Japan and The Islands of South East Asia
Japanese Economic Predominance and Political Impact

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Introduction

Japan: Economic Leader

After World War Two (WWII), Southeast Asian relations with Japan were stagnant. In the following decades after the war, Japan began to engage in relations with other countries in Asia. Japan had proven to be the region leader, and in turn, they had a basic foreign relation with the pacific region and each country with in that area. Japanese relations are very important to the livelihood of many Asian countries, most especially to the newly developing and transitional countries such as Indonesia and the Philippines. As the Islands in Southeast Asia (SEA) emerge from poverty-ridden economies, Japan is looking to set up profitable market trades with those countries. This, Japan knows, will be done through intensive public relations and a good standing Japanese economy.

In recent Asian financial turmoil, the Islands of SEA are looking to Japan for assistance. With the Yen in trouble, many countries no longer have a firm standing currency base in which to trade by. For this reason, many countries are awaiting a profitable future for the Yen. It is now up to Japan to raise the value of the Yen and boost the region’s current economic standing.

Carving a Niche

Ever since Commodore Perry and his 'black ships' dragged Japan into the world economy in 1854, Japanese governments have been obsessed with achieving inter-related foreign policy goals. Their fist goal was to carve a niche in the international system large enough to ensure Japan's economic and military security. "Yet creating a secure, modern nation has ultimately depended on achieving Japan's two remaining foreign policy goals:
global predominance and international recognition of their predominance.\textsuperscript{v}

Japan embarked on its conquest of achieving global predominance with a regional co-prosperity sphere. The region would be organized on a strict division of influence with Japan. The industrial titan would supply producer and consumer goods to Southeast Asia in return for raw materials.

While its goals of security, modernization, and global predominance remained the same, Tokyo devised an entirely different strategy to accomplish them. After Japan's surrender ended WWII, its leadership was unanimous in agreeing that military and imperialism were thoroughly discredited as foreign policy tools. Instead, with its military and economic security ensured by Washington's nuclear umbrella and aid programs, Japan could concentrate all its resources on economic development.

Japan's postwar foreign policy has been highly successful in achieving its goals of rapid economic development and international security, predominance and recognition. Japan now has the world's second largest GNP and one of the highest per capita incomes.

**Japan Plays the Bully**

When the Japanese made their first significant appearance in the Islands of Southeast Asia, they were not perceived as aggressive invaders or predatory economic animals; they were viewed as liberators. Although the Japanese had not yet found a real use for what the area had to offer, they were disturbed to see the aggressive moves of others. “When the first national Asian revolution against Western colonialism broke out in the Philippines in 1896, Japanese army reserve officers, artillery technicians, and ordinance and munitions experts were sent quietly to Manila to join the Filipino Revolutionary Army. The Japanese helped the Filipinos fight the Spaniards and later the
American army which finally suppressed the first Philippine Republic. The Philippines was not the only country to be liberated by Japan. Indonesia, the islands of Malaysia and Papua New Guinea are also some of the Southeast Asian Islands that sought liberation from European colonists by means of Japan.

In one sense, Japanese rule simply replaced one outside tyrant for and other. From the beginning of WWII until the final blow, of Hiroshima and Nagasaki, Japan was seen as the main player of Southeast Asian affairs. After the war Japan was striped of all of its pre-WWII colonies and could no longer flex it military muscles in the islands of SEA.

**Japan’s World Economy**

**Japan: New Economic Grip**

After WWII, Japan slipped into a period of extremely fast economic growth. Known as the fast growth decades, Japan had regained a significant degree of its ability to compete in international markets. "A more self-confident government, headed by prime minister Ikeda Hayato, unveiled an 'income doubling' plan which envisioned, on the basis of an average growth rate of 7.2 percent, a doubling of the Gross National Product (GNP) every ten years." This rapid development meant that Japan was getting a strong hold on the economy in the Pacific Belt. Because Japan was emerging as an economic titan, the rest of the Islands in SEA, once again, found themselves in the shadow of Japan’s might.

Japan, by mid century, was again meddling in South East Asian affairs. This time it was economically instead of territorial, as was the case before WWII. Starting in the late 1960's and early 70's Japan begun to weave a net of influence with the Southeast
Asian Islands. This new foreign policy consisted of many areas of concern. Economically Japan was seeking better trade with other emerging financial markets in the Islands of SEA, such as Indonesia and Malaysia. Security wise, other Islands were again seeking Japan’s assistance.

**World Issues: Japan Gets Involved**

In recent years Japan has found ways to improve its current standing with the rest of the world. Although valiant, Japan's efforts have been slow and sometimes unnecessary. This was particularly conspicuous in the Gulf War against Iraq in 1990.

"In October 1990 the Kaifu cabinet announced plans to commit one thousand members of the Self Defense Forces as noncombatants, but protests forced it to cancel that arrangement. Plans were then set in motion for the establishment of a special Peace Keeping Organization (PKO) of up to two thousand men."^{iv} Despite failure to pass the PKO by the Japanese diet, Japan's financial contribution to the United Nation’s Gulf war was nonetheless Impressive. “At $13 billion, and financed by an additional tax, it was the largest of any country besides Saudi Arabia.”^{v} Despite this impressive sum, Japan's handling of the matter was seen from abroad as hesitant and piecemeal, and it contributed poorly to its position as a major power.

Aside from worldwide peace keeping operations, one of Japan’s long-deferred goals was a permanent position on the United Nations Security Council. Japan has, by now, become a key member of the United Nations; in financial contributions it is second to the United States, and the same is true of its program of overseas aid.

Though the international community has been making efforts to establish a new framework for the post-cold-war era, the international situations are currently fluid, and
more time is needed to construct such a framework. In the case of Japan, its security and prosperity will only be possible through the establishment of peace and prosperity in the global community. Bearing in mind that Japan’s actions have great influence on the peace and stability of the world, Japan has been endeavoring to fulfill a creative role in the formation of a new international order. “It has enunciated the following five policy issues: (1) peaceful solutions to regional conflicts; (2) further promotion of arms reduction and nonproliferation; (3) securing the sustainable development of the world economy; (4) cooperation with developing countries and countries in transition; and (5) solving global issues.”

**SEA In Japan’s Back Yard**

**Japan in Asia**

More relevant are Japanese relations towards its closest neighbors in the Asian community. “Japan’s post war policy in Southeast Asia was not guided by any coherent or Machiavellian design but instead by Japan’s political and economic interests.” It is solely for financial and political gain that Japan is willing to assist Southeast Asia.

Because all countries need a lending hand, most Southeast Asian states developed a coalition called ASEAN (Alliance of Southeast Asian Nations), which is designed to bring Southeast Asian countries together, much like the European Union. "With Thailand and Indonesia as the two masterminds; ASEAN was developed to project the image of being an independent, indeed 'free and active', organization which aimed at the self-reliant pursuit of economic and social development.” ASEAN was also set up to include Malaysia, the Philippines, and Singapore.
Japanese further foreign policy establishment was accentuated to give more attention to the political and cultural aspects of Japan’s relations with Southeast Asia, and to take other steps to moderate tensions associated with economic relations. Japan later realized that this was the cause of ASEAN government’s dependence on Japanese aid, trade, investment, and technology.

The desire for a Japanese political and economic presence is probably felt the most among the ASEAN governments. “Japan is the largest donor of assistance to Cambodia and Laos, and will be again to Vietnam.” The Japanese foreign policy is dominated by bureaucracy and prefers to work with existing governments. This alternative is chosen over using the press for internal political reforms or rapid privatization outside governmental control. This results in the non-economic strings on assistance being relatively few.

**Japan and SEA Economy**

Changes in the economic circumstances and economic relations of Japan and the Southeast Asian countries have been gradually modifying the perception of one-sided exploitation in Southeast Asia. In contrast, the new Japanese investment is more associated with manufactured production than with raw material exploitation, and with exporting rather than with domestic marketing. It is this kind of investment that is appreciated in Southeast Asia. While third markets, such as the United States, remain the most important final destinations, Japan is an increasingly important market for ASEAN manufacturers. Japanese imports of primary products have declined and with them, so has Japan’s share in Southeast Asia’s global exports. “However, the proportion of manufactured goods in Japan’s imports from ASEAN rose dramatically from 6.1 percent
in 1980 to 9.2 percent in 1985, and to 27.3 percent in the 90’s.**x** The Decline in Indonesian and Malaysian oil and gas prices is an important factor in this shift, but not the only one. The absolute value of manufactured goods and exports from ASEAN to Japan increased by over 40 percent annually in the 1986-88 period. Since all of the ASEAN governments place a high value on the growth of labor-absorbing manufacturing production and exports, such figures have contributed to the sense that that the Islands of Southeast Asia increasingly benefit from their trade with Japan.

The growth of a more multilateral Asian-Pacific economy with the rise of the newly industrialized economies and technological powers, are diluting the former prominence of both Japan and the United States as economic partners of the Southeast Asian islands.

“*Overseas Chinese and South Korean investment, in fact, has grown even more rapidly than Japanese investment in Southeast Asia. In 1990, for example, new foreign investment from the newly industrialized economies, including Singapore, accounted for 48 percent of investment in Malaysia, compared to 29 percent of Japanese investment. The comparable figures for the Philippines were 40 percent, compared to 32 percent, and for Indonesia were 30 percent compared to 26 percent. In Thailand, NIE and Japanese investment each accounted for about 34 percent of new investment.*”**xi**

**SEA: Resentments toward Japan**

There are still many sources of tension in Japanese-Insular economic relations. Southeast Asians complain that the Japanese continue to invest far more in the United States and even in Europe than in Asia. They worry about investment diversion from
Southeast Asia to other areas such as China and Northern Asia. Like other foreigners, the region’s manufacturers find it very difficult to brake into Japanese markets except under conditions controlled by Japanese partners. There are many complaints that Japanese firms are unwilling to transfer technologies. Perhaps more bothersome has been the reluctance of the Japanese to use the Islands of Southeast Asia in key management positions. Because this contrasts sharply with the Japanese practice in North America and Western Europe, it is suggestive of cultural prejudice.

Despite such complains and controversies, the complementation of the Japanese and the Southeast Asians economies and the dynamic interactions between them suggests an evolving, mutually beneficial economic relationship.

**Cultural Change in Island Southeast Asia**

Japan has invested a significant amount of time and money into strengthening the cultural dimensions of the relationships with the ASEAN countries. New programs, such as the Japanese funded ASEAN Cultural Fund and the ASEAN youth Scholarship, were stabilized. Research and exchange programs proliferated and there has been a boom in Japanese language and area studies in Southeast Asia. The Japanese business and tourist presence in the region has grown enormously and the legal presence of Insular Asians in Japan has also expanded.

All thesis factors create more familiarity, although certainly not all positive in nature. In the cultural aspect, however, Japan continues to lag behind many Western societies. For example, despite a campaign to increase foreign students in Japan, the number is still small by American, Australian, or western European standards.
In 1990 the largest Southeast Asian groups were 1,544 Malaysians and 948 Indonesians, including vocational students.

The West, especially the United States, remains by far the preferred destination for Southeast Asian students. At the same time, Southeast Asian studies and languages remain interested in the United States, Western Europe, and Northeast Asia.

**Insular Comes Trough Economically**

Economically the Islands of Southeast Asia are an upcoming miracle. “Even more upbeat are projections for the future. The International Monetary Fund expects that the $7.5 trillion increase (in 1990 dollars) in the gross world product between 1990 and the year 2000, East Asian will contribute half. The World Bank estimates that between 1993 and 2000, Asia as a whole will account for half the growth in the world trade.” At the same time, in recent years, economic might has begun to play a larger role in international affairs, and nowhere is this more evident than in Island SEA. It is economically that the Japanese hegemony seems most dramatically interested in the region. Thus, even as trade and investment patterns become somewhat less Japan-centric and as other powers identify themselves as Asian, Japan’s economic preeminence in the region remains overwhelming.

Japan, in 1995, was the leading source of imports for Indonesia, Thailand, Malaysia, the Philippines, and Singapore. It was the leading or second leading export market for Australia, Indonesia and China. Clearly Japan continues to play a preeminent role in the trade policies of all these countries, despite the increased variation of trade throughout the region.
Japan to the Rescue

On foreign aid Japan’s role also remains critical to many Asian countries. Japan is still the primary aid donor for all six ASEAN nations as well as China and Burma. “Looking at individual countries, Japan’s share as proportion of total aid received runs 78 percent in Burma, 68 percent in the Philippines, and 66 percent in Indonesia.” With the Exemption of the Philippines U.S. aid to the Asian region is relatively insignificant. “Given the decline in U.S. aid, Japan is now supplying roughly Two-thirds of the aid received by ASEAN.” Such economic leverage over the entire national economies of so many of these countries clearly puts Japan in an exceptionally powerful position within the region.

Japan Vs. SEA

What is most striking is that economically Japan stands in a uniquely superior position compared to the rest of the countries in Insular SEA. Japan remains the finely engineered Lexus in a region dominated by functional, cheap, but still somewhat clunky Kias and Sagas. With only 10 percent of the region’s population and an even smaller proportion of its total land mass, Japan accounts for about two-thirds of the region’s total Gross National Product. Japan has an economy that is more than ten times greater than that of the second largest economy in Asia, China. Australia’s total economy is only one fifteenth that of Japan’s. As for the NIEs, Japan’s economy is about twenty times as large as Taiwan’s and fifteen times as large as Korea’s, not to mention being about thirty times larger than Indonesia’s and nearly one hundred times larger than Singapore’s. The Japanese GNP is about six time’s greater than the combined GNPs of Taiwan, South
Korea, Singapore and Hong Kong.

More trouble in Southeast Asia

With current regional markets failing, many corporations have found themselves with huge surpluses of over inventoried goods. The reason for this is that not enough customers seem to be pleased with the results. That is to say, the unforgiving financial crisis we now see in SEA is hitting both buyers and sellers hard around the Asian neighborhood.

The whirl around Asia would likely give the impression that there is a lot of everything around, which means a shortage of demand. In an upscale Indonesian stores, price tags are marked down two or three times. And in factories, from Japan down to the Islands of SEA, there’s another kind of excess, production capacity. All of this translates into lower profits and even losses. Thus, the worry is that if cuts are not made on this overflow of manufactured goods, office space and store inventory, Asia will not be able to dig itself out of crisis.

To a degree, the conventional wisdom is correct. Since excess supply means lower prices, and in turn smaller margins, there is an argument to be made that supply needs to move with demand. But there is a difference between simply cutting back and cutting back properly. “For a long time Japan has sought to remedy oversupply by pumping money into the public environment in order to boost demand, now it’s looking at the supply side, seeking to trim inefficient production assets.”\textsuperscript{15} To do this, Japan wants to build a market more suitable for international trade. This is especially true in Southeast Asian markets that have cheap labor and lower warehouse rents. More importantly, the Ministry of International Trade and Industry also wants more corporate
mergers so industries can benefit from different booming economies throughout the Pacific Rim region. If all this works out, Japan will manage to trim capacity without putting too many people out of a job.

This would also bring about more efficiency and competitiveness, meaning stronger markets to profit from.

**Financial Crisis in Insular SEA**

Aside from trade and demand surpluses, the current financial situation is looking grim for the Islands of SEA. This began first in Thailand in June 1997 and then it spread like an air born plague to the rest of the SEA community. One of the countries hit the hardest was Indonesia. The main oil producing country in the region, it became handicapped when the rest of the world was coming up short in their respective financial markets. Many officials blame their country’s governmental business intervention. On the other hand, research shows that the initial diagnosis missed the mark. “The first analysis of the crisis in SEA failed to take adequate account of the private sector roots of the crisis. It was not government finances as much as large debt of local corporations that was responsible for the problem. Poor debt and currency management on the part of local banks also took some of the blame. The early assessments of the situation in Japan were also overly optimistic; some Western officials mistakenly thought that Japan would rescue Indonesia the same way the United States helped Mexico in 1995.”

**Japanese Relations with Insular SEA**

**Japan and Indonesia**

Indonesia’s process of democratization has been slow despite fast economic growth. There are many reasons for this outcome. For starters, the dominant roles of the
president and the military within the country are to be mentioned. With absolute control of the nation, it is hard for the industry to act freely to interact with foreign markets. This, in turn, makes it hard to have healthy interaction with other nations including Japan. Japan in this case has put a lot of time into securing healthy relations with both the president and the military.

These two obstacles are not the only ones hindering Indonesia’s growth as a healthy economic nation. “The weakness of the middle class due to its small size and limited power is also a big contender in helping the country succeed.” \(^{xvii}\) This and the enormous gap between the rich and the poor are parts of Indonesian society that must be corrected in order to see this country propel forward as a leading economy within its region.

Japan plays a big factor in helping Indonesia solve its wealth balancing problems, although not for the better. Often, Japan will set up deals with the financial elite within Indonesia, therefor only making the rich richer and the poor the same. If in any way Japan is helping out the middle class, it is by providing a greater job market, although, even this, has been on a decline.

**Japan and the Philippines**

In the Philippines, much like Indonesia, the trend is similar. Economic hardships are plaguing the nation with unemployment and failing financial markets. As a part of ASEAN, the Philippines has found some refuge but they are still struggling to catch its breath financially.
“The Philippines, as part of ASEAN, has the second highest share of industry in domestic output.” Japan knows this and for this reason it has invested a great deal of its resources into the future development of the Philippines. The Japanese role in the Philippines is much like other islands that are part of ASEAN. They (the Philippines) see Japan as a financial savior. They are waiting for the Japanese to pull them out of their recession. They believe that once the Yen rebounds back to its early 90’s wealth, the rest of the Southeast Asian currencies will bounce back as well.

**Japan and Malaysia**

Even though industry in Malaysia has reached a fairly high level, as a result of growth in the past decade, they too are facing an economic decline. Manufacturing in particular has come to a sudden standstill, although it is still 16 percent of its Gross Domestic Product. “Malaysia still remains the world’s largest producer of natural rubber and palm oil.” Knowing this, Japan is not too far to exploit these major natural resources unattainable on Japanese soil.

Energy production is becoming more important, having expanded at an exponential rate, Malaysia is a net exporter of energy and has substantial potential for further development in the region. With the current recession Malaysia will now look to find improvements on its financial and trade markets.

**Japan and Singapore Relations**

Although Singapore is part of Mainland SEA, it is considered by many to be an island. Singapore is an advanced country by almost any criteria. The largest source of Singapore’s income is service, reflecting the nature of the city-state and the development of its economy. “Within services, those yielding low income, like retail and whole sale
trade, have been declining, while those yielding high income, like finance, insurance, and
real state, have been rising."

Japan has been pleased to see the recent encouragement in manufacturing by the
government to move its work force from labor intensive to a skill intensive industry.
With this in mind Japan-Singapore relations are quite the same as with other ASEAN
countries. Even though its markets are failing, they are doing everything possible to get
them pumping once again.

**Conclusions**

**Century Relations with SEA**

Before WWII Japan was an expansionist, blood thirsty country looking to expand
it sphere of influence to its close neighbors. Expanding and colonizing countries for their
natural resources was essential to the prosperity of a war machine (as Japan was known
before WWII). As the war came to an end Japan found itself ostracized by the counties it
had exploited for its own previous gain as a country. The Southeastern countries of Asia
felt Japan had mistreated them and they were slow to forget the injustices committed by
the Japanese before and during the war periods.

As Japan later reached a period of exponential growth, most of the world,
including Southeast Asia, was quick to jump on the financial ban wagon. Many countries
begun to recognize Japan’s hegemony in the world markets and Japan begun to set up
special trade markets with its close neighbors to the south.

Becoming aware of Japan’s financial power, the countries of Southeast Asia,
specifically the members of ASEAN, set forth the goal of becoming close trading
partners with Japan. Each country in island SEA is cherished by the Japanese for a
particular natural resource; the countries of ASEAN became an essential part for Japanese survival. Like wise the countries of SEA became reliant on Japan’s trade and investment.

Japanese reliance on the Islands of SEA was truly demonstrated when the markets of Indonesia and the Philippines begun to malfunction. Likewise when the Yen fell in value, the islands of Southeast Asia took a hit in their financial sectors. Many officials blamed the private sectors of their countries and others blamed their governments. One thing is for sure, all the ASEAN countries are looking to Japan to come up with a solution.

**Future outlook: Japan and SE Asian Islands**

Japan’s hegemony depends on the inter-related factors of East Asia’s continued economic growth and political stability. As long as the Islands of Southeast Asia continue to grow, they will offer continued trade, investment and market opportunities for Japanese corporations. “The market turmoil’s and their impacts in Insular SEA since July 1997 are, as even economists now accept, every bit as much political crises as they are economic ones. Indeed, the political manifestations of these events will linger long after the necessary reforms have been introduced to return at least a resemblance of economic normalcy to the region.” xxii The region will continue to be politically stable and economically dynamic only if a solution to their financial problems is found. It has been proven that East Asia is the fastest growing sector in the world. “They remain the only group of countries whose real GNP is doubling every seven to 12 years. Over a 20-year period, the economies of the Islands of SEA have realized an average economic growth rate of around 8 percent, about double the world’s average.” xxii With this in mind the
future is unclear for the region. On one hand they have the potential to be world
economic leaders, but on the other hand they are troubled by political and financial
hardships.

If Japan and the Islands of Southeast Asia are going to maintain a prosperous
relation, their regional markets and politics have to experience a dramatic positive
change, or at the least, a turn for the better.

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