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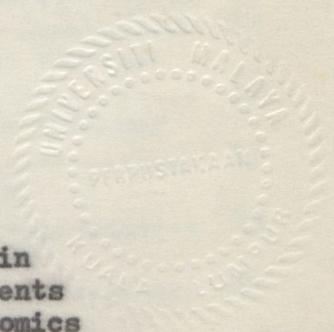
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A Graduation Exercise submitted in partial fulfilment of the requirements for the Degree of Bachelor of Economics in the Faculty of Economics and Administration

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Twenty-six years ago, Japan unconditionally surrendered after a war which had lasted three years and eight months and had its beginnings in the early thirties. On that day, August 15, 1945, Japan was a scorched land; its people wandering dazedly in search of food and lost relatives. The old order was dead and an alien, bewildering concept of life and society was rapidly replacing it.

Japan then realized that her ambition of wanting to become a rich and strong nation with a position of importance in the world could not be achieved through a short-cut method by forcibly acquiring raw materials from less developed countries. So Japan set out towards building a modern industrial society nearly a century behind America and Western Europe and has, nevertheless, been highly successful in accomplishing and maintaining a truly remarkable economic growth.

### Factors of Development

The idea of Japan being able to develop into an economic superstate to rival any other country in the world has emerged fairly suddenly; so used was the world to the idea of the west as the source of ideas, wealth, technology that the notion of Japan outstripping its western mentors seemed marvellous. In 1968, Japan overtook West Germany to become the World's third greatest economic power, after the United States and the Soviet Union. But what are the factors behind Japan's economic success and what does the future hold for Japan?

There are a number of schools of thought that have arisen to explain Japan's growth from a defeated and humiliated nation after the war to the economic superstate that she is. The Japanese advantage goes well beyond the diligence of the society, the superior education system, consensus decision-making, group loyalty, skilled business management, the Keiretsu system and subtle government control of the economy. Shizuka has attempted to analyse the growth of Japanese

...economy through seven reasons which are classified below.

Firstly, Japanese economy has advanced as a result of the management skills of the entrepreneurs who have helped in the industrialisation programme by breaking new frontiers to industries or commerce and also at the hands of government officials and bankers.

## CHAPTER I

Secondly, the fiscal policy has been successfully used to ensure full employment. Monetary and fiscal policies have been adopted as the situation has demanded.

## INTRODUCTION

### War's Aftermath and Rebirth

Twenty-six years ago, Japan unconditionally surrendered after a war which had lasted three years and eight months and had its beginnings in the early thirties. On that day, August 15, 1945, Japan was a scorched land; its people wandering dazedly in search of food and lost relatives. The old order was dead and an alien, bewildering concept of life and society was rapidly replacing it.

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### Factors of Development

The idea of Japan being able to develop into an economic superstate to rival any other country in the world has emerged fairly suddenly; so used was the world to the idea of the west as the source of ideas, wealth, technology that the notion of Japan outstripping its western mentors seemed sacrilegious. In 1968, Japan overtook West Germany to become the World's third greatest economic power, after the United States and the Soviet Union. But what are the factors behind Japan's economic success and what does the future hold for Japan?

There are a number of schools of thought that have arisen to explain Japan's growth from a defeated and humiliated nation after the war to the economic superstate that she is. The Japanese advantage goes well beyond the diligence of the society, the superior education system, consensus decision-making, group loyalty, skilled business management, the Zaibutsu system and subtle government control of the economy. Shimazu has attempted to analyse the growth of Japanese

Zaibutsu was the group of business combines which grew to control the Japanese economy in the twentieth century. The initial capital accumulation of the Zaibutsu combine was achieved by primarily exploiting their close cooperation with the Central Government during the Meiji Era.

economy through seven reasons which are classified below.<sup>1</sup>

Firstly, Japanese economy has advanced as a result of the management skills of the entrepreneurs who have helped in the industrialisation programme by breaking new frontiers to industries or commerce and also at times by government officials and bankers.

Secondly, the fiscal policy has been successfully used to ensure full employment. Keynesian monetary and fiscal policies have been adopted as the situation has demanded.

Thirdly, Alexander Gerschonkron's hypothesis has nicely fitted into the recent Japanese economic development especially after the Second World War. His hypothesis is that the later a country adopts new technology the more sophisticated the technological process will be. The hyper-inflation in Japan was so violent that it could be stopped only about four years after the Second World War Depression followed this but fortunately for Japan, the Korean War which came after enabled the economy to recover about seven years after the end of the Korean War. Japan suffered severe inflation and revolutionary economic policies such as the destruction of 'Zaibutsu', heavy property tax and land reform had to be adopted. Therefore, as the theory shows, the delay in Japan's recovery of about seven years was advantageous in that it was possible to adopt new inventions.

Fourthly, the high savings ratio of the Japanese further contributed to the rapid economic growth of Japan. Recent statistics show that Japanese savings ratio is as high as 17-18% while in the United States of America it is around 6% and in other countries such as England, France, West Germany and Italy it is around 7% per annum. The reasons advanced for this high savings ratio are that the Japanese social security and welfare policies are not sufficient to help pay for their retirement days, and so as a result of being worried for the future they save more. Again the Japanese people by nature are very thrifty and frugal. The institutional background has made savings easy. In Japan for instance, financial facilities are located at every corner of the street. In 1969 there were 20,800 post offices and the 13 main commercial banks each had about 200 branches of their own and in every prefecture there are local banks with many branch offices. The other institutional reason is the Japanese wage system. In

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<sup>1</sup>Royo Shimazu, 'The Nature and Causes of the Japanese Economic Development,' in Japanese Economic Influence in South-east Asia (Faculty of Economics and Administration Monograph, September 1970, University of Malaya), pp. 22-29.

<sup>2</sup>Zaibutsu was the group of business combines which grew to control the Japanese economy in the twentieth century. The initial capital accumulation of the Zaibutsu combines was achieved by primarily exploiting their close cooperation with the Central Government during the Meiji Era.

addition to the salaries and wages which are paid regularly every month, the Japanese receive bonus - which are extra additional payments - usually in June and December.

Fifthly, nearly a quarter of a century has passed after the Second World War and fortunately for the first time in the history of Japan, full employment was reached in 1960. As a result there has been a mass consumption of goods. All these factors have led to the successful increase in investment in the relevant fields of industries. As a result of full employment since 1960, the following years of rapid growth has changed the Japanese economic structure which has resulted in the shortage of labour, increase of consumer goods prices each year leading to sectoral inflation. The incomes of younger and poorer people as a result have shown a greater growth rate than other people's income and wage differentials caused by sex, age, size of factories, location of factories and even abilities have largely diminished because of strong demand for labour.

Sixthly, comes the role of the Government. Twenty years back the Japanese could not anticipate that the Japanese economy would become so volatile. The Government's expectation about the year's economic rate of growth have always been under-estimated, showing that the present economic growth has occurred not only through Government economic planning. The role of Government in economic planning is generally speaking, always and everywhere over-estimated and exaggerated. Shimazu quotes the example of the early period of Prime Minister Ikeda's regime. Mr. Ikeda's "double income policy" was accused of being too ambitious, but later on the Government was accused of not having done anything. But however, Mr. Ikeda's Government created the conducive atmosphere for the expanding businesses but the economy as a whole enjoyed a boom as a result of continuous daring investment by the competitive oligopolistic banks. As a result, the economy strengthened and government revenue automatically rose resulting in the Government spending increasing sums on roads, schools, social securities and so on.

The final reason is the International Balance of Payments since the Second World War, the main aim has been to achieve full employment as rapidly as possible. But it seemed difficult for the Japanese economy to do so because of scarcity of natural resources and the large population. Thus, to minimise unemployment, the Gross National Product had to be increased and to increase Gross National Product in Japan always meant that exports had to be increased. Until recently Japan had always to suffer a deficit in her International Balance of Payments if she wished to import more and more raw materials. Thus the trade cycle after the Second World War has been such that the Japanese economy had a tendency to expand, but if imports became excessive and the International Balance of Payments showed signs of deficit, then the monetary authority would contract the money-supply which could lead to recessions. This pattern was repeated several times. But this has been overcome by the fact that exports are increasing year by year due to continuous technological innovations.

William W. Lockwood says that the Japanese economy has reached its present height due to favourable factors such as the economy has continued to grow during the past fifty years uninterrupted.<sup>3</sup> Another factor to be taken into account should be the low rate of population growth and an environment of peace and expanding world trade. There is also no defined "take-off" stage in the modernisation of Japan. The development took place from below as well as from the top downwards by modest but persuasive technical change.

Thus the Government took the lead in the early years and laid down the conditions for successful economic growth but later withdrew to give the way to private enterprises. The state began to furnish the necessary overheads and infra-structures for development. The Compulsory Public Education System which was introduced also played an important part.

Japan is a country which is deficient in raw materials but from the beginning the leaders have realised this and concentrated on multi-lateral trade which has paid off handsome dividends. Therefore, a large amount of foreign trade maximised the inflow and dispersion of new technology and ideas. National consciousness and militarism provided peace and incentive for growth during the 1930's. Welfare services such as in education, land-tenure, factory legislation and income distribution further strengthened the economy.

#### Japan's Economic Strength

As a result of these reforms, Table 1.1 would indicate that even during the ten years of post war restoration and economic rehabilitation Japanese economy soared from the ruins of the Second World War, while the economies of other countries remained at a standstill.

#### Japan's Growth in World-trade and World Economy

The period immediately following the war indicates that Japanese annual growth rate in World trade and World economy, has been at a very tremendous rate. The Japanese annual growth during the period between 1955 and 1960 has been so impressive that in the famous British magazine, the Economist, she has been referred to as the "Risen Sun". Year after year, her great and sustained growth has attracted more and more attention from all over the world. Chart 1 shows that the current boom which Japan has been experiencing since November 1965, has recorded an annual economic growth rate of over 10% in three consecutive years. The result of this has been that Japan has overtaken West Germany in terms of GNP in 1968. The GNP of Japan in 1968 was \$141,900,000,000 which points out that she occupies the

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<sup>3</sup>William W. Lockwood, 'Japan as a Modernisation Model: Some Compass Bearing', Ibid, p. 19.

TABLE 1.1

GROWTH OF WORLD TRADE AND WORLD ECONOMY  
(ANNUAL AVERAGE IN PERCENTAGE)

	1950-55	1955-60	1960-67
Growth rate of World Exports (nominal)	8.6	6.2	*8.1
Growth rate of World Exports (real)	6.0	5.9	*7.3
Economic Growth rate (real)			
Advanced countries	4.7	3.4	4.9
United States of America	4.3	2.2	4.7
Western Europe	5.0	4.4	4.2
European Economic Community	6.3	5.3	4.6
Other Countries	6.2	6.1	7.7
Japan	**7.7	9.8	10.4
Developing Countries	4.7	4.5	5.0
Latin America	5.1	5.0	4.6
Middle and Near East	*** -	5.9	6.4
South Asia	3.4	4.2	4.3
East Asia	*** -	3.8	5.2
Africa	*** -	*** -	3.6

Sources: (1) Economic Report of the United States President (1969). United Nations Monthly Bulletin of Statistics. IMF: International Financial Statistics.

- (2) France, West Europe, Spain, Greece and Turkey are excluded.
- (3) European Economic Community consists of Belgium, Luxemburg, France, West Germany, Italy and the Netherlands.
- (4) Other countries consist of Canada, Australia, New Zealand, South Africa and Japan.
- (5) Middle and Near East includes Greece and Turkey.
- (6) As for developing countries, figures are estimates of only those countries whose data are available.
- (7) Data of the Soviet Union, East Europe, China and Cuba are excluded.

\* 1960-1968

\*\* Data for 1952-55 are adopted.

\*\*\* Data not available.

second position behind the United States in the Free World.

Trends in Shares of Major Countries Exports in World Exports

Table 1.2 indicates that Japanese exports have been increasing over the past few years. She has been able to increase her percentage of world exports from 1.7% immediately after the post-war period to 6.2% in the 1960's at the expense of other developed nations. Her exports will continue to increase as she establishes a strong foothold in the African and American regions.

**CHART 1**

**PRICE INCREASE RATE AND ECONOMIC GROWTH OF PRINCIPAL NATIONS**

**TABLE 1.2**

COUNTRY	Nominal Growth Rate				
	PRICE INCREASE	Real Growth Rate			
	1950	1955	1960	1965	1968
JAPAN					
U.S.A.	18.0	18.4	18.0	16.5	16.0
GERMANY	3.5	7.3	10.1	10.9	11.8
FRANCE	1.9	2.4	3.6	5.1	6.2
BRITAIN	5.1	5.2	4.9	4.9	6.0
ITALY	2.5	3.2	3.6	3.9	4.0
Belgium, Luxembourg	2.9	3.3	3.4	3.9	3.9
Sweden	2.5	2.1	10.3	2.4	2.4

Source: (1) United Nations Monthly Bulletin of Statistics.

Source: Economic Report No. 11, 1970 October, Trade and Industry of Japan.

second position behind the United States in the Free World.

Trends in Shares of Major Countries Exports in World Exports

Table 1.2 indicates that Japanese exports have been increasing over the past few years. She has been able to increase her percentage of world exports from 1.5% immediately after the post-war period to 6.2% in the 1960's at the expense of other developed countries. It can be expected that within a few years she would increase the percentage of exports still further as she establishing a strong foothold in the African and American regions.

TABLE 1.2

CHANGE IN THE BALANCE OF PAYMENTS STRUCTURE  
(IN MILLION U.S. DOLLARS)  
TRENDS IN SHARES OF MAJOR COUNTRIES EXPORTS IN  
WORLD EXPORTS (IN PERCENTAGE)

	1950	1955	1960	1965	1968
United States of America	18.0	18.4	18.0	16.5	16.0
West Germany	3.5	7.3	10.1	10.9	11.8
United Kingdom	10.7	9.6	9.0	8.0	7.0
Japan	1.5	2.4	3.6	5.1	6.2
France	5.4	5.9	6.1	6.1	6.0
Canada	5.1	5.2	4.9	4.9	6.0
Italy	2.1	2.2	3.2	4.4	4.8
Netherlands	2.5	3.2	3.6	3.9	4.0
Belgium, Luxemburg	2.9	3.3	3.4	3.9	3.9
Sweden	2.0	2.1	2.3	2.4	2.4

Source: (1) United Nations Monthly Bulletin of Statistics.

(2) The Countries are top ten countries in the order of exports in 1968.

## Change in the Balance of Payments Structure

Table 1.3 shows that Japan's Balance of Payments has improved considerably. Looking carefully at the Balance of Payments it could be observed that her trade balance has improved tremendously. There are two factors behind the persistent payments surplus and they are firstly, the expansion of the trade surplus and secondly, long term capital inflows. The change in the Balance of Payments has impelled the country to the position of an advanced country.

TABLE 1.3

### CHANGE IN THE BALANCE OF PAYMENTS STRUCTURE (IN MILLION U.S. DOLLARS)

	1946-50 Average	1951-55 Average	1956-60 Average	1961-64 Average	1965-68 Average
Current Balance	145	105	23	573	760
Trade Balance	-188	-393	93	14	1,966
Exports	395	1,507	3,116	5,276	10,239
Imports	583	1,900	3,023	5,263	8,273
Services	-68	442	-16	-539	-1,062
Credits	44	816	853	1,141	2,071
Debits	112	374	869	1,679	3,133
Transfers	401	55	-54	-47	-143
Long-term Capital	-16	15	28	184	-569
Assets	-20	-22	-97	-343	-781
Liabilities	4	37	126	527	212
(Basic Balance)	129	120	51	389	192
Short-term Capital	-	22	-1	117	148
Errors and omissions	15	1	28	20	-22
Overall Balance	145	143	78	-251	-318

Source: The Bank of Japan; Balance of Payments Monthly for years after 1961. Prior to 1960, estimated from the Bank of Japan; Balance of Payments Table.

After having attained the status of an advanced country, it is only natural and evitable that the Japanese have to play a major role in helping her Asian neighbours to develop further. Due, in recent years, to her conquest of South-east Asia during the Second World War, she has had close contact with the South-east Asian countries.

The proceeding chapters tell of the economic role of the Japanese in South-east Asia.

## JAPAN'S TRADE RELATIONS WITH SOUTH-EAST ASIA

### Japan's Trade Relations

We shall here trace the extent of the influence of Japan's trade within the South-east Asian regions in the pre-war and post-war period and particularly the present era. It will be seen that the exports and the imports of Japan have risen tremendously in terms of value and percentage since the pre-war years.

### Importance of Foreign Trade to Japan

To Japan and her people, foreign trade is of extreme importance. With a population which is still fast growing, few natural resources and limited territory, Japan has to depend on foreign trade for its economic survival. The country's dependence on foreign trade has become more acute since World War II. The population of Japan before the war was less than 60 million people but today it is about 98 million, and is still growing, though at a steadily decreasing rate. This teeming population, the seventh largest in the world, is crowded into a very mountainous territory of 370,000 square kilometres, or less than 1/4 times the size of that of Malaya.

Therefore in order to provide the economic necessities of daily life for her population, Japan has to import a considerable portion of her food-stuffs and most of her raw materials. In order to pay for these purchases she has to produce finished and semi-finished products from these imports and sell them to the markets of the world. In this respect South-east Asia fits admirably into the pattern of Japanese economic development. This region possesses immense natural resources which are of vital importance to keep the industrial wheels of Japan revolving and this region also supplies the markets for the dumping of the manufactured products churned out by the hungry machines.

The importance of foreign trade to Japan is illustrated clearly in Table 2.1 (a). Japan is deficient in natural resources to a certain extent and to overcome this shortage of raw materials, she has to import them. Japan as seen in Table 2.1 (a) has been increasing her imports of fuel steadily in the past two decades and

CHAPTER II

JAPAN'S TRADE RELATIONS WITH SOUTH-EAST ASIA

Japan's Trade Relations

We shall here trace the extent of the influence of Japan's trade within the South-east Asian regions in the pre-war and post-war period and particularly the present era. It will be seen that the exports and the imports of Japan have risen tremendously in terms of value and percentage since the pre-war years.

Importance of Foreign Trade to Japan

To Japan and her people, foreign trade is of extreme importance. With a population which is still fast growing, few natural resources and limited territory, Japan has to depend on foreign trade for its economic survival. The country's dependence on foreign trade has become more acute since World War II. The population of Japan before the war was less than 60 million people but today it is about 98 million, and is still growing, though at a steadily decreasing rate. This teeming population, the seventh largest in the world, is crowded into a very mountainous territory of 370,000 square kilometres, or less than 1½ times the size of that of Malaysia.

Therefore in order to provide the economic necessities of daily life for her population, Japan has to import a considerable portion of her food-stuffs and most of her raw materials. In order to pay for these purchases she has to produce finished and semi-finished products from these imports and sell them to the markets of the world. In this respect South-east Asia fits eminently into the pattern of Japanese economic development. This region possesses immense natural resources which are of vital importance to keep the industrial wheels of Japan revolving and this region also supplies the markets for the dumping of the manufactured products churned out by the hungry machines.

The importance of foreign trade to Japan is illustrated clearly in Table 2.1 (a). Japan is deficient in natural resources to a certain extent and to overcome this shortage of raw materials, she has to import them. Japan as seen in Table 2.1 (a) has been increasing her imports of fuel steadily in the past two decades and

TABLE 2.1 (a)

JAPAN'S TOTAL IMPORTS BETWEEN 1955-1969  
(IN MILLION U.S. DOLLARS)

COMMODITY	1 9 5 5		1 9 6 2		1 9 6 5		1 9 6 9		1955-69
	Value	As Percentage of total Imports							
Foodstuffs	560	26.4	680	15.4	1,470	18.0	2,141	14.3	10.2
Crude Materials	1,070	50.5	1,850	41.8	3,221	39.4	5,401	35.9	28.9
Fuels	205	9.7	750	16.9	1,626	19.9	3,044	20.2	99
Chemicals	100	4.7	235	5.3	408	4.9	783	5.2	48.8
Machinery	110	5.2	600	13.5	760	9.3	1,635	10.9	99.1
Other Manufactures	75	3.5	315	7.1	684	8.5	2,020	13.5	185
TOTAL	2,120	100	4,430	100	8,169	100	15,024	100	43.5

Source: (1) Adapted from Economic Bulletin for Asia and the Far East, Vol. XV, No. 1, June 1964.

(2) Trade and Industry of Japan, Economic Reports, No. 11, October 1970, Japan External Trade Organisation.

in 1969 the major industrial item accounted for 20% of her imports. In fact only one quarter of Japan's imports constituted machinery and other manufactures in 1969. During the 1955-1959 period, Japan's total imports have increased by 608.5% while her exports have risen by 933.1%. The average annual increase in imports has been 43.5%, the average annual increase in exports was 51.4% in the same period. Japan thus imports raw materials which are processed into capital and consumer goods and exported so that necessary foreign exchange can be earned to pay for her imports. The table bears eloquent testimony to the fact that Japan does not export raw materials but imports them. In Table 2.1 (b) it is very clear that almost all of Japan's exports consist of capital and consumer goods. Under crude materials in Table 2.1 (b) textiles accounted for the bulk of exports of crude materials. Thus, without foreign trade Japan will find it very difficult to survive. In fact it was the shortage of basic raw materials such as steel, aluminium, bauxite and fuel which caused the defeat of the Japanese in the Second World War, a point well brought out by John Toland.<sup>1</sup>

#### Japan's Trade with South-east Asia in Pre-war Era

TABLE 2.1 (b)  
JAPAN'S TOTAL EXPORTS IMPORTS

The percentage distribution of Japan's trade with South-east Asia in the pre-war years is shown in Tables 2.2 (a) and (b). In the pre-war years (as indicated in Table 2.2 (a)), Japan has increased her exports to South-east Asia from 3.6% to 8.2% whereas her imports from South-east Asia has risen from 3.2% to 7.6%. Therefore Japan has increased her exports more rapidly than her imports, and this trend has continued even to the present as the latter part of this chapter will indicate.

In the pre-war years Indonesia was the largest market (except in 1913) for the Japanese products and during this period Indonesia was also the largest supplier of resources for Japan. The ratio of export to and that of import from Indonesia increased considerably during the First World War and this ratio was maintained in the inter-war period.

The ratio of export to and import from Malaya and Singapore has also increased steadily since 1913 indicating that Japan has an economic interest in these regions. The imports from this region amounted to only 0.7% in 1913 but increased to 2.2% in 1936 showing a three-fold increase.

In the post-war years the exports to South-east Asia rose to 16.7% in 1949 whereas the imports remained stagnant at 7.6%. Indonesia remained the largest market for Japan's products in South-

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<sup>1</sup>Weekend, Sunday Mail Magazine, August 29, 1971. Copyright (C) 1970 by John Toland adapted from the book, "The Rising Sun" to be published in October 1971 by Cassell and Company Limited.

TABLE 2.1 (b)

JAPAN'S TOTAL EXPORTS BETWEEN 1955-1969  
(IN MILLION U.S. DOLLARS)

COMMODITY	1 9 5 5		1 9 6 2		1 9 6 5		1 9 6 9		1955-69
	Value	As Percentage of total Exports							
Foodstuffs	135	6.8	340	6.9	344	4.0	572	3.5	23.1
Crude materials	115	5.7	185	3.8	1,582	18.3	2,271	13.9	13.4
Fuels	7	0.4	20	0.4	-	-	-	-	-
Chemicals	94	4.7	260	5.3	547	6.3	1,016	6.2	70.1
Machinery	245	12.3	1,250	25.4	2,975	34.5	7,123	43.5	200.5
Other Manufactures	1,400	70.1	2,860	58.2	3,188	36.9	5,386	32.9	20.5
TOTAL	1,996	100	4,915	100	8,636	100	16,368	100	51.4

Source: (1) Adapted from Economic Bulletin for Asia and the Far East,  
Vol. XV, No. 1, June 1964.

(2) Trade and Industry of Japan, Economic Reports, No. 11, October 1970,  
Japan External Trade Organisation.

east Asia while Thailand TABLE 2.2 (a) largest source of supplies in the region for Japanese industries.

THE PERCENTAGE DISTRIBUTION OF JAPAN'S TRADE WITH SOUTH-EAST ASIA IN THE PRE-WAR YEARS (1913-1936)

Exports	1913	1918	1928	1936
Total	100%	100%	100%	100%
To South-east Asia	3.6	7.1	5.6	8.2
Of which to:-				
Malaya )	1.4	1.9	0.9	( 0
Singapore )				( 1.6
British Borneo	-	-	-	0.2
Philippines	0.9	1.1	1.2	1.5
Thailand	0.1	0.3	0.2	1.2
Indo-China	0.1	0.5	0.2	0.1
Indonesia	0.7	3.3	3.1	3.6

for her manufactured goods. On the contrary, Japan had no alternative but to get raw materials from Malaya and British Borneo because they were badly needed by her

TABLE 2.2 (b)

Imports	1913	1918	1928	1936
Total	100%	100%	100%	100%
From South-east Asia	3.2	8.1	7.4	7.6
Of which from:-				
Malaya )	0.7	1.5	1.3	( 1.1
Singapore )				( 1.1
British Borneo	-	-	-	0.4
Philippines	1.0	0.9	0.6	1.0
Thailand	0.7	0.3	0.7	0.2
Indo-China	0.3	2.9	0.7	0.6
Indonesia	0.5	2.5	4.1	3.2

Source: Kobe Economic and Business Review, Kobe University, 1953, p. 42. But, however, since 1967 the statistics show that the trend is that the South-east Asian countries are importing less and less from Japan. The most probable reason that could be given for this drastic decline is that during the pre-war

east Asia while Thailand grew into the largest source of supplies in the region for Japanese industries.

### Japan's Trade with South-east Asia in Post-war Period

Tables 2.3 (a) and (b) show the percentage distribution of Japan's trade in the post-war period with South-east Asia.

In the post-war period, trade between Malaya and Japan has grown considerably. On analysing further, it could be seen that Japan has imported more (in percentage terms) from Malaya. Japan's exports to Malaya were nil in 1949 as Table 2.3 (a) indicates while the exports increased to only 0.8% in 1952 whereas in the same period Japan's imports from Malaya increased from 2.3% to 2.7%. Therefore it can be seen that Malaya's imports from Japan in the early 1950's have been very insignificant whereas Malaya's exports to Japan has been just the other way round. Malaya taken together with British Borneo ranked as the greatest source of supplies for Japan in this part of the world. The reason for the imbalance of trade between Japan and Malaya in particular could be attributed to the fact that during this period Malaya was a British colony, and it could be assumed that it would be only natural for the mother country, Britain which was also an industrialised country to exploit the market in Malaya for her manufactured goods. On the contrary, Japan had no alternative but to get raw materials from Malaya and British Borneo because they were badly needed by her factories.

Now it would be very interesting to compare the pattern of trade between South-east Asia and Japan during the pre-war and post-war period with that of the present time.

Tables 2.4 (a) and (b) show the percentage distribution of Japan's trade with this region from 1965 to June 1970. In this period it is again noticeable that the situation is no better. The region still continues to be the supply source region for the Japanese factories and also provide the markets for the goods which were manufactured by these factories.

### Japan's Trade with South-east Asia in Present Times

Here it can be seen that exports of Japan to South-east Asian countries have declined to a considerable extent. In the year 1951, the Japanese exports to the South-east Asian regions amounted to 21.3% of her total exports. This shows that South-east Asia provided a market for more than 20 percent of Japan's total exports. But in recent times, the exports have dropped to their lowest in 1965 when the total exports to South-east Asia were only 9.96% but later recovered to 12.29% in 1967. But, however, since 1967 the statistics show that the trend is that the South-east Asian countries are importing less and less from Japan. The most probable reason that could be given for this drastic decline is that during the pre-war

TABLE 2.3 (a)

THE PERCENTAGE DISTRIBUTION OF JAPAN'S FOREIGN TRADE  
WITH SOUTH-EAST ASIA IN THE YEARS PRECEDING  
THE WAR (1949-1953) FOLLOWING

Export	1949	1950	1951	1952	1953 (Jan. to March)
Total	100%	100%	100%	100%	100%
To South-east Asia	16.7	15.6	21.3	14.4	14.4
Of which to:-					
Malaya	0.0	0.5	0.9	0.8	0.7
Singapore	2.7	1.7	4.2	4.0	2.5
British Borneo	0.0	-	-	-	-
Philippines	4.1	2.2	2.7	1.4	2.1
Thailand	4.4	5.2	3.3	2.9	4.4
Indo-China	0.0	0.3	0.7	0.6	0.6
Indonesia	5.5	5.7	9.5	4.7	4.1

TABLE 2.3 (b)

Import	1949	1950	1951	1952	1953 (Jan. to March)
Total	100%	100%	100%	100%	100%
From South-east Asia	7.8	10.5	11.3	11.0	9.1
Of which to:-					
Malaya	2.3	4.1	2.9	2.7	1.8
Singapore	-	-	0.2	0.3	0.5
British Borneo	-	0.4	0.4	0.8	0.9
Philippines	1.5	2.3	2.5	2.5	2.0
Thailand	2.0	4.5	2.5	3.1	1.6
Indo-China	0.3	0.1	0.1	0.2	0.3
Indonesia	1.7	1.4	2.7	1.4	2.0

Source: Kobe Economic and Business Review, Ibid, p. 43.

TABLE 2.4 (a)

THE PERCENTAGE DISTRIBUTION OF TRADE BETWEEN JAPAN  
AND SOUTH-EAST ASIA BETWEEN 1965 AND JUNE 1970

Export	1965	1966	1967	1968	1969	1970 (Jan. to June)
Total	100%	100%	100%	100%	100%	100%
To South-east Asia	9.96	11.04	12.29	10.37	11.38	10.40
Of which to:-						
Malaysia	0.88	0.92	0.85	0.81	0.84	0.90
Singapore	1.47	1.46	1.53	1.62	1.95	2.15
Philippines	2.26	2.95	3.48	2.52	2.97	2.55
Thailand	2.59	3.08	3.27	2.75	2.71	2.47
Indonesia	2.42	1.21	1.49	1.13	1.51	1.43
South Vietnam	0.34	1.42	1.67	1.54	1.40	0.90

TABLE 2.4 (b)

Import	1965	1966	1967	1968	1969	1970 (Jan. to June)
Total	100%	100%	100%	100%	100%	100%
From South-east Asia	9.45	9.81	9.48	9.27	10.03	9.88
Of which from:-						
Malaysia	2.54	2.56	2.87	2.64	2.71	2.20
Singapore	0.40	0.32	0.32	0.48	0.44	0.44
Philippines	3.12	3.41	3.21	3.06	3.11	3.00
Thailand	1.69	1.61	1.37	1.13	1.11	1.09
Indonesia	1.82	1.85	1.67	1.94	2.64	3.13
South Vietnam	0.08	0.06	0.04	0.02	0.02	0.02

Source: Compiled from Trade and Industry of Japan, Economic Reports, No. 11, October 1970, Japan External Trade Organisation.

and immediate post-war period South-east Asia with the exception of Thailand was under colonial occupation. These South-east Asian countries produced mainly primary commodities whose values were not stable because their prices are dependant on factors such as climate and world demand which are beyond their control. In times of boom years, their earnings may be exceptionally good whereas in bad times the situation may be the reverse, thus affecting economic development adversely. Immediately after the Second World War, a consequence of the Japanese conquest was the rise of nationalism in this region which eventually resulted in the South-east Asian countries gaining independence. After having achieved independence most South-east Asian countries are placing equal importance on agricultural and industrial development. This has been achieved by giving incentives of various kinds to the people who are concerned with agriculture and industrial enterprises. Due to the factors seen above, it would only be natural for South-east Asian countries to utilise some of their own raw materials to produce their own manufactured goods which would result in the saving of foreign exchange and at the same time eradicate unemployment, the feature so commonly prevalent in South-east Asian countries. Therefore these factors have been responsible for the decrease of Japanese exports to this region.

On the other hand, we can also see that imports of Japan from the South-east Asian region have been constant over the past few years. Japan's imports from South-east Asia average around 10%. Japanese imports from South-east Asia were at its peak in the years 1951 and 1952 when this region contributed about 11% of the total imports of Japan in each of the years. The countries which have contributed significantly in terms of imports to Japan in the last few years have been Malaysia and the Philippines. Philippines has accounted for not less than 3% while Malaysia 2.5% of the total Japanese imports annually for the last few years. Japan has also been steadily increasing her imports from Indonesia. In 1965 Indonesia accounted for 1.82% of total Japanese imports whereas in the first half of 1970, Indonesia has accounted for more than 3% of Japan's imports. The other point to note is that Japan is importing less and less from Thailand over the past few years. At one time (in 1950) Thailand accounted for 4.5% of total imports of Japan. But since 1965 to the present, Thailand has accounted for less and less of total Japanese imports. In 1965 the total share of Japanese imports had decreased from 4.5% in 1950 to 1.69% in 1965, but this further dropped to 1.09% in the first half of 1970. So it can be compared and seen that on one hand Japan's exports to Thailand are constant while imports are decreasing whereas Japan imports from Indonesia are increasing while exports are decreasing.

In the immediate post-war period, Thailand and Indonesia provided the largest markets for the Japanese exports. Indonesia accounted for an average of 5.9% of Japanese exports, while Thailand accounted for 4.04% of Japanese exports. Philippines in 1949 accounted for 4.1% of total Japanese exports but this gradually dropped to 2.1%

in 1953 but however since the last five years Philippines has become the largest market for Japanese exports. During this period Philippines has imported 2.62% of the Japanese exports. But the share of Japan's exports to Thailand and Indonesia have declined considerably when compared to the immediate post-war period. The Japanese exports to Thailand have declined from an average of 4.04% in the post-war period to an average of 2.81% in the period between 1965 and June 1970. In the similar period, the exports of Japan to Indonesia declined from an average of 5.9% in the post-war period to an average of 1.53%. This clearly indicates that the Japanese have lost the Indonesian market which has been one of their best export markets. One interesting feature to note in the case of Malaysia is that Japan's imports from Malaysia are increasing while Japan's exports to this country have been stagnant over a long period of time.

#### Japan's Trade Balances with South-east Asian Countries

Now it would be interesting to see the balances of trade with the South-east Asian countries. The balances of trade in the pre-war years were generally unfavourable to Japan, but in the post-war period they turned favourable except in the first quarter of 1953. However, since then to recent times, the balances of trade have again become favourable.

#### Japan's Trade Balances with South-east Asian Countries in Pre-War Era

Trade balances with individual South-east Asian countries in the pre-war years are shown in Table 2.5. We can learn from the table that trade balances with Indo-China were unfavourable throughout the period. This is because Japan imported a great deal of rice from Indo-China. In the pre-war years (as given in the table) Japan continued to have an overall unfavourable balance of trade except in 1936 when a surplus of 5 million dollars was achieved. Trade in terms of value has all along been on the increase. In 1913 the trade with South-east Asia amounted to only 51.5 million dollars while in 1936 it jumped to 163.8 million dollars showing an increase in trade of over 200%. Among the South-east Asian countries Malaya was one of the few countries to have a favourable balance of trade with Japan.

From Table 2.6 we learn that the trade balances with Malaya and British Borneo were unfavourable throughout the period. This is because Japan imported a wide variety of raw materials, mainly rubber and tin from Malaya and timber from British Borneo. Trade balances with Indo-China became favourable as compared to Japan's trade balances with her in the pre-war years. In the post-war period as shown in the table, Japan continued to have an overall favourable balance of trade compared to the pre-war period. Trade in terms of value has again jumped tremendously. In 1952 trade between South-east Asian countries was 343.2 million dollars which is twice as much as in 1936.

TABLE 2.5

BALANCES OF TRADE WITH SOUTH-EAST ASIAN COUNTRIES IN THE  
PRE-WAR YEARS (IN MILLION U.S. DOLLARS) (1913-1936)

Country	1913			1918			1928			1936		
	E	I	B	E	I	B	E	I	B	E	I	B
Malaya )	5.1	2.6	+ 2.5	21.7	15.0	+ 6.7	9.5	16.9	- 7.4	( 0.7	11.3	-10.6
Singapore )										( 17.0	11.9	+ 5.1
British Borneo	-	-	-	-	-	-	-	-	-	0.2	4.5	- 4.3
Philippines	3.1	3.8	- 0.7	12.0	8.9	+ 3.1	13.5	7.6	+ 5.9	15.0	10.5	+ 4.5
Thailand	0.5	2.8	- 2.3	3.1	2.9	+ 0.2	2.7	8.9	- 6.2	12.5	2.5	+10.0
Indo-China	0.5	12.2	-11.7	5.1	28.5	-23.4	1.9	9.4	- 7.5	1.4	5.8	- 4.4
Indonesia	2.5	18.4	-15.9	36.8	25.1	+11.7	34.1	52.5	-18.4	37.6	32.9	+ 4.7
<b>TOTAL</b>	<b>11.7</b>	<b>39.8</b>	<b>-28.1</b>	<b>78.7</b>	<b>80.4</b>	<b>- 1.7</b>	<b>61.7</b>	<b>95.3</b>	<b>-33.6</b>	<b>84.4</b>	<b>79.4</b>	<b>+ 5.0</b>

Source: Kobe Economic and Business Review, Op.cit., p. 45.

E = Export  
 I = Import  
 B = Balance of Trade  
 - = Adverse balance  
 + = Favourable balance

TABLE 2.6

JAPAN'S BALANCES OF TRADE WITH SOUTH-EAST ASIA IN THE IMMEDIATE  
POST-WAR PERIOD, 1943-1953 (IN MILLION U.S. DOLLARS)

Post-War Years	1949			1950			1951			1952			1953 (Jan.-March)		
	E	I	B	E	I	B	E	I	B	E	I	B	E	I	B
Malaya	0.9	21.3	-20.4	4.4	39.1	-34.7	11.6	58.7	-47.1	11.6	54.3	-43.7	2.0	10.1	-8.1
Singapore	13.8	-	+13.8	13.7	0.3	+13.4	56.6	4.1	+52.5	51.5	6.7	+44.8	7.0	3.0	+4.0
British Borneo	-	0.6	- 0.6	0.2	3.9	- 3.7	0.2	9.0	- 8.8	0.7	17.2	-16.5	0.1	5.6	-5.5
Philippines	21.0	13.6	+ 7.4	18.3	22.5	- 4.2	36.9	49.6	-12.7	19.6	51.2	-31.6	6.1	11.3	-5.2
Thailand	22.4	18.8	+ 3.6	42.6	43.5	- 0.9	45.2	51.0	- 5.8	36.4	62.5	-26.1	12.7	9.0	+3.7
Indo-China	0.6	3.2	- 2.6	2.1	1.6	+ 0.5	9.7	2.9	+ 6.8	8.5	4.7	+ 3.8	1.8	1.7	+0.1
Indonesia	28.1	15.7	+12.4	46.3	13.4	+32.9	128.4	54.8	+73.6	59.8	27.5	+32.3	11.0	11.5	-0.5
<b>TOTAL</b>	<b>86.8</b>	<b>73.2</b>	<b>13.6</b>	<b>127.6</b>	<b>124.3</b>	<b>3.3</b>	<b>288.6</b>	<b>230.1</b>	<b>58.5</b>	<b>188.1</b>	<b>225.1</b>	<b>37.0</b>	<b>40.7</b>	<b>52.2</b>	<b>-11.5</b>

Source: Kobe Economic and Business Review, Ibid, p. 45.

E = Export

I = Import

B = Balance of Trade

- = Adverse balance

+ = Favourable balance

## Japan's Trade Balances with South-east Asian Countries in Present Times

Now let us turn to the trade balances which Japan has with South-east Asian countries in the present years and compare these trade balances with those of the pre-war and post-war years. Table 2.7 will show the trade balances of Japan with the individual South-east Asian countries in the present time.

From the table we see that Japan has continued to have a very favourable balance of trade with the South-east Asian region from the post-war period right up to the year 1969. However, in the first six months of 1970, Japan has experienced an unfavourable balance of trade of 217.7 million dollars. Compared to the pre-war and post-war years, the trade balance of the present period have been of very significant amounts. In the pre-war and immediate post-war periods it will be noticed that the balances of trade have never exceeded 60 million dollars but in the present, with the exception of the first six months of 1970, the balances of trade have never gone below the 60 million dollar mark. This will also point out the fact that Japan has been exporting more than she has been importing, and this would justify the point that Japan is using the South-east region for extracting the raw materials, which she later sends back in the form of manufactured goods. The composition of the trade will be outlined in the next chapter.

We can also learn from the table that right from the earliest trade links to the present, Japan has not been able to have a favourable balance of trade with Malaysia. Her imports from Malaysia have always exceeded her exports. This is a very unique feature because all South-east Asian countries are primary producing countries, and it is only Malaysia who has never had an unfavourable balance of trade with Japan.

Thailand since 1965 has never had a favourable balance of trade with Japan. This has raised fears in the minds of the Thai leaders who dread having their economy controlled by the Japanese. Their fears have increased because of the huge trade imbalances with Japan. Japan has also built up huge trade surpluses with South Korea. Because of these huge imbalances with Japan,<sup>2</sup> South Korea has been referred to as the economic colony of Japan. Therefore, after seeing what has happened to Korea, Thailand has implemented controls on Japanese imports and commented critically of the Japanese 'invasion'. Indonesia, on the other hand has since 1966, never had an unfavourable balance of trade with Japan as Table 2.7 would indicate. Japan has therefore played and is playing an important role in the economies of South-east Asia.

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<sup>2</sup>Far Eastern Economic Review, Vol. LXXI, No. 13, March 27, 1971, p. 49.

TABLE 2.7

BALANCES OF TRADE WITH SOUTH-EAST ASIAN COUNTRIES IN THE  
PRESENT YEARS (1965-1970) (IN MILLION U.S. DOLLARS)

Present Years	1965			1966			1967			1968			1969			1970 (Jan. to June)		
	E	I	B	E	I	B	E	I	B	E	I	B	E	I	B	E	I	B
Malaysia	74.5	262.5	-187.9	89.3	307.1	-217.7	87.8	334.4	-246.6	104.3	343.3	-239.0	133.4	406.7	-273.2	79.1	199.2	-120.1
Singapore	123.9	32.7	91.2	142.7	30.3	142.7	160.1	36.0	124.1	209.2	61.7	147.5	312.5	65.9	246.5	189.2	39.5	+149.6
Philippines	240.2	253.6	-13.4	278.2	324.9	-46.7	362.9	374.4	-11.5	411.0	397.9	13.1	475.6	468.0	7.5	224.0	272.2	-48.2
Thailand	219.1	130.7	88.3	300.8	153.2	147.6	340.9	160.0	180.9	356.4	147.0	209.4	433.8	167.4	266.4	21.6	99.1	117.8
Indonesia	204.6	148.7	55.8	118.6	175.5	-56.9	155.1	195.0	-39.8	146.5	251.8	-105.2	235.8	397.3	-161.5	137.5	284.7	-147.1
South Vietnam	36.6	6.5	30.1	138.0	5.3	132.7	174.5	4.5	170.0	198.9	2.7	196.2	223.1	3.3	219.8	82.5	1.7	80.8
TOTAL	899.2	835.6	63.5	1,067.3	996.5	71.3	1,281.6	1,104.5	177.0	1,426.7	1,204.6	222.0	1,814.4	1,508.7	305.6	1,012.1	1,299.8	-217.7

Source: Compiled from Trade and Industry of Japan, Economic Reports, No. 11, October 1970, Japan External Trade Organisation.

E = Export

I = Import

B = Balance of Trade

- = Adverse Balance

+ = Favourable Balance

Japan's exports to the South-east Asian region has not increased as rapidly as it did in the immediate post-war periods. Japan's exports to South-east Asia in 1970 had a growth ratio of 10.4% over 1969 exports whereas the growth ratios to countries such as the United States, Western Europe and European Economic Community region were 20.1%, 41.3% and 34.8% respectively. The reasons for this, as given by Henry Scott Stokes in the Far Eastern Economic Review of March 21, 1971 are that Japan has in the past concentrated on those parts of the world closest to it; and it has also begun to exhaust the capacity of these neighbours for increasing purchases from Japan.

Japan's economic role in South-east Asia might not be clear when we talk in terms of percentage of exports and imports. In fact percentages alone can be misleading. This is because in 1951, as seen in Table 2.3 (a), Japan's exports amounted to 21.3% of her total exports and the total value of this export was only 286.6 million dollars whereas in 1968, percentage wise, Japan's exports amounted to only 10.37%, but in terms of monetary values they comprised 1,426.7 million dollars.

In the next chapter, I will attempt to show the actual involvement of Japan in some of the leading economies of the mainland South-east Asian region, and the composition of her trade with the South-east Asian region as a whole.

Japan's influence in the trade of Thailand can be seen to have accelerated from 1949 onwards. We can see from Table 3.1 that in 1948 Thailand's exports to Japan amounted to only 0.3 million dollars and this constituted 0.3% of Thailand's total exports while in the same period imports from Japan amounted to 2 million dollars and this amount constituted 2.3% of Thailand's total imports. But however, we can see that Thailand's trade with Japan has been increasing at a very rapid rate. But the advantage of the increase in trade is in favour of the Japanese. Thailand's exports to Japan are not increasing as rapidly as her imports are. For instance it can be noticed that in 1968 only 21% of Thailand's exports went to Japan while 34.3% of Thailand's imports came from Japan. This great inroad of the Japanese in the Thai economy, especially the great imbalance of trade, has brought about a great deal of resentment from the Thais. In an article in the Japan Quarterly of July-September 1967, a correspondent of the Asahi Shinbun in Bangkok is reported to have said, "Japanese who have lived in Thailand for two or three months feel as if they were in Japan. Ninety percent of the taxi-cabs, and most of the motor-cycles, electric fans, radios and condiments used in Bangkok are of Japanese make." This statement illustrates the Japanese dominance of the Thai economy and this definitely has raised fears in the minds of the Thais that one day independent Thailand might become a Japanese colony. Thailand has

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<sup>1</sup>Japan Quarterly by Asahi Shinbun Publishing Company, July-September 1967.

### CHAPTER III

#### STRUCTURE OF JAPANESE TRADE WITH SOUTH-EAST ASIA

We shall attempt to show the economic role of Japan in the economies of the countries of the Association of South-east Asia commonly known as ASA, which comprises of Thailand, Malaysia, Philippines and Singapore. Following the economic role of Japan, the composition of the South-east Asian trade with Japan would clearly illustrate the fact that Japan uses the South-east Asian region to get the supplies for her factories and later exploits the region for marketing her manufactured goods. After this direct reference would be made to the economic relations between West Malaysia and Japan.

#### Japan's Economic Stronghold in Thailand

Japan's influence in the trade of Thailand can be seen to have accelerated from 1949 onwards. We can see from Table 3.1 that in 1948 Thailand's exports to Japan amounted to only 0.3 million dollars and this constituted 0.3% of Thailand's total exports while in the same period imports from Japan amounted to 2 million dollars and this amount constituted 2.3% of Thailand's total imports. But however, we can see that Thailand's trade with Japan has been increasing at a very rapid rate. But the advantage of the increase in trade is in favour of the Japanese. Thailand's exports to Japan are not increasing as rapidly as her imports are. For instance it can be noticed that in 1968 only 21% of Thailand's exports went to Japan while 34.3% of Thailand's imports came from Japan. This great inroad of the Japanese in the Thai economy, especially the great imbalance of trade, has brought about a great deal of resentment from the Thais. In an article in the Japan Quarterly of July-September 1967, a correspondent of the Asahi Shimbun in Bangkok is reported to have said, "Japanese who have lived in Thailand for two or three months feel as if they were in Japan. Ninety percent of the taxi-cabs, and most of the motor-cycles, electric fans, radios and condiments used in Bangkok are of Japanese make."<sup>1</sup> This statement illustrates the Japanese dominance of the Thai economy and this definitely has raised fears in the minds of the Thais that one day independent Thailand might become a Japanese colony. Thailand has

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<sup>1</sup>Japan Quarterly by Asahai Shimbun Publishing Company, July-September 1967.

TABLE 3.1

TRADE BETWEEN THAILAND AND JAPAN BETWEEN 1948-1969  
(IN MILLION U.S. DOLLARS)

Y E A R	Exports to Japan		Imports from Japan	
	In Value	As Percentage of Total Exports	In Value	As Percentage of Total Imports
1948	0.3	0.3	2	2.3
1949	18.8	6.0	22.4	8.3
1950	43.5	11.5	42.6	20.2
1955	62.8	17.7	68.9	18.4
1960	78.3	17.8	123.1	25.6
1965	130.7	18.2	219.1	33.3
1966	153.2	20.8	300.8	35.5
1967	160.0	21.2	340.4	36.3
1968	147.4	21.0	356.4	34.6
1969 (Jan. to Sept.)	120.9	21.4	305.6	35.5

- Sources: (1) Adapted from Suparb Yossundara's, Japan's Role in Thai Economy, Japanese Economic Influence in South-east Asia Conference Proceedings, p. 70.
- (2) Compiled from Economic Reports, Trade and Industry Japan, various Volumes by Japan External Trade Organisation.

started to correct this imbalance of trade. The first step taken by the Thai Minister of Economic Affairs, Bunchana Attakorn in early 1969 banned all imports of used motor vehicles and this sudden action of the Minister left nearly 700 second-hand vehicles stranded in the customs shed at Klontoe Harbour. This ban on second-hand cars also combatted the smuggling of new automotive spare parts and accessories which have been brought in with the used cars.<sup>2</sup> In the meantime, other steps such as persuading Japan to cooperate in buying more Thai commodities and to increase the number of sailings of Thai vessels in Thai-Japan freight conference have achieved little success.

#### Malaysia's Favourable Trade with Japan

Malaysia was formed only in 1963 and so data available for Malaysia is available only from 1964 onwards. Since the formation of Malaysia in 1964 and 1969 total export receipts have increased from US\$1,269 to US\$1,667 million representing an expansion of 31.3% or an average of 5.2% per year. Table 3.2 indicates that over this period export sales to Japan rose from US\$192.2 million to US\$406.7 million or by 163.7%, in effect indicating a rate of growth in Japanese importation of Malaysian exports that averaged almost 27.3% per year. This resulted in Japan expanding its relative share of the market for Malaysian exports from 14.4% in 1964 to 34.5% in a period of only 6 years. The reason that can be given for the increasing share of Japan in the Malaysian export trade during this period are that the Japanese factories need the Malaysian raw materials to sustain their economic development of not less than 10% per annum. Another significant reason that can be given for the increase in value of exports to Japan is that during 1969 especially, the price of Malaysian export commodities such as rubber, tin and palm oil commanded very high prices.

In the field of imports purchased from Japan by Malaysia, Japan has not been able to increase its relative share of the Malaysian market. In 1964 the imports from Japan constituted 9.6% of Malaysian imports, and the imports from Japan in fact dropped to US\$74.5 the following year and this in terms of percentage of total Malaysian imports was only 6%. Since 1965 Malaysia has been increasing her imports from Japan, but in terms of percentage Malaysia has not been able to surpass the percentage figure of 1964 though in absolute figures the imports from Japan have increased from US\$100.7 million to US\$133.4 million between 1964-1969 which indicated a growth rate of 32.5% per annum. Therefore, while exports from Malaysia to Japan increased at a rate of 27.3% per annum the imports from Japan grew only at a rate of 5.4% per year. The main reason why Japanese exports to this country in particular in South-east Asia is comparatively low is that due to the "openness" of the Malaysian economy, the Malaysian Government has concentrated on the import substitution industries in her industrial development. As a result Malaysia does not import large quantities

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<sup>2</sup>Far Eastern Economic Review, Vol. LXVIII, No. 13, March 26, 1970, p. 46.

TABLE 3.2

TRADE BETWEEN MALAYSIA AND JAPAN 1964-1969  
(IN MILLION U.S. DOLLARS)

Year	E X P O R T S			I M P O R T S		
	Total Exports	Exports to Japan	As Percentage of Total Exports	Total Imports	Imports from Japan	As Percentage Total Imports from Japan
1964	1,269	192.2	14.4	1,047	100.7	9.6
1965	1,236	262.5	23.9	1,096	74.5	6.0
1966	1,257	307.7	24.2	1,268	89.3	7.1
1967	1,217	334.4	30.7	1,086	87.3	7.3
1968	1,346	343.3	29.5	1,161	104.4	7.75
1969	1,667	406.7	34.5	1,177	133.4	7.9

- Sources: (1) Adapted from Dr. Syed Waseem Ahmad's, Malaysia-Japanese Economic Relations, Japanese Economic Influence in South-east Asia, p. 140.
- (2) Compiled from Economic Reports, Trade and Industry Japan, various Volumes by Japan External Trade Organisation.

of consumer goods. The other secondary reason is that the economic relations between Malaysia and Britain are stronger due to the fact that Malaysia was a colony of Britain, and it is only natural that the country still maintains closer economic relations with the former colonial master.

Malaysia, as can be seen in Table 3.3, is the only country among the Association of South-east Asian countries which imports the least from Japan but exports one of the most among the said countries to Japan. A detailed trade study between West Malaysia and Japan is in the later part of the chapter.

#### Japan's Expanding Trade with the Philippines

Table 3.4 shows the Philippines imports and exports to Japan. The Philippines exports to Japan rose from 6.8% in 1950 to 46.9% in 1968. In terms of monetary value, the exports rose from US\$23 million to US\$389 million during the same period. During the same period, the share of imports from Japan went up from 5.5% in 1950 to 32.1% in 1968. In terms of value the imports rose from US\$21 in 1950 to US\$411 million in 1968 - an almost eight-fold increase over a period of 18 years. According to Dr. Vicente B. Valdepenas the first reason for this perhaps is the rapid recovery and expansion of the export sector in the Philippines during the decade, even in the face of an over-valued peso that effectively inhibited what could have been faster acceleration of export production.<sup>3</sup> The second reason is the continuing expansion of the productive capacity in Japan. In order to maintain their economic development the Japanese need the exports of the Philippines which are entirely raw materials for their industries so that their economic growth can be enhanced further. Finally, the Reparations Agreement signed in Manila on 9th May, 1956 enabled the Philippines to increase their imports from Japan.

Thus imports are growing slightly faster than the rate at which the Philippines is supplying raw materials to the Japanese. But these imports are justified on the ground that the Philippines is proceeding with economic development with the strategy of industrialization of the import-substitution industries. As a result there is not much concern for the imbalance of trade. Philippines imports from Japan have been the greatest in the field of heavy industrial goods which are required for the purpose of industrialization. Table 3.10 (a) on structure of Japan's trade with the Philippines which is attached in the later part of the chapter would show that Philippines is importing goods which are necessary for economic development.

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<sup>3</sup>Vicente B. Valdepenas, Japan in the Post-war Philippines Economy, Japanese Economic Influence in South-east Asia, Conference Proceedings, Op.cit., p. 173.

TABLE 3.3

## TRADE OF JAPAN WITH ASSOCIATION OF SOUTH-EAST ASIAN COUNTRIES 1966-1969

Country	1966		1967		1968		1969	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Thailand	300.8	153.2	340.9	160.0	356.4	147.0	433.8	167.4
Malaysia	89.3	307.1	87.8	334.4	104.4	343.3	133.4	406.7
Singapore	142.7	30.3	160.1	36.0	209.2	61.7	312.5	65.9
Indonesia	118.6	175.5	115.1	195.0	146.5	251.8	235.3	397.3
Philippines	278.2	324.9	362.9	374.4	411.0	397.9	475.6	468.0

Source: Compiled from Economic Reports, Trade and Industry, Japan, No. 11, October 1970, by Japan External Trade Organisation.

TABLE 3.4

TRADE BETWEEN PHILIPPINES AND JAPAN BETWEEN 1950-1968  
(IN MILLION U.S. DOLLARS)

YEAR	Exports to Japan		Imports from Japan	
	In Value	As Percentage of total Exports	In value	As Percentage of total Imports
1950	23	6.8	21	5.5
1955	89	22.8	52	8.1
1960	159	28.3	154	23.2
1965	253.7	33.0	240	26.8
1966	325	29.2	278	29.0
1967	374	46.0	363	30.9
1968	398	46.9	411	32.1

Sources: (1) Adapted from Vicente B. Valdepenas, Japan in Post-war Philippine Economy, Japanese Economic Influence in South-east Asia, Conference Proceedings, p. 172.

(2) Compiled from Economic Reports, Trade and Industry Japan, various Volumes by Japan External Trade Organisation.

Since last year Japan again not only took a bigger share of the Philippines exports but has also replaced the United States as the Philippines biggest supplier of imported products which again consisted mainly of machinery, equipment and light industrial equipment. On the other hand, the United States retained its position as the largest market for the Philippines by absorbing 44% of the Philippines exports for the first three-quarters of the year. In monetary terms the value of the Philippines exports to Japan was US\$327 million. During this period Japan imported from the Philippines 40% of her total exports or US\$298 million in the first three-quarters of the year.

From a negative balance of US\$13 million in 1968 in its trade with Japan, the Philippines was able to turn the balance in its favour by US\$48.2 million in the first half of 1970. The reasons as to why Japan is able to replace the United States, the former colonial master of the Philippines as the biggest supplier of imports could be due to the gradual imposition of tariffs on American goods which between now and 1974 will be 90%<sup>5</sup> of the full duty. After 1974 this would rise to 100%. As a result of this the Japanese and other trading partner's position have been made more competitive in the domestic market. The second reason is that although at one time the Filipinos were prejudiced against Japanese manufactures, this attitude among the Filipinos seems to have disappeared in the post-war years with the improved quality of Japanese manufactures and their competitive prices.

It can be expected that Japan will one day take over from the United States both as the chief market for the Philippines' exports and as a chief supplier of capital goods and other manufactured products to the Philippines, not only because it is situated near the Philippines but also because of the growing competitive position of Japanese manufactures in the domestic market. During most of the 1950's and 1960's as Table 3.4 would indicate the Philippines had a favourable balance in trade with Japan. But however in 1968, the trade balance began to turn to Japan's favour and from a negative balance of US\$13 million in 1968 as stated above, the Philippines was able to turn the balance to its favour by US\$48.2 million in the first half of 1970.<sup>6</sup> It is anticipated that Japan will become the Philippines biggest trade partner if the Japanese market can buy from the Philippines so that Manila can be able to pay for capital and producer goods purchased from the Japanese.

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<sup>4</sup> Far Eastern Economic Review, Vol. LXXI, No. 13, Op.cit., p. 61.

<sup>5</sup> Far Eastern Economic Review, Vol. LXXI, No. 13, Ibid., p. 62.

<sup>6</sup> Far Eastern Economic Review, Vol. LXXI, No. 13, Ibid., p. 62.

## Japan and Singapore: The Widening Gap

Singapore's exports to Japan accounted for 3.7% of her total exports while her imports from Japan accounted for 11% of her total imports (Table 3.5). Therefore Japan sold more to Singapore than she bought from Singapore. As can be noted, Japan is interested in the South-east Asian region for her raw materials but unfortunately Singapore, like Japan is lacking in natural resources. However, the exports to Japan rose to 7.1% of her total exports in 1969 whereas her total imports from Japan were 16.3%. In monetary terms the value of exports to Japan rose from US\$36.6 million to US\$107.3 million while the imports from Japan increased from US\$137.9 million to US\$665.3 million. It is very interesting to note that Japanese exports to Singapore are rising by leaps and bounds and in the first eleven months of 1970, they were 30% up from the whole of 1969 at about Singapore \$1,300 million.<sup>7</sup> One can definitely agree that Japanese manufactures like textiles which accounted for US\$54 million in 1968 and US\$108.9 million in 1969 does not really stay in the Republic for if it did the island Republic would be today sinking under a vast pile of synthetic fibres and cotton shirts as the Far Eastern Economic Review says. Therefore, without doubt these sales go to Indonesia, and Singapore actually does the middle-man's job. Thus it can be understood why Singapore imports large amounts of Japanese manufactures. Entrepot trade in Singapore is therefore still of relative importance.

Japan's role in the economy of Singapore at the moment is relatively insignificant. Japan has always remained second to Malaysia in the field of exports to Singapore. In 1965, Singapore's imports from Malaysia totalled S\$1,109 million while imports from Japan totalled S\$1,396 million while imports from Japan rose to S\$1,019 million.<sup>8</sup> It can be predicted that in the very near future, Japan would replace Malaysia as largest exporter to Singapore.

Japan occupies only the fourth position in the field of imports from Singapore, the first three being Malaysia, United States and Vietnam. Japan is far behind the three other countries in the fields of imports as Table 3.6 shows.

Singapore purchases from Japan all kinds of capital and consumer goods but Japanese imports from Singapore are mostly limited to raw materials such as natural rubber, lumber and tin in addition to some industrial commodities such as petrochemical by-products.

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<sup>7</sup> Far Eastern Economic Review, Vol. LXVIII, No. 13, Op.cit, p. 46.

<sup>8</sup> Tan Tjin Kie, The Role of Japan in Singapore: Some Observations, Conference Proceedings, Op.cit, p. 161.

TABLE 3.5  
TRADE BETWEEN SINGAPORE AND JAPAN BETWEEN 1965-1969  
(IN MILLION U.S. DOLLARS)

YEAR	Exports to Japan		Imports from Japan	
	In value	As Percentage of Total Exports	In value	As Percentage of Total Imports
1965	36.6	3.7	137.9	11.0
1966	40.2	3.6	151.7	11.1
1967	51.0	4.5	179.1	12.4
1968	89.6	7.0	226.5	13.6
1969	107.3	7.1	665.3	16.3

Source: Adapted from Tan Tjin Kie's, The Role of Japan in Singapore's Economy: Some Observations, Japan Economic Influence in South-east Asia, Conference Proceedings. p. 116.

Compiled from Economic Reports, Trade and Industry Japan, No. 11, October 1970 by Japan External Trade Organisation.

TABLE 3.6

SINGAPORE'S LEADING IMPORTERS 1965-1969  
(IN MILLION SINGAPORE DOLLARS)

Exports	1965	1967	1969
To: Malaysia	1,221	1,098	1,088
United States	125	244	509
Vietnam	112	305	448
Japan	112	156	336

Source: Adapted from Tan Tjin Kie's, *The Role of Japan in Singapore's Economy: Some Observations, Conference Proceedings, Ibid, p. 116.*

Singapore has a long way to go in promoting exports to Japan. It is clear that Japan is only interested in exporting and not importing because both their economies are in a similar situation.

#### Structure of Japan's Trade with South-east Asia

Japan's exports to South-east Asia totalled US\$814.4 million in 1969 showing an increase of 27.2% from a year earlier. A rate of growth of only 11.3% was noted for 1968 over the preceding year. In 1969, the South-east Asian region accounted for 10% of Japan's total exports while in the preceding year the Japanese exports to South-east Asia constituted 9.2% of her total exports. Exports as seen in Table 3.7 (a) rose not only in terms of percentage but also in terms of monetary values while in 1968 Japan's exports to South-east Asia totalled only US\$1,426.6 million, the following year the exports rose to US\$1,814.4 million.

Japanese purchases from South-east Asia totalled US\$1,508.7 million in 1969, showing an increase of 8.9% from a year earlier, a rate of growth almost similar to the increase of 8.8% noted for 1968 over the preceding year. In 1969, South-east Asia accounted for 11.4% of Japan's total imports while in the preceding year Japanese imports constituted 10.3% of total imports. In monetary terms imports from the South-east Asian region were US\$1,508.7 million while in 1968 the imports were US\$1,204.7 million.

TABLE 3.7 (a)

JAPAN'S EXPORTS TO SOUTH-EAST ASIA 1967-1969  
(IN MILLION U.S. DOLLARS)

COMMODITY	1967		1968		1969		Percentage of 1969 (1968=100)
	Value	As Percentage of Total Exports	Value	As Percentage of Total Exports	Value	As Percentage of Total Exports	
Foodstuffs	35.6	2.8	52.1	3.8	46.7	2.1	89.6
Crude materials and fuels	10.0	0.8	15.9	1.2	25.2	1.4	158.5
Textiles	238.6	18.6	246.9	17.3	293.5	16.1	118.9
Light Industrial goods	111.2	8.7	123.1	8.7	131.7	7.3	106.4
Chemicals	105.4	8.2	116.3	8.9	155.9	8.6	134.2
Metals	232.6	18.1	256.8	18.0	349.7	19.3	136.2
Machinery and apparatus	543.3	42.4	606.7	42.5	803.9	44.3	137.4
Re-export, special category goods	4.9	0.4	8.2	0.6	7.9	0.4	94.15
TOTAL	1,281.6	100	1,426.6	100	1,814.4	100	127.2

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

On analysing the pattern of trade it is seen that the South-east Asian region provides the necessary raw materials to Japanese factories and in return this region is used as the dumping ground for the manufactures of the Japanese industries. Looking at the structure of imports as presented in Table 3.7 (b) it would be seen that Machinery and Apparatus accounted for not less than 40% of Japan's exports to the South-east Asian region. In 1967 the value of machinery and apparatus imported from Japan amounted to US\$543.3 million whereas the amount went up to US\$606.7 million in 1968 and then to US\$803.9 million in the following year. Machinery and apparatus consist of items such as transport equipment, electrical equipment, chemicals, which are very necessary for the economic development of the country. These items in fact lay the foundations for successful industrial development. Japanese exports to the South-east Asian region will continue to rise in general as long as Japan buys more and more of the South-east Asian region's imports. This is because only with sufficient export earnings, would the South-east Asian region increase their imports from Japan. Another reason why Japanese exports are getting popular in the South-east Asian region in the post-war years is that the quality of the Japanese goods has improved and their prices are also very competitive. In the past people were very prejudiced against Japanese goods which they considered inferior, but now that Japan is able to compete with the western powers, and to send satellites to the space, has made people gain confidence in the Japanese goods.

Taken together the heavy industrial goods which consist of chemicals, metals, machinery and apparatus accounted for 72.2% of Japan's total exports to South-east Asia in 1969 while in 1967 these imports from Japan accounted for 68.7%. Foodstuffs accounted for 2.8% of the total exports to South-east Asia in 1967 but in 1969 accounted for only 2.1%. Though in terms of percentage, foodstuffs occupy a less prominent position, in monetary terms the value of foodstuffs has gone up from US\$35.6 million to US\$46.7 million during the period, registering a rise of US\$10.9 million. Exports of foodstuffs to the Philippines during 1967-1969 period have shown a considerable decline. In 1967 Japan's foodstuffs exports to Philippines accounted for US\$22 million while in 1968 dropped slightly to US\$21.9 million and then sharply declined to US\$17.5 million, a decline to 79.8% over the 1968 value.

Exports of textiles from Japan have been steadily increasing in terms of value and as percentage of total exports to South-east Asia. At least 15% of the Japanese exports during the period 1967-1969 consisted of textiles. At the moment most of the South-east Asian countries are building up their textile industries, and so in the future the textile exports to this region can be expected to decline. A substantial investment has been made by the Japanese in the textile industries in Thailand, Malaysia, Indonesia and Singapore.

TABLE 3.7 (b)

JAPAN'S IMPORTS FROM SOUTH-EAST ASIA 1967-1969  
(IN MILLION U.S. DOLLARS)

COMMODITY	1 9 6 7		1 9 6 8		1 9 6 9		Percentage of 1969
	Value	As Percentage of Total Imports	Value	As Percentage of Total Imports	Value	As Percentage of Total Imports	
Foodstuffs	130.9	11.8	111.7	9.3	109,542	7.3	98.0
Crude materials and fuels	753.7	68.2	798.7	66.3	975,391	64.7	122.1
Mineral Fuels	134.1	12.1	207.5	17.2	296,536	19.7	142.9
Others	869.9	7.9	86.8	7.2	126,418	8.3	145.6
TOTAL	1,105.6	100	1,204.7	100	1,508.7	100	108.9

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

In the field of imports from South-east Asia, the Japanese import mostly crude materials and fuels which have accounted for two-thirds of the South-east Asian region's exports to Japan. Different countries in the region provide Japan with different raw materials.<sup>9</sup> Prominent among the imports of Japan from Malaysia is iron ore which amounted to US\$55 million, US\$51.7 million and US\$50.4 million respectively in 1967, 1968 and 1969. The import of iron ore from Malaysia is decreasing due to the fact that the iron ore deposits are being exhausted. Natural rubber accounted for US\$22 million in 1967, US\$33 million in 1968 and US\$49 million in 1969 while lumber accounted for US\$162 million in 1967, US\$166 million in 1968 and US\$178 million in 1969. But unfortunately the foreign earnings would drop from now onwards because Japan has reduced drastically her timber requirements from South-east Asian countries including Malaysia.<sup>10</sup> There is a speculation that there has been a drop in economic activities in Japan. Tin exports to Japan from Malaysia in 1967 were US\$63 million while in 1968 they shot up to US\$85 million. Table 3.8 (a) would indicate that Malaysia has accounted for about 7% of Japan's total exports to South-east Asia in 1967, 7.4% in 1968 and 7.4% in 1969 while in the corresponding period Malaysia has been responsible for 30% of Japan's total imports from South-east Asia in 1967, 28.4% in 1968 and 27% in 1969 as Table 3.8 (b) indicates.

Table 3.12 (a) shows that Thailand has absorbed 26.3% of Japan's total exports in 1967 while in 1968 the exports dropped to 25.6%. In 1969 Thailand showed a further decline to 23.9% in absorbing the exports of Japan to South-east Asia. On the other hand as seen in Table 3.12 (b), Thailand has also showed a drop in exports to Japan. In 1967 Thailand accounted for 14.5% of Japan's total imports from South-east Asia while in 1969 she accounted for only 11.1% of Japan's imports from this region. Natural rubber accounted for the bulk of the foreign exchange earnings under the item crude materials in Table 3.12 (b). Natural rubber accounted for US\$28 million in 1967 and US\$98 million in 1969. In the case of foodstuffs, Thailand accounted for US\$87.3 million in 1967, US\$73.5 million in 1968 and US\$62.6 million in 1969. Percentage wise Thailand accounted for 53%, 62.8% and 57.2% respectively in 1967, 1968 and 1969 of total exports of foodstuffs from South-east Asia to Japan.

Philippines accounted for 43% of Japan's total imports from South-east Asia in 1967 as seen in Table 3.10 (b). In 1968 Philippines' contribution dropped to 33% while in 1969 Philippines accounted for only 31% of Japan's total imports from the South-east

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<sup>9</sup>The data is obtained from the Foreign Trade of Japan, 1971.

<sup>10</sup>The Straits Times, 12th August, 1971.

Asian region. Table 3.10 (a) shows that Philippines has accounted for 28.7% of Japan's total exports to South-east Asia in 1967 and 26.2% in 1969. The main raw materials which earn substantial foreign exchange are mostly copper, iron ore and lumber. Copper ore exports increased from US\$65 million in 1967 to US\$88 million in 1968 and then sharply to US\$126 million in 1969 iron ore netted US\$17.7 million in 1967 and US\$20.6 million in 1969. Lumber exports to Japan were US\$231.5 million in 1967 and US\$263 million in 1969.

Indonesia is increasing her exports steadily to Japan as indicated in Table 3.11 (b). The exports have increased from US\$196.6 million in 1967 to US\$398.9 million in 1969. Percentage wise Indonesia accounted for 17.8% of South-east Asia's total exports to Japan in 1967 and 26.6% in 1969. Thus Indonesia is becoming a major source of supplies of raw materials to Japan. Indonesian raw materials imported by Japan are mainly natural rubber and lumber. Natural rubber accounted for US\$29.6 million in 1967 then dropped to US\$15.6 million in 1968 and then picked again to US\$19 million in 1969. Lumber exports to Japan increased from US\$15.6 million in 1967 to US\$30.6 million in 1968 and then sharply to US\$80 million in 1969. In the case of mineral fuels, Indonesia accounted for the largest exports which amounted to US\$224 million or nearly 82.5% of total mineral fuels exports of South-east Asia in 1969. On the other hand, Japan's exports to Indonesia have increased from US\$155.4 million in 1967 to US\$237.3 in 1969 as seen in Table 3.11 (a).

Japan's imports from Singapore and South Vietnam are relatively insignificant. Table 3.9 (b) shows that Singapore's exports to Japan have increased slightly from US\$36 million in 1967 to US\$65.8 million in 1969. Percentage wise Singapore accounted for only 3.2% of Japan's total imports from South-east Asia in 1967 and 4.4% in 1969. Singapore has been a major purchaser of Japanese products in South-east Asia. Singapore accounted for 12.5% of Japan's total exports to South-east Asia in 1967 and 17.3% in 1969 as seen in Table 3.9 (a). Table 3.13 (b) shows that Japan's imports from South Vietnam have decreased from US\$4.8 million in 1967 to US\$3.3 million 1969 whereas Japan's exports have increased from US\$174.6 million in 1967 to US\$223.2 million as indicated in Table 3.13 (a).

We can therefore see from the structure that the South-east Asian countries provide the Japanese factories with raw materials and in return import manufactured goods as seen in the various tables.

TABLE 3.8 (a)

## JAPAN'S EXPORTS TO MALAYSIA BETWEEN 1967 TO 1969

COMMODITY	1967		1968		1969		Percentage of 1969 (1968=100)
	Value	As Percentage of Total Exports to S.E.A.	Value	As Percentage of Total Exports to S.E.A.	Value	As Percentage of Total Exports to S.E.A.	
Foodstuffs	3.2	0.25	3.5	0.3	5.4	0.2	-
Crude materials and fuels	0.3	-	0.6	-	0.7	-	118.6
Textiles	7.5	0.6	10.6	0.7	11.3	0.6	107.3
Light Industrial goods	8.9	0.8	8.8	0.6	10.4	0.6	118.1
Chemicals	6.8	0.5	8.7	0.6	12.1	0.7	139.9
Metals	21.2	1.7	23.1	1.7	28.7	1.5	127.8
Machinery and apparatus	39.9	3.1	49.0	3.4	64.5	3.6	131.5
Re-exports, special category goods	0.053	-	0.067	-	0.259	-	386.6
<b>TOTAL</b>	<b>87.85</b>	<b>7</b>	<b>104.4</b>	<b>7.4</b>	<b>133.4</b>	<b>7.4</b>	<b>127.7</b>

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

TABLE 3.8 (b)

## JAPAN'S IMPORTS FROM MALAYSIA BETWEEN 1967 TO 1969

COMMODITY	1967		1968		1969		Percentage of 1969 (1968=100)
	Value	As Percentage of Total Imports from S.E.A.	Value	As Percentage of Total Imports from S.E.A.	Value	As Percentage of Total Imports from S.E.A.	
Foodstuffs	5.1	0.4	6.1	0.5	8.9	0.66	146.0
Crude materials and fuels	261.4	24	272.9	23	304.7	20.2	111.7
Mineral Fuels	1.8	0.2	2.2	0.2	1.4	0.1	62.4
Others	65.1	6	62.1	5.1	91.7	6.1	143.8
<b>TOTAL</b>	<b>333.4</b>	<b>30</b>	<b>343.3</b>	<b>28.4</b>	<b>406.7</b>	<b>27</b>	<b>118.5</b>

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

TABLE 3.9 (a)

## JAPAN'S EXPORTS TO SINGAPORE BETWEEN 1967 TO 1969

COMMODITY	1 9 6 7		1 9 6 8		1 9 6 9		Percentage of 1969 (1968=100)
	Value	As Percentage of Total Exports to S.E.A.	Value	As Percentage of Total Exports to S.E.A.	Value	As Percentage of Total Exports to S.E.A.	
Foodstuffs	5.917	0.5	6.577	0.5	7.898	0.4	120.5
Crude materials and fuels	1,633	0.1	3,783	0.3	7,924	0.4	209.5
Textiles	54,056	4.2	75,600	5.3	108,893	6	144.0
Light Industrial goods	17,868	1.4	21,523	1.5	29,643	1.6	137.3
Chemicals	10,035	0.8	11,614	0.8	17,045	0.9	146.8
Metals	28,265	2.2	35,932	2.5	60,461	3.3	168.3
Machinery and apparatus	42,240	3.3	53,928	4.9	79,318	4.4	147.1
Re-exports, special category goods	0.121	-	0.300	-	1,380	0.1	460.0
TOTAL	160,135	12.5	209,237	14.7	312,561	17.3	149.4

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

TABLE 3.9 (b)

## JAPAN'S IMPORTS FROM SINGAPORE BETWEEN 1967 TO 1969

COMMODITY	1967		1968		1969		Percentage of 1969 (1968=100)
	Value	As Percentage of Total Imports from S.E.A.	Value	As Percentage of Total Imports from U.S.A.	Value	As Percentage of Total Imports from S.E.A.	
Foodstuffs	1.098	6.1	1.007	0.1	1.087	0.1	107.9
Crude materials and fuels	8.664	0.8	10.730	0.9	12.383	0.8	115.4
Mineral fuels	25.007	2.2	48.694	4	50.726	3.4	104.2
Others	1.254	0.1	1.331	0.1	1.774	0.1	133.3
TOTAL	36.023	3.2	61.762	5.1	65.750	4.4	106.8

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

TABLE 3.10 (a)

## JAPAN'S EXPORTS TO THE PHILIPPINES BETWEEN 1967 TO 1969

COMMODITY	1967		1968		1969		Percentage of 1969 (1968=100)
	Value	As Percentage of Total Exports to S.E.A.	Value	As Percentage of Total Exports to S.E.A.	Value	As Percentage of Total Exports to S.E.A.	
Foodstuffs	22.006	1.7	21.992	1.5	17.543	0.9	79.8
Crude materials and fuels	2.863	0.2	4.189	0.3	5.413	0.3	129.2
Textiles	38.197	3	53.217	3.7	62.081	3.4	116.7
Light industrial goods	28.795	2.2	33.175	2.4	31.143	1.7	91.8
Chemicals	29.712	2.3	30.045	2.1	35.323	1.9	117.6
Metals	39.366	7	106.039	7.4	119.069	6.5	112.3
Machinery and Apparatus	149.109	11.7	157.909	11	202.475	11	128.2
Re-export and special category goods	2.853	0.2	4.526	0.3	2.563	0.1	56.6
TOTAL	362.901	28.7	411.092	29	475.611	26.2	115.7

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

TABLE 3.10 (b)

JAPAN'S IMPORTS FROM PHILIPPINES BETWEEN 1967 TO 1969

COMMODITY	1 9 6 7		1 9 6 8		1 9 6 9		Percentage of 1969 (1968=100)
	Value	As Percentage of Total Imports from S.E.A.	Value	As Percentage of Total Imports from S.E.A.	Value	As Percentage of Total Imports from S.E.A.	
Foodstuffs	20,577	1.9	20,956	1.7	22,438	1.5	107.1
Crude materials and fuels	344,733	31.2	368,816	30.6	434,348	28.8	117.8
Mineral fuels	-	-	-	-	-	-	-
Others	9,129	0.8	7,720	-	11,252	0.75	145.8
<b>TOTAL</b>	<b>474,439</b>	<b>44.3</b>	<b>397,492</b>	<b>33</b>	<b>468,038</b>	<b>31</b>	<b>117.7</b>

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

TABLE 3.11 (a)

## JAPAN'S EXPORTS TO INDONESIA BETWEEN 1967 TO 1969

COMMODITY	1 9 6 7		1 9 6 8		1 9 6 9		Percentage of 1969 (1968=100)
	Value	As Percentage of Total Exports to S.E.A.	Value	As Percentage of Total Exports to S.E.A.	Value	As Percentage of Total Exports to S.E.A.	
Foodstuffs	1.627	0.1	5.495	0.4	2.780	0.1	50.6
Crude materials and fuels	2.186	0.2	2.853	0.2	5.928	0.3	207.8
Textiles	51.176	4	26.137	1.8	27.397	1.5	104.8
Light Industrial goods	17.986	1.4	18.964	1.3	24.849	1.4	131.1
Chemicals	18.553	1.4	23.522	1.6	34.481	1.9	146.6
Metals	17.157	1.3	20.875	1.5	41.009	2.3	196.5
Machinery and Apparatus	46.223	3.6	47.480	3.3	98.823	5.4	208.1
Re-exports and special category goods	0.482	-	1.875	0.1	1.989	0.1	106.1
TOTAL	155.389	12.13	147.200	10.3	237.256	13.0	161.2

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

TABLE 3.11 (b)

## JAPAN'S IMPORTS FROM INDONESIA BETWEEN 1967 TO 1969

COMMODITY	1967		1968		1969		Percentage of 1969 (1968=100)
	Value	As Percentage of Total Imports from S.E.A.	Value	As Percentage of Total Imports from S.E.A.	Value	As Percentage of Total Imports from S.E.A.	
Foodstuffs	15.937	1.4	9.767	0.8	14.143	9.4	144.8
Crude materials and fuels	69.857	6.3	82.193	6.7	131.567	0.9	160.1
Mineral fuels	107.260	9.1	156.627	13.0	244.457	16.3	156.1
Others	3.581	0.3	4.966	0.4	8.732	0.6	175.8
TOTAL	196.635	17.8	253.553	21.1	398.899	26.6	157.3

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

TABLE 3.12 (a)

## JAPAN'S EXPORTS TO THAILAND BETWEEN 1967 TO 1969

COMMODITY	1967		1968		1969		Percentage of Total Exports to S.E.A.	As Percentage of Total Exports to S.E.A.	Percentage of 1969 (1968=100)
	Value	As Percentage of Total Exports to S.E.A.	Value	As Percentage of Total Exports to S.E.A.	Value	As Percentage of Total Exports to S.E.A.			
Foodstuffs	1,310	0.1	1,831	0.1	2,032	0.1		111.0	
Crude materials and fuels	2,308	0.2	3,626	0.2	3,680	0.2		101.5	
Textiles	57,140	4.4	49,537	2.7	51,203	2.8		103.4	
Light industrial goods	27,009	2.1	29,520	2.1	33,361	1.8		113	
Chemicals	35,249	2.7	38,387	2.6	49,171	2.7		128.1	
Metals	70,993	5.5	72,209	5.1	82,825	4.6		114.7	
Machinery and Apparatus	145,821	11.32	169,380	11.9	210,232	11.6		124.1	
Re-exports and special category goods	1,160	0.1	0,956	-	1,337	-		139.9	
TOTAL	340,999	26.3	365,447	25.6	433,481	23.9		118.7	

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

TABLE 3.12 (b)

## JAPAN'S IMPORTS FROM THAILAND BETWEEN 1967 TO 1969

COMMODITY	1 9 6 7		1 9 6 8		1 9 6 9		Percentage of 1969
	Value	As Percentage of Total Imports from S.E.A.	Value	As Percentage of Total Imports from S.E.A.	Value	As Percentage of Total Imports from S.E.A.	
Foodstuffs	87.332	7.9	73.531	6.1	62.632	4.2	85.2
Crude materials and fuels	65.385	5.9	61.641	5.1	89.394	5.9	145.0
Mineral Fuels	-	-	-	-	-	-	-
Others	7.322	0.7	11.851	1.0	15.391	1.0	129.9
<b>TOTAL</b>	<b>160.039</b>	<b>14.5</b>	<b>147.023</b>	<b>12.2</b>	<b>167.417</b>	<b>11.1</b>	<b>113.9</b>

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

TABLE 3.13 (a)

## JAPAN'S EXPORTS TO SOUTH VIETNAM BETWEEN 1967 TO 1969

COMMODITY	1 9 6 7		1 9 6 8		1 9 6 9		Percentage of 1969 (1968=100)
	Value	As Percentage of Total Exports to S.E.A.	Value	As Percentage of Total Exports to S.E.A.	Value	As Percentage of Total Exports to S.E.A.	
Foodstuffs	1.566	0.1	12.620	0.9	11.037	0.6	87.5
Crude materials and fuels	0.762	-	0.956	-	1.577	-	165.0
Textiles	30.517	2.4	31.767	2.2	32.234	1.7	101.5
Light Industrial goods	10.607	0.8	11.740	0.8	12.266	0.7	104.3
Chemicals	5.315	0.4	4.115	0.3	7.744	0.3	188.2
Metals	5.769	0.4	8.415	0.6	9.465	0.5	112.5
Machinery and Apparatus	119.872	9.4	128.906	5.9	148.483	8.2	115.2
Re-exports and special category goods	0.179	-	0.443	-	0.349	-	78.8
TOTAL	174.586	13.6	198.963	13.6	223.156	12.3	112.2

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

TABLE 3.13 (b)

## JAPAN'S IMPORTS FROM SOUTH VIETNAM BETWEEN 1967 TO 1969

COMMODITY	1 9 6 7		1 9 6 8		1 9 6 9		Percentage of 1969 (1968=100)
	Value	As Percentage of Total Imports from S.E.A.	Value	As Percentage of Total Imports from S.E.A.	Value	As Percentage of Total Imports from S.E.A.	
Foodstuffs	0.813	-	0.227	-	0.208	-	91.6
Crude materials and fuels	3.604	0.3	2.387	0.2	2.949	0.2	123.5
Mineral fuels	-	-	-	-	-	-	-
Others	0.159	-	0.105	-	0.152	-	144.8
TOTAL	4.576	0.4	2.719	0.2	3.309	0.2	121.7

Source: Compiled from Foreign Trade White Paper of Japan, 1971.

## Japan's Trade Relations with West Malaysia, 1961-1969

Table 3.14 shows that the West Malaysian exports and imports to Japan both in monetary as well as in percentage forms. Table 3.14 shows that the West Malaysian imports from Japan has increased gradually over the period 1960-1969 from 8% in 1960 to 17.1% in 1969. In value this imports went up from M\$172.3 million in 1960 to M\$479.9 million in 1969, indicating that the Japanese are gaining a strong foothold in the Malaysian market for their exports. The imports rose by about two and a half times in monetary values. Japan's exports to West Malaysia have shown an annual increase of 20.5% while her imports from West Malaysia have shown an annual increase of only 5.2%.

Now turning to exports to Japan, Table 3.14 shows that in 1961 West Malaysian exports to Japan constituted 14.6% of her total exports but in 1969 this figure dropped drastically to 13.3%. This does not imply that export trade with Japan has been on the decline. In actual fact the value of West Malaysian exports to Japan has increased from M\$382.5 million in 1961 to M\$514.6 million in 1969, which shows that exports have actually grown by one and three quarter times.

Therefore, it can be noticed that although West Malaysia's imports have increased from 8% in 1960 to 17.1% in 1969, and imports have decreased from 14.6% in 1969 to 13.3% in 1969, there is not much cause for concern due to the fact that imports in real monetary terms have not grown as rapidly as the exports. During this period the balance of trade has always been in the favour of Malaysia although the magnitude has been fluctuating over the years. In the year 1961, West Malaysia had the most favourable balance of trade when the trade surplus was M\$200.5 million. The least favourable year was in 1968 when the trade surplus dropped to M\$15.3 million. But the following year the trade balance rose up due to the fact that during that year the prices of Malaysia's primary commodities rose sharply. So far Malaysia has been one of the few countries which has never had an unfavourable balance with Japan, and it can be seen that if the imports from Japan continue to grow at the rate at which they are now growing and if the exports do not grow as fast or if the price of rubber remains at the price it is today, that is, 98.5 cents per kilo<sup>11</sup> then definitely in the very near future West Malaysia is going to have an unfavourable balance of trade with Japan.

The structure of Malaysian trade with Japan is the same as that with the other advanced countries. Malaysia exports mainly primary commodities and imports manufactured goods. Prominent among the items which are exported by Japan to West Malaysia are manufactured goods, machinery, transport equipment and chemicals. In 1961 West Malaysia imported M\$104.2 million worth of manufactured goods including electronic equipment and in 1967 this figure rose to M\$200.8 million indicating a substantial increase of M\$96.6 million. This shows that the Japanese are achieving superiority in the technological sector

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<sup>11</sup>The date is 20th August, 1971.

TABLE 3.14

JAPAN - WEST MALAYSIA TRADE-RELATIONS 1961-1969  
(IN MILLION MALAYSIAN DOLLARS)

COMMODITY (EXPORTS)	1961	1962	1963	1964	1965	1966	1967	1968	1969	As Percentage of Total Exports	Average Annual Increase 1961-1969 <sup>(1)</sup>
	E X P O R T S										
Food	15.9	17.1	19.7	19.2	19.3	23.3	23.0	20.3	19.6	4.1	2.9
Beverages, Tobacco	-	-	-	-	-	-	-	0.1	-	-	-
Crude materials	1.2	1.8	2.8	1.4	2.0	2.6	2.6	2.8	6.2	1.3	52.1
Mineral fuels	0.1	-	0.7	0.3	0.6	0.1	0.1	0.4	0.5	-	50
Animal/Vegetable Oil Fats	0.2	0.1	0.1	0.1	-	-	0.1	0.5	0.7	0.1	31.3
Chemicals	8.9	9.9	15.7	12.3	18.4	24.8	27.6	32.1	43.8	9.1	4.9
Manufactured Goods	106.9	129.2	137.1	128.4	147.6	156.6	158.8	172.3	200.8	41.8	11.0
Machinery and Transport Equipment	34.5	43.0	62.1	91.1	96.2	129.8	133.0	147.3	175.2	36.5	50.9
Miscellaneous Manufactures	13.8	11.9	13.5	13.4	15.6	19.0	23.0	28.1	32.2	6.7	16.7
Miscellaneous Transactions	0.5	1.0	0.8	0.3	0.6	1.0	1.2	1.3	0.9	0.2	10
<b>TOTAL</b>	<b>182.0</b>	<b>214</b>	<b>252.4</b>	<b>266.5</b>	<b>300.3</b>	<b>357.2</b>	<b>369.4</b>	<b>405.2</b>	<b>479.9</b>	<b>100</b>	<b>20.5</b>
(IMPORTS)	I M P O R T S									As Percentage of Total Imports	
Food	0.3	0.3	0.2	0.7	1.7	2.6	5.3	9.8	17.0	3.1	695.8
Beverages, Tobacco	-	-	-	-	-	-	-	-	-	-	-
Crude materials	301.9	281.5	386.4	255.4	233.5	228.8	214.7	228.1	257.1	46.6	- 1.9
Mineral fuels	-	-	-	-	-	-	-	-	-	-	-
Animal/Vegetable Oil Fats	-	2.1	5.2	4.6	2.2	1.4	0.9	0.2	-	-	- 1.5
Chemicals	1.0	0.3	0.7	0.8	0.4	0.2	0.5	0.2	0.5	0.1	- 6.3
Manufactured Goods	78.8	78.5	102.1	150.0	154.3	170.0	194.1	188.6	263.4	48.6	29.3
Machinery and Transport Equipment	-	-	0.1	-	0.1	0.2	0.4	-	0.2	-	16.7
Miscellaneous Manufactures	-	-	-	0.2	-	0.1	0.1	0.2	0.1	-	- 10
Miscellaneous Transactions	0.6	1.3	1.9	1.7	1.9	2.5	4.2	3.5	3.3	0.8	56.3
<b>TOTAL</b>	<b>382.5</b>	<b>364.0</b>	<b>396.6</b>	<b>413.4</b>	<b>394.1</b>	<b>409.8</b>	<b>420.2</b>	<b>420.6</b>	<b>541.6</b>	<b>100</b>	<b>5.2</b>
<b>TRADE BALANCE<sup>(2)</sup></b>	<b>-200.5</b>	<b>-150.0</b>	<b>-144.2</b>	<b>-146.9</b>	<b>- 93.8</b>	<b>- 52.6</b>	<b>- 50.8</b>	<b>- 15.4</b>	<b>- 61.7</b>		

Source: Government of Malaysia, Statistics Department, West Malaysian External Trade Statistics.

(1) A negative sign indicates a decline.

(2) Deficit Balance.

and also points out that there is a demand for Japanese manufactured goods in West Malaysia. The Japanese transistor radios, electrical appliances are household names in thousands of Malaysian homes. Recently, I carried out a survey of all shops dealing in radios and electrical appliances in Jalan Tuanku Abdul Rahman (a popular shopping area in Kuala Lumpur) and found that most of them dealt mainly in Japanese products. This would indicate the popularity of the Japanese electronic appliances which are becoming indispensable to people who even depend on automatic Japanese rice cookers to cook their rice.

Another important item in the list of imports from Japan is Machinery and Transport Equipment. In 1960, Japanese machinery and transport equipment accounted for 9.8% of West Malaysian imports from Japan while it steadily rose to 36.5% in 1969. In terms of value West Malaysian imports of machinery and transport accounted for M\$32.3 million in 1960 and M\$175.2 million in 1966, showing that there has been a five-fold increase during this period. This is understandable because we are in the process of agricultural and industrial development, and machinery is required to help in the various economic development projects. Further there is an increasing demand in West Malaysia for Japanese made cars. At one time during the early fifties the Japanese cars were looked down upon because of their poor quality but now the quality of the Japanese cars is very much improved because of the great strides taken by the Japanese technological sector and also because the prices are very competitive. As a result of this there is a great demand for the Japanese cars. In fact in the top five positions in sales of passenger cars in Malaysia in the first half of 1971, three positions were occupied by cars of Japanese make as indicated in the table below.

TABLE 3.15

SALE OF PASSENGER CARS BETWEEN  
1ST JANUARY-31ST JUNE, 1971

Make	Current Position	Total Sale Unit	+ increase in Percentage - decrease in Percentage	Position in 1970
Datsun	1	2,142	+82	2
Mercedes	2	1,288	+39	4
Toyota	3	1,279	+20	3
Ford	4	1,143	-20	1
Madza	5	994	+7.2	10

Source: Business Times, The Straits Times,  
July 28, 1971.

The great expansion in the Japanese car industry has been taken at the expense of other manufacturers. The greatest losers are Ford, Volkswagon and Austin which dropped from first, fifth and eighth to fourth, eleventh and twelfth positions respectively.

Japanese chemicals are also being imported increasing by West Malaysia and a substantial increase is notable when we compare the years 1960 and 1969 which indicates a five-fold increase from M\$8.2 million to M\$43.8 million.

Japan is also playing a leading role in absorbing the exports of Malaysia which are mainly crude materials. Japan's imports of West Malaysia raw materials has decreased considerably in monetary value as well as percentage form. In 1961, 78.8% of West Malaysia's exports to Japan constituted of raw materials while in 1969 it constituted only 46.4% of West Malaysia's exports. But in terms of value the difference is not very wide. In 1961 crude materials exports accounted for M\$301.9 whereas in 1969 they accounted for M\$257.1 million, a negative difference of M\$44.6 million.

Table 3.16 indicates that Japanese imports from West Malaysia have generally decreased marginally over the past few years. Most of West Malaysia's timber and almost the whole of iron ore has been absorbed by the Japanese. Iron ore is expected to bring in less and less revenue for West Malaysia because all the iron ore deposits have almost been exhausted. Timber exports to Japan according to recent newspaper reports are also expected to decrease because it has been reported that Japan has cut down drastically her sawn logs imports from South-east Asia. Sawn logs thus are losing a very important market. Tin imports from West Malaysia are also declining. The drop in the earnings from the crude materials would be more severe if the rubber price continues to drop below the 45 cents a pound level.

Manufactured goods are accounting for substantial foreign exchange earnings from Japan. In 1961 manufactured goods accounted for 20.7% of West Malaysia's total exports to Japan while in 1969 this figure went up to 48.6%. In monetary terms the value increased from M\$20.7 million in 1961 to M\$263.4 million in 1969, showing a rise of M\$184.7 million. Thus manufactured goods are playing an important part in the trade between West Malaysia and Japan.

West Malaysia should intensify finding markets elsewhere because one day West Malaysia's trade with Japan might become very unfavourable.

TABLE 3.16

STRUCTURE OF EXPORTS OF MAJOR CRUDE MATERIALS TO JAPAN, 1964-1969  
(IN MILLION M\$)

COMMODITY	1964		1965		1966		1967		1968		1969	
	Total Exports	As Percentage of Total Exports	Total Exports	As Percentage of Total Exports	Total Exports	As Percentage of Total Exports	Total Exports	As Percentage of Total Exports	Total Exports	As Percentage of Total Exports	Total Exports	As Percentage of Total Exports
Rubber	76.6	5.9	68.8	5.0	65.1	4.7	60.0	4.9	75.7	5.8	118.0	5.0
Tin Block	153.2	21.5	154.2	17.8	173.8	22.3	193.6	26.0	178.3	21.7	258.4	27.0
Iron Ore	161.5	99.3	159.6	98.9	134.7	98.8	120.8	98.9	109.3	99.0	114.0	98.6
Sawn Logs	131.3	64.4	175.0	66.6	266.0	69.1	315.9	66.4	335.1	61.0	361.8	60.0

Source: Dr. Syed Waseem's Article on Malaysia-Japanese Economic Relations. Presented at a Conference held at the University of Malaya, 12th - 14th May, 1970.

Note: Percentages are of total exports of each commodity.

## CHAPTER IV

### JAPANESE CAPITAL IN SOUTH-EAST ASIA

#### Development Finance for Developing Countries

We shall attempt to show the relative importance of official and private flows of assistance, the channels of flow of assistance and finally the comparison of the assistance of developed nations to this region.

In the last few years, Japan has become an increasingly important source of development finance for the developing countries especially those in South-east Asia. Japan's own economy is expanding at a very rapid rate and thus she now finds it possible to participate increasingly in the international aid effort which she feels is her duty to provide to the less fortunate nations. This was due, perhaps, to the fact that immediately after her defeat in World War II, Japan would have been unable to make progress leading to her present success without 'GARIO' and 'EROA' aid from the United States and the dollar income from the Korean War. From this point of view, there is no doubt that it should be considered a big responsibility in international society for those societies which have more or less surplus economic strength to pool their resources in economic aid to the developing countries.

In Japan there is a mounting belief that economic assistance is essential not only for her own prosperity but the whole world as a group. Also there is a subconscious feeling among the Japanese people that to continue their efforts in this direction of providing economic assistance though this may be insufficient is the way in which they can repay for the help they have received from the Americans for many years. On the other hand, there is also a feeling that once Japanese capital is advanced overseas, this will not only help Japan to assume the status of an advanced industrial country, "but will also play a role in adjusting the volume of her foreign exchange reserves which at the moment are around US\$4,000 million." If these foreign exchange reserves are kept in Japan, they will be lying idle but if they are invested overseas they will not only earn income but will help in the development of the country in which they are invested.<sup>1</sup>

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<sup>1</sup>Mr. T. Wakiyama of Ministry of Trade and Industry Japan, in a lecture on economic development of Japan to Malaysian students on study tour of Japan, February 1971.

Japanese aid activities, initially comprised to a large extent of export credit. But since recently Japan has been providing aid in the framework of inter-governmental agreements, and is increasingly financing infra-structure projects as well as commodity aid. The amount of technical assistance however, is still relatively modest. 1968.

Japan has in addition to its immediate obligations to a number of countries in South-east Asia, clearly accepted its wider responsibilities as a major industrial power in the international common aid effort. Early manifestations of the acceptance of these wider responsibilities were the sizeable contributions to the international aid agencies such as International Bank for Rural Development, International Development Assistance and the United Nations Technical Assistance programmes, membership in the Organisation of Economic Cooperation and Development, Development Assistance Committee and acceptance of the 1% aid target recommended by the 1964 United Nations Conference in Trade and Development. More recently, Japan played a very active part in the establishment of the Asian Development Bank and the policy declarations at a number of important Ministerial Conferences in South-east Asia, show renewed intention of Japan's determination to play its role in international development efforts.

### Financial Flows

While the overall volume of aid has increased rapidly, the financial term policies continued to be characterized by great caution. The average financial caution at which Japanese aid is given has been progressively softer but remain comparatively tied. The later part of the chapter will show how the Prime Minister of Malaysia, Tengku Abdul Rahman had revealed the exploitative nature of the aid. Aid which have been given to South-east Asian countries have almost all been tied and local cost financing has been granted only in exceptional cases.

The total volume of Japanese net official and private flows have increased from US\$123 million in 1956 to US\$1,263.1 million in 1969 reaching 0.76% of gross national product and 0.96% of National Income.<sup>2</sup> It is only since 1966 that the volume of Net Official Flows started to rise considerably as compared with the preceding years. Net Official Flows compose of "Official Development Assistance" which notably are Bilateral grants, direct official development loans and contributions to multi-lateral agencies and other official flows, such as official export credits as well as purchases of bonds, loans and participations issued by multi-lateral agencies.

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<sup>2</sup>Economic Cooperation of Japan, Ministry of International Trade and Industry, Japan.

<sup>3</sup>Organisation of Economic Cooperation and Development, Resources for the Developing World, 1962-1965, Paris 1970, pp. 116-117.

Table 4.1 indicates net official development assistance increased from US\$85 million in 1962 to US\$355 million in 1968. Net private flows increased from US\$53 million in 1956 to US\$240 million in 1968. The increase in private investment and in private export credits in developing countries was especially sharp between 1967 and 1968.

Multi-lateral contributions have recently gained in importance and now represent, about 13% of the total gross official development assistance flow.

### Aid Control

Various Ministers and agencies are jointly concerned with the formulation and implementation of the official aid activities.<sup>3</sup> Those primarily involved are the Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of International Trade and Industry as well as the Economic Planning Agency. The practical implementation of Japanese aid activities is in the hands of a number of different agencies, in particular the Export-Import Bank of Japan, (entirely owned by the Government) whose main function is the financing of the export credits, in addition to the implementation of inter-governmental loan agreements. The Overseas Economic Cooperation Fund which is supervised by Economic Planning Agency implements softer term loan agreements to developing countries as well as ordinary loans to Japanese firms which are linked to economic development. The Overseas Technical Cooperation Agency, a semi-autonomous body implements most of the official technical assistance.

The reparations and contributions made under Economic Cooperation Agreements on a Grant Basis are the responsibility of a Special Inter-Ministerial Committee convened by the Ministry of Foreign Affairs, and other Bilateral Grants are administered in part by the Foreign Ministry and in part by the Finance Ministry.

### Sources of Finance Aid

Bilateral grants and multi-lateral contributions are financed primarily from appropriations from the Current Budget. In principle, the amounts voted for in each fiscal year must be disbursed during the same year while reparation payments carry a non-lapsing authority. The Bilateral official development loans are financed by capital subscriptions from a special state budget for industrial investment through borrowing at 6.5% from the Trust Fund Bureau which administers postal savings and national pension funds through the financial participation of Commercial Banks (about 20%) guaranteed by the Bank. The Bank is authorised to borrow up to three times the amount of its combined share capital and legal reserves.

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<sup>3</sup>Organisation of Economic Cooperation and Development, Resources for the Developing World, 1962-1968, Paris 1970, pp. 116-117.

TABLE 4.1

STRUCTURE OF NET OFFICIAL AND PRIVATE FLOWS 1956, 1962-1968  
(IN MILLION U.S. DOLLARS)

	1956	1962	1963	1964	1965	1966	1967	1968
Official Flows	70	168	174	211	353	498	627	809
Of which: -								
Official Development Assistance	70	85	138	116	224	283	384	553
Other Official Flows	-	83	36	95	109	215	243	454
Private Flows (1)	53	118	94	79	132	127	170	240
TOTAL	123	286	268	280	485	625 (2)	797 (2)	1,049 (2)
Total Percentage of Gross National Product	0.44	0.49	0.40	0.36	0.55	0.62	0.67	0.74
Total Percentage of National Income	-	0.61	0.50	0.48	0.71	0.77	0.83	0.93

Source: Organisation of Economic Cooperation and Development, Resources for Developing World 1962-1968, Paris 1970, p. 116.

(1) Figures based on estimates provided by the Japanese Authorities.

(2) Including provisional estimates of trade credits for ships registered in conveyance countries going ultimately to developing countries. These amounts were about US\$80 million in 1966, US\$139 million in 1967 and US\$127 million in 1968.

Overseas Economic Cooperation Fund official development loans are financed by capital subscriptions from the current budget and borrowing at 6.5% from the Trust Fund Bureau. But Overseas Economic Cooperation Fund is not authorised to borrow from Trust Fund Bureau over and above its own capital. Export credits are financed by the official sector mainly the Export-Import Bank and to a limited extent, the Overseas Economic Cooperation Fund, from sources similar to those used for financing direct official development loans. Although these loans are regulated in the course of normal transactions between the exporters and importers, they have to be approved by the Ministry of International Trade and Industry after consultation with the appropriate Ministries.

### Composition of the Aid Programme

In terms of gross disbursements, the lending programmes operated by the Export-Import Bank and Overseas Economic Cooperation Fund constitute the largest element of the official development assistance. Loan disbursements account for more than half of the total gross flow. The loans which the Bank and Overseas Economic Cooperation extend in the framework of inter-governmental agreements are considered to be part of the official development assistance programme. Next in importance are the grant contributions under war-reparations, economic-cooperation and other agreement which account for approximately one-third of the total official development assistance programme. Technical assistance activities hold a small place compared to other DAC countries.

### Assistance to South-east Asia

I have given an elaborate analysis of the various aid institutions in depth because they play a very important part in the transferrance of economic assistance to the South-east Asian region which account for a quarter of the total Japanese governmental and private aid to South-east Asia between 1964-1968, and for 40% of the total governmental assistance during this same period.<sup>4</sup> Before I give a geographical distribution of aid, I will first analyse the structure of the total Japanese Governmental and private aid between 1964-1968.

### Analysis of the Structure of the Aid

#### Bilateral Grants

Reparation payment continues to constitute an important part of the flow of capital resources from Japan to certain less developed countries. In the period 1964-1968 as can be seen in Table 4.2 disbursements of reparations averaged 8.6% of the total official development assistance disbursements. Total commitments under

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<sup>4</sup> Ministry of Foreign Affairs Publications, Tokyo, Japan.

TABLE 4.2

reparation agreements signed between 1953 and 1960 amounted to US\$1,012 million. Agreements were concluded with four countries: the Philippines, Thailand, South Vietnam and Indonesia. The reparations still to be paid are US\$1,000 million. The original cost of the reparations was US\$1,000 million and US\$10 million to Indonesia.

**STRUCTURE OF TOTAL JAPANESE GOVERNMENTAL AND PRIVATE AID BETWEEN 1964-1968 (DISTRIBUTION OF JAPAN'S AID IN PERCENTAGE)**

	Percentage
<b>Total Governmental and Private Aid</b>	100
<u>Official Development Assistance</u>	39.4
<u>Bilateral Grants</u>	14.5
Of which:-	
Preparations	8.6
Development programme and project	4.6
Technical Assistance	1.3
<u>Official Loans</u>	20.1
Of which:-	
Direct Loans	16.8
Refinancing and Consolidation of Credits	3.3
<u>Grants and Capital Subscription</u>	
Payments to Multi-lateral Agencies	4.8
<u>Private Aid</u>	60.6
Private Investments	12.2
Private Export Credits	48.4

Source: Compiled from Ministry of Foreign Affairs, Publications, Tokyo, Japan.

Organisation of Economic Cooperation and Development, Op.cit. p. 118.

reparation agreements signed between 1955 and 1960 amounted to US\$1,012 million.<sup>5</sup> Agreements were concluded with four countries: the Philippines, Indonesia, Burma and South Vietnam. The reparations still to be paid at the end of 1968 were less than one-fourth of the original commitments; US\$235 million to the Philippines and US\$10 million to Indonesia.

In addition to reparations, Japan entered between 1959 and 1965 into five economic cooperation agreements on a grant basis with Laos, Cambodia, Thailand, Burma and South Korea. It should be noted that the Japanese consider all these countries with the exception of South Korea as South-east Asian countries. Therefore, it could be viewed that Japan is penetrating deeper and deeper into the South-east Asian region. The selection of projects to be financed under-reparations and economic cooperation grants have to be determined on the basis of inter-governmental consultations on the projects lists presented by the recipient countries. The grants are to be made in the form of products and services from Japan, mainly in the form of capital goods. The Japanese Government endeavours to ensure that payments will be applied to projects or programmes that are most conducive to economic development.

The technical cooperation programme which was started in 1954 found its permanent basis with the establishment of the Overseas Technical Cooperation Agency in 1962. It is small in financial volume both in absolute terms (US\$14 million in 1968) and as a percentage of total official flows (4%). The programmes include the financing of students and trainees, the provision of equipment and supplies, the provision of advisers and experts, a programme of volunteers, the creation of technical cooperation centre in developing countries, investment feasibility studies and comprehensive cooperation on a project basis in the fields of agriculture and medicine. On 15th August, 1971, news bulletin on our radio, it was announced that another 18 volunteers would be arriving in Malaysia soon and that they would be specialised in a number of fields such as agriculture, technology and radiography.

#### Direct Inter-governmental Loans

The inter-governmental loans programme started in 1958. In South-east Asia, Indonesia is the main recipient of this type of aid. Until recently there has been a tendency to finance projects in the field of manufacturing activity. In extending project assistance, priority is given to projects which form part of the recipient country's development plan and the likely contribution of the project to the development plan is carefully considered. In some cases where Japan has an export surplus, emphasis is placed on projects which contribute to promoting the exports of the recipient country, especially projects promoting the production of primary

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<sup>5</sup> Organisation of Economic Cooperation and Development, Ibid., p. 118.

commodities. In the next chapter, I will give complete details of the projects of which financial aid has been approved by Japan under direct inter-governmental loans to Malaysia.

### Multi-lateral Contributions

Between 1964-1968, 4.8% of the official development assistance went towards the multi-lateral institutions. In 1968 Japanese aid, extended through the intermediary of multi-lateral institutions, accounted for 14% of total official development assistance. The aid granted through multi-lateral institutions is untied aid, and as a result is greatly welcomed by recipient countries. Japan is the main subscriber to the capital of the Asian Development Bank (US\$200 million) and to its Special Fund.<sup>6</sup> The Japanese Government now supports regional cooperation and to this extent has taken the lead in organising two Ministerial Conferences on Economic Development, and one on agricultural development in South-east Asia in 1966 which is now commonly known as the Green Revolution. She also plays an active part in the Multi-National Development plans of the Mekong Basin, contributes to the Nam Ngum Dam Project supervised by International Bank for Rural Development and makes an important contribution to the Asiatic Productivity Organisation. Thus Japan is now directing substantial parts of her aid through multi-lateral institutions which are readily welcomed by South-east Asian region.

### Export Credits

Between 1964 and 1968 private exports credit accounted for 48.4% of total Japanese aid. The export-import bank and the Overseas Economic Cooperation Fund grants a substantial amount of export credits via Japanese exports.

### Geographical Analysis of Total Japanese Governmental and Private Aid, 1964-1968.

The South-east Asian region accounted for 25% of the total Japanese Governmental and Private Assistance which amounted to US\$3,535.1 million between 1964-1968. In terms of value, South-east Asia received US\$883.9 million during the said period on analysing further, it will be found that in fact 40% of the total governmental aid has been received by the South-east Asian region during the period. As individual nations Philippines and Indonesia received the highest allocation of the aid, as shown in Table 4.3. On looking carefully at the table, it will not be surprising to learn why the Japanese aid to this part of the world constitutes that great amount. It is a well known fact that this region is one of the richest in raw materials and raw materials is the most basic requirement needed to feed the Japanese factories. Thus this part of the world is

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<sup>6</sup>Organisation of Economic Cooperation and Development, Ibid, p. 121.

also of vital importance to Japan, and also as a strategic link to the world as a whole because of the Straits of Malacca. So it is no surprise that this region receives the most aid. Indonesia received 9.8% of the total aid during the period of 1964-1968.

TABLE 4.3

GEOGRAPHICAL STRUCTURE OF OFFICIAL AND UNOFFICIAL FLOWS OF AID BETWEEN 1964-1968

Region	Total Aid (in U.S. million \$)	Percentage of Total
Whole World	3,535.1	100
Asia	2,015.4	57
South-east Asia	883.1	25
Of which:-		
Philippines	2,347.8	9.8
Indonesia	288.1	8.2
Thailand	122.4	3.5
Burma	72.4	2.1
Others	50.6	1.4
Rest of Asia	1,132.3	32
Of which:-		
Republic of Korea	434.2	12.3
Republic of China	172.6	4.9
India	351.4	9.9
Others	174.1	4.9
Africa	604.5	17.1
Central and South America	289.9	8.2
Middle and Near East	212.1	6.0
Europe	113.1	3.2
Oceania	3.5	0.1
Unallocated	296.9	8.4

Source: Compiled from Ministry of Foreign Affairs Publications, Tokyo, Japan.

<sup>1</sup>The Straits Times, 1st April, 1971.  
<sup>2</sup>The Straits Times, 1st April, 1971.  
<sup>3</sup>The Straits Times, 1st April, 1971.

also of vital importance to Japan, and also as a strategic link to the world as a whole because of the Straits of Malacca. So it is no surprise that this region receives the most aid. Indonesia received US\$288.1 million which in percentage terms is 8.2% of the total Japanese aid while Philippines received US\$347.8 million which is 9.8% of the total aid during the period of 1964-1968.

This aid of Japan to South-east Asia has raised many comments from different parts of the world. The basic fact is that South-east Asia is of vital importance to Japan. Professor Olson of Wesleyan University has expressed the view that Japanese foreign policy will depend on more than economic aid to the countries in South-east Asia. He adds that Japan sees China, her ancient rival, as a potential rival in this part of the world.<sup>7</sup> He elaborates that South-east Asian leaders may use this rivalry as a means of obtaining more economic assistance. But I do not agree with this analysis as the attitudes of the people of South-east Asia reveal that they are resenting Japan's advances as they fear that they might become economically dependent on Japan, thus becoming an indirect colony of that country.

American historian Mr. Mathews Gardner says Japan grants foreign aid as much to protect its commercial interest as to help the developing countries.<sup>8</sup> Mr. Gardner of the Brookings institution says Japan is concentrating foreign assistance in South-east Asia to protect trade routes through the Straits of Malacca as well as to help individual countries there. "The Straits are of great strategic value to Japan," he said. "Therefore the stability of the area is essential for the uninterrupted transit of Japanese merchant trade and oil tankers." He noted that half of all official Japanese bilateral assistance now goes to Indonesia and the Philippines, and expressed the belief that this pattern would not change.

Colonel William Spaulding Jr. of the Criminal Intelligence agency, says that it is the strategic interest of Japan to have economic and political ties with Indonesia, Malaysia and Singapore.<sup>9</sup> In his opinion Japan's increasing need for raw materials puts pressure on the trade routes through the Straits of Malacca, Lombok Straits and the Kra Isthmus. Japan obtains increasing supplies of oil from Indonesia, in fact increasing its supplies from 8% to 15% of her total needs, but there is still the need for obtaining some 85% of Japan's oil from the Middle East and the trade routes lead through Straits.

Japan's total governmental and private aid can be further divided into OFFICIAL FLOWS and UNOFFICIAL FLOWS for deeper analysis.

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<sup>7</sup>The Straits Times, 1st April, 1971.

<sup>8</sup>The Straits Times, 1st April, 1971.

<sup>9</sup>The Straits Times, 1st April, 1971.

## Japan's Governmental Aid by Geographical Areas

We can establish from Table 4.4 that South-east Asia gets the major share of Japan's Governmental Aid. During the 1964-1968 period South-east Asia received US\$557.1 million or 40% of the total governmental aid. Japan's assistance can be seen in the table to be very insignificant to the regions beyond Asia. Japan's assistance to the South-east Asian countries, in particular Indonesia and Philippines, has been very large because during this period Japan has been in the process of settling war reparations. Under the provisions of a reparation agreement which took effect in April 1968, Japan agreed to pay Indonesia a total of US\$223 million in goods and services during the 12 year period. At the end of July 1969, Japan had paid Indonesia reparations totalling US\$217.9 million representing 97.7% of the agreed sum. Japan has also supplied Indonesia with loans secured on reparations on four occasions totalling US\$81.7 million. As the reparation payments neared completion and funds available from the source it became depleted, the yen credits have gradually increased in importance. In July 1966, Japan supplied Indonesia with yen credit worth US\$30 million.<sup>10</sup>

In the case of the Philippines, payments to the Philippines began in July 1956 when the Reparations pact was signed. The reparation agreement provided for payment of Japanese goods and services worth US\$550 million during a 20 year period. Up to July 1969 reparations to the Philippines had been made to the amount of US\$333 million or 60% of the total agreed sum. Out of the services and products so far supplied, machinery and transport equipment are generally the largest category, accounting for 59%. Ships by far are the largest single item with a 26.7% share in the total.<sup>11</sup>

Japan's reparation payments has played an important role for the Philippines and Indonesia, which have been suffering from acute shortage of foreign capital and has contributed significantly to the economic development and social welfare of that nations. The other type of assistance extended by Japan is the same as that extended to Indonesia - that is, loans supplied with reparations as security.

Malaysia has received a comparatively small amount of economic assistance from Japan. During the period 1964-1968, total Governmental and Private Aid amounted to only US\$26.8 million as compared to Indonesia, Philippines and Thailand which received significant amounts. It would be very interesting to analyse the reason why Malaysia received such comparatively insignificant aid. During Tengku Abdul Rahman's visit to Japan in 1970 during the 'Expo'!

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<sup>10</sup> Asahi Evening News International 1969, Japan's industrial Role in Overseas Cooperation for Development, p. 19.

<sup>11</sup> Asahi Evening News International 1969, Ibid, p. 32.

The Tengku, Prime Minister of Malaysia, hit out at the way the capitalists in Japan were assisting to her less fortunate neighbours. He pointed out that the Japanese government was offering loans in relation to the Asian Development Bank which has been offered because it had to be used for specific projects and that the aid must only be administered by Japan. He said that we consider the help at all times we consider its full use and that Japan as the major trading power in Asia should give the less developed neighbours the aid with loans and know-how. The Tengku also hit out at the fact that her contribution to the Asian Development Bank was not sufficient to the amount of trade she has been carrying out with other countries in Asia. Any loan that has been offered by Japan so far has been full of restrictions that tantamount to giving it with taking back double the amount with other hand. Japan to gain both ways, from import as the aid as well as for the sale of Japanese goods. The way to do this is in financial transactions which favour Japan but not the borrowing country. The further said that if Japan is honest and sincere about wanting to help the less fortunate in Asia she must relax her foreign policy of Tengku Abdul Razak has been new by the Japanese began to make concessions. the rate of interest on the loan which Japan granted the Prime Minister said that the Japanese rate of interest was high. While Sweden provides aid with interest at 2% and Denmark 3%, the Japanese rates are 5% and 5.75%. Tengku said he was not criticizing Japan as merely drawing attention to the fact that recipient countries would like her to help out of sincerity and for the right of the donor at the expense of the recipient. Malaysia, as far that goes, South-east Asian country that get cheaper loans from Japan which is ungenerous as he pointed out.

TABLE 4.4

JAPAN'S GOVERNMENTAL AID BY GEOGRAPHICAL AREAS, 1964-1968 (IN MILLION U.S. DOLLARS)

Region	Governmental Aid	As Percentage of Total Government Aid
Asia	1,119.2	85.6
South-east Asia	557.1	40
Of which:-		
Indonesia	284.1	20.4
Philippines	176.9	12.7
Burma	55.7	4.0
Thailand	19.5	1.4
Others	21.0	1.5
Rest of Asia	635.1	45.6
Republic of Korea	175.6	12.6
Republic of China	64.1	4.6
India	242.3	17.4
Others	153.2	11.0
Middle and Near East	1.4	0.1
Africa	5.6	0.4
Europe	2.7	0.2
Central and South America	19.5	1.4
Unallocated	171.3	12.3
Of which:-		
Asian Development Bank	80.8	5.8
I.D.A	47.3	3.4
Others	43.2	3.1
Total		100

Source: Compiled from Ministry of Foreign Affairs Publications, Tokyo, Japan.

12 Tengku Abdul Razak's Press Interview in Tokyo, July 31, 1970.

The Tengku, Prime Minister of Malaysia, hit out at the way the capitalists in Japan were providing assistance to her less fortunate neighbours. He pointed out that the Japanese government was offering loans, but the terms were very strict.<sup>12</sup> He gave an example in relation to Malaysia. He said that Malaysia had been offered US\$50 million loans but were not able to make use of all of it because it had to be used for specific projects and these projects must only be formulated by Japan and so this type of help was no help at all when we consider its full impact and significance.

Japan as the major trading power in Asia should give the lead to her less developed neighbours by providing them with loans and the expertise know-how. The Tengku also hit out at the fact that her contributions to the Asian Development Bank was not sufficient considering the amount of trade she has been carrying out with other countries in Asia. Any loan that has been offered by Japan so far has been so full of restrictions that it is tantamount to giving it with one hand and taking back double the amount with the other hand. Japan stands to gain both ways, from interest on the loan as well as from the sale of Japanese goods. It is a one way traffic in financial transactions which favour Japan but not the receiving country. The Tengku further said that if Japan is honest and sincere about wanting to help the less fortunate in Asia she must renew her foreign policy. This view of Tengku Abdul Rahman has been noted by the Japanese who has now began to make some concessions.

Touching on the rate of interest on the loans which Japan granted, the Prime Minister said that the Japanese rate of interest was very high. While Sweden provides Malaysia with loans at 2% and Germany at 3%, the Japanese rates are 4.5% and 5.75%. The Tengku concluded by saying that he was not criticising Japan but merely drawing her attention to the fact that recipient countries would like her to give more help out of sincerity and not for the richment of the donor at the expense of the recipient. If Malaysia, or for that matter, any South-east Asian country can get cheaper loans from elsewhere then why look towards Japanese aid which is so ungenerous as the Tengku has pointed out.

Japan's economic assistance can be further analysed by her Private Flows but these Japanese Private Flows are not as significant as the Official Development Assistance (as can be observed in Table 4.5). We can learn that the Japanese governmental aid was of a tied nature and consultations were required between the recipient country and Japan on projects feasible and goods and services have to be bought from Japan.

In the field of Private Investment also, restrictions such as tied aid exist. As can be seen from the table, Japanese private capital plays a very small part. In the case of Private Investment in South-east Asia, Philippines received the largest amount while

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<sup>12</sup>Tengku Abdul Rahman's Press Interview in Tokyo, July 31, 1970.

Indonesia which received 13819.5 million of Governmental aid during this period accounted for only 234 million. One interesting feature, however, JAPAN'S PRIVATE FLOWS BETWEEN 1964-1968 to Thailand was 110.4 million (IN MILLION U.S. DOLLARS) million during the period while Governmental aid accounted for a mere 4.0 million.

TABLE 4.5

Region	Total
Total	2,142.4
Asia	823.2
South-east Asia	326.0
Of which:-	
Philippines	170.9
Indonesia	4.0
Thailand	102.9
Burma	16.7
Others	29.1
Rest of Asia	497.2
Of which:-	
Republic of Korea	258.6
Republic of China	108.5
India	109.1
Others	21.0
Africa	598.9
Central and South America	270.4
Middle and Near East	210.7
Europe	110.4
Oceania	3.5
Unallocated	125.6

Source: Compiled from Ministry of Foreign Affairs Publications, Tokyo, Japan.

<sup>13</sup> Far Eastern Economic Review, Vol. LXXIII, No. 13, pp. 51.

<sup>14</sup> Far Eastern Economic Review, Vol. LXXIII, No. 40, October 3, 1970, p. 43.

<sup>15</sup> Far Eastern Economic Review, Vol. LXXIII, No. 13, pp. 51.

Indonesia which received large amounts of Governmental aid during this period accounted for only US\$4 million. One interesting feature, however, is that Japan has accounted for more Private Aid to Thailand than Governmental Aid. Private Aid shot up to US\$102 million during the period while Governmental Aid accounted for a mere US\$19.5 million.

Most South-east Asian countries are not too happy to receive Japanese Private Flows because of the very fact that they may become economically dependent on the Japanese. In fact the South-east Asian countries tend to look at the Japanese investments in South-east Asia as a different strategy of Japan trying to acquire control over the South-east Asian countries for her own motives. Thailand, as can be seen from Table 4.5, has received the most Japanese private investment in this region and as a result the Thais are very resentful of Japanese economic power. Dr. Amuay Virawamar recently suggested that Thailand should not allow the Japanese to control every stage of production from raw materials to marketing.<sup>13</sup> He further suggested that the rapidly increasing number of Japanese visitors to Thailand - in contrast to visitors of other nationalities was not helping the Thai Tourist Industry. Japanese tourists, he claimed avoided airlines, hotels, tour services and restaurants operated by Thais in favour of those run by their countrymen. In 1962, Japan revised drastically the old Industrial Promotion Law to encourage investments from domestic and foreign sources and stepping up of industrialisation through the fostering of private enterprises. According to the Far Eastern Economic Review, between 1959 and 1969 about 33% of foreign investments in Thailand came from Japan.<sup>14</sup> Now the Thais are inviting capital from countries other than Japan.<sup>15</sup> Also in the past wholly-owned subsidiaries were welcome but now the new law insists on joint ventures in which Foreign capitalists hold a 60% interest and local capital at least 40%. Another point which reflects the new economic policy is to insist that foreign-owned enterprises use locally supplied raw materials and semi-finished products produced by domestic industries.

Philippines also features large Private Japanese Assistance with the aid during the 1964-1968 period valued at US\$70.9 million. Due to this huge investment, the Filipinos hold suspicions against Japan's economic power although the general feeling towards Japan and its people have much improved. This was evidenced by the sudden suspension of the business activities of Japanese trade firms in Manila in April 1968. For these reasons, it can be seen that many problems have to be solved before Japanese enterprise can successfully advance into the Philippines. On the whole we can certainly say

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<sup>13</sup> Far Eastern Economic Review, Vol. LXVIII, No. 13, Op.cit., p. 51.

<sup>14</sup> Far Eastern Economic Review, Vol. LXXX, No. 40, October 3, 1970, p. 43.

<sup>15</sup> Far Eastern Economic Review, Vol. LXVIII, No. 13, Op.cit., p. 51.

that if it were not for Japanese Foreign Aid, the Philippines today would have been in a serious trouble in her balance of payments.

Generally, it can be assumed that the South-east Asian people look towards Japanese investment in South-east Asia with suspicion, and as a result have put numerous barriers on Private Aid so that it can prove more advantageous to the countries concerned. It is mainly due to these factors that Japanese Private Investment is small in South-east Asia. Some of the countries in South-east Asia have imposed the following conditions which make Japanese firms difficult to extend their influence there.

Most countries in South-east Asia insist on Japanese industrialists establishing joint-ventures with local industrialists. Usually the Japanese firms find it difficult to get suitable partners. The rationale behind the idea of joint ventures is that management skills can be passed over the local entrepreneurs. In most South-east Asian countries it is not only hard to find suitable partners but it is equally difficult to find local capital because of the shortage of capital. In most countries investment laws insist that there must be a sufficient amount of local capital. In the case of Malaysia at least 50% of the capital in Pioneer Firms must come from local sources. In addition to the difficulty of finding local capital, the rate of interest is very high. Most Governments in South-east Asia again insist on increasing the content of local raw materials, due to nationalistic motives. Various laws are passed laying out the extent of complying with the use of local raw materials.

Then there are problems which arise due to indiscriminate issuance of licenses in the same industry. This brings about unruly competition among the enterprises which are in the same industry. Most South-east Asian Governments again insist on employing more local people and interfere in the wage matters. Very often problems are encountered for getting visas for the Japanese staff. Most governments feel that having joint-ventures will make countries increase their technical know-how, and so they again insist that local people should be trained and their efficiency should be increased so that labour turnover would be reduced. Sometimes some industries fear an absence or non-establishment of industrial property rights and patent rights. The Corporation taxes are very heavy inspite of the risks that have to be undertaken. In case of Malaysia we have a company tax of 40%.

Other factors which affect Private Investments in South-east Asia are fears of nationalization of industries or demand for reduction of investment ratios. It could be seen that in Indonesia during President Soekarno's period, industries of some countries were nationalised without compensation. The same problem was faced in Burma once. Sufficient overhead capital is necessary but unfortunately most South-east Asian countries lack in this particular factor. But in Malaysia no such problem is faced. There are inflationary tendencies in some South-east Asian countries especially

in Indonesia where inflation is at 10% a year.

These mentioned factors are an obstacle to private investment in South-east Asia but in spite of this Japanese investments in South-east Asia are increasing as will be shown in the next chapter.

Therefore, without argument it could be agreed that Japan's economic role in this part of the world is of great importance to the countries concerned; and it has been predicted that Japanese influence in this part of the world would still increase when the United States decides to leave South-east Asia. To see the real importance of Japan in this part of the world, it is necessary for us to compare the role of other developed countries. The table below would show the role played by developed countries in 1967.

TABLE 4.6

FOREIGN ASSISTANCE TO SOUTH-EAST ASIA BY DEVELOPED COUNTRIES 1967 (GOVERNMENT AND BILATERAL BASIS)

Country	Aid as Percentage of Total
United States	63.2
Japan	19.1
Germany	6.8
France	4.2
United Kingdom	2.2
Netherlands	1.8
Australia	19.1
Canada	0.5

Source: Compiled from Ministry of Foreign Affairs Publications, Tokyo, Japan.

As can be seen in Table 4.6, United States of America accounted for the bulk of the aid to South-east Asia. Japan ranked only in second position to the United States. But most of the United States aid goes to war torn Vietnam, in line with her policy which is said to be divided into "security" and "humanistic" purposes, and that the greater efficiency of the aid should be pursued for intrinsic objective.<sup>16</sup> Apart from Vietnam, South-east Asia gets most of her aid from Japan than any other developed country as indicated in the table below.

Finally, in the private sector, the Japanese aid may not be as remarkable as it is in the governmental sector but in spite of the so many restrictions placed on private investment still Japanese investment in the South-east Asian region is on the increase.

TABLE 4.7

FOREIGN ASSISTANCE TO SOUTH-EAST ASIA, EXCLUDING VIETNAM,  
BY DEVELOPED COUNTRIES (GOVERNMENTAL AND  
BILATERAL BASIS 1967)

Country	Aid as Percentage of Total
Japan	35.3
United States	33.5
Germany	12.2
France	7.3
United Kingdom	3.7
Netherlands	3.5
Australia	2.4
Canada	6.7

Source: Compiled from Ministry of  
Foreign Affairs Publications,  
Tokyo, Japan.

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<sup>16</sup> Economic Cooperation of Japan, Ministry of  
International Trade and Industry, Japan, December 1970.

Therefore, no doubt one would definitely agree that South-East Asian countries depend on Japan to a large extent for their economic development. Excluding Vietnam, it can be seen that Japanese assistance ranked the largest to the South-east Asian region. In terms of value the total aid extended by developed countries during this period of 1967 was US\$994 million, and excluding Vietnam the figure was US\$538 million which means that out of US\$994 million, US\$456 million went to Vietnam.

Finally, in the private sector, the Japanese aid may not be as remarkable as it is in the governmental sector but in spite of the so many restrictions placed on Japanese private investment still Japanese investments in the South-east Asian region is on the increase.

We shall attempt to show the relative importance of the Japanese Investments in South-east Asia and Japan's economic cooperation with West Malaysia in particular because good data is not available for the whole country.

### Japan's Investments

Japan's overseas investments have been growing in value since the 1951 to 1999 period when the Japanese investments amounted in value only to US\$286 million in a total of 363 projects. However, at the end of the fiscal year 1969 which ended in March 1970, Japanese investment overseas soared up to US\$667,599 million and was accounted for by 568 projects as shown in Table 5.1. The total Japanese capital invested in March 1970 was US\$2,682.9 million in a total of 3,167 projects. This Japanese investment overseas indicates that Japan is playing a leading role in overseas economic development because during the process of investment technical know-how, machinery and equipment, which is very vital towards achieving economic development, is transmitted to the developing countries. More employment opportunities are created in recipient country. Japan also gains tremendously as a result of the investments. As will be noticed in the structure of investments a substantial part of investments is concentrated in activities that are directly beneficial to Japan. These investments thus increase foreign trade of Japan with recipient countries, which is of vital importance because the Japanese economy depends on foreign trade because of a lack of natural resources in Japan.

### Structure of Japanese Investments

As can be seen in Table 5.2 Japan's investments is heavily concentrated in the fields of natural resources. In terms of value mining took the major share of the investments, taking up US\$891.8 million which was 33.2% of the total amount of Japanese investment. Agriculture, Forestry, Fisheries and Mining took away 36% showing clearly that Japan is lacking in natural resources and that since she needs them, she readily helps developing countries to establish mining

TABLE 5.1

JAPAN'S OVERSEAS INVESTMENTS  
(IN THOUSAND U.S. DOLLARS)

## CHAPTER V

Fiscal Year	Number of Projects	Value
<b>INVESTMENT TRENDS AND ECONOMIC ASSISTANCE TO MALAYSIA</b>		
1951-1957	367	78,552
1960	191	92,729
<u>Japan's Investments</u>		
1961	133	164,811

We shall attempt to show the relative importance of the Japanese Investments in South-east Asia and Japan's economic cooperation with West Malaysia in particular because good data is not available for the whole country.

Japan's overseas investments have been growing in value since the 1951 to 1957 period when the Japanese investments amounted in value only to US\$78.6 million in a total of 367 projects. However, at the end of the fiscal year 1969 which ended in March 1970, Japanese investment overseas soared up to US\$667.599 million and was accounted for by 568 projects as shown in Table 5.1. The total Japanese capital invested in March 1970 was US\$2,682.9 million in a total of 3,167 projects. This Japanese investment overseas indicates that Japan is playing a leading role in overseas economic development because during the process of investment technical know-how, machinery and equipment, which is very vital towards achieving economic development, is transmitted to the developing countries. More employment opportunities are created in recipient country. Japan also gains tremendously as a result of the investments. As will be noticed in the structure of investments a substantial part of investments is concentrated in activities that are directly beneficial to Japan. These investments thus increase foreign trade of Japan with recipient countries, which is of vital importance because the Japanese economy depends on foreign trade because of a lack of natural resources in Japan.

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TABLE 5.1

JAPAN'S OVERSEAS INVESTMENTS  
(IN THOUSAND U.S. DOLLARS)

Fiscal Year	Number of Projects	Value
1951-1957	367	78,552
1958	78	64,640
1959	123	53,062
1960	151	92,729
1961	133	164,811
1962	179	99,425
1963	223	125,977
1964	193	120,291
1965	209	156,739
1966	253	227,008
1967	306	274,867
1968	384	557,174
1969	568	667,579
<b>TOTAL</b>	<b>3,167</b>	<b>2,682,854</b>

Source: Data obtained through personal interviews with officials of the Ministry of International Trade and Industry, Tokyo, Japan.

- (1) Investments on Japan Government approval.
- (2) The Japanese Fiscal Year starts in April in each year.

TABLE 5.2

STRUCTURE OF JAPANESE INVESTMENT AT END OF MARCH 1970  
(IN THOUSAND U.S. DOLLARS)

Activity	Projects	As Percentage of Projects	Value	As Percentage of Value
<u>Manufacturing</u>	1,087	34.3	721,506	26.9
Food	105	3.3	45,052	1.7
Textile	213	6.7	139,899	5.1
Wood, pulp	30	0.9	133,539	5.0
Chemicals	135	4.3	34,163	1.3
Steel, non-ferrous metals	86	2.7	128,818	4.8
Machinery	101	3.2	51,579	1.9
Electrical Appliances	163	5.2	49,005	1.8
Transportation Machinery	39	1.2	99,682	3.8
Others	215	6.8	39,738	1.5
<u>Others</u>				
Agriculture and Forestry	76	2.4	48,127	1.8
Fishery	80	2.5	18,764	0.7
Mining	157	5.0	891,786	33.2
Construction	22	0.7	32,861	1.2
Commerce	887	28.0	322,662	12.0
Banking, Insurance	85	2.7	229,791	8.6
Others	421	13.3	390,832	14.6
Branches	352	11.1	26,571	1.0
TOTAL	3,167	100	2,682,854	(100)

Source: Data obtained through personal interviews with officials of the Ministry of International Trade and Industry, Tokyo, Japan.

operations and later buys up the whole output of that mine as would be shown in the later part of the chapter.

The next important field of Japanese activity is manufacturing where Japanese investment accounted for 1,087 projects, a sum of US\$721.5 million or nearly 27% of the total investments. Japan, as can be seen is concentrating on more Investments overseas because of the very fact that she lacks natural resources and also to process these raw materials back at home she requires labour which at the moment is in great shortage in Japan.<sup>1</sup> So it is in the interest of Japan to invest in countries where natural resources are readily available and then to semi-process this natural resources to a certain level so that labour would not be wasted to do this in Japan. This semi-processing of goods thus can be seen would be beneficial not only to Japan but also to the developing countries because the industrialisation process is speeded up and more employment opportunities are created. Usually, developing countries are mainly primary producing countries and to a certain extent there is underemployment. Japanese investments in the basic industry of iron and steel is quite significant taking up US\$128.8 million or roughly 4.8% of the total investment. The Japanese have their second largest overseas iron and steel integrated plant, after Minas (a Japanese-Brazilian joint-venture) in Malaysia on a joint-venture basis between Japanese investors and local capital. Banking and Insurance too occupies a major part of investment amounting to US\$229.8 million or 8.6% of the total investment. Usually it is not surprising to find that Japanese firms keep their accounts in the Japanese Banks and have their insurance business done by the Japanese companies due to nationalistic feelings. Eleven city banks have opened 57 branches in 28 cities of 19 countries.<sup>2</sup> Seven city banks and two long-term credit banks have 32 representatives situated in 25 cities of 21 countries.

Japan's Private Investments region-wise are heavily concentrated in North America as Table 5.3 indicates. Japan's investments in North America amounted to US\$720 million accounting for 26.9% of Japan's total overseas investments in 739 projects which as percentage-wise were 23.3%. In Asia Japan's investments amounted to US\$604 million or 22.5% of the total investment in 1,379 projects which accounted for 43.8% of the total projects. Japan's total private investments in South-east Asia accounted for almost 15% of the total private investments.

Table 5.4 indicates that Japanese investments in South-east Asia concentrate particularly in extractive industries and in consumer good industries. The table gives the structure of Japanese investments in the South-east Asian countries. The bulk of Japanese investments are concentrated in Indonesia because Indonesia is rich in natural resources and the natural resources have not been developed

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<sup>1</sup>Far Eastern Economic Review, Vol. LXX, No. 40, Op.cit. p.42.

<sup>2</sup>Asahi Evening News International 1969, Op.cit., pp. 55-56.

TABLE 5.3

STRUCTURE OF INVESTMENTS BY REGIONS  
(IN MILLION U.S. DOLLARS)

Region	Number of Projects	As Percentage of Total Projects	Value	As Percentage of Total Value
North America	739	23.3	720	26.9
Asia	1,379	43.5	604	22.5
Latin America	529	16.7	513	19.1
Middle East	27	0.9	306	11.4
Europe	291	9.2	303	11.3
Oceania	127	4.0	158	5.9
Africa	75	2.4	79	2.9

Source: Data obtained through personal interviews with officials of the Ministry of International Trade and Industry, Tokyo, Japan.

at all yet. Japanese investments in Indonesia amounted to US\$232.8 million at the end of Desember 1970. The bulk of Japanese capital is invested in mining activities which accounts for almost 45.3% of the investment in Indonesia. In the manufacturing sector Japanese capital has not been very impressive, accounting for only US\$31.5 million. Thus this has been one of the reasons why the Indonesians have been suspicious of the Japanese intentions because as can be seen the Japanese initially tended to concentrate on agricultural, forestry, fishery and mining schemes rather than on the industrial sector.<sup>3</sup> However, the Japanese have now broadened their outlook and generally good results have been achieved so far. It is interesting to know how the Indonesian generally react to the economic inroads made by the Japanese.<sup>4</sup> The Indonesians are aware that if they want their country to develop they have got no alternative but to allow foreign capital in. The Japanese involvement is also met by more than just suspicion because there is also the element of fear. It is often thought whether the Japanese will be content with trade only. In this type of situation, the Indonesians are giving the Japanese the benefit of the doubt as long as their services and capital is needed. In fact they are doing exactly what they did during the Second World War period when they acquired the military tactics from the Japanese and later used the same tactics on the Japanese themselves and the Dutch to gain independence.

Some of the major Japanese trade firms to invest in Indonesia are Mitsui and Company Limited which has joined hands with a local agricultural cooperative in a ratio of 51% to 49% to grow and export maize in Lapang Province in South Sumatra.<sup>5</sup> The project is not only aimed at the promotion of Indonesian primary goods exports but also at securing a constant supply of animal food for Japan. This area at the moment in Sumatra is lacking in electricity, newspapers and water-supply but is expected to become one of the major granaries as the project goes into full swing. It could be noticed that with the advanced of the Japanese an area which is of little use is becoming an area of importance. Mitsubishi Shoji Kaisha Limited in a joint-venture with an Indonesian firm is developing Balikpapan forests in Indonesia with the latest machinery. This company will export the entire output to Japan.<sup>6</sup> Thus, undoubtedly both Japan and Indonesia gain from the project. Indonesia is gaining in terms of economic development while Japan is gaining in terms of raw materials which she is deficient in. The Japanese firm of Toyo Menka Kaisha Limited has developed a wholly owned subsidiary to develop the local fishing industry. The company engages in shrimp trawling and operates a scientific fish hatchery. It is also active in related industries such as construction of port

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<sup>3</sup> Far Eastern Economic Review, Vol. LXVIII, No. 13, Op.cit, p. 53.

<sup>4</sup> Far Eastern Economic Review, Vol. LXXI, No. 13, Op.cit, p. 58.

<sup>5</sup> Asahi Evening News International 1969, Op.cit, p. 45.

<sup>6</sup> Asahi Evening News International 1969, Ibid, p. 53.

facilities and processing plants. Training of local fishermen and supply of fishing boats will be provided. It is understood that the success of this undertaking will not only contribute to the business of the firm but also promote the Indonesian fishery industry. This company is in the process of exploring 50,000 hectares of lumber resources at Merants in East Kalimantan jointly with local Indonesian capital. This same trade firm through a technical tie up will operate a joint venture for mixed spinning with Indonesia's state-owned P.N. Sandang in the near future. It is surprising to see a Japanese trade firm taking an active part in fishery, lumber and textile industry.

The Japanese trade firm of Sumitomo Shoji has invested in a number of projects. It has set up a joint-venture with a 90% interest in collecting, preserving and exporting shrimps caught in nearby seas, and has further acquired rights of fishing shrimps in Central Java in the future. Nine Japanese groups of Sumitomo group have joined forces to set up the Indonesian Nickel Development Company. The company at the moment is carrying out pilot mining of Nickel in Halmahera and the neighbouring islands over a period of five years, and when promising mines are discovered full scale exploitation will be conducted and smelting works will be built with a total investment of US\$75 million. The Sumitomo group of companies together with Teckokchu Oil and a subsidiary French firm has digging rights to develop undersea oil wells off Sabah. Production is expected to begin in 1972. Japanese interest has developed an oil factory in Dumai Indonesia, and the payment is to be made in crude oil repayable equally in five years with annual interest of 6%. The Japanese firm Sumitomo plans to import the entire yearly output of 3 million kilolitres. This oil is going to be welcomed back at home because of its low sulphur content of 0.13% and thus can be used in electric power and steel companies at a time when the question of pollution is in the fore-front.

In the fields of construction too the Japanese firm of Sumitomo has been awarded a US\$12 million contract to build a steam-powered plant with an output of 100,000 kilowatts at Tanjung Perik, an outport of Djakarta. Sumitomo further resumed work on a microwave network after a temporary suspension. The contract of US\$8 million to build the 1,200 kilometre microwave system between Djakarta in Jawa and Denpasar in Bali was won from several European and American Companies.

The Japanese thus, as can be seen, are helping Indonesia, a country of rich natural resources to develop the country with Japanese capital and later buys the whole output of the project. Japan has ventured into mining, petroleum, fishery and timber industries through the main Japanese trade firms such as Mitsui, Mitsubishi Shoji Kaisha Limited, Itoh, Toyo Menka and Sumitomo Shoji Kusa Limited. Japanese involvement in Indonesia has come about mostly since the Indonesian Foreign Investment Law was passed in

1967. Since 1967 Japan has become one of the leading investors in Indonesia, after the United States and Philippines. Since the Law came into operation, Japanese capital investments in projects to the value of US\$232.5 million have been approved in 55 projects.<sup>7</sup> The Japanese investments are thus helping Indonesia to build infra-structure indirectly, and as seen Japan's role in Indonesia is tremendous.

In the case of Thailand, the position is somewhat different. In Indonesia the Japanese are exploiting the natural resources while in Thailand the investments are concentrated in the manufacturing sector. In Thailand the Japanese have been extending their influence since the pre-war period because Thailand is the only South-east Asian country which had not come under the jurisdiction of the foreign powers. The Japanese have concentrated in the consumer goods industries. According to Takumi Hosahi, Japanese permanent representative to Escafe, the Japanese firms and agencies number about 250.<sup>8</sup> So conclusions can be made that Japanese influence is very strong in the Kingdom.

Textile and machinery industries are outstanding among Japanese industries which have advanced into Thailand. Investment in textile industry accounts for nearly 47% of the total Japanese investment. Japanese owned textile mills in Thailand include Toyo Rayon, Teijin, Nippon Rayon and Shikishima Spinning. Toyo Rayon has established the Thai Toray Textile, a wholly owned subsidiary, with two other Japanese firms. This firm imports polyester and rayon staple fibres from Japan for the production of synthetic textiles and fabrics.

The assembly of automobiles from parts imported in the knockdown form constitutes the major part of machinery building by Japanese firms in Thailand. Well known Japanese automobile firms such as Toyota Motor, Nissan Motor, Hino Motor, Mitsubishi Heavy Industries and Isuzu Motor are engaged in local assembly of automobiles and trucks from parts supplied from Japan. The Japanese investments in Thailand exceed 60% of the total sum of investments by foreign countries in Thailand. In addition to this a report in the Asahi Shimbun, Japan Quarterly, 1969 stated that if a Japanese lived in Thailand for two or three months, he would feel as if he had lived in Japan. Ninety percent of the taxi-cabs and most of the motor-cycles, electric fans, radios used in Thailand are of Japanese make.<sup>10</sup> Thus

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<sup>7</sup>The Straits Times, Wednesday, 11th August, 1971.

<sup>8</sup>Far Eastern Economic Review, Vol. LXVIII, No. 13, Op.cit.  
p. 51.

<sup>9</sup>Asahi Evening News International, 1969, Op.cit., p. 23.

<sup>10</sup>Asahi Shimbun Japan Quarterly, July-September, 1960.

it is not surprising to find that there are 10 projects in which the Japanese have investments in the manufacture of electric appliances. Therefore, while on one hand it could be seen that Japan is manufacturing consumer goods in Thailand, it is extracting raw materials in Indonesia on the other hand.

In Singapore due to the nature of the economy Japanese capital is again concentrated in the field of consumer, and light industrial goods. Japanese capital however, is insignificant in a country like Singapore. The most probable reason for this is that when Singapore can play the role of middleman more efficiently, then why should it be necessary to invest in Singapore.<sup>11</sup> Secondly Singapore does not have a hinterland. These two factors most probably could account for the insignificant Japanese investment in Singapore. It is also felt by the Japanese that the labour costs in Singapore are too high.<sup>12</sup> Nevertheless, Japanese capital is dispersed in a wide range of consumer goods, to light industrial goods for use in construction work such as galvanised pipes, Steel Tabular Products and so on. One of the biggest and most successful joint-ventures between Singapore and Japanese investors is the Jurong Shipyard Limited. This company has been very successful in the ship repairing business and will shortly begin the production to build 14,000 ton Freedom Class of all-purpose freighters.<sup>13</sup> The project would prove that Japan does not throw away any chances and it establishes suitable projects in suitable places. Here it can be assumed safely that the Japanese would use these facilities here for their merchant fleet and oil tankers which ply through the Straits of Malacca.

Japanese capital in the Philippines at the end of 1968 was only US\$21 million in 26 projects whereas at the close of December 1970 as seen in Table 5.4, Japanese capital soared to US\$73.3 million invested in 76 projects. Thus Japanese investment had gone up by at least 2½ times in value as well as in the number of projects, but still the Japanese investment is not significant at all. Although the Japanese investors are happy to join the Filipino entrepreneurs in many industrial projects that require huge capital outlays, the Philippines official policy favours foreign loans rather than foreign equity participation.<sup>14</sup> Thus development loans are what Japan is increasingly being relied upon by Filipino entrepreneurs thinking of expanding their operations or developing projects which require huge capital outlays which cannot be obtained from the Republic. A large number of Filipino manufacturing firms like those turning out

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<sup>11</sup>Far Eastern Economic Review, Vol. LXXXI, No. 13, Op.cit., p. 63.

<sup>12</sup>Far Eastern Economic Review, Vol. LXVIII, No. 40, Op.cit., p. 65.

<sup>13</sup>Asahi Evening News International 1969, Op.cit., p. 30.

<sup>14</sup>Far Eastern Economic Review, Vol. LXVIII, No. 13, Op.cit., p. 63.

electrical appliances, electrical goods and extractive industries like mining and logging are making intensive use of Filipino loans or credits. So it is evident that Japanese financing and equipment have played a major role in the expansion of the Philippine mining industry especially copper fields.<sup>15</sup> Most of the Philippines copper mines have been established largely through Japanese financial assistance, which has been responsible for the purchase of mining equipment. The Japanese have readily extended these loans which are to be paid in the form of copper concentrated shipments to Japanese consumers as soon as the mines are in production. Japanese mining companies are even extending technical and financial aid to some of the promising new copper mines even during the initial stages of development. One of the Japanese mining organisations is reported to have entered into an operating agreement with a Filipino group in Luzon Island. It is clearly seen that Japan is only keen in helping South-east Asian countries develop natural resources and is willing to finance these projects in return for their entire output as can be noticed in the case of Indonesia and Philippines. This investment helps in the economic development of a country tremendously by opening up new areas, by having access to the latest machinery and techniques, with new employment opportunities, being among the outstanding gains.

In the South-east Asian countries of Laos, Cambodia and South Vietnam, Japan's economic influence is insignificant as seen in Table 5.4. This could possibly be due to the fact that these South-east Asian regions is very unstable as a result of the political instability and the war conditions that cloud over these countries. So it is better to invest in South-east Asian countries where the returns are said to be definite because no private business investors would want to take the risks of the instability of the governments concerned. However, in the rich Sultanate of Brunei the Japanese have significant investments to the value of US\$86 million of which the greatest contribution is in the construction sector.

#### Japan's Economic Cooperation with West Malaysia

Malaysia has traditionally been under the influence of the British capital due to the fact that she was a British colony up to 1957. The British capital was mostly concentrated in production of primary commodities mainly rubber and tin and a few other related industries for the promotion of processing industries and foreign trade, while the Japanese concentrated in the operation of iron ore mines, rubber plantations and trade firms which promoted Japanese products in this country. But at this moment the Japanese capital is mostly concentrated in the field of industrial production in the form of joint-ventures with local interests. Under the system practised, Japanese firms bring in machinery, equipment and the techniques for

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<sup>15</sup> Far Eastern Economic Review, Ibid, p. 63.

the joint-ventures, or they bring in semi finished products from Japan for processing and packaging in Malaysia. In the first case the Malayawata Steel Mill is a very good example where the Japanese have supplied the machinery, equipment and the techniques of production while the various electrical appliances firms are good examples of the second example. Japanese electronics industries in Malaysia such as Matsushita, Sanyo, Toshiba and Roxy bring in parts from Japan and assemble them here, thus contributing substantially to the economic progress and industrialisation of the area in general. Valuable foreign exchange is also saved.

Malaysia is following a policy of letting private capital undertake its development. From this point of view, Malaysia has been actively inducing foreign capital under the investment incentives act 1968 which is designed to encourage the economic development of Malaysia with local private capital. The incentives offered by the Malaysian Government include Pioneer Status, investment tax credits, export inducements and other facilities to Pioneer Companies.<sup>16</sup> A Japan embassy official remarked, "For Japan of the 1970's these inducements are opportune. In a new era of economic cooperation, Japanese attention is now merely not only on Trade expansion but also on further developing the International Division of Industry."<sup>17</sup>

Since the Pioneer Industries Ordinance came into operation, Japan has invested a total of M\$42 million in Pioneer Industries which represent 11% of the total foreign investments in pioneer industries and places Japan fourth after Singapore with M\$86.5 million, Britain with M\$80 million and the United States with M\$67.5 million at the end of December 1970.<sup>18</sup>

There are signs that the Japanese are going to improve on their position further. This is evident from the fact that more and more Japanese trade missions visit Malaysia. The leader of the Japanese mission of 15, Mr. Shingeo Nagano who visited in early February, 1971 is reported as having said, "We are very interested in your raw materials but we also realise that it is our duty to help developing countries to industrialise so that more of their people can have employment."<sup>19</sup> He added further that his country's intention was not to exploit any country's natural resources for her own ends. The reason why Japan is willing to take such a stand could be due to the fact that to import the raw materials and to process them in Japan

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<sup>16</sup> Federal Industrial Development Authority, Investment Incentive Act, 1968.

<sup>17</sup> Sunday Mail, April 11, 1971.

<sup>18</sup> Malaysia Industrial Digest, First quarter 1971.

<sup>19</sup> Mr. Shingeo Nagano is the Chairman of the Overseas Economic Cooperation Council of the Japanese Government.

would be too expensive because of transportation cost and the serious shortage of labour which she is experiencing now. So it is also in the interest of Japan that she is willing to help developing countries to industrialise. In Malaysia as a whole, Japan has invested a total of US\$53.8 million mostly in consumer good industries. A substantial part of about 30% of the Japanese investment goes to the mining sector. The Japan Overseas Mineral Resources Development Company acquired exploration rights from the Malaysian Government in 1967 to engage in prospecting for copper at Mamut in Sabah in a joint-venture in a ratio of 51% participation by Japan and the rest local.<sup>20</sup> Though the copper ore contents are as low as 0.06% of copper, this project is attracting much attention in and outside Japan because this will be the largest copper mine to be developed in Asia by Japan with a total investment of US\$60 million and with employment opportunities for at least 1,000 people. Under the present plan about 20,000 tons are to be mined daily under the open-pit system over ten years, and the entire output will be shipped to Japan as in the case of Philippines and Indonesia where Japanese mining activities are heavily concentrated as shown earlier. The Teikisi Oil Company is prospecting in Sabah for oil with other partners. Iron ore mines are found in Pahang and lumbering activities are found in Sabah.

Malaysia-Japan joint ventures in West Malaysia on 29th June, 1970 numbered about 33, and the distribution of Japanese investments is well dispersed as shown in Table 5.5.

These joint ventures have not only brought about vast private capital but also techniques and the required amounts of machinery and equipment. In most instances manufacturers send their engineers and skilled technicians to train the local trainees and to supervise initial plant construction and initial operations. Also these firms have arrangements with parent plants whereby trainees are sent in various phrases to the Parent Company to acquire the necessary skills which enable them to take over supervisory posts when they have undergone their training.

According to Japanese Embassy Statistics Japanese Joint-Ventures employ about 6,000 people. Malayawata Steel Berhad being the largest employer with 1,700 people while the rest employ less than about 300 workers each. This is only direct employment and there is also indirect employment created as a result of the activities of these Joint-ventures in the areas of transportation and service and other areas which supply raw materials to these industries.

Some of the investors in Malaysia include leading trading houses and manufacturers such as Matsuhita, Sanyo, Roxy and Toshiba and quite a number of manufacturers who have their parent companies in Japan. In the early stages these manufacturers just marketed

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<sup>20</sup> Asahi Evening News International 1969, Op.cit.

their goods to Malaysia but on finding that their goods had ready markets in Malaysia, with the favourable investment climate, they have established joint-ventures with local interests in percentages as can be seen in Table 5.5. These trading companies produce electrical appliances such as refrigerators, stereograms, television sets, air-conditioners and electrical fans. They usually make use of local raw materials as far as possible. This has given rise to related industries manufacturing component parts. For instance Mr. S. Yamazaki, the Managing Director of Sanyo Electric Berhad is reported to have said, "Cabinets for television sets are made at our factory using local wood and plastic parts are obtained from local plastic manufactures".<sup>21</sup> Another Japanese joint-venture plastic industry supplies plastic sheets to refrigerator manufacturers for the interior lining and parts. It is natural therefore economic development is enhanced, as more and more firms spring up and the firms became interdependent on one another.

From Table 5.5 it is evident that numerous Japanese leading companies such as Marubeni Iida Company, Toyo Menka, Nissho Iwai, Mitsui, Sumitomo, Itoh Company, Kawasaki Steel Corporation and numerous others have invested in a variety of industries ranging right from consumer goods to heavy category goods such as produced by Malayata Steel Berhad. In the near future Japanese investments are expected to increase as more and more enquiries are received by Federal Industrial Development Authority. Japan External Trade Organisation, a semi-government body has a branch in Kuala Lumpur to give information to potential Japanese investors.

Japan has again not only been interested in the private sector alone but has expressed her willingness to supply Malaysia with Yen Credits in the course of bilateral talks at the time of the Ministerial Conference on Economic Development of South-east Asia held in Tokyo in April 1966.<sup>22</sup> After a series of negotiations on details held in Malaysia an agreement was reached in the form of exchange of letters signed on November 1966. Under the agreement Japan is to supply Malaysia Yen Credits totalling US\$50 million over a period of five years. Two thirds of the amount was to be supplied by a syndicate of the Export-Import Bank of Japan and 13 commercial banks while the remaining one-third was to be from the semi-official Overseas Economic Development Cooperation Fund. Eligible projects under this loan are shown on Table 5.6 together with the amount of loan granted and the amount of loan that has been used up. From Table 5.6 we can see that 16 projects have been signed for under this contract, and the amount that has been used in Yen 2,701.3 million while Yen 5,584.6 have been allocated. Eligible projects under the loan include telecommunications facilities, improvement of radio and television network in East and West Malaysia and the establishment of a textile factory by Majlis Amanah Raayat (MARA) at Kajang. A

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<sup>21</sup>The Sunday Mail, April 11, 1971.

<sup>22</sup>Asahi Evening News International 1969, Op.cit, p. 28.

sample agreement which is to be signed between Malaysia and Japan when necessary details have been finalised is given in Appendix I. Article 2 of the agreement comments on the way the proceeds of the loan can be used.

"Malaysia shall, for the implementation of the Kuala Lumpur-Johore Baharu Microwave Project, apply the proceeds of this Project Loan to importing and or purchasing of Japanese products and or technical services in compliance with a contract which is to be entered into between a Japanese exporter and a Malaysian importer or purchaser". Article IV comments on the interest rate. "Malaysia shall pay to Banks interest at the rate of 5% (5.75%) per annum on the principal amount of this Project Loan advanced and outstanding from time to time." It was mainly these two articles which led the then Prime Minister of Malaysia to condemn the Japanese Loans because of the rigidity and "ungenerous" aid which Tengku Abdul Rahman said was equivalent to giving by the right hand and taking away twice the amount by the other hand because of the high rate of interest when compared to loans given by other advanced countries, and the aid was tied. In my opinion one should not put any blame on the Japanese for their lack of willingness in giving easy term loans to Malaysia because the Japanese economy though well on the way to reaching its zenith is still not able to compete with the western industrial giants like the United States and Britain. Home needs also take precedence over foreign loan. However, it is interesting to note that it is hoped that by 1975 Japan would donate 1% of her Gross National Product towards Foreign Aid, and when this is achieved Japanese foreign aid will reach a new height of US\$12,000 million. Thus this augers well for relaxation of terms for future loans to Malaysia and the developing countries as a whole.

Viewed in this light it is somewhat unfair of some Government leaders to voice their dissatisfaction on the loans made and the supposed "harsh" terms imposed on these loans. The former Prime Minister, Tengku Abdul Rahman has taken the Japanese to task for this "unfriendly" attitude on the conditions of loans but it is all too clear that he has failed to see the difficulties of the other party.

It was shown that between 1948 and 1968 Japan's influence in Thailand's trade increased tremendously, not only in terms of percentage but also in terms of value. It clearly shows the influence of Japan over the Thai economy which led to huge outcries from the Thais against Japan's role in Thailand. It can be seen that in 1948 Thailand's exports to Japan were only US\$0.3 million which represented only 0.3% of Thailand's total exports. But in 1968 Thailand's exports to Japan increased to US\$147.4 million which constituted 21% of Thailand's total exports. In the similar period, the growth of imports from Japan were greater. In 1948 Thailand's imports from Japan amounted to US\$2 million or 2.3% of Thailand's total imports.

#### CHAPTER VI

#### CONCLUSION

Japan, as can be seen from the foregoing discussion, has made its economic presence felt in South-east Asia from relatively early times. This is because Japan is a country which is deficient in raw materials and to overcome this shortage she has had to import almost every item of industrial raw materials. Twenty percent of Japan's imports in 1969 were made up of fuels which is of vital importance to keep the wheels of a highly advanced country revolving.<sup>1</sup> Imports of other crude materials in the same year were 35.9%. These figures therefore prove that Japan is deficient in raw materials. When looking at her exports it can be seen that almost all her exports consist of capital and consumer goods. As a result of this situation, Japan's imports from the South-east Asian region which began as early as 1918 when sound data on trade relations between Japan and South-east Asian countries is available accounted for at least 8% of her total imports. Even in very recent times the Japanese imports from South-east Asia are in the region of 10% of her total imports which represent US\$1,508.7 million in value, a twelve-fold increase in monetary terms over the value of total imports of 1950 which represented 10% in terms of percentage but US\$124.3 million only in value. Thus Japan has been importing increasing amounts of South-east Asian products. The import of crude materials and mineral fuels formed 84.4% of Japan's total imports from South-east Asian region.<sup>2</sup> Therefore Japan's imports from South-east Asia are mainly raw materials.

In 1950 Japan exported 15.6% of her total exports to South-east Asia which were valued at US\$127.6 million but in 1969 Japan's total exports to South-east Asia represented only 11.4% which were valued at US\$1,814.4 million, showing almost a fifteen-fold increase. Thus, it would be very misleading to compare the percentage figures only. The exports of Japan to South-east Asia are mainly consumer and capital goods only.<sup>3</sup>

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<sup>1</sup>Refer Table 3.7 (b).

<sup>2</sup>Refer Table 3.7 (b).

<sup>3</sup>Refer Table 3.7 (a).

It was shown that between 1948 and 1968 Japan's influence in Thailand's trade increased tremendously, not only in terms of percentage but also in terms of value. It clearly shows the influence of Japan over the Thai economy which led to huge outcries from the Thais against Japan's role in Thailand. It can be seen that in 1948 Thailand's exports to Japan were only US\$0.3 million which represented only 0.3% of Thailand's total exports. But in 1968 Thailand's exports to Japan increased to US\$147.4 million which constituted 21% of Thailand's total exports. But in the similar period, the growth of imports from Japan were greater. In 1948 Thailand's imports from Japan amounted to US\$2 million or 2.3% of Thailand's total imports but in 1968 imports from Japan rose to new heights of US\$356.4 million or 34.3% of Thailand's total imports. Thus it can be concluded that Japan's role in the Thai economy has increased greatly and thus it is no secret why there is anti-Japanese sentiment in Thailand, whose peoples feel that Japan is only interested in a one-way traffic, and, if no immediate steps are taken to rectify the trade balance, Thailand would soon become an economic colony of Japan.

But in the case of Malaysia the situation is just the reverse. Malaysia has been exporting more and more of her exports to Japan while her imports have remained constant over a long period of time. In 1964 Japan absorbed 14.4% of Malaysia's total exports while in 1969 Japan absorbed 34.5% of Malaysia's exports.<sup>4</sup> This shows that Japan has accounted for more than one-third of Malaysia's total exports in 1969. Japan's share in Malaysia's total imports has decreased from 9.6% in 1964 to 7.9% in 1969 but in volume Malaysia's imports from Japan has increased from US\$100.7 million to US\$133.4 million.

Looking briefly at the Philippines it could be observed that in 1950 the Philippines accounted for 6.8% of her total exports to Japan while the Philippines accounted for 5.5% of her total imports from Japan. In 1968 it can be noticed that Japan's role in the Philippines' economy increased tremendously because in that year Japan accounted for 46.9% of Philippines' total exports and accounted for 32.1% of Philippines' total imports. Thus this shows that nearly half of Philippines' export trade is with Japan while one-third of her import trade is with Japan. It can be seen that in 1969 Singapore accounted for 7.1% of Japan's total exports while she accounted for 16.3% of her total imports from Japan.

Thus, it can be seen that Japan depends to a very large extent for her imports from the South-east Asian region. It is therefore observed without any doubt that the South-east Asian region supplies the raw materials that are necessary to keep the

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<sup>4</sup> Refer Table 3.2.

industrial wheels of Japan revolving, and this region also supplies the market for the manufactured goods which are churned out by the hungry machines. During the late thirties and early forties, Japan tried to get these raw materials from South-east Asia through a short-cut method that is through war. But she was defeated in 1945 and since then Japan has openly declared that Japan's "peace" Constitution rules that Japanese troops will never be sent abroad to wage war against others.<sup>5</sup>

It has been shown that one-quarter of Japan's total Government and Private aid was allocated to the South-east Asian region between 1964-1968. In terms of value this aid amounted to US\$883.1 million, of which the South-east Asian countries of Philippines, Indonesia and Thailand received the major share which was 9.8%, 8.2% and 3.5% respectively of the total aid. When one looks at this point that Japan is channelling one-quarter of her total governmental and Private Aid to South-east Asia, then it is again certain that Japan is playing a major role in the economic affairs of the South-east Asian region as it has been seen earlier on that Japan accounts for the major share of South-east Asian exports and imports.

In analysing the total governmental and private aid further it would be seen that the South-east Asian region accounted for 40% of Japan's Governmental Aid between 1964-1968.<sup>6</sup> The greatest portion of the governmental aid went to Indonesia and the Philippines which accounted for 20.4% and 12.7% of aid respectively. Indonesia and the Philippines received the greatest aid because war reparations formed the bulk of the Official Development Assistance. Further loans were granted on these war reparations. If not for the assistance from Japan, Philippines would have had serious balance of payments problems. In terms of Private Capital South-east Asia has received insignificant amounts which the Japanese attribute to the various reasons given in Chapter IV. The Developing countries such as Indonesia, Thailand and Singapore, which in the past have eagerly welcomed the formation of Japanese enterprises, lately have begun to become more choosy in allowing their entry for ensuring their own economic, independence and progress. These countries have already or are due to embark on such new moves as preventing Japanese from buying up Local enterprises or imposing controls or investments in joint ventures. The best example is reported to be in the case of Indonesia. Since 1967 Indonesia had allowed unrestricted foreign investment but in 1970 the country decided on a new policy to give priority to sanctioning foreign investments in fields contributing to its economic

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<sup>5</sup>Far Eastern Economic Review, Vol. LXIX, No. 30, July 23, 1970, p. 26.

<sup>6</sup>Refer Table 4.4.

growth; and in November of the same year, banned new cases of foreign investment in its present light industry covering 30 types of manufactures.

Japan's External Trade Organisation and major Japanese traders report that Indonesia has begun to ban buying up of local, small and medium industries, and also to give priority to sanctioning of cases enabling Indonesia to acquire foreign technology. This is definitely the right thing to do because the Japanese should leave small and medium industries to local entrepreneurs and should concentrate their attention and capital on developing 'sophisticated' industries where actual assistance is required. As for Thailand and Malaysia, they are reported to have become not only more selective in sanctioning foreign investments and setting ceilings on investments in joint-ventures but demanding would-be investors to use their nationals in management as well as technicians. Thailand, the Japan Economic Journal continues, is in the process of planning to revise its foreign investment law to favour foreign investments aimed at creating industries which would export their output to third nations, whereas it had so far welcomed investments which would curb its imports. This attitude of the Thais is only natural as it has been shown in earlier chapters, that there are fears in Thailand that the country might become a Japanese colony.

Therefore, it would be seen that Japanese investments in the manufacturing sectors in South-east Asia, especially in Philippines and Indonesia, are very significant. Japan can be seen now to be concentrating on the development of natural resources in almost all the South-east Asian countries. Most of the mining activities in South-east Asia, as was shown earlier, have obtained their finance mainly from Japan. Japan at first helps to establish mining activity and at the same time makes an agreement to purchase all the output that is produced from these mines for use in Japan. Thus after financing mining activities, payment is made in the form of products.

Japanese leaders have recently called on the countries in South-east Asia to join hands and work together, so as to make the 1970's a decade of progress and prosperity. Japan has been having regular ministerial level conferences on Economic Development of South-east Asia with the South-east Asian countries. The last conference - the 6th Ministerial Conference which was held in Kuala Lumpur from 3rd to 5th May was attended by 9 countries - the Republic of Indonesia, Japan, the Khmer Republic, Laos, Malaysia, the Republic of Singapore, Thailand and the Republic of Vietnam. The Khmer Republic was unanimously welcomed as a full participant of the Conference. The South-east Asian countries should hold more conferences like this and have more economic cooperation among themselves with Japan

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<sup>7</sup>The Japan Economic Journal, February 2, 1971.

<sup>10</sup>Asian Development Bank, Op.cit., p. 47.

which has been recognised as a world power. It is no use for the South-east Asian countries joining together and promising to cooperate with each other. For instance, it is definitely better for the Association of South-east Asian countries (ASEAN) to have Japan as a member of the Association, if not a full member then at least an associate member. These ASEAN countries are mainly primary producing countries and what can they do by coming together when they all deal in primary products.

The 4th Ministerial Conference for Economic Development of South-east Asia called on the Asian Development Bank to study South-east Asia's economy in the 1970's. An expert group met to determine the major questions to be studied and worked by 12 consultants who came from 6 different countries within and outside the region. The report says that South-east Asian countries can expect to enjoy a rapid rate of economic development in the 1970's, but much will depend on the internal policies which countries adopt at the present time.<sup>8</sup> The report continues to say that the import-substitution strategy should be changed to export-orientated industries because such policies would help to realise the potential of the "Green Revolution", by establishing firm ground for growth of competitive industries which would earn foreign exchange through expanded trade and would stimulate private foreign capital. Professor Hla Myint in his Overall Report in the study says, "To concentrate only on policies to raise the rate of growth of national output while neglecting population control is like fighting with one arm tied behind one's back".

Officials on Transport and Communications with respect to manpower which constitutes the foundation for development, a number The Japanese Foreign Minister Mr. Aichi told the Ministerial Conference that the Asian Development Bank's analysis provided his Government with more useful and penetrating suggestions which would help the Japanese in working out their development strategy. He continued to say that the major fields where direct attention must be focussed is on agricultural development, promotion of manufacturing industries, the consolidation of the infra-structure and the development of manpower.<sup>9</sup> In the economies of South-east Asian countries, agriculture remains the crucial sector. The "Green Revolution" has brought about notable progress in some countries and diversification of crops is also in progress in this region. Still further efforts are needed to raise productivity and reduce costs, otherwise prices may rise and consumers may have to pay more, thus domestic savings would not increase.<sup>10</sup> For this purpose, well-

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<sup>8</sup> Asian Development Bank, South-east Asia's Economy in the 1970's, Annual Report, 1970.

<sup>9</sup> Extracts from Mr. Aichi's speech at the 6th Ministerial Conference.

<sup>10</sup> Asian Development Bank, Op.cit., p. 47.

integrated planning, involving a number of key factors including dissemination of improved techniques, identification and improvement of suitable crop varieties, programs for improved irrigation, transport and storage facilities, credits for farmers, will be increasingly necessary and the Japanese Government is resolved to extend further technical and financial cooperation on an expanded basis to assist in the programs that may be undertaken by the countries of the region.

Speaking of industrialisation, many of the South-east Asian countries have gone through various phases of industrialisation mainly designed to meet domestic requirements. In order to further promote industrialisation and to encourage export-oriented industries, greater consolidation and improvement in the industrial foundation is required. Also efficient industrialisation requires the economies of scale, which in turn may require consideration of a complementary relationship or division of labour on a regional scale. This proposal he said, poses a number of difficulties but they can be overcome later. So in the field of industrialisation, Japan wishes to extend effective cooperation, technical as well as financial, through basic surveys, feasibility studies on specific industrial projects as well as in fields of industrial infra-structure. The Japanese Government is also keen on contributing to the promotion of industrialisation in the South-east Asian region by encouraging private investments which respond to the requirements and needs of the countries. In the field of infra-structure, the Conference already has the Co-ordinating Committee of Senior Officials on Transport and Communications with respect to manpower which constitutes the foundation for development, a number of diverse areas such as population, public health, education and training. The Foreign Minister further said that it was encouraging to note that many regional cooperative efforts in this area were under way.

Mr. Masao Sawaki,<sup>11</sup> in the same conference made an assessment of Japan's cooperation with the developing countries. The total flow of financial resources from Japan to developing countries in 1970 exceeded US\$1.8 billion and was 0.93% of Japan's gross national product. The total flow of financial resources from Japan to the South-east Asian region was US\$496 million representing an increase of 47% over the previous year or 27% of Japan's total assistance. Japan's official development assistance to this region amounted to US\$193 million, an increase from 38% of the total in 1969 to 42% in 1970. This amount was made up of grants, including technical cooperation of US\$75 million, and official development loans of US\$118 million. In the area of technical cooperation, Japan received 659 trainees and dispatched 443 experts to the region. In addition to this, 108 youths were sent out as overseas economic cooperation volunteers. Mr. Masao Sawaki further added that these figures were

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<sup>11</sup>Mr. Masao Sawaki is the Director-General of the Economic Cooperation of the Ministry of Foreign Affairs.

a testimony to the basic policy of the Japanese Government which attached great importance to cooperation with the South-east Asian region in their development efforts. He also touched on the present status of the question of aid untying. It is evident that the tied aid which the Japanese Government gave to developing countries has strained Japanese relations with the developing countries which are of the opinion that Japan is exploiting them. The conference was told that most of Japan's contributions to the multi-lateral institutions were untied including Japan's contributions to the multi-purpose Special Fund of the Asian Development Bank. In fact he anticipated that the date when the Japanese Government can untie all bilateral loans will be sometime after spring next year.

Japan in addition gave an assurance at the ministerial meeting that a large portion of her foreign assistance will continue to flow to countries in South-east Asia. This assurance was contained in the Joint Communique issued at the end of the three day Ministerial Conference for economic development of South-east Asia in Kuala Lumpur on 5th May, 1971. The Communique, among other things said that Japan would do its utmost to achieve the target of 1% of Gross National Product (GNP) by 1975 as flow of financial resources to developing countries, a large part of which will continue to flow to South-east Asia.

entered into between BANKS and MALAYSIA on the date of September 12, 1967 (hereinafter referred to as "General Agreement"), BANKS and MALAYSIA herewith conclude the following Project Loan Agreement.

Article I

Amount of Project Loan

BANKS agree to lend to MALAYSIA, on the terms and conditions in this Project Loan Agreement set forth or referred to, a principal amount up to the limit of ONE HUNDRED EIGHTY-ONE MILLION ONE HUNDRED FOUR THOUSAND YEN (¥181,104,000.-), provided, however, that in case a cumulative total of advances under this Project Loan shall have reached the said limit, BANKS shall make no further advance.

The last advance of this project Loan shall be made not later than November 30, 1974, and no further advance under this Project Loan shall be made by BANKS thereafter, unless otherwise agreed to by BANKS.

Article II

Use of Proceeds of Project Loan

APPENDIX I

MALAYSIA shall, for the implementation of Kuala Lumpur-Johore Bahru Microwave Project, apply the proceeds of this Project Loan to importing and/or purchasing of Japanese products and/or technical Project Loan Agreement, concerning Kuala Lumpur-Johore Bahru Microwave Project, dated ..... between The Export-Import Bank of Japan, The Bank of Kobe, Ltd., The Bank of Tokyo, Ltd., The Dai-Ichi Bank, Ltd., The Daiwa Bank, Ltd., The Fuji Bank, Ltd., The Industrial Bank of Japan, Ltd., The Mitsubishi Bank, Ltd., The Mitsui Bank, Ltd., The Nippon Kangyo Bank, Ltd., The Sanwa Bank, Ltd., The Sumitomo Bank, Ltd., The Tokai Bank, Ltd. and The Long-term Credit Bank of Japan, Ltd. (the aforementioned fourteen banks being hereinafter referred to as "BANKS"), the party of the first part, and the Government of Malaysia (hereinafter referred to as "MALAYSIA"), the party of the second part.

In order to extend, for the implementation of Kuala Lumpur-Johore Bahru Microwave Project, project Loan as referred to in the General Agreement entered into between BANKS and MALAYSIA on the date of September 12, 1967 (hereinafter referred to as "General Agreement"), BANKS and MALAYSIA herewith conclude the following Project Loan Agreement.

ARTICLE IV

Article I

Amount of Project Loan

(1) MALAYSIA shall pay to BANKS interest at the rate of five and three quarters per cent. BANKS agree to lend to MALAYSIA, on the terms and conditions in this Project Loan Agreement set forth or referred to, a principal amount up to the limit of ONE HUNDRED EIGHTY-ONE MILLION ONE HUNDRED FOUR THOUSAND YEN (¥181,104,000.-), provided, however, that in case a cumulative total of advances under this Project Loan shall have reached the said limit, BANKS shall make no further advance.

The last advance of this project Loan shall be made not later than November 30, 1974, and no further advance under this Project Loan shall be made by BANKS thereafter, unless otherwise agreed to by BANKS.

(3) The amount of interest Article II computed for each of the periods during which the outstanding principal amounts of this Project Loan remain the same. Use of Proceeds of Project Loan February 9 or February 10 and August 9 in each case stipulated in Section (2) above. The computation shall be made on a daily basis, using a 365-day year. MALAYSIA shall, for the implementation of Kuala Lumpur-Johore Bahru Microwave Project, apply the proceeds of this Project Loan to importing and/or purchasing of Japanese products and/or technical services in compliance with a contract which is to be entered into between a Japanese exporter or supplier and a Malaysian importer or purchaser.

The application to BANKS for approval of the contract is to be presented not later than January 31, 1972, unless otherwise agreed to by BANKS in specific cases.

### Article III

#### Repayment of Principal

MALAYSIA shall repay the principal amount of this Project Loan in accordance with the amortization schedule as set forth in the Annex to this Project Loan Agreement.

### ARTICLE IV

#### Interest and Payment thereof

(1) MALAYSIA shall pay to BANKS interest at the rate of five and three quarters percent (5.75%) per annum on the principal amount of this Project Loan advanced and outstanding from time to time.

(2) MALAYSIA shall pay to BANKS on March 10 of any year the amount of interest that has accrued up to February 9 of the year from August 10 of the preceding year, and on September 10 of any year the amount of interest that has accrued up to August 9 from February 10 of the year.

But after the date of the last advance of this Project Loan, MALAYSIA shall pay to BANKS on February 10 of any year the amount of interest that has accrued up to February 9 of the year from August 10 of the preceding year, and on August 10 of any year the amount of interest that has accrued up to August 9 from February 10 of the year.

By \_\_\_\_\_  
Edasaki Ichida  
President, The Export-Import Bank of Japan

(3) The amount of interest shall be computed for each of the periods during which the outstanding principal amounts of this Project Loan remain the same respectively between August 10 and February 9 or February 10 and August 9 in each case stipulated in Section (2) above. The computation shall be made on a daily basis, using a 365-day factor.

Article V

Incorporation of General Agreement

All the provisions of General Agreement are incorporated into this Project Loan Agreement and made a part hereof.

Article VI

Miscellaneous

This Project Loan Agreement may be referred to for the sake of convenience as "Project Loan Agreement No. 15, (for Kuala Lumpur-Johore Bahru Microwave Project)" in letters or documents between BANKS and MALAYSIA concerning the implementation of this Project Loan Agreement.

IN WITNESS WHEREOF, BANKS AND MALAYSIA, acting through their representatives thereunto authorized, have caused this Project Loan Agreement to be duly executed in duplicate in the English Language and signed in their respective names and delivered at the office of the Export-Import Bank of Japan, in Chiyoda-ku, Tokyo, Japan as of the day and year first above written.

The Export-Import Bank of Japan  
acting on its behalf and as  
attorney-in-fact for

The Government of Malaysia

The Bank of Kobe, Ltd.  
The Bank of Tokyo, Ltd.  
The Dai-Ichi Bank, Ltd.  
The Daiwa Bank, Ltd.  
The Fuji Bank, Ltd.  
The Industrial Bank of Japan, Ltd.  
The Mitsubishi Bank, Ltd.  
The Mitsui Bank, Ltd.  
The Nippon Kangyo Bank, Ltd.

By Hussain bin Mohamed Osman  
Ambassador Extraordinary and  
Plenipotentiary of Malaysia  
to Japan

The Sanwa Bank, Ltd.  
The Sumitomo Bank, Ltd.  
The Tokai Bank, Ltd.  
The Long-Term Credit Bank of Japan, LTD

By Tadashi Ishida  
President, The Export-Import Bank of Japan

## Annex

## Amortization Schedule

Number of Instalments	Date Due	Amount in Yen
1.	February 10, 1976	6,965,550
2.	August 10, 1976	6,965,538
3.	February 10, 1977	6,965,538
4.	August 10, 1977	6,965,538
5.	February 10, 1978	6,965,538
6.	August 10, 1978	6,965,538
7.	February 10, 1979	6,965,538
8.	August 10, 1979	6,965,538
9.	February 10, 1980	6,965,538
10.	August 10, 1980	6,965,538
11.	February 10, 1981	6,965,538
12.	August 10, 1981	6,965,538
13.	February 10, 1982	6,965,538
14.	August 10, 1982	6,965,538
15.	February 10, 1983	6,965,538
16.	August 10, 1983	6,965,538
17.	February 10, 1984	6,965,538
18.	August 10, 1984	6,965,538
19.	February 10, 1985	6,965,538
20.	August 10, 1985	6,965,538
21.	February 10, 1986	6,965,538
22.	August 10, 1986	6,965,538
23.	February 10, 1987	6,965,538
24.	August 10, 1987	6,965,538
25.	February 10, 1988	6,965,538
26.	August 10, 1988	6,965,538
Total		181,104,000

Source of Statistics

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