

Chapter 6. From “Japan and Asia” to “Japan in Asia”

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Introduction

Japan regained its independence in 1952. Let us look at Asia at that time, in 1952, to see what was going on there.

War was still going on in the Korean peninsula, which started in 1949 with invasion of North Korean forces and reached a stalemate by 1952.

China went communist in 1949 and concluded an alliance with the Soviet Union. Communist insurgencies supported by revolutionary nationalism were going on in Southeast Asia, in Vietnam, British Malaya, and the Philippines.

To put it simply, the Cold War had begun and the Japanese government under prime minister Shigeru Yoshida chose – or to be more precise, had no other choice but-- to regain independence as an American ally and for its own security.

But the Japanese public were deeply divided over the decision because of the disastrous consequences of the Second World War. A substantial minority, perhaps more than a third of the Japanese public, did not support the ruling party and Japan’s alliance with the US and found neutrality combined with democratic socialism a more attractive option.

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In Asia, memories of war - death, violence, suffering, economic collapse and destruction inflicted by the Japanese - were still very fresh in the minds of the people of Asia.

Southeast Asia also underwent transition from being a region under colonialism and Japanese occupation to a region of independent nation states.

Thailand had been independent all this time.

The Philippines, which became a Commonwealth in the mid-1930s, achieved independence in 1946.

Indonesia and Burma achieved independence after the war.

North Vietnam, as well as Laos and Cambodia, followed in the mid-1950s, and Malaya in the late 1950s.

More than 60 years have passed since that time. Japan recovered from the devastation, enjoyed good economic growth from the mid 1950s onwards for about 35 years until the end of the Cold War.

The economic growth, coupled with the policy of income redistribution, improved the Japanese standard of living enormously over years, and helped the LDP, the Liberal Democratic Party, consolidate its rule and achieve political stability.

By the 1970s, the Japanese economy had become larger than all the other Asian economies combined, I mean China, Korea and Southeast Asian countries, combined.

But then Japan experienced economic stagnation, while other countries in Asia enjoyed healthy economic growth, even though some of the countries were hard hit by the financial crisis toward the end of the 1990s.

China surpassed Japan in economic size in 2010 and it is now more than 2.5 times larger than Japan and as large as all the other Asian economies, including Japan, combined.

Southeast Asian countries, in the meantime, have also undergone economic development and their economies combined, which were less than 15 percent of Japan's in 2000, are now expected to be as large as 75 percent of Japan's by 2020.

Japan's alliance with the US and its shifting economic position in Asia powerfully conditions Japan's relationship with Southeast Asia.

Then what changes has it undergone? And why? It is this history of Japan-Southeast Asia relations which I would like to address in this lecture.

Asia after WWII

WWII ended with Japan's surrender on August 15th, 1945.

Southeast Asian countries which Japan occupied during the war started moving towards independence.

In 1945, in Vietnam, Ho Chi Minh declared independence as the Democratic Republic of Vietnam.

The Vietnamese fought the first Indochina War against their colonial power, France.

The Philippines gained independence from the US in 1946 and became the Republic of the Philippines.

In 1948, the Federation of Malaya was formed on the Malay Peninsula. Later becoming a part of the Federation of Malaysia.

Indonesia's independence was internationally recognized in 1949 after the war with the Netherlands. Sukarno became its first president.

Japan returned to the international community as a member of the "Free World" at the end of the American occupation. How to deal with the past and build new relationship with Asia was a major question Japan had to address.

Section 1: Going back to Asia: Japan and Southeast Asia in the 1950s and 1960s

When Japan regained independence, its freedom of action was heavily constrained by the US. In the late 1940s, when the US was still occupying Japan, the US government under President Truman made two strategic decisions on its Asia policy.

Now that China had gone communist and was allied with the Soviet Union, the entire communist bloc had to be contained. The US also wanted to make sure Japan would never be a threat to the US and its allies and for that purpose, Japan, too, had to be contained.

This idea of double containment led the US to make two strategic decisions.

First, concluding the US-Japan security treaty and bases agreement was a precondition for Japan regaining independence. The treaty made Japan the most important base for US forward defense in Asia, while integrating Japan's self-defense forces as part of the military power led by the US.

Second, the US encouraged Japan to conclude diplomatic relations with the Republic of China, that is Taiwan, as well as Southeast Asian countries that were not part of the

communist bloc.

China was one of Japan's two largest trading partners before the war, and Japanese business wanted to restore trade relations with China, but the US was unhappy with it and instead encouraged Japan to go south and to negotiate and conclude reparation treaties and eventually establish diplomatic relations with newly independent Southeast Asian governments.

In other words, Japan went back to Free Asia, and "free Asia" here means "free from communism" rather than "free" as in liberal democracy. Free Asia practically meant maritime and littoral Asia.

Japan enjoyed high economic growth from the mid-1950s to the early 1970s. In these years, Japan's national interests were narrowly defined to mean not spending a lot of resources in national security, which Japan specialists called a "cheap ride," achieving macro-economic stability, and undertaking industrial upgrading.

The basic idea was straightforward, and can be characterized as a politics of productivity: That is, do whatever you can for high economic growth and improve the Japanese standard of living, then the public would support the LDP government, political stability would be maintained, then more investment would boost the country's economic growth under industrial peace.

This was the heyday of Japan's democratic developmentalist regime, with the MITI, the ministry of trade industry, responsible for industrial policy, and the MOF, ministry of finance, responsible for industrial finance.

Economic cooperation served as an instrument for Japan's trade promotion and resource procurement. Reparations opened doors for Japan to tap Southeast Asian markets. Trading companies served as advance parties.

Former military officers, who had established close personal relations with such leaders as Sukarno and Ne Win during the war, went back to Southeast Asia as businessmen, while senior LDP politicians oversaw Japan's relations with Southeast Asian, Taiwanese and, from the mid 1960s onwards, South Korean leaders.

Anti-communism was a political common ground, on which high level political relations were maintained, but sometimes this condition required Japan to perform a balancing act for its own economic interest.

A case in point was Japan's relationship with Indonesian president Sukarno, who in his final years in 1963 to 65, increasingly tilted his policy toward what he called the Jakarta-Beijing-Pyongyang axis.

The US was unhappy with him and his government. Yet Japan maintained a cordial relationship with Sukarno, only to change its position shortly after Suharto took over power in early 1966 with the organization of a conference in support of Suharto's Indonesia.

Section 2: Recalibrating its position in Asia: from the 1970s to the mid 1980s

In the 1970s, however, there was a seismic change in Asia's security and political economy. This manifested itself in a series of shocks.

First, President Richard Nixon announced his visit to China and met with Mao Zedong in 1971. This almost instantly destroyed the assumption on which Japan's Asia policy was built. In a year, Kakuei Tanaka, who replaced Eisaku Sato in 1972 as prime minister, visited China and started the process of normalizing diplomatic relationship with China.

Second, the US under President Nixon also announced suspending the exchange between US dollars and gold. This led to the collapse of the fixed exchange rate regime. The stable currency system in which Japan could count on 360 yen a dollar was gone and the appreciating yen put Japanese business under pressure to invest abroad to remain competitive.

The first wave of Japan's FDI, foreign direct investment, took place in these years, with Thailand and Indonesia as two major destinations in Southeast Asia.

By that time, Southeast Asian countries, especially Indonesia, Malaysia, the Philippines and Thailand had embarked on import-substitution industrialization and sought to provide a good investment environment. Japanese firms went to Southeast Asia, often teaming up with local ethnic-Chinese business and Southeast Asian political allies.

This initial foray invited anti-Japanese popular protest, anti-Japanese boycott in Bangkok which sparked the student-led revolution, and anti-Japanese riots in Jakarta in 1973.

Third, hit by the two Nixon shocks which deeply undermined Japanese public trust in the Japan-US alliance, the Japanese government under Prime Minister Tanaka shifted its energy procurement policy from stable supply, which practically meant relying on US companies for oil supply, to autonomous resource development.

But this policy was torpedoed by the oil crisis triggered by the October 1973 war in the Middle East, in which the Organization of Petroleum-Export Countries imposed an oil embargo on the US and its allies, including Japan, and in combination with Tanaka's ill-timed inflationary fiscal policy, led to the hyper-inflation of more than 30 percent and triggered Tanaka's downfall.

And finally, the war in Indochina came to an end, at least for a while, in 1975 with the fall of Saigon and the unification of Vietnam. This resulted in the creation of communist Indochina, side by side with ASEAN five - Thailand, Malaysia, Singapore, Indonesia and the Philippines, which were all under anti-communist, authoritarian, developmentalist regimes – with the isolationist Burma under Ne Win out of the loop.

Under these circumstances, the Japanese government under Prime Minister Takeo Fukuda undertook two important diplomatic initiatives to establish a regional stability.

One was the conclusion of a treaty of peace and friendship and the start of economic cooperation with China in 1978. The other, which is more important for our purpose here, was his ASEAN diplomacy.

Two developments deserve attention to understand his ASEAN policy.

First, there were momentous changes in Southeast Asia in the mid-1970s, as I mentioned above, and the question of how to build a bridge between anti-communist ASEAN countries and communist Indochina in order to prevent Southeast Asia from becoming a major arena for superpower rivalry was a major concern.

The second was the question of how Japan should establish a better and more stable relationship with the ASEAN countries or in Fukuda's words, how to create a special relationship with ASEAN in the wake of anti-Japanese protest in the early 1970s.

To achieve these twin purposes, Fukuda promised to double Japan's economic aid to the members of ASEAN, to establish a special fund for ASEAN industrialization, and to keep Japan's aid to China below that to the ASEAN countries. In other words, he underlined the strategic importance of ASEAN for Japan and sought to promote ASEAN as a regional organization.

Fukuda also called on the ASEAN countries for "heart to heart" dialogue with Japan and initiated a program of cultural diplomacy with ASEAN. He believed that economic cooperation alone was no longer sufficient, that more extensive cultural exchanges and dialogues would be required to cement the special relationship.

Fukuda's initiative for bridge-building between the anti-communist ASEAN and communist Indochina did not go anywhere, because of the Vietnamese invasion in Cambodia in 1978.

But his ASEAN initiatives marked a clear shift in Japan's Southeast Asia policy. After his visit to the ASEAN countries in 1977, the word, ASEAN, replaced Southeast Asia in Japanese political parlance, and ASEAN and China emerged as two major regional units in Japan's Asia policy.

In retrospect, we can now see that most of Japan's policy tools and ideas for Southeast Asia were already in place – the strategic importance of Southeast Asia ASEAN as a regional organization, economic cooperation, bridge building, aid, and cultural exchanges.

All that was missing was an integrative vision that could replace the idea of Free Asia and give Japan a sense of direction in its positioning within Asia.

Section 3: From “Japan and Asia” to “Japan in Asia”: from the mid 1980s to the mid 2000s

Globally, the most important development in those years was the end of the Cold War and the advent of American unipolarity.

The US grand strategy also underwent a major shift from containment to globalization that is promoting capital movement across national boundaries, free trade and democracy.

In Asia, however, the first important change took place in the mid-1980s. In what is now remembered as the Plaza Accord, Japan and West Germany agreed to let their currencies appreciate vis-à-vis US dollar in 1985. In a few years the Japanese yen appreciated enormously from 235 yen a dollar before the Accord to 145 in 1990 and 85 yen a dollar in 1995, before coming back down to 145 a dollar in 1998 at the height of the East Asian economic crisis.

By the mid-1980s, South Korea, Taiwan, Hong Kong and Singapore were already well on their path toward industrialization and were called NIEs, newly industrialized economies.

ASEAN countries, especially Indonesia, Malaysia and Thailand, enjoyed a measure of political stability and solid economic growth.

To remain competitive in the global market with the appreciating yen, Japanese firms once again went into these countries in a massive way, made huge investment, and shifted their production bases there. Japan's foreign direct investment expanded five times from 1985 to 1990 and led to the formation of regional production chains in Southeast Asia, especially in the automotive and electronic industries.

The Japanese government also expanded its overseas development assistance. Japan emerged as the dominant player in infrastructure development in Southeast Asia.

Second, there took place a People's Power revolution in the Philippines that toppled the Marcos dictatorship in the mid-1980s, followed by democratization in South Korea and Taiwan. Democracy movements also rose in Myanmar in 1988 and China in 1989, but these were violently suppressed.

So to put it in a different way, the Cold War ended differently in Asia and Europe. In Europe, the Soviet Union and its client states collapsed, Germanies were unified, and a new geopolitical map of Europe emerged.

In East Asia, no socialist state collapsed. It was America's client states that underwent democratization. The only major geopolitical change in Asia took place in Indochina. With the decline and eventual collapse of the Soviet Union, Vietnam changed its economic policy in the mid-1980s, decided to withdraw from Cambodia in the early 1990s, and joined the ASEAN in the late 1990s. Laos, Cambodia and Myanmar followed suit, resulting in the expansion of ASEAN. Southeast Asia would no longer be divided along ideological, geopolitical, and economic lines.

Japan's regional vision emerged out of this reality and its future prospects.

Japanese believed – like many others – that the region-wide economic development would continue and expand its frontiers, from Asian NIEs to Thailand, Malaysia and Indonesia, to coastal regions of China and to the Philippines and Vietnam and beyond.

Furthermore, Japanese believed that this region-wide economic development would underpin political stability in this area. Japan as the economic giant in the region would help spur the regional economic development with its FDIs, its economic and technical assistance and its market, while helping to ensure that the region remains open to the world.

Japanese also assumed the US would remain engaged in the region, because the region promised to be crucial for America's own future and the Japan US alliance would remain the anchor for regional security and stability.

A series of developments, however, undermined this vision and forced its revision.

Section 4: Changing Regional Vision: From East Asia to Asia Pacific to Indo-Pacific

First, there was the financial crisis of 1997-1998. Lulled by their economic success, Korean, Thai, Malaysia, and Indonesian business borrowed short term bank loans for long term, often unproductive investment. Since their currencies were pegged to US dollar, the appreciating dollar after 1995 led to the appreciation of their currencies and the decline of their exports.

These problems were exposed in 1997, when Thailand, with its foreign reserve depleted for the defense of its currency, went to the International Monetary Fund for assistance. Soon the crisis spread to Korea, Indonesia, and Malaysia, while Taiwan successfully defended its

currency.

The crisis, initially economic in nature, soon snowballed into a political crisis and led to constitutional revision in Thailand in 1997, the collapse of the Suharto regime in Indonesia, and the deepening rift among the ruling elite in Malaysia in 1998.

The crisis also bankrupted local Southeast Asian business partners of Japanese firms and threatened the Japan-led supply chains that had developed since the mid-1980s.

Americans and Japanese, however, disagreed on how to overcome the crisis. Americans insisted on structural reform, because they believed the root cause of the crisis was crony capitalism.

Japanese, on the other hand, argued that it was a liquidity crisis, a kind of bank run, and therefore, providing liquidity was the way to go. Japan proposed for establishment of an Asian Monetary Fund, only to be shot down by the US and China.

China also seized this opportunity for its own advantage. China pledged not to devalue the Chinese yuan to exacerbate the crisis, worked with the US to shoot down the Asian Monetary Fund Japan had proposed, and successfully negotiated with the US under the Clinton administration to join the WTO, the world trade organization.

Joining the WTO marked the beginning of the era of China's rise. In 2000, China was a quarter of Japanese economy in size. Ten years later, it surpassed Japan, thus fundamentally changing the distribution of wealth and power in this region. The US agreed to let China join the WTO in the belief that China's economic development would eventually steer China toward a market economy and democratization.

Under these changing circumstances, Japan's regional vision underwent significant revision.

In the wake of the East Asian economic crisis, there was a widespread resentment against the US intervention and the fact that the US seized on the crisis to impose structural reform on Korea, Thailand, Indonesia and Malaysia.

Now, many countries in the region saw the US as the risk they had to hedge. This was the most important reason ASEAN countries as well as Japan, China and Korea agreed to organize the ASEAN plus 3 summit and supported the idea of an East Asia community.

The crucial point of this community building lay in its name, namely East Asia, which by definition does not include the US and hence provides a convenient framework for regional cooperation without the US and if necessary discussing ways to hedge the risk of US intervention.

By the late 2000s, however, confident in its rising power and convinced of the realist nature of international politics, China had become really assertive in the South China Sea. It also dawned on many countries in this region that it was only a matter of time before China would surpass Japan as the economic giant in the region and also emerged as a military power.

ASEAN took the initiative and invited three more countries, Australia, New Zealand and India, to create another forum, the East Asia summit, along with the ASEAN plus 3, in 2005. Then, in 2011, ASEAN once again took the lead in inviting the US and Russia to the East Asia summit – which practically meant ASEAN plus 8 – and making East Asia almost synonymous with the Asia Pacific.

It is because ASEAN wanted and was successful until recently in serving as the hub for regional cooperation and because the framework was calibrated to hedge whatever risk the region, especially ASEAN, confronted.

As long as ASEAN was united, Southeast Asia could avoid becoming an arena for great-power rivalry.

Recent events, however, have shown that ASEAN is no longer united. China considers the South China Sea territorial issues as part of its core national interests, and insists on bilateral negotiations with Southeast Asian countries on South China Sea issues.

In the process, ASEAN unity has been undermined. China is also putting a lot of money in places that it considers most strategic – in Laos, Cambodia and Myanmar, as well as in Indonesia and Malaysia – for building highways, ports, dams, and power grids and developing mines and real estates

Confronted with the rising China, the US has also come to the conclusion that China is not likely to make the transition to a market democracy and that it is intent on creating its own sphere of influence.

The US therefore decided to rebalance its military power to put more emphasis on the Pacific and strengthen its security cooperation with many countries in the region.

Against the new superpower rivalry, ASEAN has not been effective, and has been drifting since the mid-2010s.

It is symptomatic that even though it was Indonesian President Susilo Bambang Yudhoyono who first used the term "Indo-Pacific" to propose a new framework for regional cooperation and underline the centrality of ASEAN in the region, the Indo-Pacific these days is more often used by four non-ASEAN powers of the US, Japan, Australia and India as the framework for security cooperation.

China is not part of this security framework, but it is not an attempt to contain China.

All the four countries as well as all the ASEAN countries and many others, I believe, agree that Indo Pacific should be free and open as great commons, even if China successfully builds its own sphere of influence in its continental vicinity.

Section 5: Japan's Role in the Future of Asia

It should be clear, then, how important Southeast Asia is strategically for Japan and why it is doing what it is doing.

Japanese are aware that China now far surpasses Japan in economic power, that resources available for China's economic cooperation, military build-up and technology investment are far larger than Japan's, and that China's economic and military prowess in due course will be translated into its expanding influence in Southeast Asia.

Japanese are also aware that domestic politics matters greatly in any country and that Americans have become too inward-looking and want their government to invest more in their own country than outside, even though the American military remains unrivalled.

Japanese are also aware that in this world of formal equality and informal hierarchy among sovereign states, no country in the region wants to be an island in China's Lake.

All the states in the region are engaged in a delicate balancing act between the current super power and the aspiring power. They seek to maintain their freedom of action.

Denying agency to small and middle powers in the region would be a huge mistake, even as these small and middle powers find their actions constrained by superpower rivalry.

This is the reason that Japan calls for a "free and open" Indo-Pacific.

Japan does not have power and resources to prevent China from creating its own sphere of influence in its vicinity, but it wants to ensure that Southeast Asia, which is vital to Japan both geopolitically and economically, remains free, that is, not to be dominated by any one outside power, and open to the world.

We should remember that ASEAN has long had a record of negotiating with more than one outside power to expand its own and its member countries' freedom of action.

Japan's Southeast Asia policy thus remains evolutionary.

Two ideas have informed Japan's foreign policy over many decades. One is to maintain and strengthen its alliance with the US as an anchor for regional peace and stability. The other

idea is to provide support to its neighbors' economic development, which is the key to the long-term stability and prosperity of the region and of course good for Japan too.

The instruments Japan has deployed to achieve these twin policy goals also remain evolutionary. Japan is doing its part to transform the US-led hub-and-spokes regional security system into a larger regional security network, promoting security cooperation with Australia and India and supporting the capacity-building of selective ASEAN countries.

Japan promotes economic cooperation through its FDIs and concessional loans for infrastructure-building, through the conclusion of FTAs and expansion of trade, and through the provision of technical assistance and investment in human resource development.

At the same time, Japan promotes cultural exchanges and seeks to establish relations of trust at all levels, both public and private.

What remains to be done – and this is the major challenge in the coming years – is to make cooperation mutual and reciprocal.

The days are gone when Japan was the economic giant in the region. In the coming decade, the ASEAN economies will surpass Japan in size, Southeast Asians will hopefully be predominantly middle-class, better-educated and tech-savvy and their business might be more innovative than Japanese.

In the coming years, Japan needs to enhance its security cooperation with Southeast Asia. Japan need investment from Southeast Asia.

Japan and Southeast Asia should both engage in mutual learning of innovative business models.

A free and open Southeast Asia will remain important strategically for Japan, the region, and the world. For this purpose, it is important and imperative for us to understand what the peoples of Southeast Asia and Japan want to achieve and figure out what we can do together and how we can go about working together.

Southeast Asia has been central to Japan, both geopolitically and economically.