Do social work call to Japan traders," Straits Times, August 10, 1974, p. 5.
- 32 "Tower to go: Firm won't take a cent," Straits Times, June 3, 1974, p. 13.
- 33 "News of the Month," Singapore Trade and Industry, p. 59.
- 34 "Japan Goodwill Mission Due," Straits Times, November 8, 1974, p. 15.

<sup>35</sup>"Japanese teachers hail our language policy," Straits Times, January 1, 1974, p. 9.

<sup>36</sup>"S'poreans eager to learn Japanese says envoy," Straits Times, September 2, 1974, p. 27.

<sup>37</sup>Ibid., p. 27.

<sup>38</sup>Ho Minfong, "S-E Asian nations critical of foreign economic 'imperialism . . .'," Straits Times, October 3, 1974, p. 21.

<sup>39</sup>Ibid., p. 21.

<sup>40</sup>"Tanaka Blows Up A Storm," Far Eastern Economic Review, 83, no. 3 (January 21, 1974):13.

<sup>41</sup>"Bitterness of Occupation years a thing of the past," Straits Times, September 9, 1974, p. 6.

<sup>42</sup>Koji Nakamura, "Dollar tussle," Far Eastern Economic Review (Singapore '73 Focus), p. 36.

<sup>43</sup>Leslie Fong, "Orientation a 'must' before trainees go to Japan," Straits Times, November 1, 1973, p. 13.

<sup>44</sup>"Study Japan market call by Jetro chief," Straits Times, March 19, 1974, p. 13.

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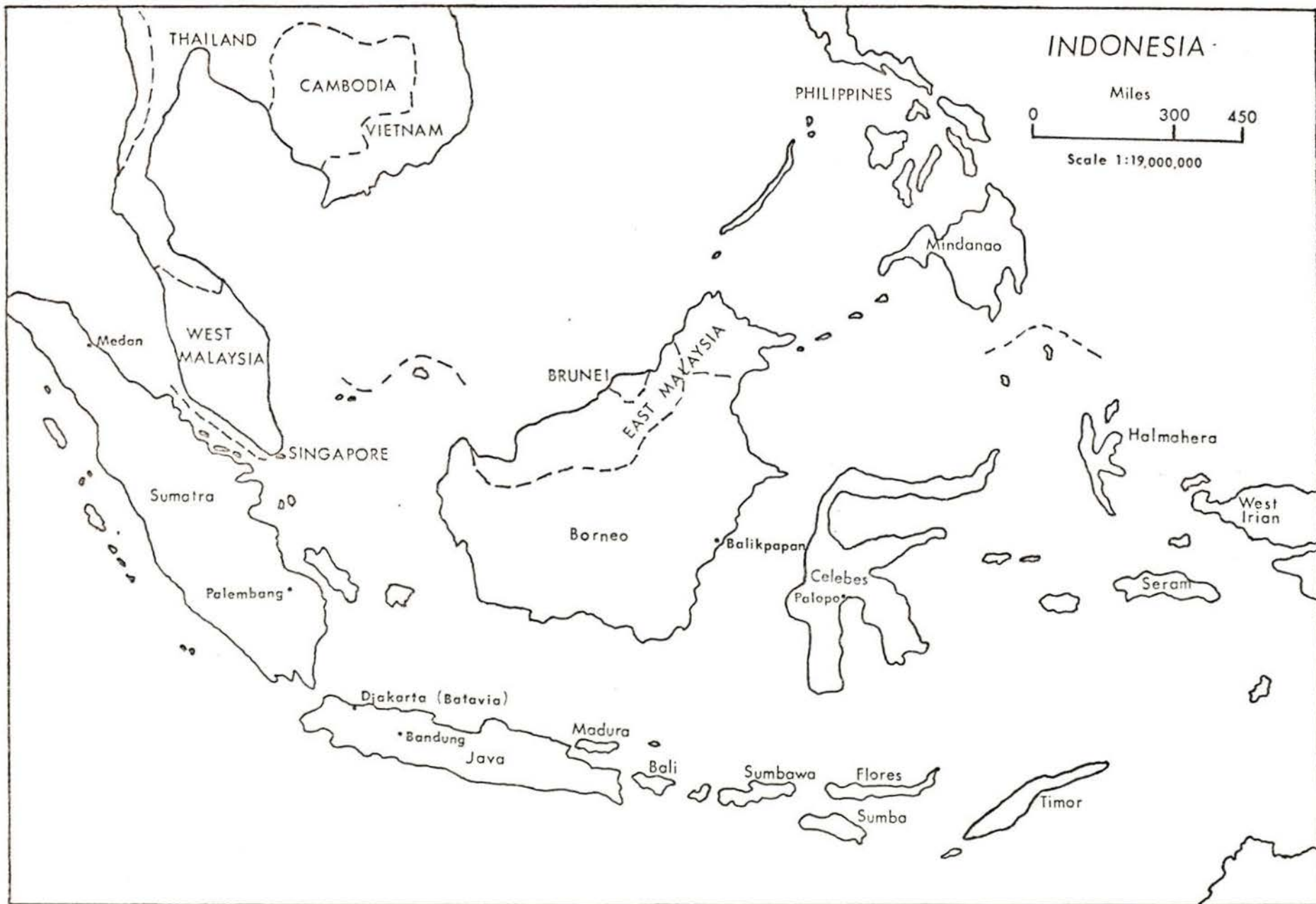
## CHAPTER VI

### JAPAN IN INDONESIA DURING THE 1970's

#### The Indonesian Setting

Indonesia is the largest insular country in the world, both in terms of area and population. There are 13,669 islands in the country, of which only 6044 are named. Of the named islands, 992 are uninhabited. The land area of the country is 735,865 square miles. Indonesia now has a population of approximately 130 million and it is growing rapidly because of a high birth rate. Over half of the population is concentrated on the islands of Java and Madura which comprise only 8% of the country's area. In contrast, many areas, such as Sumatra, Kalimantan, Sulawesi, and West Irian, have low population densities.

As in Singapore, Indonesia has one ethnic group which is clearly dominant. Approximately 97% of the country is of Malay origin.<sup>1</sup> The great majority of them are small farmers living in close-knit village communities. Their major crop is rice, mostly grown in irrigated fields (sawah), often forming terraces on the slopes of hills and volcanoes. The most important minority group in Indonesia is the Chinese. They play a prominent part in business, money lending, and



manufacturing. The Chinese do not mix well in Indonesian society and are widely resented because of their wealth and business tactics. The country is linguistically diverse, even among the Malays. One of the major forces working for unity is the creation of a common language, Bahasa Indonesia. This is a modernized form of Malay, using Roman letters in its written form. Bahasa Indonesia exists side by side with some 250 regional languages, among which the most important is Javanese.

Indonesia is a potentially rich country because it possesses larger and more diversified reserves of raw materials than any other country in Southeast Asia. It has significant reserves of petroleum, tin, bauxite, coal, iron, and manganese, and a nearly inexhaustible supply of timber.<sup>2</sup> Also, the country is an important producer of rubber, sugar, cocoa, copra, and palm oil. Manufacturing is concentrated mainly in the larger cities of Java such as Djakarta, Bandung, and Surabaya. The Indonesian Government is currently making efforts to decentralize economic development away from Java into outlying areas such as Sumatra, Kalimantan, and Sulawesi. It is hoped that this decentralization will relieve some of the population pressures on Java and also reduce disparities in economic development within the country.

Indonesia has been governed since 1967 by General Suharto, a former leading figure in the army, who replaced President Sukarno. Sukarno was deposed in 1965 when the

Indonesian Communist Party (PKI) tried to take over the country. The attempted coup was followed by several months of political and social chaos. Since that time the country has stabilized and the economy has shown steady, if unspectacular, improvement. Starting in July 1971, elections have been held regularly in Indonesia. However, the power structure in the country is still dominated by army generals and civilian technocrats.<sup>3</sup> Suharto has brought Indonesia to a pro-Western orientation in foreign and economic policies, as opposed to the leftist-leaning orientation of the Sukarno era.

The greatest barrier to the attainment of national unity within Indonesia is the fact that the country is so geographically fragmented. There is no other country in the world which is composed of such a maze of islands. The resultant problems of transportation and communication are almost insurmountable. Helping the situation is the air transportation provided by Garuda Indonesian Airways.<sup>4</sup> This is a government company with headquarters in Djakarta which flies to all the main islands and many of the smaller ones. Communication problems have been partially overcome by the extensive utilization of radio transmission to almost all areas of the country. This makes it possible for the central government to maintain some contact with the large majority of the people. Although there is a substantial amount of animosity between the Malays and the Chinese, ethnic diversity

is not the problem that it is in Malaysia because the Malays are very much the dominant group in terms of population. This fact, together with the economic and political stability created by Suharto in the past ten years, gives Indonesia a good chance of remaining a viable political unit in spite of its geographic fragmentation.

### Investment in Indonesia

Until 1974, the United States was the leading foreign investor in Indonesia. However, an article in the Straits Times for September 28, 1974 placed Japan first among foreign investors in Indonesia, ahead of the United States.<sup>5</sup> Two days later, statistics were provided, with Japan having 174 projects worth U.S. \$1038.9 million, followed by the United States with 122 projects valued at U.S. \$966.2 million.<sup>6</sup>

Indonesia is the most sought after resource area in Southeast Asia because of its abundance of raw materials. In order for developed countries to help Indonesia's economic development, an investment finance corporation, P.T. Merincorp, has been established. This is a joint venture between Bank Ekspor Impor Indonesia, Morgan Guaranty International Finance Corporation (U.S.), the Sumitomo Bank (Japan), and Bank Mees & Hope (the Netherlands). Activities of Merincorp include mobilizing funds through issuing securities, and acting as an intermediary on behalf of Indonesian enterprises by preparing and selling securities issued by them and acting as an underwriter.<sup>7</sup>

The oil industry has become most important to Indonesia in recent years. Japan has very little crude oil of its own, and is heavily dependent upon the Arab states for supplies. Other areas have been sought to supply oil so that the country does not have to rely on only one source. Indonesia has been a very important region in this search for new supplies. Up to the end of 1973, Japan had invested U.S. \$700 million in Indonesia in order to ensure that it could get the bulk of Indonesia's crude oil.<sup>8</sup>

As well, Japan has aided Pertamina and the Indonesian oil industry, mostly in the form of loans, in order to gain a strong foothold as an oil customer. A visit to Japan by President Suharto in May of 1972 resulted in the granting by Japan of a package of loans for oil development in Indonesia totalling approximately S. \$515 million (U.S. \$206 million).<sup>9</sup> The first installment covering three years beginning April 1, 1973, was for S. \$234 million (U.S. \$94 million) and the terms called for repayment within twenty-five years, including a seven year grace period, at an interest rate of three per cent a year. The second installment, for development of domestic oilfields, was for S. \$325 million (U.S. \$130 million) and was made in 1974.<sup>10</sup>

The Indonesian oil industry is in the hands of a government corporation, Pertamina, which often works with foreign investors in production-sharing arrangements. In principle, management is handled by the Indonesians, but Pertamina

recognizes the expertise and the interests of the investing party. Typically the contracts require the foreign investors to spend agreed minimum amounts averaging U.S. \$1.5 million per year for six years on exploration. Every three years the contractors are required to relinquish 25% of their exploration areas so that they retain in the end only a small fraction of their original areas.<sup>11</sup>

United States firms are the largest investors in Indonesian oil, accounting for about 80% of investment by foreign contractors as of 1973. However, Japan takes most of Indonesia's oil exports, about 75% in 1974.<sup>12</sup> In late 1974, Indonesia's daily production of crude oil was approximately 1.5 million barrels, with Japan importing over a million barrels a day. However, this situation can not last indefinitely as Indonesian Research Minister Dr. Sumitro Jajohadikusumo warned that the country's oil resources, which allow it to be the twelfth largest producer in the world, would be exhausted in twenty to twenty-five years.<sup>13</sup>

Japan has invested large sums in the Indonesian oil industry in order to gain an assured portion of the market. In North Sumatra, the Japanese have invested U.S. \$53 million in their search for oil.<sup>14</sup> In South Sumatra, a United States-Canada-Japan consortium struck oil in 1974. The consortium, composed of Canada's Bow Valley Industries Ltd., Japan's Toyo Oil Development Company, and four other U.S. and Canadian firms has undertaken extensive exploration in the area.<sup>15</sup>

Japanese exploration has also taken place in East Kalimantan, where at the Attaka oilfield, Japan (Japex, together with Union Oil of the U.S.) had its first large successful discovery. Japanese oil exploration has also been strong in West Irian.<sup>16</sup>

In the development field, a Japanese consortium has received a S. \$481.6 million (U.S. \$192 million) order from Indonesia's state-run oil company, Pertamina, to build a 136 mile natural gas pipeline in western Java. According to the Far East Oil Trading Company, this will be the biggest overseas engineering project to be undertaken by Japan. The consortium is composed of Toyo Menka Kaisha, Mitsui and Company, Marubeni Corporation and the Far East Oil Trading Company. Construction work started late in 1974 and is expected to be completed by the end of 1976, with the Japanese expected to receive petroleum from Pertamina in return for the project.<sup>17</sup>

In addition, Japan has signed an agreement with Pertamina to build a U.S. \$234 million (S. \$538 million) oil depot on the Indian Ocean side of southwest Sumatra at Semangka. This project will permit an alternative to shipping oil through the narrow and shallow Straits of Malacca. Two Japanese companies, Tome Ltd., and C. Itoh of Japan will be constructing the depot, which will be capable of storing ten million barrels of crude oil. When the project is completed, huge tankers will be able to travel directly to the new depot where the

oil can be stored until smaller tankers arrive to take it the rest of the way to Japan.<sup>18</sup>

Japan's most ambitious project in the Indonesian oil industry will be the refineries on the island of Pulau Batam, about twenty kilometers south-east of Singapore. Nissho-Iwai, together with two other Japanese oil firms, Maruzen Oil and Daikyo Oil, have signed a basic agreement with Pertamina for a U.S. \$200 million refinery project. Similarly, the Mitsubishi group plans to build a U.S. \$120 million refinery by 1977. Bechtel Pacific Corporation, an American engineering and construction company, is planning another refinery. The crude oil to be refined in Pulau Batam will be carried from the Persian Gulf in large tankers, and a substantial portion will then be exported to Japan for use there.<sup>19</sup>

It seems that Japan and Indonesia will be closely aligned through participation in the oil industry for many years to come. As part of the large oil loan agreement in 1972, Indonesia obligated itself to ship an average one hundred thousand barrels of oil a day to Japan for the next decade. Of Japan's oil imports in the first six months of 1973, Indonesia provided about 16%, with Iran providing about 40%.<sup>20</sup> However, Indonesian oil is preferred because of its lower sulphur content which produces less pollution.

Japanese investment in the Indonesian mining industry has been held up by government inaction in the granting of mineral leases. No new mining approvals were granted from

1972 to late 1974, and there was a waiting list of twenty-two applications, many of them Japanese.<sup>21</sup> The delay has occurred because Indonesia has been drafting legislation which will give it a greater share of the benefits from joint ventures. Before the delay, a Japanese consortium agreed to participate in financing the Indonesian operations of Freeport Sulphur of the U.S. in order to secure a certain portion of the copper and nickel production.<sup>22</sup>

Because of Japan's large demand for wood products used in house construction and the insufficient amount of timber in the country, it has shown concern in gaining sources of timber from outside the country. Canada, the United States, and Indonesia have been areas which have received the greatest emphasis. Indonesia has vast hardwood timber resources, and because of this, many countries have become involved in the Indonesian timber industry. By April of 1974, eighty-four projects valued at U.S. \$500.5 million had received approval from the Foreign Investment Board. This made timber the third largest foreign investment sector, after mining and textiles.<sup>23</sup> According to figures issued by the Directorate General of Forestry, the main investors in terms of projects approved as of December 1973 were Malaysia (20), Hong Kong (17), Japan (16), the Philippines (14), South Korea (6), and Singapore (6). At that time Japan had more investment planned in Indonesian timber than either Malaysia or Hong Kong.<sup>24</sup>

Japan has also become involved in several Indonesian industrial projects even though the country is not as attractive a site for such investment as Singapore, because of its lack of both infrastructure and skilled labour. In October 1973 an economic mission led by the Chairman of Mitsui, the largest Japanese investor in Indonesia, told President Suharto that the company was willing to invest U.S. \$1000 million during the course of the Second Five Year Plan (Repelita II) starting in 1974. The investments will be in steel, petro-chemical, and synthetic fibre plants, according to company vice-president Tatsuro Koto, who also said that, up to mid-1973, Mitsui's investments in Indonesia totalled U.S. \$60 million.<sup>25</sup>

Among the products assembled but not manufactured by Japanese companies in Indonesia are automobiles (Toyota, Datsun, Mazda), motorcycles (Honda, Yamaha), and radios and television sets (Sony, Hitachi).<sup>26</sup> Most of these plants are located in Djakarta.

In the textile industry, the minimum requirement for a new foreign investment is an integrated plant (spinning, weaving, printing, and finishing). Five Japanese projects and one large American project were already approved by 1972.<sup>27</sup> As well, in August 1974, a \$16 million integrated textile plant, PT Unilon, was opened at Bandung. This Japanese joint venture has the capacity to produce synthetic yarn at the rate of 0.3 million pounds per month, and cloth at the

rate of 2.1 million yards per month.<sup>28</sup> Japanese firms have been involved in the Indonesian textile industry for a number of years. They are a serious competitor to domestic firms because they have such a large hold on the market. The Japanese textile giants Teijin and Toray are particularly evident in Indonesia.<sup>29</sup>

One of the most ambitious Japanese projects in Indonesia has been surrounded with controversy. Called the Asahan River Project, it involves the construction of a dam, power station, and an aluminum smelter in North Sumatra. In May of 1972, Japan agreed to provide Indonesia with a governmental loan of U.S. \$200 million (plus U.S. \$100 million from private capital) which was to be used for the project and oil exploration. In exchange, Indonesia guaranteed delivery of fifty-eight million kiloliters of low sulphur oil over a ten year period.<sup>30</sup> However, delay in reaching an agreement resulted from a reluctance on the part of the foreign contractors to undertake construction of the hydro-electric installations. Costing well over U.S. \$200 million, the installations would have to be surrendered to Indonesia after thirty years under the terms of the Foreign Investment Law.<sup>31</sup> No definite decision has been reached about the project which involves the Japanese firms Sumitomo Chemical Nippon Light Metal, Showa Denko, Mitsuibishi, and Mitsui.

In the commercial sector, most of the large Japanese banks are represented in Indonesia. The Bank of Tokyo is a

branch office while the Fuji Bank, Sumitomo Bank, Mitsui Bank, and several others are joint ventures with state banks or the private sector.<sup>32</sup>

Japanese investment in Indonesia has been growing tremendously in the past few years. In 1973 Professor Hirono of Seikei University, Tokyo provided figures which showed that Japan accounted for 17% of the total foreign investment in Indonesia while the United States provided 34%.<sup>33</sup> By September of 1974 the Straits Times reported that Japan had superceded the United States as the top foreign investor in Indonesia.<sup>34</sup> This very rapid increase in Japanese investments in Indonesia means that the Japanese will have to take great care in their business tactics and types of investment to avoid difficulties with the Indonesian Government and people. Japanese businessmen will have to ensure that their economic ventures include a substantial input of Indonesian labour and capital.

#### Aid to Indonesia

Over the past few years, Indonesia has carried out a policy aimed at advancing the interests of its national economy with the help of foreign capital and technology. In 1974, the first year of Indonesia's second five-year development plan, it was estimated than 35% of development plan financing would be derived from foreign aid.<sup>35</sup> During the first year of the first plan (1969), 77% of development

financing was derived from foreign sources and the rest from government savings.<sup>36</sup> From 1969 the greatest foreign participation has been cooperation through consortia of Western countries and Japan within the IGGI (International Governmental Group on Indonesia). The sixteenth meeting of the IGGI, held in Amsterdam, May 7 and 8, 1974 was convened to consider Indonesia's economic situation and development prospects and to review the foreign assistance commitments for fiscal year 1974-75. At this meeting it was the concensus of the IGGI that the total aid requirement of U.S. \$850 million was adequate, and the total could be as high as U.S. \$903-913 million with the Japanese amount disclosed at between U.S. \$150-155 million.<sup>37</sup>

#### Trade with Indonesia

Indonesia is in a very advantageous trade position because it has an abundance of resources which are in large demand. Japan is lacking in resources, but does have finished products which cannot be manufactured in Indonesia. Therefore it is only natural that Indonesia and Japan have become important trading partners. Indonesia has a favourable balance of trade with Japan mainly because it does not have the purchasing power to obtain large amounts of consumer goods. In January of 1975, Indonesia's exports to Japan realized U.S. \$307.6 million while imports from Japan cost U.S. \$115.3 million.<sup>38</sup> The export total has been increasing

rapidly over the past few years mainly due to Japan's greatly increased oil imports. Indonesian oil exports rose 80% in the year ending April 1974 compared to the previous twelve months, with 75% of the total going to Japan.<sup>39</sup> Timber has quickly become Indonesia's second-most important foreign exchange earner after oil. The value of timber exports in the first half of 1973 almost doubled from the same period in 1972. Much of this increase can be attributed to a large increase in house construction in Japan, which takes about 80% of Indonesia's forest exports.<sup>40</sup> Other Japanese imports from Indonesia include sugar, natural rubber, and bauxite which lag far behind the totals of oil and timber. Japan's exports to Indonesia are mostly finished products such as machinery, metal products, chemical products, textiles, and automobiles.<sup>41</sup>

#### Reaction to Japanese Involvement in Indonesia

Few Japanese realized just how unpopular their country was in Southeast Asia until the ten day, five country tour of then Prime Minister Tanaka in early 1974. Mr. Tanaka's troubles began with protest marches in Bangkok, Thailand, and his efforts to disperse them by meeting with student leaders failed when the students reiterated their dissatisfaction and threatened to retaliate against local Japanese. After quieter times in Malaysia and Singapore, the Prime Minister was met by younger and angrier mobs in Jakarta which

kept him in the president's palace and forced him to cancel several engagements.<sup>42</sup> A student demonstrator was shot dead, and there were street riots which included the burning and overturning of Japanese cars. Besides the president's palace, the Japanese embassy was also stormed. The disturbances were seen by many as the culmination of a month-long student campaign not only against alleged Japanese economic domination, but also in opposition to the Indonesian government's economic policies.<sup>43</sup>

Students claimed that President Suharto's government had failed to arrest the widening gap between the rich and poor, and they also attacked corruption among high government officials, and criticized the President's special assistants. They said that these men, including political advisor Major-General Ali Murtopo, a major army and government figure, and Major-General Sudjono Hamardani, the President's economic advisor, acted as middleman for Japanese investment and wielded too much unconstitutional power.<sup>44</sup> Koji Nakamura of Japan, writing for the Far Eastern Economic Review, said: "Indonesia has been a classic example of the Japanese tendency to concentrate merely on aligning themselves with a government rather than trying to make themselves more acceptable in the national and nationalist context."<sup>45</sup> Therefore the student demonstrators assumed their own government and the Japanese investors to be so closely associated, that they were protesting against both simultaneously.

After the riots, President Suharto made several changes to increase Indonesia's returns on its resources. He raised the price of oil and allowed for other measures to increase revenues from oil such as less lenient depreciation and deferment allowances. He also promised to make taxation more progressive in order to limit the growing inequalities of wealth. In addition, foreign investment was required to be channelled into joint ventures with either the Indonesian government or Indonesian private firms.<sup>46</sup>

Almost all of the Japanese in Indonesia are businessmen and their families, and resentment against their lifestyle is really a manifestation of the greater resentment against the influence of Japan in the Indonesian economy. Despite large increases in revenues from oil and other sectors of the economy, the Indonesian poor remain as poor as ever. There is a general feeling that the benefits of economic development are going to the rich and to outsiders. Even among high-ranking Indonesian officials there is a feeling that the Japanese are trying to exploit Indonesia rather than contribute to its economic well-being. Indonesian Foreign Minister Adam Malik said, "They rush into those industries where they can get the biggest profit, without considering whether we need such products. They rape our timberlands without leaving trees for the future. Why can't they exercise some self-restraint"?<sup>47</sup> The fear of economic domination by Japan has spurred a search for investments from the United States,

Europe, and Australia as a counter balance. Some do not see the problem as seriously as others. J. Panglaykim of Indonesia, a delegate at a Singapore conference on business opportunities in the Pacific Basin, said that his country, because of its size and likely future strength, would have the 'leverage' to handle the massive Japanese advance.<sup>48</sup>

The inrush of foreign investment from Japan has largely been in capital-intensive industries which have created relatively few new jobs. One Indonesian solution for this has been to invite foreign investors to clear forests for huge rice estates of 50,000 acres or more in the outer islands. It is hoped that this will siphon off some of the rural unemployed from overcrowded Java. These projects are not money-makers, but they do help to keep foreign investors in the government's favour.<sup>49</sup> The Japanese have been very slow about entering into these enterprises because of the low return on investment.

Resentment against the Japanese in Indonesia has been aggravated by the composition of the joint ventures. An official of the Japanese Embassy admitted recently that the Indonesian partners in 70% of 138 joint ventures by the Japanese were local Chinese.<sup>50</sup> When one looks at the recent history of Indonesia, especially the turmoil of 1965 and 1966, it is quite evident that there is a great deal of animosity between indigenous Indonesians (mostly Malays) and the Chinese, who have arrived in the last few hundred

years and tend to dominate the business communities. To alleviate this situation, the Indonesian government has initiated a system of financial holdings to help indigenous Indonesians to take part in joint ventures. These holdings are to be managed by trust agencies, which can issue certificates to the participants. Mr. Soehoed, vice-president of the Investment Co-ordinating Board of Indonesia, has explained his government's position; "Direct participation in new foreign ventures by non-indigenous Indonesian citizens would no longer be permitted, but they could take corporate partnership through indigenous Indonesians."<sup>51</sup> The government has taken a somewhat lenient and pragmatic attitude in carrying out this policy, but the goal is obvious.

There has also been some unrest about the treatment of Indonesian employees by Japanese firms. It is a fairly widespread feeling that the Japanese balk at training Indonesians for management positions. This is because of language barriers and a general clannishness among the Japanese which tends to exclude outsiders. The Indonesian workers feel that their Japanese employers are 'standoffish' and remote, again due mainly to the Japanese character.<sup>52</sup>

At a conference in Singapore on business opportunities in the Pacific Basin, Indonesian Minister of State for Research Jojohadikusmo Sumitro observed in a speech, "Japan has become a political power by virtue of its economic strength."<sup>53</sup> The question facing Indonesia and other

countries of Southeast Asia where Japanese investment is substantial, is how to balance the great need for foreign investment with the obvious dangers of resultant economic and political influence. Up to now, there has been little evidence that Japanese influence has reached the 'danger' level in Indonesia, but this situation could change if Japanese economic involvement, especially investment, continues to increase rapidly.

FOOTNOTES

<sup>1</sup>R. C. de Iongh, ed., Indonesia yesterday and today (Sydney: 1973), p. 6.

<sup>2</sup>Ibid., p. 8.

<sup>3</sup>Nena Vreeland and others, Area Handbook for Indonesia (Washington, D.C.: 1975), p. 234.

<sup>4</sup>Ibid., p. 368.

<sup>5</sup>"420m foreign projects," Straits Times, September 28, 1974, p. 28.

<sup>6</sup>"Only for ethnic Indonesians . . .," Straits Times, September 30, 1974, p. 6.

<sup>7</sup>"Joint investment corporation established in Djakarta," Far East Trade and Development, 28, no. 5 (June/July 1973): 198.

<sup>8</sup>"Asean seeks a weapon," Economist, 250, no. 6804 (January 19, 1974): 32.

<sup>9</sup>"As published in Far East Week by Week," Far East Trade and Development, 28, no. 3 (March 1973): 121.

<sup>10</sup>Ibid., p. 121.

<sup>11</sup>Mohammed Sadli, "Foreign Investment in Developing Countries: Indonesia," Peter Drysdale, ed., Direct Foreign Investment in Asia and the Pacific (Canberra: 1972), pp. 214-15.

<sup>12</sup>"Caltex restores oil cutback," Straits Times, September 28, 1974, p. 3.

<sup>13</sup>"\$6,031m surplus for Jakarta's trade," Straits Times, October 10, 1974, p. 2.

<sup>14</sup>Alex Josey, "Search for Oil," Singapore Trade and Industry (January 1970), p. 31.

<sup>15</sup>"On-shore oil find in south Sumatra," Straits Times, September 19, 1974, p. 4.

<sup>16</sup>Jon Halliday and Gavan McCormack, Japanese Imperialism Today (Middlesex, England: 1973), p. 61.

- <sup>17</sup>"481m gas pipeline order to Japanese group," Straits Times, October 24, 1974, p. 1.
- <sup>18</sup>"Japan finds oil depot solution," Straits Times, August 23, 1973, p. 6.
- <sup>19</sup>"Pertamina's plant makes oil tanks for Singapore," Straits Times, June 29, 1974, p. 29.
- <sup>20</sup>"The Indonesians are set for a killing," Far Eastern Economic Review, 82, no. 45 (November 12, 1973): 38.
- <sup>21</sup>Phyllis Rosendale, "Survey of Recent Development," Bulletin of Indonesian Economic Studies, X, no. 3 (November 1974): 22.
- <sup>22</sup>J. Panglaykim, "Business Relations Between Indonesia and Japan," Kernial Sandu and Eileen Tang, eds., Japan As An Economic Power And Its Implications For Southeast Asia (Singapore: 1974), p. 39.
- <sup>23</sup>Anthony Goldstone, "Indonesia: Asia's timber giant," Far Eastern Economic Review, 85, no. 26 (July 1, 1974): 57.
- <sup>24</sup>Ibid., p. 57.
- <sup>25</sup>"\$2,250m stake in Indon," Sunday Times, July 22, 1973, p. 2.
- <sup>26</sup>Panglaykim, "Business Relations," Sandu and Tang, eds., Japan As An Economic Power, p. 30.
- <sup>27</sup>Sadli, "Foreign Investment," Drysdale, ed., Direct Foreign Investment, p. 211.
- <sup>28</sup>Rosendale, "Survey of Recent Developments," Bulletin of Indonesian Economic Studies, p. 19.
- <sup>29</sup>Panglaykim, "Business Relations," Sandu and Tang, eds., Japan As An Economic Power, pp. 35-36.
- <sup>30</sup>Alan A. Samson, "Indonesia 1972: The Solidification of Military Control," Asian Survey, XIII, no. 1 (January 1973): 136.
- <sup>31</sup>"Japan's quite threat to Indonesians," Straits Times, November 9, 1974, p. 3.
- <sup>32</sup>Panglaykim, "Business Relations," Sandu and Tang, eds., Japan As An Economic Power, pp. 36-37.

<sup>33</sup>Sandu and Tang, eds., Japan As An Economic Power, p. 142.

<sup>34</sup>"420m foreign projects," Straits Times, p. 28.

<sup>35</sup>"Indonesia's 'economic diplomacy'," Straits Times, August 18, 1974, p. 24.

<sup>36</sup>Ibid., p. 24.

<sup>37</sup>"Sixteenth meeting of Inter-Governmental Group on Indonesia," Far East Trade and Development, 29, nos. 5/6 (May/June 1974): 88.

<sup>38</sup>Susumu Awanochara, "The Japanese: Importing less from Asia," Far Eastern Economic Review, 87, no. 9 (February 28, 1975): 33.

<sup>39</sup>"Cash down, please," Economist, 250, no. 6804 (January 19, 1974): 68.

<sup>40</sup>O. G. Roeder, "Indonesian timber boom" Far Eastern Economic Review, 82, no. 40 (October 8, 1973): 60.

<sup>41</sup>Panglaykim, "Business Relations," Sandu and Tang, eds., Japan As An Economic Power, pp. 22-23.

<sup>42</sup>"Socko for the super salesmen," Economist, 250, no. 6804 (January 19, 1974): 31.

<sup>43</sup>"House to meet today on riots in Jakarta," Straits Times, January 21, 1974, p. 4.

<sup>44</sup>Ibid., p. 4.

<sup>45</sup>Koji Nakamura, "The price of success," Far Eastern Economic Review, 83, no. 4 (January 28, 1974): 14.

<sup>46</sup>"Tanaka was not the only target," Economist, 250, no. 6804 (January 19, 1974): 32.

<sup>47</sup>"Indonesia: The Ugly Japanese," Newsweek, 84, no. 3 (July 15, 1974): 38.

<sup>48</sup>Harvey Stockwin, "Letter From Singapore," Far Eastern Economic Review, 82, no. 41 (October 15, 1973): 66.

<sup>49</sup>"Cash down, please," Economist, p. 68.

<sup>50</sup>Frances Starner, "Indonesia: Much On The Mind," Far Eastern Economic Review, 83, no. 4 (January 28, 1974): 10.

<sup>51</sup>"Cash aid for Indonesians in joint ventures," Straits Times, April 30, 1974, p. 5.

<sup>52</sup>Ibid., p. 5.

<sup>53</sup>Stockwin, "Letter From Singapore," Far Eastern Economic Review, p. 66.

## CHAPTER VII

### CONCLUSIONS

#### Problems Caused by Japan's Economic Involvement

The best way for Japan to improve its image in Southeast Asia is to modify its methods of conducting business in the region. Many Asian countries complain about aid policies, the trade imbalances, and, especially, a lack of mutual benefits from joint ventures and other capital investment. Among many of the peoples of Southeast Asia, Japan is viewed as a country where the government and the various business firms work together as if they were part of a single enterprise whose aim is to maximize profit for Japan. Japanese doing business abroad are regarded as devoted salesmen and polite but ruthless competitors, who adopt any means to increase the Japanese share in the world market.<sup>1</sup>

Concrete measures which the Japanese can take to alleviate these problems include the provision of 'untied', preferably multilateral, high quality technical aid, and improved trading relations through the promotion of Southeast Asian goods on the Japanese market and a reduction of unprocessed raw material imports from Southeast Asia into Japan. Also, capital that comes into the region from Japan

can be adapted to meet local conditions by implementing research and development programmes. The kinds of investment which need to be avoided are those which Indonesian Member of Parliament Oetoyo Oesman calls 'package-deal investments', containing in one neat package the purchase of machineries and equipment, financing, shipping, insurance, the recruitment of expert personnel, and the handling of domestic and foreign marketing, involving "only very limited links with the domestic economy."<sup>2</sup> These types of ventures do not create many jobs, nor do they lead to associated industries.

Also, Japanese firms that do locate in the region could make it very clear that they are in the area to stay. Professor T. H. Elliot of Singapore's National Trade Union Council recently pointed out that if profits appear to be higher elsewhere, the capital provided by multinational corporations may be "withdrawn without notice."<sup>3</sup> This situation is especially true in the resource sector, for when a resource becomes depleted or marginally unprofitable, it is often fairly easy for the firms to move out because of the low expenditure on fixed assets. Another point of contention is that foreign investment often causes financial instability; foreign firms compete with indigenous enterprises for local funds and can also transfer their liquid assets in or out of countries to take advantage of the fluctuating exchange rates.<sup>4</sup> In the future, Japanese firms could be more careful in assuring that their business transactions do not adversely

affect local economies.

It seems fairly obvious, in considering the welfare of the recipient country, that it would be more advisable for the Japanese to invest in manufacturing, commercial ventures, and development projects rather than in the resource sector. This is because the former complex of ventures provides more jobs for the host country, and produces wealth instead of exploiting the wealth that is already there. The local processing of raw materials will become increasingly important because of the general reluctance among the less-developed countries to export raw materials, such as lumber and metal ores, in unprocessed form.<sup>5</sup>

To counteract the strong pressure of investment from Japan and to a lesser extent the United States, many countries in Southeast Asia, including Malaysia, Singapore, and Indonesia, are encouraging investment from Europe, Australia, and other areas. Also, the influence of the Arab countries in the coming years cannot be under-estimated. They have vast amounts of money and, as well, share religious ties with Malaysia and Indonesia.

Comparative statistics for the amount of Japanese investment in Malaysia, Singapore, and Indonesia are hard to come by, because each country uses different criteria, and also because the totals are rising so quickly. The best available statistics show the accumulated government-approved investment by Japan at the end of March 1974 as follows:

Malaysia U.S. \$201 million, Singapore U.S. \$174 million, and Indonesia U.S. \$814 million.<sup>6</sup> These figures do not include the investment in fixed assets and equipment, which would put the totals very much higher. This capital is quite important to the economic development of the countries concerned.

However, these countries are, for the most part, very attractive to foreign investors because of their abundant natural resources and low wage levels. Other countries could fill the vacuum if Japanese investment was not forthcoming. As Koji Nakamura said: "Asian resources are now more vital to Japan than Japanese capital and commodities are to Asia."<sup>7</sup>

#### The Problem of Japan's Image

Japan is an isolated country, if not so much geographically, at least in political and social terms. Anglo-Saxon ties link the United States and the United Kingdom, Western European countries have built a concept of a United Europe among themselves, and even the socialist countries rely on each other not only because of a common ideology, but also for cultural and historical reasons. Also, despite the constant infighting, the Third World often unites to face the 'developed' countries against any common threat.<sup>8</sup> On the other hand, Japan tends to feel that it is all alone; it can perhaps be classed as a developed Oriental country. It is caught between two worlds. There is no country with which it shares a common heritage or with which it has a mutual

understanding and affinity.<sup>9</sup> This accounts, in part, for the Japanese suspicion of others and their inability to understand other nations as well as they might. Also, it may help to explain why Japan has such an amicable relationship with Singapore. Singapore, that Chinese island in a Malay Sea, is also somewhat of an 'outsider', especially since the British military pull-out a few years ago. Furthermore, in economic terms, Singapore is also not a true member of either the developing or the developed group of countries.

Another factor that has hurt Japan's image in Southeast Asia is the unique Japanese social system which tends to place personal relationships on a superior-inferior basis. Most of the Japanese in Southeast Asia, businessmen and their families for the most part, are fairly high up on the vertical social scale. Consequently, they often tend to treat the majority of the people of Southeast Asia on a subordinate basis. However, what is often mistaken for Japanese 'aloofness' is, in reality, a basic shyness. This shyness keeps the Japanese at a distance from the people of the region in social terms. Also it prevents Japanese managers of Southeast Asian firms from developing close relationships with local employees. The problem is compounded by the fact that the Japanese people are notoriously poor at learning other languages. It is not, however, necessary that they become perfect linguists, since any effort on their part to converse with local people in the native tongue would do a great deal to improve Japan's image

in the area.

The development of more organizations such as the Japanese Cultural Society and the Japan Club in Singapore would improve Japan's image in Southeast Asia. These organizations, and others, have helped to improve the Japanese image in Singapore by permitting the Japanese and the local people to meet on a social basis. More of the same in Kuala Lumpur and especially Djakarta could only improve the situations there.

Bitter memories of the wartime occupation period have also to be considered when one examines Japan's image in Southeast Asia. However, even though there are deep emotional scars among many of the older people of the area, time has been a great healer, and now the majority of those in the region have no personal recollection of the occupation period. As a result, memories of the war and occupation cannot be considered as a major factor in determining the reasons for anti-Japanese sentiment in Southeast Asia. The payment of post-war reparations by Japan did a great deal to improve the situation in this regard.

#### Japan's Awareness of the Problem

There has been an increased awareness by the Japanese of the problems and discontent caused through their economic activities in Southeast Asia. However, it is somewhat difficult to gauge the extent of anti-Japanese sentiment in the region. Certainly, the governments of these countries cannot

be relied upon to speak for the people as a whole, and the views of the 'ordinary citizen' are not articulated as well as they are in most Western countries. The best barometer of anti-Japanese sentiment in Southeast Asia was provided by the tour of the region by former Japanese Prime Minister Tanaka. During his tour, he met with widespread criticism, and many anti-Japanese demonstrations broke out, especially in Thailand and Indonesia. However, it must be kept in mind that Tanaka visited only the major cities during his tour. The actions of city dwellers could have given a distorted view of the opinions of the peoples of these countries as a whole.

For several years the Japanese have been aware of the problems caused by their economic involvement in Southeast Asia. In 1971 the Japanese Foreign Office decided to send a six-man cultural mission to Thailand, Malaysia, Singapore, the Philippines, and Indonesia because they were worried about the country's uncomplimentary image in Asia. This mission was mainly concerned with alleviating certain misconceptions about the Japanese being concerned only with profits and business tactics. But, like most missions, contact was made solely with government and business leaders, and not with the rank and file of the population.

To further help Japan's image overseas, six of the most influential economic organizations in Japan, including the Japan Chamber of Commerce and Industry, the Japan Committee

for Economic Development, the Foreign Trade Council of Japan, and the Federation of Economic Organizations, have joined together to sponsor a new, non-profit body to help and advise Japanese corporations operating outside Japan. This body, the Japan Overseas Enterprises Association (JOEA), has been concentrating on operations in Southeast Asia and Brazil during its first year of existence. The Association is intended to serve as a consultant to Japanese firms operating or wishing to operate overseas. Also, it will act as a mediator in problems developing between local interests and Japanese concerns and between overseas investors and the government in Tokyo.<sup>10</sup>

In response to the growing evidence of anti-Japanese feeling, the Ministry of International Trade and Industry has begun drafting legislation which would give the Ministry the power to oversee the activities of Japanese enterprises operating and investing outside Japan. Under the proposed legislation, companies already operating overseas would have to submit an annual report on their activities to MITI. Companies planning new investments would have to submit their plans to MITI for approval and possible modification. While looking over the investment proposals, MITI officials are expected to pay particular attention to the feelings of local governments and interests.<sup>11</sup>

Up until now, Japan has lacked direction in its policy towards overseas activities. The lack of direction was

evidenced in November 1972 when the Japanese ambassadors to the Southeast Asian countries gathered in Tokyo for their annual conference with the Foreign Minister. They came with the expectation of receiving new and different guidelines, but they were disappointed. As reported in the Japanese press, Foreign Minister Ohira told them that many important changes had occurred in the world situation, that many new developments were in the offering, but that pending a full study of what shape these developments might assume, Japan was prepared to carry on business as usual.<sup>12</sup> This meeting stimulated a study by the semi-official Japan External Trade Recovery Organization (JETRO) of attitudes toward Japan in Thailand, Indonesia, and Hong Kong. The results were far from reassuring, and there ensued much discussion about possible solutions. The methods suggested for tackling the problem took two directions. The main line of thought concentrated on the 'image' problem, and discussion along this line defined the problem as one of public relations and recommended appropriate changes in the behaviour of individuals. The other line of thought stressed the need for a better understanding of Asian countries, and tended to produce recommendations for a substantive modification of Japanese methods of conducting business. The aim here was to allow host countries a more equitable share of the benefits.<sup>13</sup> A great deal of the 'image' problem could be alleviated if some of the basic business tactics were improved.

In spite of increased participation by other countries, Japan will continue as a major, perhaps the major, outside economic influence in Southeast Asia in the coming years. However, there is little evidence to support the idea that Japan is interested politically in the region beyond ensuring stable conditions for its economic ventures. The Japanese economic influence can continue, and even increase, in the region with few resultant problems if certain measures are taken which will make them more acceptable to the people as a whole. These measures include a more selective approach by the Japanese Government towards the economic ventures it allows in the area, and an insistence that the Japanese people who go to Southeast Asia to live and carry on business be aware of the local culture, and possibly have a working knowledge of the dominant language.

FOOTNOTES

<sup>1</sup>Mushakoji Kinhide, "In Search of a New Diplomacy," Japan Quarterly, XX, no. 3 (July-September 1973): 261.

<sup>2</sup>Ho Minfong, "S-E Asian nations critical of foreign economic 'imperialism . . .'," Straits Times, October 3, 1974, p. 21.

<sup>3</sup>Ibid., p. 21.

<sup>4</sup>Ibid., p. 21.

<sup>5</sup>Saburo Okita, "Japanese Economic Cooperation in Asia in the 1970s," Gerald L. Curtis, ed., Japanese-American Relations in the 1970's (Washington, 1970), p. 105.

<sup>6</sup>Dick Wilson, "Shrinking Asian handout from Japan," Far Eastern Economic Review, 86, no. 49 (December 13, 1974): 58.

<sup>7</sup>Koji Nakamura, "The price of success," Far Eastern Economic Review, 83, no. 4 (January 28, 1974): 13.

<sup>8</sup>Kinhide, "In Search of a New Diplomacy," Japan Quarterly, p. 260.

<sup>9</sup>Ibid., p. 260.

<sup>10</sup>"Japan seeks better image overseas," Singapore Trade and Industry, October 1974, p. 52.

<sup>11</sup>Ibid., p. 52.

<sup>12</sup>A. M. Halpern, "Japan: Economic Giant's Quiet Diplomacy," International Affairs, 49, no. 4 (October 1973), p. 587.

<sup>13</sup>Ibid., pp. 588-589.

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IN THREE SOUTHEAST ASIAN COUNTRIES: MALAYSIA,

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