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FROM SAN FRANCISCO PEACE TREATY
TO THE FUKUDA DOCTRINE**

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**INSTITUT KAJIAN MALAYSIA DAN ANTARABANGSA
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Abstract

This paper traces the political relations between Southeast Asia and Japan from 1952, the year of the San Francisco Peace Treaty that ended the allied occupation of Japan, to the Fukuda Doctrine of 1977. It is divided into two periods. The first is the period from 1952 to the mid-1960s. This was characterised by two themes. One was the demand by Southeast Asians that the reparations issue be settled before diplomatic relations could be established. The other consisted of the resort by some Southeast Asians to the use of the economic weapon against the Japanese in order to extract certain political ends. The second part, from the mid-1960s to 1977, marked the increasing Southeast Asian realization that Japan could not be so easily pressured by this economic weapon, and also by increasing Southeast Asian apprehension not only of the negative social and cultural consequences of Japanese economic involvement, but that it could also lead to political domination. This apprehension formed a backdrop to the anti-Tanaka riots of 1974. The riots together with other developments such as the 1973 oil crisis, the American withdrawal from Vietnam in 1975 and the Bali summit of ASEAN heads of state in 1976 were to lead to Japan adopting the Fukuda Doctrine of 1977. That doctrine marked the end of the Japanese policy in Southeast Asia of the "separation of economics from politics."

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**SOUTHEAST ASIAN POLITICAL RELATIONS WITH
JAPAN (1952 TO 1977) FROM SAN FRANCISCO PEACE
TREATY TO THE FUKUDA DOCTRINE****1. Introduction**

This paper traces the political relations between Japan and Southeast Asia from 1952 to 1977, 1952 being the year when the San Francisco Peace Treaty took effect, thus ending the American occupation of Japan and allowing Japan to conduct its own foreign policy, which was supposed to be one of the 'separation of economics from politics'. This separation, often termed in Japanese as *'seikei bunri'* (term first used by the Ikeda cabinet in the 1960s to describe Japanese policy towards China) meant that Japan would concentrate on economic relations while others took care of politics.

The Fukuda Doctrine, proclaimed in 1977, marked the year when, at least as far as Southeast Asia was concerned, this separation ended, at least in the sense that Japan could henceforth use its immense economic resources for social, cultural, and ultimately, political ends instead of ignoring the non-economic consequences of its economic involvement. This twenty-five year period of the 'separation of politics from economics' is often seen as a time when Japan was not involved politically in the international relations of Southeast Asia.

This paper will show that this was true, as far as Southeast Asia was concerned, only in the sense that Japan was not explicitly involved in the internal politics of Southeast Asian countries, whether by encouraging the forces of democracy, or by supporting diplomatically one Southeast Asian country against another. But this did not mean Japan was not politically involved in other ways. First, Japan did, and had to, take a fundamental political stance by giving full political support to American diplomacy in Southeast Asia in this period. That was the implicit price the Americans expected the Japanese to pay for a *'seikei bunri'* policy that rested on the premise that the United States would ensure the survival of the free market systems in Southeast Asia Japan could profit from.

Second, Japan had to deal with political issues even if its primacy intention was to focus only on economic relations. This was because of the legacy of the past (Japan's war record in Southeast Asia) which had to be settled before economic relations could resume, as the protracted negotiations over reparations between Japan and Southeast Asia in the fifties demonstrated. And third, Japan had to take heed of the political context of its economic activities in Southeast Asia, particularly when Southeast Asians began to show concern beginning from the mid sixties onwards about increasing Japanese economic domination.

This paper will be divided into two parts. The first part, from 1952 to the mid 60s, will consider the demand from Southeast Asians that the reparations issue be settled before Japan could begin to normalize relations with them, and also how the economic weapon was sometimes used by Southeast Asians to extract certain political ends. The second part, from the mid 60s to the Fukuda Doctrine of 1977, marked the increasing Southeast Asian realization that Japan could no longer be easily pressured by the political use of the economic weapon.

At the same time, Southeast Asian apprehension was increasing about not only the negative social and cultural consequences of Japanese economic domination but also that such domination could lead ultimately to Japanese political domination. This apprehension formed a backdrop to the anti-Tanaka riots of 1974. The riots together with other developments such as the 1973 oil crisis, the American withdrawal from Vietnam in 1975 and the Bali summit of ASEAN heads of state in 1976 were to lead to Japan adopting the Fukuda Doctrine of 1977.

The doctrine was an attempt by Japan to address Southeast Asian concerns over Japanese involvement. It involved the most systematic exposition of Japanese intentions in Southeast Asia since the end of the Second World War and was accompanied by an offer of one billion US dollars of aid to the ASEAN 5 for industrial projects. Southeast Asia, or the ASEAN 5, (the term 'Southeast Asia' used here refers primarily to ASEAN 5) responded well to the Fukuda Doctrine.

Many saw this as the beginning of a special relationship between Japan and the ASEAN 5 even though it lasted only very briefly. It ended when

+ Fukuda relinquished the premiership. Subsequent developments will show this special relationship was not continued, if not actually abandoned, when Ohira replaced Fukuda as the Japanese premier in 1978. Ohira's promulgation of the concept of the Pacific Community of nations bordering the Pacific Ocean, of which ASEAN would only be a member like the others, suggested that Japan would be treating ASEAN no differently from the other countries in the envisaged community.

2. Southeast Asian Political Relations With Japan

In the period of the nineteen fifties and sixties, Southeast Asian political relations with the outside world was primarily with the communist powers and the West. For non-communist Southeast Asia, particularly those countries which were to constitute ASEAN in 1967, a major problem was coping with the communist threat. Such a threat was seen as emanating from internal subversion by communist elements, backed by either Communist China or the Soviet Union. Invasion by these communist powers, while not dismissed, was not considered a real possibility.¹ Indonesia under Sukarno was however somewhat of an exception to this. Seeking to strike a neutral path in the then Cold War between communism and the West, Sukarno's Indonesia saw the West as much (if not more) of a threat to Indonesia and the rest of Southeast Asia as the communist powers.

As to the countries of Indochina and the then Burma, Burma opted out of the Cold War struggle by remaining neutral, in effect isolating itself from the world from 1963. North Vietnam came under communist rule in 1954 while the rest of Indochina faced a very serious communist challenge which they finally succumbed to in 1975. Southeast Asia then was not much concerned with Japan, as it did not constitute an important actor in the international political arena that Southeast Asian countries had to contend with. It had little fear of overt Japanese political intervention in their domestic affairs in the way they feared, depending on the countries involved, either communist or Western subversion. There were two reasons for this.

Japan was a defeated nation in 1945, and not freed from American occupation till 1952 (the San Francisco treaty was signed in September 1951 but took effect in April 1952). It had too much to do in terms of

rebuilding its shattered economy in the fifties to be able to play a significant political role even if it wanted to. Second, Japan had deliberately adopted a policy of *seikei bunri* or “separation of economics from politics” in its foreign relations. This meant that Japan would concentrate only on economic relations in its foreign policy and leave the politics to others.

In reality however, *seikei bunri* only meant that Japan would not undertake any independent foreign policy initiative in Southeast Asia and would not intervene in the internal political affairs of Southeast Asia whether to support democratic forces or otherwise. Such a policy then suited Southeast Asians as memories of an aggressive Japan during the War were still very fresh. Moreover Southeast Asians did not want the geopolitical situation in their arena to be complicated by an independent role of Japan. They already had their hands full dealing with the Americans, the Europeans and the two communist powers of Russia and China without wanting Japan to complicate their relations with these great powers.

But Japan was politically involved in other ways. First, Japan had fully to support the anti-communist policy of the United States in Southeast Asia. If Japan had been pro-communist or even neutral in its policy towards Southeast Asia, it would have been extremely unlikely that the United States would have allowed Japan to profit from the market-oriented Southeast Asian economies the US was supposed to maintain with its anti-communist policy.

Second, the fact that Japan needed to expand economic relations with Southeast Asia necessitated some Japanese political involvement beyond support of American foreign policy. Southeast Asia would not agree to a full resumption of economic and in some cases, diplomatic relations until Japan settled its past record in the Second World War. It was a political issue which Japan, despite some American help, had to resolve by itself with the Southeast Asians. Moreover, the Southeast Asians on their part were much less inclined when it suited them to accept at face value the separation of politics from economics. They were not above using perceived Japanese economic dependence on Southeast Asia for what may broadly be called political ends.

This meant the exploitation of such dependence as a weapon to extract things from Japan which might not have been otherwise obtained in the “normal” course of economic relations. Such exploitation involved on one extreme the explicit use of perceived economic dependence for a political end such as when Indonesia pressured Japan not to allow a Dutch aircraft bound for West Irian to enter a Japanese port for oil and water supplies or face Indonesian economic action².

On the other extreme, it involved implicit political pressure as occurred in Malaysia in the early sixties when Malaysia urged Japan to help Malaysia build an integrated steel mill (an issue of national interest to Malaysia) by reminding the Japanese of their dependence on iron ore imports from Malaysia (see case study of Malayawata later). It must be said however that exploitation, particularly of the former kind, was not always easy. This was because such exploitation was too crude to be always successful. But mainly it became less effective as Japan became less dependent economically on Southeast Asia.

Third, Japanese economic involvement produced socio-cultural and political consequences even if Japan was not, or did not want to be, aware of them. The huge size of the Japanese economic involvement, particularly the rapidity with which it grew from the mid-sixties, made Southeast Asians aware of the increasing possibility of Japanese economic domination and of a Japanese way of doing things that were not to their liking. These produced a Southeast Asian resentment which, unaddressed by the Japanese, served as backdrop to the anti-Tanaka demonstrations of 1974.

3. Periodization

One can distinguish two periods in Southeast Asian political relations with Japan before the Fukuda Doctrine. The first is the period from 1952 to 1967. This period is characterized by the settlement of the reparations issue and the utilization by Southeast Asians of the economic weapon to prise from the Japanese favourable political ends, including acceptable reparations terms. This period however can be further subdivided into two. The first is from 1952 to 1960, which is marked by the formal settlement of Southeast Asia with Japan of the reparations issue under the terms of the San Francisco Peace Treaty. The second is from 1960 to 1967. The main themes of this second sub period were the resolution of

what was perceived as the unresolved reparations issue with Malaysia and Singapore, and the continued use of the economic weapon by Southeast Asians for political ends. The second period from 1967 to the Fukuda Doctrine marked the increasing Southeast Asian realization that Japan could no longer be that easily pressured by the economic weapon, and apprehension of the non-economic consequences of growing Japanese economic might.

4. The Reparations Issue 1952 to 1960

Whatever may be Western and Southeast Asian condemnation of the Japanese war record in Southeast Asia, many Japanese felt then, and even more so today that they had little to be ashamed about this record. Many believed Japan had helped liberate Southeast Asia from Western colonialism and were in fact fighting against Western colonialists and not native Southeast Asians. According to Nishihara (1976: 41), some Japanese while in negotiations with the Indonesians on the normalisation of relations between Japan and Indonesia suggested that Japan need not pay reparations because Japan had not actually fought Indonesia. So Southeast Asians could not in good conscience demand reparation from Japan.

However in the immediate circumstances after the war where there was widespread evidence of destroyed property and lost Southeast Asian lives, such arguments cut no ice. An utterly defeated Japan could in no way press or even publicly air such an argument. Thus, whatever the Japanese reservations, Japan had to concede to the need to pay reparations when the San Francisco Peace Treaty of 1952 was written. It was thus not surprising that the settlement of the issue of reparations was, in the words of one scholar, "an integral part of the policy of economic cooperation with the countries of Southeast Asia" that Japan was keen to develop after 1952 (Yanaga 1968: 202).

But what may appear to be on the surface a rather simple matter of setting a reparation sum turned out to be something quite complicated that continued to plague Japanese-Southeast Asian relations even up to now. There were essentially two problems. One was the agreement on the amount payable and its mode of payment as determined by international law, or rather by the interpretation of this law by both parties.

The second was the feeling by many Southeast Asians that Japanese compensation had not been given to those to whom it was due. Such feelings often erupted whenever there were new discoveries of evidence of Japanese atrocities such as in the discovery of the mass graves of Singaporeans massacred by the Japanese in 1963 or of the revelation more recently of young girls, dragged against their will to serve the sexual needs of Japanese soldiers during the war. These girls were the so-called "comfort women".

The first problem dominated Japanese-Southeast Asian relations in this period. At the time of the San Francisco peace treaty only four Southeast Asian countries had freed themselves from colonial rule. These were Indonesia, Philippines, Burma and Thailand.³ The Indochinese countries together with Malaysia and Singapore were still under French and British rule respectively. The issue that immediately arose when these Southeast Asian countries began negotiations was the legal mechanism to adopt whereby reparations could be negotiated. Were the negotiations to be based on a bilateral peace treaty with Japan or were they to be conducted through the San Francisco peace treaty?

The overwhelming majority, save for Burma, which chose the former route, adopted the latter. Indonesia and the Philippines, having obtained their independence before the treaty, signed as allied powers in the treaty, as did Laos, Cambodia and Vietnam. These last three Indochinese states, though then still under French rule then, nevertheless signed, at the insistence of the French, as independent sovereign states (Dunn 1973: 142).

As to Malaysia and Singapore, reparations due to them went almost entirely to the British as they were still the colonial masters of these two territories then. This was a very sore point with Malaysians and Singaporeans, particularly those of Chinese descent who suffered most keenly under the Japanese yoke. When this issue broke out in 1963 with the discovery of the mass graves in Singapore, the resolution of it constituted a different problem from the first in that this had to be dealt with outside the provisions of the San Francisco Peace Treaty.

5. Burma by a Bilateral Peace Treaty

Burma was the first to settle by a Peace Treaty with Japan which was signed on November 5, 1954 in Rangoon (The others who signed in 1951 were still haggling over the terms). Also signed by both were the agreements for Reparations and Economic Cooperation. Burma was given \$200 million (unless otherwise stated the dollars in this paper are American dollars) in reparations for ten years from 1955, and a Japanese sponsorship for loans amounting to \$50 million. Nevertheless the Burmese, to ensure that they got a fair deal, had an article (article 5) inserted in the bilateral peace Treaty which provided for renegotiating reparations in the event the sum agreed turned out to be low in comparison with other countries.

This was invoked later when other countries like the Philippines obtained from Japan the sum of \$550 million in reparations in 1956. In January 1961, Burma asked for an additional \$200 million but Japan balked. An agreement was reached however on January 15, 1963 whereby \$140 million in additional reparations and \$30 million in loans, a total of \$170 million were given. It was however not designated as reparations but as economic and technical cooperation. Burma, on its part in the 1954 settlement, designed the reparations program to support and advance its eight-year plan, according to Yanaga(1968,p.209) “for the achievement of the welfare state.”

6. Southeast Asian Nations by the San Francisco Treaty

When the San Francisco peace treaty was conceived, the Americans realized they could not get the Southeast Asian countries, and indeed the other allied powers who fought Japan, to go along, unless there were some provisions for reparations. But they were very keen to have Japan as an ally in the Cold War against communism, but were unwilling to foot the bill for aiding a Japan that could be crushed by too onerous reparations payments. Thus Dunn (1973: 152) quotes a State Department document on this as saying that “the Japanese economy can be made to bear additional economic burdens, beyond those directly related to meeting its own requirements, only by prolonging or increasing the staggering costs borne by the American taxpayers”⁴.

Hence, they did all they could to moderate the demands of the claimants. In the event, the United States got most of its way, managing to make the treaty in the words of an American scholar basically an American document (Dunn, 1973) Some of the clauses (Yanaga 336-346) on reparations found in Chapter V, article 14a read thus:

It is recognized that Japan should pay reparations to the Allied Powers for the damage and suffering caused by it during the war. Nevertheless, it is also recognized that the resources of Japan are not presently sufficient, if it is to maintain a viable economy, to make complete reparation for all such damage and suffering and at the same time meet its other obligations

Japan will promptly enter into negotiations with Allied Powers so desiring — by making available the services of the Japanese people in production, salvaging and other work for the Allied Powers in question. Such arrangements shall avoid the imposition of additional liabilities on other Allied Powers ...

While these clauses gave the go-ahead to Southeast Asian signatories to claim reparations, they nevertheless made no mention of payment in cash, and such payment, if in goods and services, (even payment in capital goods at one stage was contested by the Japanese in their reparation negotiations with Indonesia)⁵ as was due dependent on the Japanese capacity to pay. Invariably, Japanese definition of their capacity to pay would be far, far smaller than what Southeast Asian claimants would expect.

Under such clauses, the Indochinese countries claimed reparations. For Laos and Cambodia, Japan, without admitting to compensation for aggression, according to one scholar, “did agree to moderate payments for the sake of post-war reconciliation with these countries. An agreement was made with Laos for \$2.8 million over a six-year period from 1959 and one was made with Cambodia for \$4.2 million over a five-year period from 1960.” (Langdon 1973: 81)

South Vietnam got somewhat more than the two. The South Vietnamese leader, Ngo Dinh Diem, asked for a sum of \$200 million. That Japan

was willing to consider the Vietnamese request (even though South Vietnam scarcely suffered war damages)⁶ was due in part to the fact that South Vietnam was in the forefront of the American policy in resisting communism, and to the belief of Japanese business leaders that good relations with Vietnam could be profitable.

Such belief resulted from the fact that a lot of aid money had flowed to South Vietnam after Dien Bien Phu in 1954 and the withdrawal of the French. In the words of one scholar, in order "to derive sizeable profits from United States aid funds," both the Japanese government and business, "concluded that it would be best in the long run to make a fairly large reparations payment which would over a period of time pay off handsomely." (Yanaga 1968: 226). In the event Japan, in January 1960, agreed to pay reparations grants of \$39 million in total to be paid over a five-year period.

The settlement with these Indochinese countries came just after the two most important countries, Philippines and Indonesia, had resolved their reparations problems with Japan. Japan could not claim to be able to start with a "clean state" with Southeast Asia unless it solved its relations with the Philippines, a key country to the American strategic posture in Southeast Asia, and Indonesia the largest country (and one much possessed of the resources the Japanese covet) in the region.

The Philippines, just after the end of the Second World War, was according to a scholar then attached to a Filipino university, "in a sorry state of devastation. Not a single coconut-oil mill was operable. Sugar mills had been destroyed. Inter-island shipping was non-existent...Manila was 80% destroyed, as against 90% for Cebu and 95% for Zamboanga," (Vellut, 1963). Added to the bitterness over this destruction was the unambivalent Filipino attitude towards the Japanese conquerors.

The Filipinos, unlike some Southeast Asian nations, did not see the Japanese as liberators, not even in an indirect manner, as the Americans had already promised them independence before the Japanese came. It was not surprising that the then to be secretary of state in the United States, John Foster Dulles, in a radio speech described the mood of the Philippines as similar to that of France in 1919. With such a mood, arguments about

the need, wrote an American scholar "to permit Japan to have a viable economy so that should she act as a bulwark against the advance of imperialism made little headway against the daily reminders of the aching ruins of Manila as compared with what seemed to be a rapid recovery in Tokyo" (Dunn 1973: 123).

Adding to this mood was the Filipino fear that a rebuilt Japan could commit aggression in the Philippines again. Thus, before the Philippines could be persuaded to sign the San Francisco Peace Treaty, the United States had to effect a defense treaty with the Philippines, assuring the Philippines of protection against any future Japanese threat. It was not surprising that the Filipinos initially demanded a very high sum of \$8 billion in reparations,⁷ on April 28, 1952 to a Japanese mission, headed by Tsushima Juichi, a one-time Finance Minister, dispatched to Manila by the Japanese prime minister, Shigeru Yoshida.

Such a sum was deemed too enormous for the Japanese who were thinking in terms of only \$250 million in goods and services. Nothing of a substantive nature was achieved till early November 1952 when John M. Allison, US Assistant Secretary of State for Far Eastern Affairs stated in Tokyo that "Japan had been dilatory in approaching the question of reparations, on which satisfactory relations with her Asian neighbours depended" (Yanaga 1968: 214).

Where upon in December 1952, Eiji Wajima, a foreign affairs official, was sent to the Philippines, Burma, Indonesia and Indochina to convey the sincere desire of the Japanese government to reach an understanding regarding reparations agreements. He succeeded in the Philippines on December 23 to have the Filipino government abandon its demand for cash reparations and to accept, in principle, payment in goods and services. But there was no agreement on the amount.

An agreement however was reached on a related issue, that of allowing for Japanese help (at the request of the Filipinos) to salvage sunken ships, mainly in the Manila Bay area. Complications nevertheless set in and it was not until two years later in 1955 that salvage operations began. An interesting aspect of the Japanese government's invitation to Japanese businessmen to work out the salvage operations was the enlistment by

these businessmen of the help of the "Philippine Lobby", a group of influential businessmen who had established close connections with Filipino leaders in business and industry (Yanaga 1968: 215).

Negotiations went on. In April 1954, talks between Carlos P. Garcia, Filipino secretary for Foreign Affairs, and Minister Katsumi Ohno, head of the Japanese mission in the Philippines settled for a sum of \$400 million. This was soon disavowed after opposition in the Philippine Senate which viewed the amount as no more than a starting point and not final as President Magsaysay had not been party to the negotiations. Nevertheless, Magsaysay himself was anxious to settle the reparations issue as he hoped to use Japanese reparations to finance his development plans.

On March 5, 1955, Magsaysay sent a personal telegram to Ichiro Hatoyama, who had replaced Shigeru Yoshida as prime minister, requesting the resumption of normal relations, and an early settlement of the reparations question. Subsequently, on August 18, Magsaysay wrote to Hatoyama submitting a draft written by his foreign policy adviser, Felino Neri, and shown earlier to some Japanese officials, which asked for a reparations payment of \$550 million and a long term development loan of \$250 million, totaling \$800 million. This was accepted. On May 9, 1956, the reparations agreement was signed.

The final agreement represented a considerable climb down for the Philippines for in the words of Felino Neri, "the Philippines was aware that these terms did not provide anything like complete restoration of its losses and relief of its injury" (Vellut 1963: 500). Nevertheless, the Filipino payment constituted more than half of the total Japan was obliged to pay to other Southeast Asian countries (see Table 1).

Table 1
REPARATIONS AND SIMILAR GRANTS BY JAPAN TO
SOUTHEAST ASIA

Country	Time Period	Amount of Payment (\$ millions)		
		Reparations	Non-Repayable Economic & Technical Cooperation	Special Yen Payments
Burma	10 yrs from 1955	200.00		
Philippines	20 yrs from 1956	550.00		
Indonesia	12 yrs from 1958	223.00		
South Vietnam	5 yrs from 1960	39.00		
Laos	6 yrs from 1959		3.00	
Cambodia	7 yrs from 1959		4.00	
Burma	12 yrs from 1965		140.00	
South Korea	10 yrs from 1965		300.00	
Malaysia	3 yrs from 1968		8.17	
Singapore	3 yrs from 1968		8.17	
Thailand	8 yrs from 1962			28.00

Source: Langdon (1973: 82).

In the words of one scholar, this relatively large amount "reflects the damage and hostility aroused in the islands as well as the importance the United States placed on patronizing its former colony. Placating the Philippines and the United States for the sake of a peace treaty was thus a major step in Japan's progress in strengthening its position in the region and internationally" (Langdon 1973: 78).

The Indonesians on their part were in two minds at first as to whether they should attend the San Francisco conference or sign a separate peace treaty with Japan.⁸ Not wishing to offend the United States, they decided to go to the conference. They remembered the United States had used its influence to help Indonesia gain independence from the Dutch, and could possibly be of help in the Indonesian attempt to wrest the West Irian areas from the Netherlands. Thus on September 6, 1951, Indonesian

Foreign Minister, Ahmad Subardjo in the conference delivered a speech in which he stressed the importance of Japanese reparations as a prerequisite for a peace treaty, estimating damage caused by the Japanese to amount to billions of dollars. That amount was given by the first Indonesian reparations mission led by Djuanda Kartawidjaja in Japan in December 1951 (Indonesia was the first Southeast Asian country to begin reparations negotiations with Japan, though not the first to settle) to be \$17.5 billion.

This of course was an extraordinarily high sum for Japan to pay for in the words of Dunn (1973: 152), writing of a demand earlier by other claimants of some 15 to 20 billion dollars, such a sum in addition "to the difficulties facing that country (Japan) would have meant condemning it to indefinite servitude." When no headway was made regarding terms more acceptable to Japan, the Asia Bureau Director of the Japanese Foreign Ministry, Eiji Wajima, reminded the Indonesians that Japan had made no written agreement as to the amount of reparations to be given.

The Indonesians then sought American intervention. Ali Sastromidjojo, the then Indonesian ambassador to the United States, met in Tokyo with U. Alexis Johnson who was then the director of the office of Northeast Asian Affairs of the State Department. Johnson suggested to the Japanese that there should be at least some agreement if only to prevent the Djuanda Mission from failing completely. Both sides then met in Johnson's residence and decided on an interim provisional agreement.

To the dispute over the sum was added that of the mode of payment. The Indonesians wanted payment in goods and services while the Japanese government, interpreting article 14a literally opposed payment of capital goods. Japan felt that if reparations were paid at all, it should be in commercial loans and private investment. Little progress came about after the Djuanda Mission though in, December, 1953, the Indonesians signed an agreement with Japan for the salvaging of ships in Indonesia. This occurred after a similar agreement in the Philippines but the Indonesian case was unrelated to the overall question of the reparations settlement, and was not implemented until January 1958.

In early 1954, the Indonesians, believing the Japanese to be not serious about negotiations, tightened the residence requirements for Japanese nationals living in Indonesia, and on June 30, stated it would refuse to pay its \$16 million trade debt due to Japan, whereupon the Japanese began to consider restricting imports from Indonesia. Nevertheless, the Indonesians in 1955 in the Afro-Asian Bandung Conference held three informal meetings with the Japanese head of delegation there, Takasaki Tatsunosuke, and agreed to reduce the reparation amount to \$1 billion. The Japanese considered it still too high. After the Filipino settlement in 1956, the Japanese remarked that the Indonesian sum should be between the \$200 million for the Burmese and the \$550 million for the Filipinos. The Japanese gave the sum of \$250 million while the Indonesians were willing to settle for \$800 million.

It must be said that Indonesia did not necessarily have a very strong hand to play. There was political instability then (in the period from 1951-1958, there were five cabinets). Moreover, Indonesia was experiencing problems of regional secession, poverty, civilian-military conflicts and so on. Not unmindful of these, the Japanese dragged the negotiations on, believing that the longer the negotiations took, the stronger the Japanese position. They did not feel themselves so completely dependent on the Indonesian market and raw materials (unlike the prewar period) that they would necessarily cave in on such an important issue as reparations, even if Indonesia tried to use the economic weapon to pressure them.

Nevertheless, the attraction of Indonesian resources (and the possibility of marrying Japanese technology with them) still had a powerful appeal to the Japanese. The Indonesians, on their part, feeling something drastic had to be done about their adverse balance of payments with Japan and to extract some capital resources for economic development, began to lower their sights. Thus, a breakthrough came in July 13, 1957 when a new Djuanda Government proposed to also a new *Kishi* government to start afresh. Indonesia would agree to \$400 million in reparations and \$400 million in cooperation, including the \$170 million trade debt owed by Indonesia to Japan. Both sides appeared keen to settle. When Kishi assumed the premiership in 1957, Japan had already joined the United Nations and had normalized relations with the USSR in 1956.

Japan began to evince a more serious attitude to Southeast Asia. *Kishi* intended to enlarge the Japanese presence in Southeast Asia, as he realised he needed Southeast Asian trade as a means to overcome the trade deficit Japan suffered with the Americans. The key to this was settlement with Indonesia. Indonesia's economy in 1957 was deteriorating and in early 1957 when regional secessionist movements had developed in the outer islands, the government felt that the reparations could be used to strengthen its internal political situation.

Thus, it was in January 1958 that the reparations agreement was signed by the Foreign Ministers of the two countries, A. Fujiyama of Japan and Subandrio of Indonesia. Japan made two concessions. One was that reparations could be in capital goods. The other was the cancellation of the trade debt. Thus, the total of about \$800 million, broken down into \$223 million in reparations (grants), \$170 million of trade debt owed by Indonesia cancelled, and \$400 million in loans, were given to save Indonesia's face. This extra \$400 million came in the form of "economic cooperation". This settlement led to the establishment of diplomatic relations in April 1958.

Like the Philippines, there was also an "Indonesian Lobby" working hard to help conclude the reparations agreement. The Japanese scholar, Nishihara (1976) distinguishes two groups in this lobby. One was the group which had a lot of former officers and civilians of the Japanese army's military administration and the navy's Jakarta liaison office, and their Indonesian acquaintances during the War. The goals of these group included the early payment of reparations, the improvement of the Indonesian image of Japan, and the formation of a spiritual bond between the two peoples.

Two of the most important people in this group were Nishijima Shigetada and Ahmad Subardjo.⁹ The other group consisted mostly of Japanese businessmen who had plans for huge projects in Indonesia, for which the hard payments from reparations would be most handy, and their Indonesian contacts, though not necessarily businessmen themselves. Thus by 1960, those Southeast Asian countries that had been signatories to the San Francisco treaty or to a bilateral treaty with Japan had formally settled the reparations problem with Japan. It was clear that the resolution,

particularly in the case of the major countries of Burma, Philippines, Indonesia and South Vietnam resulted not merely from final agreement on what the clauses on reparations meant.

The resolution was in fact a protracted (most so in the case of Indonesia) process involving the intervention of the United States and the relevant lobbies. But most of all, final agreement was made possible by the realization of Southeast Asian countries that they had need of the reparations, however much smaller than the original amount demanded and that of the awareness on the part of the Japanese of the potential of Southeast Asia, which exploitation was not possible without the settlement of the reparations.

7. 1960-1967

There remained Malaysia and Singapore. Malaysia, then Malaya, achieved its independence from Britain in 1957,¹⁰ while Singapore which had been a crown colony since 1946, joined independent Malaya and the Borneo states to form Malaysia in 1963. Singapore subsequently left Malaysia to become an independent country in 1965.

Not being signatories to the San Francisco peace treaty, as Britain did not allow for independent representation by both in the San Francisco negotiations (Hara, 1993), Malaya and Singapore had no legal claims for reparations from Japan. Yet, a big group in both countries, particularly those of Chinese descent, felt strongly that Japan should make some payment to these two countries for the sufferings and damages Japan inflicted on them, even if Britain who obtained the lion's share of what was due these two countries, had renounced the reparation rights for these two countries by 1951.

As the Singaporeans and Malaysians who pressed the hardest for reparations were mainly of Chinese descent, both their claims were linked in that Chinese on both sides of the causeway dividing the two countries suffered the same fate under the Japanese. Moreover, Singapore was to a great extent politically linked to Malaysia (it was actually part of Malaysia for two years from 1963 to 1965), and did not begin its existence as an independent nation until August 1965.

British renunciation however did not mean British renunciation of Japanese damages to British interests in Malaya. In fact, Britain derived compensation from primarily three categories. One was the claim on those industrial plants and equipment in Japan, through a formula insisted on by the United States, that could be spared after the peacetime needs of Japan were taken care of. Britain, then representing Malaya and Singapore, obtained about 5% of what was given. The bulk of this 5% were taken by the colonial government in Singapore.

A second category consisted of British claims of Japanese warships. Almost all warships obtained by Britain were scrapped in Singapore but most of such were however shipped back to Britain. But it is in the third category, the disposition of Japanese assets in Malaya and Singapore, for which local Malaysians and Singaporeans had the strongest moral case, that it was evident the British appropriated such primarily for themselves.

The funds derived from the disposition of such Japanese assets came to 67.2 million Malayan dollars. But this money was channeled into a War Damage Fund which was used for "the rehabilitation, development and consolidation of the industrial companies, especially rubber and tin companies, despite the Malayan people's repeated request for it to be used for social welfare and relief of the war-victims and their bereaved families (Hara 1993: 136).

The Chinese in Malaya and Singapore on their part demanded after the war a refund of 50 million Malayan dollars extorted from them by the Japanese during the Occupation¹¹ and a "blood debt" payable by the Japanese for their massacre of Chinese in Malaya. The blood debt issue however did not really catch on until 1963.

However, many Malayan and Singaporean Chinese associations pushed the issue of the forced "donation" with the British. In July 1947, Chinese associations in Singapore officially submitted a letter to the Governor-General of Singapore, Malcolm Macdonald, demanding a refund of 50 million Malayan dollars from Japan¹² but nothing came of it. The San Francisco Peace Treaty allowed for no such claims, and with that the international legal basis for the pursuit of such claims was greatly weakened.

Though the Chinese in Malaya and Singapore were not at all satisfied by the lack of reparations for them, they did not really press reparations claim, except in an indirect manner until 1963, when mass graves of massacred Chinese were found in Singapore. One scholar was intrigued by the fact that despite many previous occasions of such discoveries, they did not lead to the kind of political explosion as in 1963. He suggested an ideological division among the Chinese (with the anti-communist Chinese less keen to pursue than those with radical leanings) as to blunt the reparations drive, and a desire to resume trade with Japan. Malaya and Singapore welcomed Japanese commodities because of the Emergency then while anxious to export bauxite and iron ore to Japan (Hara 1993: 133).

In the early 60's however, the ruling party, the Peoples' Action Party (PAP) was involved in a political struggle with the left wing which had formed their own group after they left the PAP which they saw as being dominated by Lee Kuan Yew, an anti-communist. This left-wing group derived much of its support from the Chinese educated masses of Singapore. Thus, the discovery of the mass graves of massacred Chinese in such an atmosphere very quickly turned into a big issue, arousing the emotions of the Chinese in both Malaya and Singapore.

The demands from Japan for the return of the 50 million Malayan dollars forced "donation" and the blood debt were resurrected in 1963 both in Singapore and Malaya. The Japanese on their part urged that this issue should not jeopardize increasing economic cooperation between Japan and Malaya and Singapore. H. Tanaka, the Japanese Consul-General in Singapore went on to say that all legal claims were settled in San Francisco. (Straits Times, August 9, 1963). The Japanese ambassador to Malaya then, Wataru Okuma, said that Malaysians should not look back into the past, and pointed to the increasing close economic relations between Japan and Malaya. The Japanese were however prepared to make some gesture of atonement for the massacre of civilians during the Occupation.

The Singapore government, while initially cautious about this issue, went along as the campaign gathered momentum with both left and right wing trade unions supporting it. In a giant blood debt rally, they urged

Japan to settle, and that failing such settlement, the people should carry out a non-cooperation campaign against the Japanese.¹³ The Singapore government also pledged to issue no more visas to Japanese who wanted to set up new industries or firms failing such satisfactory resolution (Straits Times, August 25, 1963).¹⁴

The Singapore mass graves issue also caught on in Malaysia where many Chinese associations also demanded the refund of the "donation" and a blood debt repayment. Anti-Japanese feelings were aroused with anti-Japanese posters appearing. (Straits Times, August 9, 1963). The Malayan government on its part however was not anxious to encourage this campaign because of its uncertain consequences.¹⁵

In the event, because of this Malaysian government's attitude, the uncertain political status of Singapore (Singapore did not until September 15, 1963 join Malaysia) and the legalistic stand of the Japanese government and its refusal to negotiate under threat, the Malaysian and Singapore governments settled for "goodwill agreements" with Japan in 1967. Singapore and Malaysia each obtained a "Goodwill Grant" of 25 million Malaysian dollars each (about US\$8 million).

While such agreements were not reparations from a strict legal point of view, nevertheless in the words of one Japanese scholar, such "was virtually regarded as the reparation for the damages caused by the Japanese Occupation of Malaya" (Hara 1993, 119) while for Malaysia, though not necessarily for some Malaysians, such an agreement paved the way for increased economic relations with Japan.

Thus, it can be seen that Singapore together with some other countries in Southeast Asia, like Indonesia, did threaten to use the economic weapon, either by threatening non-cooperation or actions that would make it difficult for the Japanese to do business. Such threats were openly brandished and directed in general against Japanese business, even if they had not been ultimately successful.

A different kind however involved the indirect use of the economic weapon, and aimed not in a general sense but at perceived Japanese dependence on a particular commodity such as iron ore. The following

case study of the establishment of an integrated steel mill, a joint venture between Japanese and Malaysian interests in the early 60's illustrates how Malaysian interests exploited Japanese dependence on iron ore, and to some extent the reparations issue, to persuade Japanese interests to build an integrated steel mill which they otherwise would not have done so.

8. The Malayawata Steel Mill¹⁶

Just after Malaysia obtained its independence from Britain in 1957, some politically connected Malaysian businessmen believed that the establishment of an integrated steel mill was important to the industrialization of Malaya. The leader of this group, Tan Tong Hye or T.H. Tan as he was normally called was then a senator and General Secretary of the ruling Alliance Party in Malaysia. As Malaya then was a large exporter of iron ore to Japan, and as there was some feeling that Japan owed something to Malaya because of perceived unsettled reparations, these businessmen decided to approach the Yawata Iron and Steel Company of Japan.¹⁷

This Yawata Company (subsequently to merge with Fuji Steel to form the Nippon Steel Company) agreed to help. Thus, according to a pamphlet issued by the Malayawata Steel Berhad,¹⁸ T.H. Tan and Yoshihiro Inayama, then executive vice-president of Yawata, exchanged a memorandum on June 23, 1961 concerning an agreement *inter alia* "to co-operate in developing and utilizing Malaysian raw materials for producing iron and steel", and "jointly undertake the establishment of an iron and steel making enterprise in Malaysia."¹⁹

The Malaysians who were party to this agreement consisted of T.H. Tan, Dato' Mohamed Noah bin Omar, Dato' Osman bin Talib, Chan Kwong Hon, Lim Hee Hong and Khaw Kai Boh. The Japanese partners were Yawata Iron and Steel Company Limited, Nittetsu Mining Company Limited, Irimaru Company Limited and Kinoshita and Company Limited. Capitalization was envisaged at 51% by the Malaysians and 49% by the Japanese. This Malayan-Japanese agreement was the first of its kind in Southeast Asia, and the second joint steel enterprise by the Japanese globally.

Previous to this, there was a Japanese joint venture in steel making in Brazil called the *Usi-Minas* project. (Far East Iron,p.11). In October 1961, Malayawata Steel Berhad was incorporated as a private limited company. In November 1961, the basic agreement was revised whereby on the Malayan side, new shareholders came in. Among them were Chang Ming Thien, Kang Kock Seng and Leong Hoe Yeng. Construction did not however begin because of various problems such as the amount of the funds that could be raised.²⁰

However, in June 1965, another basic agreement was effected where further partners were added and some were dropped. The Japanese brought in the more respectable trading companies of Mitsui Trading Company and Mitsubishi Shoji Kaisha (trading company) in addition to Yawata Iron and Steel Co. Ltd., Nittetsu Co. and Irimasu Co. The Irimaru Company and the Kinoshita Company were dropped. The Malaysian partners were T.H. Tan, Dato' Haji Mohamed Noah, Dato' Osman Talib, Khaw Kai Boh, Lim Hee Hong, and a company incorporated in Singapore (then part of Malaysia) called the Industrial Investments Corporation Limited.

The authorized capital was envisaged at 30 million ringgit or 10 million dollars. The many changes in the basic agreement at a time when construction had been started bespoke of the difficulty of the parties, particularly on the Malaysian side, in raising the required cash. In addition, the problems associated with the construction of a steel mill (construction did not begin till April 1966) perceived to be strategic to national interest,²¹ led to pressure for a wider spreading of the risks and more governmental involvement.

As to the former, the International Finance Corporation (IFC), a member of the World Bank group, was asked to be involved. As the purpose of the IFC was "to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas,"(Annual Report,1968), it agreed to participate in August 1967 where its contribution will be for equity participation of 3,110,000 ringgit.

As a precondition for IFC participation, the Malaysian government had to be involved, and it was suggested by Martin M. Rosen, the vice-president of the IFC, that directors with no business background should be dropped.²² Such suggestions were accepted. By September 1967, when Malayawata was turned into a public limited company and officially opened by the then Prime Minister Tengku Abdul Rahman, many of the original Malaysian directors including T.H. Tan, resigned. The original Japanese partners however remained. The new Malaysian directors were Robert Kuok, Tan Sri Mohar Raja Badiozaman, Leong Hoe Yeng, Hew Kiang Main and Azman Hashim. As of August 1967, the shareholders were thus:*

Malaysian government	RM 3,450,000.00
Malaysian Industrial Development Finance Berhad (part of Malaysian government)	2,021,200.00
Japanese shareholders (Yawata, Mitsui, Mitsubishi, Nittetsu and Irimaru)	8,991,500.00
Yawata (brought from shares reserved for resale to Malaysians)	3,052,500.00
TOTAL	17,515,500.00

Source: From Malayawata Publications

Equity participation from IFC is *RM3,110,000 AND RM4,227,000 shares would be offered to the Malaysian public.²³

On the face of it this joint-venture would seem to be no more than an ordinary business venture with not much political significance for Japanese-Malaysian relations. But a closer examination suggests political calculations behind this venture. There are many factors in the establishment of an integrated steel mill which should prove daunting to the prospective builder. The capital investment is normally quite large, certainly much larger than that needed to establish for example, textile factories.

It is also a long term investment in the sense that profits take a long time to materialize²⁴ while other problems, like labour management, technical expertise and the availability of markets and natural resources cannot be minimized. And finally steel is both a strategic material and a commodity vital to industrialization. As such any government is bound to be interested.

In short, it is reasonable to expect that the industrialized country involved in such a venture should have some knowledge of and influence in that developing country involved. But when the discussions on the formation of Malayawata officially began in 1960, Japan not only had little or no influence in Malaya, rather it had a negative image because of its occupation of Malaya during the war.

Yet a Japanese company, conservative in nature and not known for aggressiveness abroad, undertook the venture in an area where it had little knowledge of the labour and management practices, and at a time when Japanese companies were not exactly bulging with surplus capital they might be pressured to unload. If anything, Japan was suffering from a trade deficit with the United States, its largest trading partner!

This was also true of Malaya where steel is also strategic, and hence necessitated government interest, if not involvement. Moreover, Malaya, according to one report, "had been approached by more than a dozen countries desiring joint construction of a steel works. But Malaya eventually settled on Japan – the Yawata Iron and Steel Company whose assistance the Malayan enterprises considered to be the most helpful – resulting in the present agreement" (Far East, p.11). From the Malaysian perspective, there must have been aspects of Japan-Malaysian relations that were decisive in the formation of this venture.

The first aspect in the choice of a Japanese company like Yawata instead of other non-Japanese countries was related to the question of reparations. According to the Malaysian initiator of the project, T.H. Tan, one reason for the choice of Yawata was the reparations issue. T.H. Tan felt strongly that what reparations paid to Malaysia were given mainly to British interests in Malaysia. Malaysian interests, particularly Malaysian Chinese interests, the people who suffered the most under the Japanese Occupation only, in T.H. Tan's opinion, got a very tiny portion of what was paid. The Japanese had to repay a bit in the form of a steel mill.²⁵

How much of an impact such an argument had on the Japanese counterparts is difficult to say. The official Japanese response is that there was absolutely no connection between the steel venture and any form of reparations. The leader of the Japanese team, Inayama, denied any

connection between the reparations issue and the establishment of Malayawata.²⁶ It is true, also that T.H. Tan and his Malaysian counterparts did not push hard over this matter, given the difficulties from a legal point of view of pursuing such claims, and, according to one member of the Japanese team sympathetic to the Malaysian position, those who raised the reparations were careful not to offend the British who were then still very influential with the Tengku and in Malaysia in general.²⁷ Whatever may be the impact of this reparations argument, T.H. Tan was very insistent that this was a factor.

But, without doubt, the second factor of the Malayan iron ore was crucial in persuading Japan to agree to the steel mill. It was impressed on the Japanese that Malaya was the biggest exporter of iron ore to Japan, and though some of those Malaysians interviewed unrealistically suggested cutting off iron ore exports to Japan if Japan was not forthcoming, Japan nevertheless was aware of Malaya's importance as an iron ore supplier. The statistics bear this out. In Table 2 of the iron ore imports to Japan, it can be seen that from 1952 to 1960, just before the first basic agreement to form Malayawata was signed in June 1961, Japanese iron ore imports from Malaya had been increasing steadily until it reached over 40% in 1960, which was in fact a very high percentage. The percentage figures are thus:

Table 2
PERCENTAGE OF IRON ORE IMPORTS TO JAPAN
FROM MALAYA
AS A PERCENTAGE OF TOTAL JAPANESE
IRON ORE IMPORTS FROM 1952-1960

Year	Percentage		
1952	821/4768	=	17.2
1953	864/4790	=	18.0
1954	1121/5005	=	22.0
1955	1632/5459	=	29.9
1956	2322/7767	=	29.9
1957	2872/7381	=	38.9
1958	2387/7585	=	31.5
1959	3750/10387	=	36.1
1960	6354/14861	=	42.8

Source: Compiled from statistics from Resource Bureau of Ministry of Trade and Industry (MITI)

There were also two factors that further reinforced in Japanese minds the extreme importance of the Malayan iron ore, and that was its invaluable contribution to the growth of the Japanese iron and steel industry. This industry had already recovered from the war in the early 1950's, having by 1952 exceeded the highest prewar figure in steel production and by 1953 exceeded the highest output during the war years, the year of 1943. (Kawahito 1972: 6). Now in 1958 and 1959, the industry was in the midst of a second rationalization plan, the first being from 1951 to 1955. This second plan greatly increased Japan's need for iron ore and made the leaders of this industry ever more sensitive to conditions in countries which were important suppliers of iron ore to Japan. Inayama in an interview with the author mentioned that this rationalisation was an important factor in the establishment of Malayawata.

Another factor that further increased Japanese interest in Malaya was that beginning from 1958 there was then circulating a powerful rumour that the whole of the central and east coast of Malaya contained vast deposits of iron ore. That this had an impact on the Japanese was attested to by the fact that Japanese iron and steel organizations of all shapes and sizes descended on Malaya then to see if this presumed El Dorado of iron ore existed.

Fuji Iron and Steel, Nippon Kokan, Kinoshita Trading Company and Irimaru Trading Company were among those who came. Then there were missions, one led by Kogo Uyemura, a powerful Japanese businessman from the Keidanren, which attempted to confirm the existence of iron ore deposits in the Dungun area of Terengganu in the east coast of Malaysia. That they were to be disappointed later did not hide the fact that the Japanese iron and steel people were under this spell. Inayama himself, a crucial person in persuading Yawata to go into the joint venture, was then involved in the purchase of iron ore for Yawata. It is very possible he could have been influenced by this atmosphere.²⁸

9. 1967 to the Fukuda Doctrine

When Japan contributed the 'Goodwill Grant' of 25 million Malaysian dollars each in 1967 to Malaysia and Singapore, Japan deemed the reparations issue with Southeast Asia as finally settled. While not all Southeast Asians, particularly those of Chinese origin in Malaysia and

Singapore, agreed, the national governments of Malaysia and Singapore nevertheless went along with the Japanese view. These governments did not want the past to come in the way of normal diplomatic relations with a country that was increasingly important to them and indeed to the rest of Southeast Asia.

For by the mid 1960s Japan was no longer the war torn country desperate for what raw materials and markets it could find in Southeast Asia. It had diversified its sources of raw materials to other areas while Southeast Asia was finding that it has become more dependent on trade with Japan. It was also not a trade relationship conducive to the industrialization of the Asian economies. Where before the mid 60s, it was mostly Southeast Asia pressuring Japan because of presumed Japanese economic dependence on Southeast Asia, it became increasingly clear from the mid 60s onwards that it was one of Southeast Asian apprehension of Japanese economic influence and Japanese insensitivity to the non-economic consequences of their economic activities in Southeast Asia. This apprehension, arising from the overbearing Japanese economic position in Southeast Asia formed the backdrop to the anti-Tanaka riots in 1974. The riots along with the oil crisis earlier in 1973, the American withdrawal from Vietnam and the Bali heads of state meeting in 1976 were to lead to Japan adopting the Fukuda Doctrine.

10. Growing Southeast Asian Apprehension of Japanese Economic Influence

From the mid 60's onwards, Japan began to gain the upper hand in its economic relationship with Southeast Asia. One indicator of this was the Japanese ability to diversify its sources of vital raw materials and the dependence of Southeast Asia (or the ASEAN 5) on overall trade with Japan. Examples of the former can be seen in iron ore and oil. As for iron ore, Japan had depended in the 50's and early 60's for almost 50 per cent of its import from Malaya and the Philippines. This import had been acknowledged by many Japanese as crucial to the development of the Japanese iron and steel industry after the war. But as table 3 below shows, the percentage had come down to less than 10 per cent (9.8 per cent) in 1968 and to less than 2 per cent from 1973 to 1975. Japan had found other sources for this raw material.

Table 3
**PERCENTAGE OF IRON OR IMPORTS FROM SOUTHEAST ASIA
 (PHILIPPINES AND MALAYSIA)
 % OF TOTAL JAPANESE IRON OR IMPORTS (1951-1975)**

Year	Malaysia (M)	Philippines (P)	Total (M+P)	Total Japan	% M+P Japan
1951	716	900	1616	8089	20.0
1952	821	1182	2003	4768	42.0
1953	864	1205	2069	4790	43.2
1954	1121	1480	2601	5005	52.0
1955	1632	1616	3248	5459	59.5
1956	2322	1501	3823	7767	49.2
1957	2872	1451	4323	7387	58.5
1958	2387	1152	3539	7585	46.7
1959	3750	1295	5045	10387	48.6
1960	6354	1202	7556	14861	50.9
1961	6640	1229	7869	20889	37.7
1962	6464	1472	7936	22128	35.9
1963	6700	1417	8117	25975	31.3
1964	6622	1501	8123	31100	26.1
1965	6956	1482	8438	38769	21.8
1966	5793	1600	7393	45846	16.1
1967	5181	1450	6631	56356	11.8
1968	5116	1536	6652	67918	9.8
1969	5352	1612	6964	83089	8.4
1970	4906	1872	6778	101997	6.7
1971	894	2297	3191	114843	2.8
1972	388	2455	2843	111441	2.6
1973	203	2312	2515	134676	1.8
1974	84	1636	1720	141816	1.2
1975	121	1513	1634	131657	1.24

Source: Compiled from statistics from Resource Bureau of Ministry of Trade and Industry (M1T1)

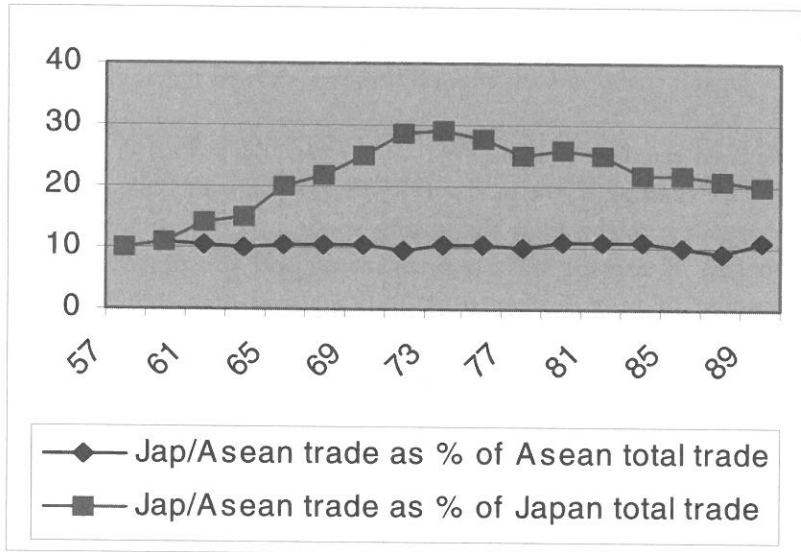
As to oil, a very crucial import for Japan, the Indonesian example (Indonesia is the largest exporter of oil to Japan) is instructive, particularly when many Indonesians interpret their export figure as suggesting Indonesian dependence on Japan. In the sixties and seventies the share of oil of total Indonesian exports rose from a moderate level of 44.8 per cent in 1969 to a high of 74.8 per cent and then down to 63.9 per cent in 1978. Japan's share of such exports however showed no similar rise.

It remained stagnant at around 47-49 per cent of Indonesia's total oil exports for example in the period 1975-78. (Dorodjatun 1982: 43) While many Japanese might argue that taking about a 50 percentage share of Indonesian oil exports was no small matter and constituted no small percentage of total Japanese oil imports and may indicate some dependence, (Weinstein 1975: 379) this was not perceived as such by two Indonesian scholars (Dorodjatun 1982: 43) who wrote rather starkly that Japanese policy here had been to "avoid too strong a dependency on a single source, and this only serves to heighten Indonesian dependency.

Indonesia's position *vis-à-vis* Japan, they continued, "on the other hand, remains as vulnerable as ever, as it is unable to diversify either its export commodities or its buyers, while Indonesia's lifeline is becoming too dependent on Japan's willingness to buy Indonesia's oil" While there may be some exaggeration here, the use of the metaphor "lifeline" for Indonesian trade with Japan is striking. That metaphor is normally used by Japanese and others to describe Japanese dependence on Southeast Asia, particularly the Straits of Malacca for which Indonesia is the most important littoral state. At least for these two Indonesian intellectuals, the shoe is now on the other foot i.e. the Southeast Asian one!

Another indicator of the growing Japanese economic edge is in trade. Concerning Southeast Asian trade with Japan, the figures show, again from the mid 60's onwards, increasing dependence on Japan. The figure 1 below is a graphic representation of the percentage of Japanese-ASEAN 5 trade of total ASEAN 5 trade and Japanese-ASEAN5 trade as a percentage of total Japan trade.

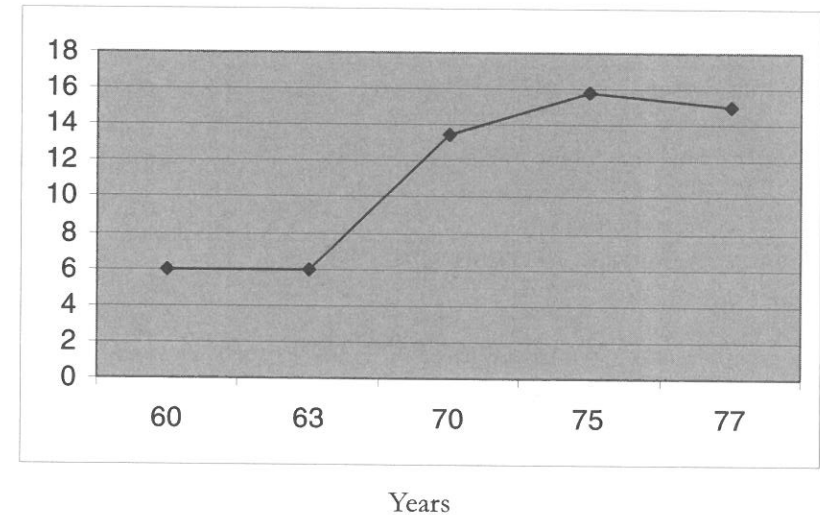
Figure 1
TRADE BETWEEN JAPAN AND ASEAN 5, 1955-89
(PERCENTAGE)



Source: Graph drawn from statistics from the Japanese Ministry of Finance and United Nations Yearbook on Trade Statistics.

While the latter remained fairly constant at the 10 per cent number, the former showed a steep rise from the mid-60's onwards. If one puts it in another way by showing Japan-ASEAN 5 trade as a percentage of the Gross Domestic Product (GDP) of the ASEAN 5 countries, as seen in Figure 2, there is again a very steep rise from the mid 60's onwards.

Figure 2
JAPAN-ASEAN TRADE AS % OF GDP OF ASEAN 5 COUNTRIES



Source: Graph drawn from trade statistics taken from Japanese Ministry of Finance and UN Yearbook. Statistics of Gross Domestic Product taken from UN Yearbook on Trade Statistics (1979)

The Southeast Asian trade dependence, both real and perceived, on Japan was further strengthened by the neo-classical colonial economic relationship. If one were to examine the commodity composition of ASEAN exports to Japan in the early 70's (Table 4) just before the Fukuda Doctrine, one can see a negligible percentage of it is in manufactures.

Table 4
COMMODITY COMPOSITION OF EXPORTS
ASEAN COUNTRIES TO JAPAN, 1972/73
(US\$ million, percentages in parentheses)

SITC GROUP		EXPORTS TO JAPAN	
0	Food and Live Animals	249	(9.0)
1	Beverages and Tobacco	5	(0.2)
2	Crude Materials, excluding Fuels	1,145	(41.5)
3	Mineral Fuel, etc.	1,037	(31.6)
4	Animals and Vegetable Oils & Fats	24	(0.9)
5	Chemicals	14	(0.5)
6	Basic Manufactures	227	(8.2)
7	Machinery & Transport Equipment	16	(0.6)
8	Miscellaneous Manufactured Goods	16	(0.6)
9	Goods not classified	26	(0.9)

Source: Narongchai Akrasanee (1982: 9-1).

The overwhelming composition of ASEAN exports as seen from the Table were in raw materials with mineral fuel constituting as much as 32.0%. Manufactured goods (items 6,7 and 8) came to only 9.4%, with a total value of US\$259 million. (ASEAN total exports of these three items of manufactures for the same year came to US\$2,236 million) (Narongchai 1982: 9-10). In other words, ASEAN exports to Japan of manufactures as a percentage of total ASEAN exports to that country came to about 10%²⁹ while 90% were in non-manufactures such as raw materials and so on.

This shows that by the early seventies Japan had succeeded only too well in its original intention of treating Southeast Asia as a source of raw materials. The words of two Thai scholars in describing Thailand's economic relations with Japan in the 1970s also applied to Southeast Asia as a whole. The composition of trade between the two countries, they wrote, "reflects the classic relationship of a resource-poor industrialized country with an agriculturally based developing country." (Narongchai 1982: 13) Such a relationship was not necessarily conducive to the industrialization of Southeast Asia.

The increasing Japanese economic edge began to generate Southeast Asian resentment and apprehension as to what it meant. This resentment arose from what some Japanese have called the "over presence" of the Japanese in the ASEAN 5. This "over presence" is not necessarily a case only of a numerical excess of Japanese people and Japanese things, but rather that of the ability of the locals or Southeast Asians to adjust to any increase in the Japanese presence.

Southeast Asians were relatively unconcerned with the Japanese presence before the mid 60's even if the economic relationship was neo-colonial in nature. But when economic activities about doubled in a matter of 10 years or so from the mid 60's (as seen in Figure 1), this meant a very rapid increase in the number of Japanese expatriates, Japanese neon signs, Japanese restaurants and etc. Giving very little time for Southeast Asians to adjust to this increase. Such can only heighten resentment against a group with ways of doing things Southeast Asians were not yet accustomed to and who came from a nation with a bad war record in Southeast Asia.³⁰

As to apprehension, some Southeast Asians began in the 70's to think aloud as to what an economically dominant Japan meant for Southeast Asia. Some suggested that Japanese economic domination in the 70's had achieved for the Japanese in Southeast Asia what they could not do so through military means. The *soroban* (Japanese abacus) had replaced the Samurai sword. An editor of an Indonesian daily, Merdeka, B.M. Diah, resorted to an arboreal metaphor to describe this. He said in 1973 that "the present gigantic, economic posture of Japan is the new branch from the old tree. The economic expansion in Asia and the world is a rejuvenation of the fruits of the old policy." (Dewi 1990: 237) A Malaysian scholar put it more straightforwardly.

He wrote that although Japan was defeated in the last war, it may be argued that it won the peace after 1945. In virtually every non-communist Southeast Asian country today, he continued, "Japanese consumer goods, especially electronic products and automotive parts and automobiles, are ubiquitously found in ever-increasing quantities. If Japan could not conquer East and Southeast Asia militarily, it has done so economically." (Zakaria 1987: 24)

Other Southeast Asians may not go so far. Still these fear the political and military implications of Japanese economic prowess. Thus in 1973, an Indonesian notable Mohamed Sadli spoke of “the probability that economic power will spillover in the political and other spheres.” (Dewi 1990: 237) This notion that an economically strengthened Japan could lead to Japanese political and military domination in the future also had currency in the Philippines, with many Filipinos believing a militarily strong Japan reinforced by its economic might would be a dangerous combination.

Thus, a former Foreign Minister Carlo P. Ramulo was quoted as saying in the early 80’s (but applicable to the 70’s also), “we must avoid strengthening Japan so much that with the economic power they have now coupled with military power, it becomes dangerous to the world. If you study the rise of Japan as an economic power [you will conclude that] it is extremely dangerous to give them the offensive power of the armed forces like the air service and the navy (Hernandes 1987: 44).

The increasing Japanese economic edge from the mid-1960s onwards and the Japanese refusal to do something about addressing Southeast Asian resentment and apprehension formed the backdrop to the anti-Tanaka riots, one of the developments that led to the Fukuda Doctrine of 1977. The riots broke out in January 1974 when the then Japanese prime minister, Kakuei Tanaka made what was then thought to be an uncontroversial visit to the five countries of ASEAN. It however turned out to be otherwise as he was greeted with anti-Japanese demonstrations in many of the ASEAN countries he visited.

The demonstrations were particularly intense in Indonesia and Thailand. Some attributed the origins of the demonstrations to internal political developments. There was at that time a split in the Indonesian government and a strong anti-establishment movement led by students in Thailand. It is claimed that the anti-government groups in both countries found the Japanese or the Tanaka visit a useful pretext to hit their governments. While such a view is not without some validity, the Tanaka visit would not have generated the violent demonstration if not for the then prevailing Southeast Asian resentment and apprehension against the Japanese.

10. Developments Leading to Anti-Tanaka Riots

The anti-Tanaka riots jolted the Japanese from their complacency about their relations with Southeast Asia. They began to realize that the Southeast Asians could no longer be taken for granted. Their grievances had to be addressed. As a matter of fact, they had been awakened a few months earlier of Southeast Asian importance not by developments within Southeast Asia but developments outside it. This was the oil crisis of 1973 which heightened the Japanese awareness of their great dependency on oil in particular and other raw materials in general, making them more sensitive to the need to accommodate countries like the countries of Southeast Asia which had abundant natural resources and which might possess enough oil to help reduce somewhat the Japanese dependency on the Persian Gulf.

There were two other developments in 1975 and 1976 which further heightened the importance of Southeast Asia to Japan and Japanese diplomacy. These were the American withdrawal from Vietnam in 1975 and the Bali Summit of the ASEAN heads of state in 1976.

11. The American Withdrawal from Vietnam in 1975

Crucial to the *seikei bunri* of Japan in Southeast Asia as stated was the assumption that the United States would handle the basic political and security problems associated with maintaining the market economies of Southeast Asia from which Japan greatly benefited. The US initially gladly assumed unilaterally these security burdens. But as these burdens, particularly that of the Vietnam War, were proving increasingly onerous, the US began to complain about Japan having a ‘free ride’ in Southeast Asia. There was pressure on Japan to share the burdens of maintaining stability in the region. This pressure was driven home to the Japanese in a dramatic way with the US withdrawal from Vietnam in 1975.

As a result, the Japanese began to feel that they had to do something as they realized that the US could not henceforth be relied upon to be the sole strategic guarantor in Southeast Asia for the US, unlike Japan, could always withdraw from Southeast Asia, according to one Japanese scholar. This scholar, Toru Yano, wrote that the psychological impact of the withdrawal had been subtle but profound. It had been something of a

revelation for the Japanese to discover that this is a region from which the US can withdraw at will but from which Japan cannot. (Yano 1978: 61)

The inability to escape from the logic of propinquity was not the real reason for Japanese worry however. It was the prospect of a power vacuum or alternatively of a very much more limited American strategic involvement, which could put Japanese economic interests there in jeopardy. These interests were quite substantial and involved primarily trade and to some extent investment. While, as noted, ASEAN dependence on Japanese trade was very great then, Japanese trade as a percentage of total Japanese trade was also not small. It was more than 10 per cent in the mid 70's, some in critical raw materials needed by Japanese industry. Also in the early 70s, Japanese investors were beginning to take Southeast Asia seriously as a production base for products destined both for the host markets of Southeast Asia and elsewhere.

An even more compelling reason for Japanese apprehension of the American withdrawal was their great dependency on Southeast Asian waterways, the Straits of Malacca, and also the Lombok and Makassar Straits, through which oil from the Persian Gulf and other goods destined for Japan are transported. This can be seen from the statistics. In 1976, just after the US withdrawal from Vietnam, 79.3 per cent of Japan's imported oil passed through the Straits of Malacca (Kondo 1987: 11).

This is a very high percentage indeed for any country to have to depend on a particular waterway for an extremely crucial commodity like oil. The waterways' importance continued to remain undiminished later. In the period just after the Fukuda Doctrine, as much as 44 per cent of ships of 30,000 tons or more passing through the Straits of Malacca and Singapore each day (estimated to be between 140 to 150) were Japanese. "Japanese tankers" according to a Japanese scholar (Akaha 1986: 265), in the same year, "carry 74 per cent of the oil transported through the strategic straits lying between Singapore and Indonesia, supplying their country with about 85 per cent of its total oil imports. Over 80 per cent of Japanese imports of liquefied petroleum gas (LPG) pass through these Southeast Asian straits, and almost 40 per cent of LNG and 18 per cent of the coal bound for Japan go through them."

It is estimated then that should shipping from the Persian Gulf be disrupted at these bottlenecks and re-routed around Australia, the shipping distance would increase by as much as 78 per cent. It must not be forgotten that the American withdrawal came only in slightly more than a year or so after the oil shock of late 1973. To a people deeply apprehensive about the lack of natural resources in their country and the consequent dependence on sealanes for transport of much needed raw materials, the oil shock greatly heightened the fear that Southeast Asian waterways could be blocked to Japanese traffic. It is not a matter of wonder that the metaphor 'lifeline' is sometimes used to describe the Straits of Malacca by some Japanese. The withdrawal thus raised questions in Japan as to the tenability of the policy of *seikei bunri* which rested on American willingness to provide the strategic underpinning of capitalist Southeast Asia, a willingness greatly open to doubt in the wake of the Vietnam withdrawal.

11. The Bali Summit

Awareness of the need to depart from the policy of *seikei bunri* notwithstanding, Japan was faced with the problem of devising a role that was not primarily economic in Southeast Asia. Japan was then influenced, and to a great extent still is, by the belief that any international role to be played by industrial powers necessitated 'partnership' with a group of developing countries. The events as discussed were forcing Japan to consider Southeast Asia as that 'partner'. Yet, Southeast Asia was a complex region because of the presence of many big powers and of its heterogeneity. Such complexity was best seen in comparative terms.³¹ If one were to consider around the mid-seventies three other areas in the world where there was involved a relationship between a great or industrial power with a group of developing or less powerful countries, the situation was reasonably clear-cut for that power to assert its dominance.

Taking the first area, that between the United States and the countries of South America, the United States was clearly the dominant power and had made it very clear that she wished to remain so. The one challenge to this, that attempted by Khrushchev in Cuba met with an overwhelming American response, even the threat of nuclear war. In the event, the Russians backed down, limiting their influence then in South America to the island of Cuba. On the other hand, South America itself was reasonably homogeneous.

There was a common language spoken, Spanish and in the case of Brazil, Portuguese, and a common religion, Catholicism. In addition, the elite was drawn from a military-feudal background. The second area, that of the Soviet Union and Eastern Europe had as an undisputed dominant power, the Soviet Union and a not too heterogeneous population in Eastern Europe professing communism as an ideology and having mostly Slavic roots. Lastly, in the black African countries, the European Economic Community had economical predominance while black Africa was characterised by a tribal structure. But Southeast Asia had four big powers in contention, the United States, Russia, China and Japan.

There was then no power balance among all four regarding their roles in Southeast Asia, the dominant disequilibrating factor then being the Sino-Soviet conflict, a conflict which had ramifications throughout Southeast Asia. Japan's ability to play a role in Southeast Asia would thus be checked by the other three powers. At the same time, Southeast Asia was a much less homogeneous area than the three other developing areas mentioned. There was the ideological division of communist and non-communist states; the fact of ethnic and religious diversity; and the fact of economic disparity among various states such as for example between Singapore and Burma; nor was there a clear-cut stable elite throughout Southeast Asia that a big power can work with.

Thus, this was where the emergence of ASEAN presented a way by which the Japanese can overcome the complexity of the Southeast Asian situation and retain the advantages that Southeast Asia offered them. The ASEAN group of countries, Thailand, Indonesia, Malaysia, Philippines and Singapore constituted that part of Southeast Asia that Japan had most economic relations with in Southeast Asia. The bulk of the raw materials that Japan desired in Southeast Asia such as tin, oil, rubber and timber were found in the ASEAN countries. In addition, the ASEAN market was huge and attractive, not only because of its population size but also because of its economic development such as would result in a huge purchasing power for Japanese goods.

In 1976 (Financial Statistics, relevant years) at the time of the Bali Summit, Japan imported from ASEAN goods to the value of US\$774 million,

much of this consisting of raw materials as compared to US\$112 million from Vietnam and a total of very much less from Laos and Cambodia. In the same year, Japan exported a total of US\$6,058 million, mostly in manufactured goods, to the ASEAN countries. It exported less than US\$215 million to Vietnam and even less to Laos and Cambodia. Also, another factor, a crucial one, was that the strategic waterways, the Straits of Malacca primarily, were in waters bounded by the three ASEAN states of Indonesia, Malaysia and Singapore.

Moreover, ASEAN possessed economies which were open to Japanese trade and investment. In fact, such trade and investment were actually encouraged subject to certain local regulations. The political systems were also non-communist and basically pro-western in orientation. Nor were the attitudes of the other powers then save that of the Soviet Union unfavourable to ASEAN as a grouping. The United States encouraged ASEAN to consolidate itself while China was then showing itself less opposed to the grouping. The attitude of the Soviet Union was less certain but Soviet influence in Southeast Asia in Japanese eyes probably could be contained to the Indochinese states.

The big question mark then was whether ASEAN was a cohesive group that could work with Japan in the changed geopolitical situation. Or was it a group long on rhetoric and short on substantial achievement, or worse, an organisation that would turn out to be a grouping of commodity lobbyists knocking on Japan's door. (Shibusawa, 1985,p.121) These doubts were not unjustified in the minds of the Japanese and many others, given ASEAN's rather lukewarm attitude towards solidarity in the past. But as it turned out, the ASEAN countries were not unconcerned about the American withdrawal in 1975 and the economic recession they were facing then.

Faced with these two challenges the ASEAN heads of state met in Bali in 1976 and resolved to infuse their organization with a greater sense of cohesion and unity of purpose. This apparently made an impression on the Japanese (and also many others) that ASEAN was for real and that they could work with ASEAN. Thus Yano (1978: 62) wrote that the final and decisive element in the development of an active Japanese policy towards Southeast Asia was the first ASEAN summit conference in 1976.

The conference forced Japan, whatever the past difficulties, to develop an articulate policy towards ASEAN.

The Japanese understood the historical significance of the first ASEAN summit conference in a dual sense. In the first place, the meeting 'legitimized' the ASEAN organisation itself and the efforts it had made up to that time. Moreover, by giving substance to ASEAN as a non-communist bloc, the conference gave credibility to the view that the Southeast Asian world was divided into two camps.

Occurring before and around these four developments was the rise of Japan from war-torn ashes to that of a global economic power. Its gross national product, for example, had risen about twenty seven times from 261.1 billion yen in 1952 just after the San Francisco Peace Treaty to 166,416.9 billion yen in 1976 a year just before the Fukuda Doctrine. While the feeling that Japan is a resource-less country greatly dependent on the outside world for its survival as an industrial nation maybe deeply etched in the Japanese psyche, nevertheless their increasing economic weight had, at least on the elite level, lead to some change in their perception of Japan's relations with the rest of the world.

On September 27, 1948, the *Asahi Shimbun*, a leading Japanese daily, considered Japan as a small, weak nation. By October 11, 1960 however, this same newspaper viewed Japan's role in the world as a "medium-sized power". Not long after this, an important Japanese politician, Prime Minister Ikeda Hayato began to talk of Japan as a big power. Hence, more than a decade before the Fukuda Doctrine, Japanese leaders and opinion makers were already feeling confident that Japan had some role to play as a big power.

Thus, all these development made it possible in 1977 for the prime minister who replaced Tanaka, Takeo Fukuda to visit the ASEAN countries in a markedly different atmosphere from that which the ASEAN countries greeted Tanaka three years later. It was clear by then Japan wanted (and ASEAN was willing to accept) a close, if not a special Japanese relationship with ASEAN.

12. The Fukuda Doctrine

The Fukuda Doctrine marked the end of Japanese unconcern with the non-economic consequences of its involvement in Southeast Asia. It is the most systematic exposition of Japan's role in Southeast Asia since the Second World War. The main points consist of the Japanese rejection of an explicit military role in Southeast Asia. Nevertheless, Japan will on the diplomatic front attempt to serve as a bridge between the then communist Indochina and non-communist ASEAN 5.

Japan will strengthen cultural relations with ASEAN, and in general, use its economic resources to help ASEAN achieve stability. During Fukuda's trip to the ASEAN Heads of State meeting in Kuala Lumpur in 1977, Japan also promised a US\$ one billion aid to the five ASEAN countries if they could come out with industrial complementary projects.

While Southeast Asia, ASEAN specifically, might not have got everything they expected in the Fukuda Doctrine, they were not unhappy with the main points of the Fukuda doctrine. Japan's rejection of a military role was welcome in ASEAN (and also in Japan as any military role overseas would be an extremely sensitive issue in domestic Japanese politics). Given the fact that ASEAN was only ten years old, and just getting off the ground with the Bali Summit of 1976, Japanese cooperation in strengthening ASEAN solidarity accorded well with ASEAN wishes. So too was the Japanese aim at being a bridge between ASEAN and communist Indochina.

While ASEAN is non-communist, it had always tried to project a peaceful image by emphasizing social and economic, rather than security, aims. It has always rejected any proposal to effect a collective security agreement. Despite post Vietnam uncertainty, ASEAN harboured hopes that the ideological division between Indochina and them should not be confrontational. Any help to reduce tensions between both areas cannot be objected to. But most welcome was the Japanese declaration of strengthening ties in the social, and cultural realms (with the suggestion Japanese economic resources would be used for such ends) which suggested that the Japanese would be sensitive to the non-economic

consequences of their economic involvement. This had been a primary ASEAN aim.

In short, the Fukuda Doctrine, even if it did not say in so many words, implied a special relationship with ASEAN. Not only was the Doctrine the most systematic exposition of the Japanese position in Southeast Asia since the war, it also suggested ASEAN would be the primary partner of Japan in Japan's search for an international role brought about by the circumstances of its economic weight. ASEAN did not object to this as it was a special relationship different from that of a group of countries under the sphere of influence of some big powers, such as Eastern Europe and the then Soviet Union, or even that between Latin America and the United States.

In these two examples, not only did the two big powers dominate the economies of those in their "spheres of influence" but also exerted political and military influence in these spheres. No such military and political domination by Japan in Southeast Asia was expected by ASEAN after the Fukuda Doctrine, only the use of Japanese economic resources for social, cultural and political ends agreeable to ASEAN. While Japan would continue to exert economic influence, ASEAN hoped that within the economic relationship, Japan would agree to a stabilization scheme for ASEAN primary commodities, better ASEAN access to the Japanese market, more aid and investment because of the special relationship.

13. Developments After the Fukuda Doctrine

The Pacific Community

Thus, it came as a matter of great surprise if not of bewilderment to ASEAN that immediately after Fukuda was replaced by Masayoshi Ohira in late 1978, that Japan introduced the concept of the Pacific Community as an important foreign policy objective. Ohira wanted Japan to form a community of nations of the Pacific Community as an important foreign policy objective, and specifically as an organization which would manage the increasing economic interdependency of the nations there. While the criteria for membership were not explicit, or kept deliberately vague, Japan undoubtedly envisaged that the market economies of the Pacific Ocean, that of ASEAN, United States, Canada, Australia, New Zealand, Hong

Kong, Taiwan and Korea (and possibly Papua New Guinea) could be members.

While there had been previous proposals primarily by academics and businessmen for some kind of a Pacific Community, there was nothing in the actions and speeches by the Japanese government in the period since the Fukuda Doctrine, roughly a year or so, to suggest the Ohira proposal was coming. To the disappointment that ASEAN felt over the ending of the all too brief romance of the special relationship was the feeling of not being consulted over a proposal that affected ASEAN so vitally. ASEAN resented being taken for granted.

It was not a matter of surprise that ASEAN at best expressed its caution about the proposal and at worst was vociferous in protesting against it. A second ASEAN objection was the fear that this proposal would affect ASEAN solidarity. ASEAN was a grouping of countries not only in various stages of economic development but were culturally, religiously and ethnically quite divided. Moreover, some countries had just emerged from a period of confrontation with each other (Malaysia and Singapore against Indonesia). Such countries were only gradually overcoming the distrust resulting from recent enmity.

Thus, whatever solidarity ASEAN had achieved could be diluted or even destroyed by ASEAN membership of a wider Pacific community. Moreover, the timing could not have been worse. The Ohira proposal came around the time of the Vietnamese invasion of Cambodia. While historians now point to the solidarity of ASEAN in taking a common stand against the invasion as one of its great achievements, the achievement of such solidarity was not apparent then. Indonesia and Malaysia saw China then as the long-term enemy while Singapore and Thailand believed such an enemy to be the Soviet Union. Upon such differing perceptions (and hence how to face the Cambodian question) ASEAN could have foundered. ASEAN then could do without the distraction of the Pacific Community.

The third ASEAN objection was the fear that a Pacific community could be dominated by the big powers. Given the great disparity in economic development between the ASEAN countries and the big powers such as

the United States and Japan, and with even the medium powers such as Canada, Australia and New Zealand, and the manner in which self-confident Western countries could manipulate any agenda, particularly if the community was of an institutional, rather than a loosely structured character, ASEAN interests could be given short shrift.

Such were made known to Japan in one way or another. It would appear that Japan was somewhat taken aback by these ASEAN reservations, if not objections. While Ohira enlisted the then prime minister of Australia, Malcolm Fraser, to his cause, they decided it unwise to proceed too quickly. And in a Canberra conference proposed by Japan and Australia to launch this Pacific Commodity proposal, the conference decided not to go ahead with a formal meeting of governments of putative members of the community. Instead the conference agreed to form a Pacific Economic Cooperation Conference (PECC) which would have tripartite membership of businessmen, academics and government officials in their private capacity. It was not until a decade later in 1989 that the Asia-Pacific Economic Cooperation (APEC), an organization of governments of the Asia-Pacific region, was formed on the joint initiative of Australia and South Korea.

There are however many Southeast Asians who believe that some kind of a Pacific community is here to stay; that Ohira's proposal was not based upon any capricious whim. These suspect that Ohira and Japan believe that Fukuda might have been a bit hasty in leading ASEAN into believing Japan had a special relationship with it and that Fukuda was not aware of the "unreasonable" demands ASEAN would make. After all, an abiding fear of Japan had been that ASEAN would turn out to be a pressure group of primary product producers knocking on Japan's door. After all did ASEAN not ask for a stabilization of commodity price scheme to be funded by Japan.

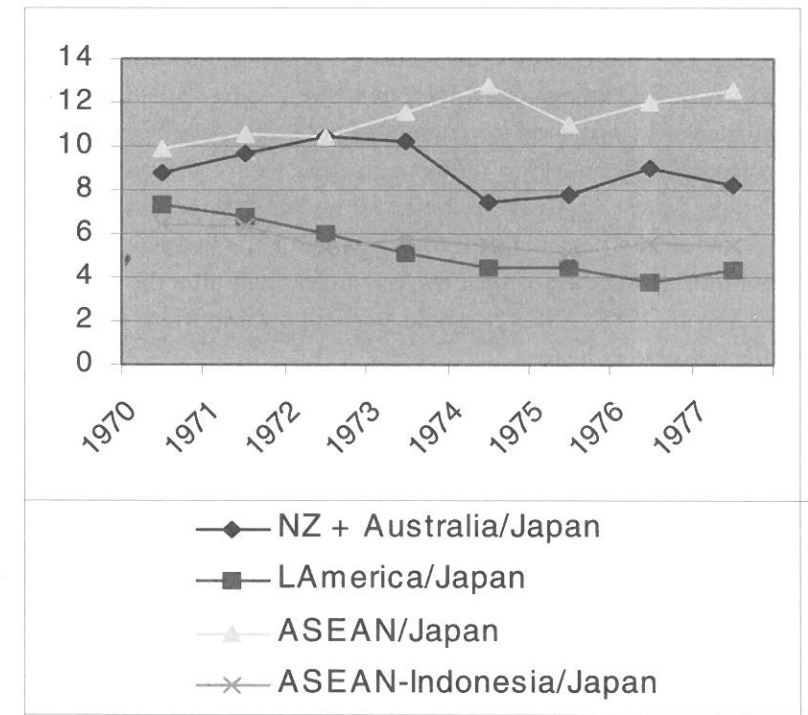
What was there to prevent other suppliers of raw materials to Japan from demanding the same, suppliers which were as important to Japan as ASEAN. On this last point, it would seem Japan had statistics on its side. Following (Table 6) are the statistics for Japanese imports from ASEAN and the other two important suppliers of raw materials, Australia and

New Zealand and Latin America, to Japan for the 8 years preceding 1978, the year of the Ohira proposal.

Table 6
% OF IMPORTS FROM AUSTRALIA AND N. ZEALAND,
LATIN AMERICA, ASEAN AND ASEAN MINUS
INDONESIA OF TOTAL JAPANESE IMPORTS 1970 TO 1977

	NZ + Australia/Japan	America/Japan	ASEAN/Japan	ASEAN- Indonesia/Japan
1970	8.8	7.3	9.9	6.5
1971	9.7	6.8	10.6	6.3
1972	10.5	6	10.4	5.3
1973	10.2	5.1	11.6	5.8
1974	7.4	4.4	12.8	5.5
1975	7.8	4.4	11	5.1
1976	9	3.8	12	5.6
1977	8.2	4.3	12.6	5.5

Source: Ministry of Finance, Japan Represented graphically (Figure 2) it will be thus:



The statistics are for total imports to Japan for the four areas. But because the overwhelming majority of such imports would be raw materials, the statistics should represent fairly the comparative amount of raw materials Japan took from these areas. Even though the ASEAN/Japan percentage is slightly higher than the rest, it is not that much higher. A more accurate comparison however of Japan's need for commodities for the ASEAN figure would be ASEAN minus Indonesia as the great bulk of Japanese imports from Indonesia are oil and mineral fuels which are basically in a separate category.

Indonesians have OPEC to pressure oil importers, and need not go through any ASEAN lobby of commodities knocking at Japan's door. In this respect, the figures and graph of the ASEAN without Indonesia percentage of Japanese total imports is not that impressive, less than Australia and about similar to Latin America. It is not a wonder that in 1978, a Japan, taking a second look at the special relationship, would conclude that ASEAN as a source of commodities does not justify special treatment, both because it is no more impressive than Australia and New Zealand, and that these two other areas might ask for similar special treatment given to ASEAN.

The trend in political relations between Japan and Southeast Asia, particularly ASEAN seems clear. It is one where, as a result of the declining dependence of Japan on the economies of Southeast Asia, Southeast Asia is correspondingly unable to utilize such dependence for political ends. Not that the Southeast Asian economies are no longer important. ASEAN-Japanese trade as a percentage of total Japanese trade had ranged from 9-13% for throughout the post-war era, and increasingly after the revaluation of the Yen in 1985, ASEAN would become an important production base for Japanese industries.

But they were no longer crucial as before the war where the denial of a crucial commodity like oil from Indonesia or the total cut-off of trade from Southeast Asia would do such damage to the Japanese economy as possibly to be even a cause for war. Southeast Asia exercises no such leverage today. Japan has diversified and is no longer dependent on any one key commodity in Southeast Asia for its industrial survival.

But ironically while Japanese economic dependence on ASEAN has been diminishing, Japan is finding itself more and more in need of ASEAN politically. As Japan rises to economic superpower status, it begins to feel (and also in response to outside pressures) that it has to play an international role commensurate with its economic status. This invariably means a need for a group of developing countries it can "partner" with. ASEAN was considered by Fukuda to be the primary partner.

Yet when Japan after Fukuda realized that the ASEAN economy was not that crucial, Japan nevertheless could not proceed with the Pacific community without full ASEAN support. It was not that ASEAN had a veto but that Japan did not wish to alienate ASEAN completely. ASEAN practiced market economies that had a long history of reasonably trouble free Japanese involvement. Also, the ASEAN economies, fairly sizeable, were developing quite well, and politically pro-West and Japan. Other putative partners like China were unreliable and at any rate unlikely to tolerate for long any subordinate status to Japan. The other possible partner in Pacific Asia such as Korea was too small, unforgiving of Japan for past Japanese colonization, and a potential rival.

Australia and New Zealand were too far away and at any rate, their people were of European origin. ASEAN still remained the most attractive of the lot. Thus, the political leitmotif in Japanese relations with ASEAN with the advent of Ohira is Japanese vacillation about the importance of the economies of ASEAN to Japan, but increasing appreciation of the political importance of ASEAN.

NOTES

1. Before ASEAN was formed, one real threat of invasion was within non-communist Southeast Asia, that of Indonesia against Malaysia during confrontation. Subsequently, it turned out that invasion occurred within the communist countries such as the Vietnamese invasion of Cambodia in 1978 and the Chinese invasion of Vietnam in 1979.
2. In June 1960, the Dutch government requested permission from Japan for its aircraft carrier, called the Karel Doorman, to enter a Japanese port for oil and water supplies. The carrier was bound for West Irian which was then claimed by Indonesia. The Japanese government reluctantly agreed despite protests by many Indonesians. However, when the Karel Doorman on September 3 headed for Japan after leaving West Irian, the Japanese Foreign minister this time learned from its ambassador in Indonesia that Indonesia would break off economic relations with Japan if the Dutch ship entered the Japanese port of Yokohama. According to Nishihara, (1976, p.160) the Japanese government decided to reject the Dutch request because the Foreign Minister Zentaro Kosaka "did not want to trade an Asian friend for an aircraft carrier."
3. Thailand unlike the other three had not been actually colonized by the western powers. It was also not really occupied by the Japanese during the War. Nevertheless, as a gesture to reduce what antagonism that might have arisen over Thai-Japanese relations during the war, Thailand was given a special yen payment of \$26.8 million in Japanese goods and services over an eight-year period from 1962.
4. In addition to the American desire to have Japan as an ally in the Cold War, the Americans were also worried they might have to foot the bill to continue aiding an economically crushed Japan. Dunn (1973: 152) quotes a State Department document on this issue as saying that "the Japanese economy can be made to bear additional economic burdens, beyond those directly related to meeting its own requirements, only by prolonging or increasing the staggering costs borne by the American taxpayers," .
5. Even payment in capital goods at one stage was contested by the Japanese in their reparation negotiations with Indonesia.
6. As the Indochinese countries were under the French during the war, there was not much fighting between French Indochina and Japan for much of the war because France was under the Vichy government until 1944, which was an ally of Germany.
7. The estimates filed by C.P. Romulo, Philippine representative to the Far Eastern Commission (FEC) were \$800 million for physical damages, \$1,670 million for the loss of an estimated 120,000 Filipino lives and \$5,500 million for indemnity against commandeered goods and services through the issuance of Japanese military notes (Vellut 1963: 497).
8. I have used Nishihara (1976) very extensively for this account of Indonesia-Japanese negotiations.
9. According to Nishihara, (1976: 63), Nishijima was a member of the liaison office in Jakarta headed by Rear Admiral Maeda Tadashi (a sympathizer of the Indonesian nationalists) of the Japanese navy needed to link with the Jakarta headquarters of the Japanese Sixteenth Army. It was at this liaison office, Nishijima became acquainted with Subardjo.
10. For consistency, the term Malaya would be used to describe Malaya after the Second World War and Malaysia after 1963.
11. Upon conquering the Malaysian peninsula and Singapore, the Japanese, in order to punish the Chinese there for their support of the war against Japan in China, demanded 50 million Malaysian dollars as revenge. This was an enormous amount then which could not be easily raised. As Hara (1993: 131), puts it, the amount of currency in circulation in Malaya on February 15, 1942, the date of the British surrender in Singapore, was 221.97 million Malaysian dollars. This means that between March and June 1942, Chinese residents in Malaya had to collect and submit 23 per cent of the total money in circulation! In the event, the Chinese residents only managed to collect no more than 28 million Malaysian dollars, with the balance financed by a loan from a Japanese bank. Even though this loan was written off after the war by the British, this 50 million dollars extortion, a lot of which had to be raised on pain of death, had remained deeply etched in Chinese

- minds. It is no coincidence that the sum of the final "Goodwill Grants" in 1967 for Singapore and Malaysia came to 50 million Malaysian dollars.
12. Malcolm Macdonald was said to have agreed to have this included in the government's reparation claims against Japan, though that did not finally materialize. (Hara, 1993, p. 131).
 13. While the Malays in Malaysia also suffered under the Japanese, the Chinese were the ones with the most bitter memories. Over this mass graves issue, the Malays did not show the same degree of emotion as the Chinese. The prime minister, then, Tengku Abdul Rahman was not keen to have this issue blown up.
 14. *Straits Times*, August 25, 1963. In a meeting of the Chinese Chambers of Commerce in Singapore, reported on August 10, 1963, there was also talk of resorting to the economic weapon, when many speakers hinted at undertaking a boycott of Japanese goods.
 15. Even to today, there are still many Malaysian Chinese who think the Japanese have not adequately settled the blood debt issue. The recent 2001 Koizumi visit to the Yasukuni shrine was the latest occasion for many Malaysian Chinese to revive this issue.
 16. The research for this was done both in Malaysia and in Japan when I was a visiting fellow for three months in the Institute of Developing Economies in Tokyo in 1977. It involved a lot of interviews with Malaysians and Japanese directly or indirectly associated with the establishment of this steel mill. Some of the result of this research has already been published in an Institute of Developing Economies paper entitled "Japan's Decision to Establish Malayawata," 1977.
 17. According to the Far East Iron and Steel Trade Reports (Tokyo), July 1961, p. 11, Malaysia had been approached by many countries before this for a construction of a steel works. However, according to T.H. Tan, in an interview on April 14, 1976, it was not easy to get a foreign partner under the terms set by the Malaysians. Hence, they approached the Japanese.

18. Malayawata Steel Berhad is the name of the joint venture. It is a compound of Malaya and Yawata.
19. From the basic agreement between the two parties made in 1961.
20. It is not quite clear what held things up apart from the time taken by the Japanese to make the technical studies. Probable problems could be the difficulties of raising the cash by both parties, and the different ways of doing things. According to Tabato Shintaro, executive director of the Iron and Steel Institute in Tokyo and the JETRO representative in Singapore in the early 60's, in an interview in Tokyo on February 28, 1977, the Chinese businessmen had too much of a trader mentality and did not appreciate the problems involved in the construction of an integrated steel mill. Another problem was the separation of Singapore. Malayawata, with shares held by Singapore-based investors, could not comply with the 51% Malaysian shares. See Dr. Lim Swee Aun in *Parliamentary Debates* (August 23rd) the Third Session of the 2nd Parliament of Malaysia.
21. The assistant Minister of Finance, Dr. Ng Kam Poh, in defending government involvement, stated that this "iron and steel project is a basic industry of vital importance to the national economy and future industrialization of the country," See *Parliamentary Debates*, 22nd August 1966. The third session of the 2nd Parliament of Malaysia. The Motion on The Development (Supplementary) (no. 1) Estimates, 1966 (vol, 1240).
22. As a result of the IFC's participation, T.H. Tan and many of his original partners were dropped. There are contradictory accounts as to whether the IFC made the decision to insist on Tan and company leaving or whether some other Malaysian politicians and businessmen manipulated the IFC over this. Many Japanese nevertheless credit T.H. Tan with having played an important role in the early negotiations on Malayawata.
23. See the Chairman's (Robert Kuok) address in Malaywata Steel Berhad (Incorporated in the States of Malaya) Directors Report and the Statement of Accounts to 31st March, 1967.
24. According to Tadayoshi Yamada, permanent executive counsel to

Nippon Steel Corporation in 1977. In an interview, he said it was originally estimated that profits might take longer than five years to materialize.

25. Interview with T.H. Tan.
26. In an interview, Inayama was insistent that there was absolutely no connection between the reparations issue and the establishment of Malayawata.
27. In an interview and further telephone conversations with Hiroyuki Kita. Kita was what one would call an intermediary between both sides. Though Japanese, he had spent a lot of time in China where he developed such a degree of fluency in Chinese that even some Japanese thought he had Chinese blood. He was apparently trusted by some of the Malaysians like T.H. Tan as to pay a role in bridging the cultural differences between the two parties.
28. A similar, but unsuccessful attempt by Fuji Steel to start a steel project in Singapore in the early 60's makes for an interesting comparison. According to Tabato Shintaro, (in an interview,) the president of Fuji Steel, Nagano, was on a pleasure cum business visit with his wife in Singapore when he was entertained to lunch by Tabato. Tabato mentioned to Nagano that some Singaporean businessmen had approached Tabato about the possibility of a joint Japanese-Singaporean steel project. From Fuji's point of view, Singapore was politically stable and economically well developed as to justify such a project. Moreover, Nagano wanted this project to be a showpiece of Japanese-Southeast Asian cooperation. However, as negotiations proceeded for about half a year, problems arose as to funding, the different views as to how the project was to be run, and so on. Nagano probably did not push as hard as Inayama did in Malaysia. According to Tabato, Inayama did so in Malaysia primarily because of Malaysia's iron ore supply.
29. Two Indonesian scholars were pessimistic whether much can be done about this, at least in the Indonesian case. "the prospect for correcting this critical structural deficit", they write, "is quite remote, as can be seen by the insignificant role played by the export of manufactured goods – which for the whole period of 1975-79 remained at the

exceedingly low level of below 2 percent" Dorodjatun(1982: 42).

30. One has got to remember that the Japanese brought with them their way of doing things which in the 60's and early 70's were viewed rather negatively by Southeast Asians. In the fifties and sixties, the Southeast Asian way of doing business was influenced by Westerners. While the Japanese organization of business and social relations may subsequently be seen as desirable for emulation in the late 70's and 80's onwards, (when enough time has passed by for their superiority to Western business style to be demonstrated), the Japanese then were widely perceived as being too profit-oriented, clannish and insensitive to local cultures. They were unfavourably compared with Westerners. Now the fact that this Japanese presence expanded so greatly in such a short space of time in the 60's and early 70's greatly added to Southeast Asian negative perceptions of them.

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