6 Japan as a Regional Power in Asia

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6.1 Introduction

The main protagonists of the Cold War, the United States and the Soviet Union, both "lost" the war to two trading and welfare states, Japan and Germany, whose leaders learned similar lessons from their disastrous involvement in power politics in the first half of the twentieth century. Recent events in world politics have created historic changes in international politics comparable in this century only to the years 1917–22 and 1947–53. This paper argues that Japan's future role in the international system will be affected deeply by a political regionalism in Asia that will supplement rather than replace the U.S.-Japan relationship. Will that regionalism be constructed largely around bilateral political bargains involving Japan and its Asian neighbors? Or will these bilateral bargains be embedded in a set of multilateral regional and global arrangements that also include the United States? Drawn from the experiences of two Asian nations, Thailand and Indonesia, where issues of regionalism have gained salience in the 1980s, evidence presented in this paper suggests that the answer to the first question is negative while the answer to the second is positive.

Any interpretation of Japan as a regional power requires an examination of how its political system organizes and exercises power at home and abroad. This is an issue on which Japan specialists are deeply divided. A decade of charged political debate and dispassionate scholarly discourse has created a tenuous consensus that discards the two polar views that dominated discussion in the 1970s. Power in Japan is organized neither by a monolithic coalition of

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business and government, "Japan Inc.," nor by a pluralistic system of market competition. Instead during the last decade the various interpretations that specialists have advanced stress the interaction between state and market, politicians and bureaucrats, social movements and political organizations in what Richard Samuels has aptly called a system of "reciprocal consent" (Samuels 1987). This consent balances the autonomy of the state against its embeddedness in civil society.

The behavioral consequences of this distinctive interaction between state and society in domestic politics have differed for Japan's industrial and political structures as well as for its public policies. Since 1945 Japan has succeeded in remaking its industrial structure twice, a feat not approached by any of the other advanced industrial states. At the same time Japan has been governed by the same political party without interruption since 1955, a record of political longevity that makes it unique among the world's major democracies. The flexibility of its industrial structure and the inflexibility of its political structure converge in a set of adaptable public policies. Energy and public spending are good examples. These two issues posed serious challenges to Japan and other states in the 1970s and 1980s. Through a number of deliberate policy choices in the 1970s Japan succeeded in establishing a foundation for future economic growth without increasing energy consumption. Likewise in the 1980s it succeeded in curtailing dramatically its debilitating public deficit.

The behavioral consequences of the distinctive interaction between state and society for Japan's foreign affairs are also noteworthy. Japan's approach to other states is marked by a great flexibility in how it calculates its interest and by a great inflexibility in how it conceives of Japan's identity in a world of multiple norms. For example, Japan's vulnerabilities in importing food and raw materials give rise neither to an urge for autarchy nor to a master plan for the world. Japanese policy elites believe firmly that Japan's inherent vulnerabilities can be mitigated through clever maneuvers in markets—they cannot be avoided. Thus what matters to the Japanese is the construction of vulnerabilities for other countries in areas of Japanese strength, such as manufacturing and technology. To date Japan's international conduct is not governed by any grand vision but by a sustained effort to reduce the enormous vulnerabilities it faces through altering the political leverage it has over other political economies, such as those in Asia.

The 1980s have witnessed a massive shift in relative power between the United States and Japan—exemplified by the surge in both Japanese economic and technomilitary capabilities. And in Asia there are signs of a growing regional orientation fueled by greater economic interdependence and a relative decline in the U.S. economic position vis-à-vis the Japanese and the newly industrializing countries (NICs). Japan has recently surpassed the United States as the country with the greatest amount of total foreign direct investment (FDI) in Asia. And according to the Japan Foreign Trade Council, Asia overtook the United States as Japan's largest export market in 1991 (*Far Eastern*

Table 6.1 **Japan's Economic Relations with Asia (billions of dollars)**

Aid/Trade FDI, September 1986–April 1989			
Country	Aid	Trade	Investment
Thailand	1,307	26.5	1.81
Indonesia	1,433	48.26	1.72
Malaysia	777	29.49	.99
Philippines	1,364	13.30	.33
Singapore	—	36.93	2.35
South Korea	—	93.85	1.95
China	2,177	53.19	2.00
Taiwan	—	78.51	1.23

FDI in Asia, 1951–88

Country	Manufacturing	Resource Development	Commerce	Others	Total
ASEAN					
Thailand	1,456	38	416	82	1,992
Indonesia	2,955	6,441	400	8	9,804
Malaysia	1,350	179	294	11	1,834
Philippines	510	455	144	11	1,120
Singapore	1,990	5	1,744	73	3,182
NICs					
Hong Kong	492	33	5,515	127	6,167
South Korea	1,589	21	1,506	132	3,248
Taiwan	1,473	4	246	68	1,791
China	349	48	1,575	64	2,036
Rest of Asia	207	119	85	12	423
Total	12,371	7,343	11,925	588	32,227

Source: Far Eastern Economic Review, May 3, 1990 (MITI and Ministry of Finance).

Economic Review, July 25, 1991, 91). Much of this expansion in trade stems from the great increase in demand for Japanese capital goods in the wake of the rapid Japanese foreign investment expansion in Asia. Japan also provides more financial aid and loans to Asia than does the United States and is seeking an even greater role in the Asian Development Bank (Friedland 1988; Awanohara 1991b).

With the continuing strength of the Japanese economy and the revaluation of the yen after the signing of the 1985 Plaza Accord, Japanese investment has flooded into the ASEAN nations (table 6.1).[1] The accelerated pace of Japan's economic involvement in the ASEAN nations built on an already significant Japanese presence developed since the end of World War II. During the period 1969–81, for example, 48 percent of ASEAN's FDI was from Japan, and from 1972 to 1981 45 percent of aid to the region came from Japan ("Uneasy Neigh-

1. The ASEAN countries include Brunei, Indonesia, the Philippines, Malaysia, Thailand, and Singapore.

bors" 1983, 94). The importance of Japan as a source of technology, loans, and investment has grown even more dramatically over the past six years. The total amount of FDI in ASEAN originating from Japan between 1985 and 1989 was two times the total amount invested from 1951 to 1985 (do Rosario 1990, 48).

As this influx of capital continues, governments in the region are considering carefully the long-term implications of their relationship with Japan. Specifically, they are exploring whether and how their relationship with Japan can be managed, restructured, or expanded. On the one hand, Japan's increasing economic involvement in the region has been encouraged by almost all governments in Southeast Asia. There is no better proof of this encouragement than the liberalization of economies in the region and the extension of lucrative privileges to attract foreign investors for export promotion policies, as Richard Doner's chapter in this volume illustrates. Furthermore, many ASEAN countries have actively sought to emulate Japan's model of development in both the private and public sectors. Many Thai and Malaysian businesses have established trading companies, for example, and as Prime Minister Mahathir's recent proposal for a trading bloc excluding the United States suggests, some ASEAN politicians and bureaucrats are interested in even greater ties to Japan.[2]

At the same time as ASEAN leaders observe a growing dependence on their northern neighbor, there is apprehension concerning their future relationship with Japan. The ASEAN nations have witnessed the winding-down of the Cold War in Europe and are uneasy about the potential unraveling of U.S.-Japanese security arrangements, a fear that has rekindled memories of the wartime Greater East Asia Co-prosperity Sphere.[3] Some countries view economic integration in Europe and America with growing trepidation, for it is difficult to envision a counterweight to Japanese power in Asia, were an Asian trading bloc to emerge in the near future. Most ASEAN nations depend heavily on the United States and Europe for export markets, and ASEAN alone neither generates significant internal trade nor provides adequate leverage against a Japan playing the role of "regional hegemon." The total GNP of the ASEAN nations is less than 10 percent of Japan's, and significant economic cooperation among the six countries is virtually nonexistent. To date ASEAN remains largely a political grouping with limited success in fostering industrial and

2. See Machado (1987). In the early 1980s Mahathir, irked that large neon signs of Japanese companies spoiled the view from his governmental palace, requested that the signs be turned off at night. After criminal activity increased sharply, however, he requested that the advertisements be relit. This is a small but revealing example of ASEAN dependence on Japan.

3. In Japan the right-wing nationalist Shintaro Ishihara openly talks of the recreation of the Dai Toa Kyoei-ken, the Greater East Asia Co-prosperity Sphere. In the 1991 July cover story of the Japanese journal *Sansarra* he writes: "Japan is now qualified to revive its global ideal, the Greater East Asia Co-Prosperity Sphere, which had no chance before the War." He argues that Japan "has no need to have a military presence in Southeast Asia." If other Asian countries resist Japan's leadership, "there are other ways to make them realize the consequences." For example, "We can cut off the flow of technology." See Doi and Willenson (1991, 6).

commercial cooperation. The January 1992 signing of an agreement to create an ASEAN free trade area over the next fifteen years represents one of the first significant steps toward greater economic cooperation. At present it remains much more of an ideal than a reality.[4]

This paper seeks to understand Japan's role as a regional power in Asia by analyzing Thailand's and Indonesia's policy toward Japan in section 6.2, examining Japan's role in the development of Thai and Indonesian infrastructure in section 6.3, and drawing some conclusions in section 6.4.

6.2 Thai and Indonesia Policy toward Japan

6.2.1 Case Selection

Within ASEAN, Thailand and Indonesia offer important test cases for the study of the emerging political and economic contours of Japanese-led regionalism. By observing the recent policies these countries have adopted to deal with Japan, it is possible to explore the present and future dimensions of Japan's role in Asia. A focus on Thailand and Indonesia is useful in several respects. Japan has historically been interested in both nations for markets and natural resources such as oil. It colonized or indirectly ruled both countries during World War II. Japan's continuing interest in both political economies, furthermore, is demonstrated by the fact that Indonesia presently receives a greater share of Japanese foreign aid than does any other nation in the world (approximately 11 percent of Japan's bilateral aid) and is a top destination for Japanese capital in Asia (Schwarz 1990). Thailand is the fourth largest recipient of Japanese aid and has received substantially increased amounts of Japanese manufacturing investment since 1985. Both countries are important strategically to Japan. Indonesia supplies Japan with 13 percent of its crude oil imports and 53 percent of its natural gas. The rest of Japan's oil imports pass through Indonesian waters. Because of its growing economy and its position in mainland politics, Thailand is viewed by the Japanese as the rising star among the ASEAN nations.[5] Both countries offer Japanese businesses large and growing

4. Proposals for a free trade zone among the ASEAN states have been justified to the public largely as a means of attracting greater foreign investment. The prime minister of Thailand, Anand Panyarachun, whose proposal was adopted January 28, 1992, has stated that "Japan, the U.S. and the E. C. would be more interested in investment following formation of a free trade area which would create a larger market" (*Nation*, August 3, 1991, B8). The new trade accord allows numerous loopholes that exempt hundreds of products from the proposed tariff reductions.

5. The recent progress toward a peace settlement in Cambodia and the liberal investment climates that have been created by the Laotian and Vietnamese versions of *perestroika* have led to a great expansion in the trade and investment opportunities in all three countries. The Thais hope that they will be well placed to take advantage of these new opportunities by serving as a partner to East Asian investors. Thailand's greatest fear is that Japan may move directly into Vietnam, especially if the United States–led embargo is lifted. There are growing indications that Japanese business is already dealing directly with Vietnam without using Thais as middlemen. Reportedly Japan is importing 80 percent of Vietnam's crude oil and has opened unofficial trade offices in Saigon and Hanoi. See Shenon (1992).

Table 6.2 **Country Profiles, Thailand and Indonesia**

	Thailand	Indonesia
Population (million)	56	178
Population growth rate (%)	2	2.1
Land area (square km)	514,000	1,919,443
GDP (US$ billions 1989)	66.2	95.59
Per capita GDP (US$)	1,180	504
GDP growth rate (% per annum)		
1971–80 (average)	9.9	7.9
1981	6.3	7.9
1982	4.1	2.2
1983	7.3	4.2
1984	7.1	6.7
1985	3.5	2.5
1986	4.5	5.9
1987	8.4	4.8
1988	12.0	5.7
1989	10.8	6.5
1990 (estimated)	9.9	6.4

Sources: Asian Business, February–March 1990; Asian Development Bank (1990).

markets—Indonesia with 178 million inhabitants, and Thailand with 56 million, with per capita incomes at US$504 and US$1,180, respectively (table 6.2). Japanese officials and businessmen have a clearly demonstrated interest in expanding their influence in these nations.

At the same time, these two countries are economically far behind Japan, and the amounts of aid and investment they are receiving from Japan are proportionally highly significant for the regimes of both countries. Thailand's GDP is 2 percent of Japan's, and Indonesia's is just under 3 percent. If, as some analysts suggest, the region is witnessing the emergence of a closed economic grouping (whether intentional or not), then it should be most evident among these dependent economies. In this regard Thailand and Indonesia can be viewed as important test cases for the hypothesis that Asia is an emerging, closed bloc. If there are few signs that these two smaller economies are trying to create, or are being drawn into, a closed bloc arrangement, however, this would cast doubt on the hypothesis of a trend toward a closed economic regionalism in Asia.

A focus on Thailand and Indonesia, specifically, is useful in that both countries differ significantly in their geopolitical position, their domestic political systems, and their historical relationship with Japan. Yet both are presently confronted with the same external stimulus: a semicooperative Japanese government-business endeavor to promote and expand Japan's economic and political presence within both countries, particularly in the area of infrastructure investment.

Examined in detail in section 6.3, infrastructure development policy is crucial for several reasons. First, it presents the clearest bottleneck so far to further Japanese investment in both countries. Hence it is an impediment to further regional integration. Second, the solution to these bottlenecks involves more explicitly political rather than market arrangements. The provision of infrastructure is closely tied to the political patronage systems in both Thailand and Indonesia. Japanese officials and businessmen are drawn into a political space held by the military, bureaucrats, politicians, and others. Many Thai and Indonesian officials have various political reasons for keeping infrastructure procurement the way it has been—disastrous in terms of efficiency, but savvy in terms of the calculus of power. In short, Japanese attempts to promote infrastructure improvement, as outlined, for example, in MITI's 1987 New Asian Industries Development Plan (New Aid Plan), represent the best example to date of expressly political attempts by outsiders to influence domestic politics for the purpose of promoting greater economic integration in Asia. A fundamental question then is the extent to which Japanese government and business officials are attempting to remold these two countries to suit their own purposes, and the extent to which Japanese initiatives are being modified by, or are seen as compatible or incompatible with, the interests of these two important regional actors.

6.2.2 Thai and Indonesian Policy toward Japan.

Thailand's and Indonesia's responses to Japan over the last six years reveal some important similarities. They support the thesis that Japan is exerting increasing political and economic influence in both countries. Despite differing historical legacies at the hands of the Japanese—the former Dutch East Indies were colonized during World War II, while Thai leaders formed a tenuous alliance with Japan—and important differences in domestic political and economic structures—Thailand's political economy is considerably more market-oriented than Indonesia's—both countries have moved steadily to clear obstacles and provide incentives for dramatic increases in the levels of Japanese investment for export manufacturing. Japanese foreign investment in both Thailand and Indonesia now exceeds U.S. totals, and the Japanese far outstrip foreign investments in manufacturing by other countries (Sanger 1991b). Japanese businesses in both countries, largely through joint ventures with local partners, have created a crucial presence in sectors such as textiles, automobiles, and electronics (Doner 1991). Why have both countries been so willing to open the doors to a flood of foreign, particularly Japanese, investment? A brief review of foreign investment in Indonesia and Thailand helps in answering this question.

In the early 1960s both Thailand and Indonesia pursued import substitution policies with the participation of multinational corporations. Supply-side limitations on private international credit helped to create import-substitution strategies in much of the Third World, Thailand and Indonesia included. The fact that access to international capital could be obtained only through multinational enterprises (MNEs) or development assistance required difficult choices as to the source of funds.

In Indonesia during the early 1960s Sukarno had largely repudiated both MNEs and foreign aid as sources of capital. Hyperinflationary economic policies, combined with a military buildup and conflict with Malaysia, however, helped precipitate the coup of 1965, which brought Suharto and the military to power. Suharto reversed many of Sukarno's policies in his New Order, including those concerning foreign investment and acceptance of development assistance (Anderson 1990). It was during the late 1960s that the Japanese established a growing presence both as investors behind high tariff walls and as foreign contributors to the Intergovernmental Group on Indonesia (IGGI), which provides Indonesia with an annual block of foreign aid.[6] In 1974 a growing perception that Japanese business was coming to dominate the Indonesian economy caused anti-Japanese riots in Jakarta.[7] Between 1974 and 1984 the economy grew at an annual rate of 7 percent, largely as a result of Indonesia's emergence during this period as a major exporter of oil and gas (Carey 1987). Much of the revenues obtained from the rise of oil prices in the 1970s funded government development projects such as the establishment of a shipbuilding and avionics industry as well as oil refineries and petrochemical plants.

When the price of oil collapsed in 1983, however, the Indonesian government faced a financial crisis, which it sought to stem by unraveling its import substitution strategies and by relying more heavily on foreign investors, particularly the Japanese. Until 1983 the government had relied on sales of oil for roughly 60 percent of its revenue and 70 percent of the country's foreign exchange. Faced with the loss of this revenue the government was forced to turn elsewhere for development capital. Suharto began borrowing heavily from foreign sources, mostly Japanese. Indonesia's foreign debt increased from US$27 billion in 1982 to US$51 billion in 1989 as a result of borrowing to meet the requirements of financing public development plans and restructuring the economy.[8] It was with the purpose of assisting the Indonesian government in its efforts at privatization that the Japanese government announced an aid package amounting to US$2.3 billion at the end of 1988. It included for the first time "special assistance," that is, quick disbursing loans and program aid (Edamura 1989).

As a result of its increasing debt burden and the continuing low price of oil on world markets, however, Indonesia has been forced to earn foreign ex-

6. The donor consortium, IGGI, provided the government with U.S.$4.75 billion in FY 1991. The Japanese, in this year as in the recent past, provided approximately half to two-thirds of this total. It is also important to note that the Japanese government has never attempted to change this multilateral aid consortium. And it has allowed the United States to retain significant influence over economic policy through the World Bank even when U.S. donations to IGGI have stagnated.

7. Another important target of the riots was a faction inside the Suharto regime, which could not be opposed directly.

8. The appreciation of the yen after 1985 and the devaluation of the rupiah also eroded Indonesia's foreign debt position.

change through other means. One of the few ways of obtaining scarce foreign currency has been Indonesia's increasing reliance on foreign investments for purposes of export promotion. Over the last ten years the Indonesian government has cleared away many tariff barriers. And it has actively promoted new foreign investment for export purposes while encouraging established MNEs to begin production for export (Hadiputranto 1988). For many segments of society the policy has met with considerable success. Nonoil exports have grown at 26 percent per year since 1983, and nonoil manufacturing has been growing at more than 12 percent per year ("Suharto and the Reins of Power" 1990, 38). But Indonesia's ability to get its economy back on track has come at the price of increased dependence on foreign investment, particularly Japanese. Indonesia's need for greater foreign investment to jump start its export industry coincided, especially after the 1985 revaluation of the yen, with the Japanese desire to provide capital. By the end of 1990 the Japanese had invested heavily in numerous sectors, with chemicals having received the most investment followed by banking, auto parts, machinery, and electrical goods (Tachiki 1990, 3). Without foreign investors interested in producing for export, it is fair to say that Indonesia today might not have achieved its recent high levels of growth.

A brief examination of Thailand's recent political-economic history, and foreign investment more generally, suggests a similar structure of incentives and constraints. Like Indonesia, Thailand adopted policies of import substitution in the early 1960s. When General Sarit obtained full authority over the government in his 1958 coup, he reversed previous policies of nationalizing various sectors of the economy. In a move to cut back on foreign imports he raised tariffs while welcoming the investment of multinationals. Many foreign companies and local businesses applauded these policies: the government guaranteed that it would neither nationalize companies at some future date nor compete with the MNEs through state-run firms (Baldwin 1988, 109).

More than 50 percent of the MNEs in Thailand were established between 1963 and 1972 (Hewison 1987, 56). Japanese automobile companies that had formerly exported cars to the Thai market, for example, linked up with local companies to build assembly plants behind new tariff walls. Similar investment took place in textiles. During this period most of the foreign investment capital—besides that of the MNEs—came to Thailand in the form of World Bank loans as well as grants and military aid from the U.S. government (Suehiro 1989, 82–83). As in Indonesia, the early 1970s were a period of public demonstrations against the growing Japanese presence in the economy. In November 1972 Thai students with the support of some politicians organized a boycott of Japanese goods to protest the continuing imbalance of trade between the two countries. Though the boycott itself was unsuccessful, the Japanese government introduced a new, lower–interest rate loan program, which it also extended to other nations in Asia (Sueo 1988, 221). Thailand's balance-of-payments problem, however, has persisted since the 1970s.

While retaining in some areas a policy of import substitution, in the 1970s Thailand's policymakers began to move the economy toward a more export-oriented development strategy.[9] This shift arose in part from the saturation of the domestic markets. More important, the change in policy was a response to the oil shocks of the 1970s. A net importer of oil, Thailand found itself—unlike Indonesia during this period—with growing trade imbalances and increasing public deficits. With the worldwide increases in private loans through the recycling of petrodollars, however, Thailand was able to borrow funds to cover these deficits. As Thailand's debt service ratio began to climb precipitously after the second oil shock of 1979, the Thai government was pressured by the World Bank and the International Monetary Fund (IMF) to initiate austerity measures (Hewison 1987, 75). Under austerity, massive public service programs were postponed and state-operated organizations, which in 1985 accounted for one-half of the government's foreign debt, were forced to restructure. Privatization of several of these organizations began,and public-private joint ventures were encouraged in several other cases.

Thailand cleared the way for export promotion almost a decade before Indonesia. But in an attempt to attract greater amounts of foreign investment, the government improved incentives for MNEs even further after 1986 (Rainat 1988, 32). As in the case of Indonesia, and for similar reasons, Japanese investment has become crucial to the success of Thailand's export promotion over the last six years. Thailand has been able to reduce its foreign debt substantially, and its rate of industrialization has accelerated. Profits from manufactured exports have overtaken those earned traditionally from the export of rice. Thailand's GDP growth rate over the last several years has been among the highest in the world. As in the case of Indonesia, Japanese investment and Thailand's policy toward it must be credited with much of the success of the economy during the late 1980s. Analysts claim that Japanese investment since 1986 accounts for at least 1.5 percent of the annual increase in Thailand's GNP (Tasker 1990, 49).

This brief overview of recent Thai and Indonesian economic development lends support to the hypothesis that Japan has indeed been acting as a regional economic hegemon, and that both countries have willingly supported this role. In reaction to the vagaries of the international marketplace, both Thailand and Indonesia have chosen to rely on the export interests and capabilities of mostly Japanese business to support their own as well as Japanese export promotion policies. While recent policies provide evidence that both governments have actively sought to encourage Japanese investment, there are indications that the nature of Thailand's and Indonesia's relationship with Japan may be undergoing important changes, calling into question Japan's role in further economic integration in Asia.

9. This change in strategy is reflected in the third economic plan for 1972–76. High tariff barriers still protect many agricultural products, textiles, and leather goods.

Direction-of-trade statistics for both countries, for example, indicate that for the past thirty years Thailand has become steadily *less* dependent on Japan for its imports and exports while Indonesia has become more dependent (table 6.3). Japan now accounts for a little more than one-tenth of Thailand's export and import markets, whereas Indonesia has become dependent on Japan for one-quarter of its imports and two-fifths of its exports. Thailand has been very successful in diversifying its imports and exports to other developing countries, thus alleviating to some extent its dependence on Japan. On the other hand, because of its oil assets Indonesia has consistently run trade surpluses with Japan. Trading relations have been largely devoid of friction because of Japan's willingness to accept this imbalance. In contrast, approximately 70–80 percent of Thailand's trade deficit over the last several years, compared with the 10 percent of Thailand's trade with Japan, has been with Japan ("Cracks Begin to Develop" 1990). Thus trading relations between Thailand and Japan have become increasingly strained, as the Thai government perceives Japanese reluctance to open domestic markets to Thai rice and manufacturing exports. In this trade dispute the Thais have actively supported U.S. efforts to open Japanese markets. Other analysts and government officials, however, accept this trade imbalance. They point to the fact that most of Thailand's Japanese imports are capital goods, which contribute to the overall industrialization of the country.

In the area of debt Thailand has been quite successful in reducing its external vulnerability, whereas Indonesia's dependence—particularly on the Japa-

Table 6.3 **Geographical Composition of Trade, Thailand and Indonesia**

	Exports		Imports	
Country	1963	1988	1963	1988
	Thailand			
Developed Countries	43.5	62.4	83.5	55.5
Japan	18.1	15.9	32.9	11.7
Western Europe	17.7	22.7	30.8	22.9
United States	7.4	20.0	17.5	16.9
Developing Countries	55.6	36.3	15.6	41.6
East Asian NICs	19.4	15.5	6.1	19.3
Other ASEAN-Four	25.7	3.9	6.9	4.8
	Indonesia			
Developed Countries	68.6	71.4	68.2	67.8
Japan	8.5	41.7	10.5	25.4
Western Europe	35.0	11.3	24.3	22.4
United States	15.8	16.2	33.1	12.9
Developing Countries	25.0	27.8	24.6	30.8
East Asian NICs	0.6	20.5	9.2	18.7
Other ASEAN-Four	15.7	2.2	7.7	3.2

Source: Adapted from Noland (1990).

nese—remains very large. Thailand has succeeded in lowering its foreign debt service ratio from 22.3 percent in 1986 to 16.2 percent in 1990 (Asian Development Bank 1990, 245). One-third of Indonesia's US$41 billion debt is held by Japanese creditors. This places Indonesia (and Tokyo bankers) in a vulnerable position (Schwarz 1990, 56). Indonesia's foreign debt service ratio has declined from 43.7 percent in 1988 to 35 percent in 1990, but even this rate is well above the 20 percent level the World Bank deems manageable.

Foreign investment is another area in which the two governments' relationship with Japan may be changing. The East Asian economic boom has led to increased interest on the part of the NICs in investing in Thailand and Indonesia. As a result of some of the same pressures driving the Japanese offshore, South Korea, Singapore, Taiwan, and Hong Kong have recently become major investors in both nations.[10] This investment lends support to the notion of a growing regionalism in Asia. In the long run, furthermore, it may free the hands of both the Thai and Indonesian governments. Fearful of becoming overly dependent on the Japanese, other Asian economies may provide alternative sources of investment and technology. The fear that the Japanese are obtaining too much leverage in Thailand has recently led the Thai Board of Investment (BOI) to a shift in policy away from a continued reliance on Japanese business and toward the active promotion of other pools of investment capital in Taiwan, South Korea, and Hong Kong (Handley 1991, 43). The Indonesian government at present is continuing to seek Japanese investment. But it has also begun to look for greater investment from other NICs and the United States (Mann 1990). Both countries are also actively encouraging technology transfers from the United States and the NICs, an area where leaders feel the Japanese have been remiss. Although the Thais may be attempting to gradually redirect investment sources away from Japan, such a shift may prove difficult. Because of Thailand's relatively liberal investment climate and relatively pluralistic political system, Japanese MNEs will be able to pursue their interests with comparatively greater freedom and less bureaucratic oversight than they have in Indonesia. The ability of Japanese investors to circumvent laws on foreign ownership of property in Thailand is but one example of this freedom (Sricharatchanya 1987).

It is difficult to characterize with certainty the future direction of Thailand and Indonesia's relationship with Japan. Although with the encouragement of governments the Japanese have established a crucial presence in certain sectors of both economies, there are signs that both countries are becoming aware of the perceived pitfalls of too heavy a reliance on their northern neighbor. At the same time Thailand and Indonesia are operating under various constraints. The

10. For a further discussion of NIC investment in Southeast Asia see "Give Me Your Huddled Hongkongers" (1989) and "ASEAN Prospects for Foreign Investment" (1990). At the end of 1989 Hong Kong and Taiwan had invested a total of US$3.7 billion in Indonesia compared to Japan's US$6.5 billion (Mann 1990). The investment ratios for Thailand are comparable.

need to export to service debts is very strong. And increasing technological dependence in a fiercely competitive global marketplace will also limit their room to maneuver.

6.3 Japanese Role in Thai and Indonesian Infrastructure Development

Arguably one of the most important policy issues likely to shape the two countries' relationship with Japan over the next several years is the area of infrastructure development. While the pace of Japanese investment in Southeast Asia has grown tremendously over the last five years, there are signs that it may be tapering off. In 1990 Indonesia continued to receive a positive increase in the amount of Japanese investment, but Thailand showed no increase over the previous year. Investment applications during the first four months of 1991 in Thailand were down 40 percent (*Bangkok Post,* July 25, 1991, 16). One important reason for this slowdown is the inability of Thai and Indonesian infrastructures to support a continuation in the volume of Japanese investment. Foreign investors report that the main impediment to further investment in both countries is infrastructural bottlenecks in communications, transport (roads, ports), and services ("Looking at Indonesia's Business Opportunities" 1990; Rim 1989). As recent accounts of the current situation in Eastern Europe indicate, it is very difficult to attract large foreign investment where infrastructural systems are inadequate. How the governments of Thailand and Indonesia deal with these problems will have a crucial impact on the future of Asian regionalism.

In the late 1980s the Japanese stepped up their attempts to alleviate infrastructural bottlenecks in Thailand and Indonesia, as well as in other Asian economies. This move supports the view that Japan has significant long-term interests in these countries and in Asian regionalism more generally. Japan pledged to distribute US$50 billion over a five-year period ending March 31, 1993. Thus far it has disbursed almost half this sum, mostly to Asian nations (Awanohara 1991a, 45). Much of this aid has supported major infrastructural projects aimed at alleviating serious deficiencies in communications, transport, and power-generating capacity in countries receiving Japanese technology transfers and investment ("Japan's Drive into Asia" 1989, 51).

More concretely, in January 1987 MITI unveiled in Bangkok a program known as the New Aid Plan, dealing specifically with the issue of infrastructural difficulties in Asia and their relation to the developmental needs of Japanese industry and the restructuring of the Japanese economy in general (Brown 1991). The program is an attempt to relocate selected Japanese businesses to Southeast Asia through loans and technical assistance to governments. These loans will be used for the improvement of infrastructure, including industrial estates, ports, and improved telecommunication services. The New Aid Plan reflects MITI's view that Japan must be prepared to meet the double challenge of the world's continuing drive toward globalization and Japan's need to move to higher value-added production ("Yen Bloc Survey" 1989; Sricharatchanya 1987). Various Japanese agencies, most importantly MITI, the Overseas Economic Cooperation Fund (OECF), and the Ministry of Foreign Affairs, are attempting (with apparently significant interministerial conflict) to coordinate different aspects of this plan, the details of which are negotiated bilaterally with each government.

The New Aid Plan envisages four stages. First, Japanese loans support the development of roads, ports, and other infrastructural supports. Second, the Japanese government sends technical experts to assist in coordinating industrial plans for each country. Third, Japanese loans are extended to various industries within participating countries. Finally, Japanese bureaucrats and businessmen take steps to facilitate access to Japanese markets and to ensure the distribution of products imported from offshore factories to Japan (Wysocki 1991). In short, the plan suggests that Japanese business and government elites view ASEAN (and the NICs) as one economy, requiring a comprehensive perspective on aid, trade, and investment. The provision of the necessary infrastructure, as one part of this plan, will serve the interests of Japanese companies and promote economic growth in Asia. The program is in some ways a continuation of previous Japanese policies toward Southeast Asia that focused on developing markets for Japanese goods and securing natural resources for Japanese industry. But the goals of the New Aid Plan depart significantly from past policies in emphasizing the extent to which the Japanese are seeking to take on a more prominent role in regional economic integration.[11]

Japanese bureaucrats have thus mapped out a comprehensive strategy for the future. But it is far less certain whether this plan will be heeded by Japanese business, and how it will be received in Bangkok and Jakarta. The Thai government agreed in 1988 to work with the New Aid Plan and established a joint steering committee with Japanese officials and businessmen to map out a future program of industrialization ("Yen Bloc Survey" 1989, 13). Several Japanese bureaucrats are presently working side by side with planners in Thai government ministries, and various agencies are attempting to coordinate these activities. The Indonesians have yet to formally sign on, but there is both pressure from the Japanese and interest from some sectors of the Indonesian government.

The implementation of the New Aid Plan will undoubtedly be affected by Japan's Overseas Development Assistance (ODA). It is often argued that Japanese aid cannot further larger Japanese objectives favoring business since aid typically is made on the "request principle." It dates back to the early postwar period, when the Japanese government paid reparations to Indonesia and other

11. U.S. aid agencies have responded to the New Aid Plan by altering their own policies. They now extend more mixed credits to four countries—Thailand, Indonesia, the Philippines, and Pakistan—in which they perceive markets for infrastructure development to be "spoiled" by the mixed credit advantages extended by Japanese aid agencies to Japanese firms. See Awanohara (1991a).

Asian nations for projects that were specifically requested by the governments (Kunihiro 1990). This policy continues today. Nevertheless, what governments in both Thailand and Indonesia request from Japanese aid officials often coincides fortuitously with the needs of Japanese multinationals on whom these same governments depend for tax revenues and technology transfers. An extremely small and powerful number of indigenous business conglomerates dominate the economies in both Thailand and Indonesia.[12] These conglomerates wield enormous power over government and are partners with numerous Japanese multinationals (Kunio 1988; Phongpaichit 1990; Suehiro 1989). They have a direct stake in getting governments to push through requests congenial to the interests they share with their Japanese business partners. Moreover, through personal networks Japanese partners are often able to steer through the intricacies of Japanese ODA procedures with considerable ease.

Thus it should come as no surprise, for example, that much of the recent Japanese ODA has gone to the alleviation of traffic congestion in Bangkok and Jakarta where Japanese auto assemblers dominate the market. Loans for the alleviation of rural poverty, on the other hand, are infrequent. The fact that the projects requested happen to benefit Japanese subsidiaries and their comparatively wealthy, car-driving customers is no coincidence. It is likely that Thailand and Indonesia would refuse to accept aid if the Japanese designated the use to which it should be put. Nevertheless, the explanation that aid is "requested" must be interpreted within the context of transnational coalitions of powerful business interests. Indeed, the Japan Federation of Economic Organizations (Keidanren) continually promotes a growing role for the private sector—both in Japan and abroad—in determining the developmental needs of ODA recipients. It implicitly acknowledges this pattern of "request" assistance and decries the lack of "efficiency" in some of the development projects carried out by the Japanese government.

> The Japanese government has extended its assistance in the building of industrial infrastructure, such as electric power, telecommunications, roads, railways, and port facilities. However, we believe that the scope of such assistance should be extended to areas that will support industrial modernization, such as information processing, in line with the development needs of the recipient countries. . . . Efforts to encourage private-sector investment and lending should emphasize the development of an improved investment environment in the recipient countries. This includes such areas as infrastructure development, privatization, improved legislative frameworks, protection of intellectual property rights and tax incentives. (Keizai Koho Center 1988)

12. The one major difference, however, is that in Thailand the economy is dominated by a Sino-Thai bourgeoisie with political power (through parties), whereas in Indonesia the private sector, which is smaller than the state sector, is dominated by Sino-Indonesians dependent on Suharto and his generals for power and protection.

But nowhere in this four-page brief is there mention of rural or urban poverty.

The extent to which the Thais and Indonesians are welcoming Japanese involvement in their infrastructure improvement via the "request principle" reveals the extent to which Japan will succeed in creating greater regional and economic integration. However, infrastructure development such as construction of ports, industrial estates, and telecommunication services involves sectors of the economy that, by their very nature, are close to the core of state sovereignty and political patronage. They typically resist the kind of intrusive interventions of local and foreign planners alike. The provision and care of infrastructure in both Thailand and Indonesia are handled by state-run agencies, which are typically intertwined with patronage networks and the military. This adds a highly political element to efforts for improving economic infrastructures. Elites and political coalitions in both countries are increasingly divided between the need to privatize and deregulate these agencies to improve their country's infrastructure on the one hand, and a desire to hold on to them for political reasons on the other. There is also uncertainty as to whether privatization is indeed the best means for upgrading infrastructure. And the issue of who wins and who loses under privatized infrastructural agreements continues to vex policymakers. The hard truth remains, however, that the high growth rates Thailand and Indonesia have enjoyed during the last decade, and on which military regimes have staked their claim to legitimacy, will increasingly hinge on their ability to improve infrastructure. How and whether infrastructure is upgraded will in turn influence the Japanese success in carrying out the New Aid Plan and its goal of inducing further Japanese investment in Southeast Asia.

Any analysis of the New Aid Plan must examine whether the intended results of the plan are achieved and the means by which such ends are sought. In many cases the provision of infrastructure for the benefit of Japanese multinationals is more important than the means by which it is provided. It is thus possible to view Japanese policies as successful even if Japanese contractors are not part of the actual building of roads and ports and the improvement of telecommunication services. A related issue is whether Japanese firms are allowed to participate in the design and building of infrastructure, a lucrative business considering the large sums budgeted recently for infrastructure investment in both Thailand and Indonesia. Japanese participation in the construction of roads, ports, and industrial estates is as notable as Japanese involvement in the upgrading of antiquated telecommunication services.

Evidence from Thailand suggests that the Japanese have met with some success both in creating the types of infrastructures that will benefit Japanese multinationals and their partners, and in obtaining large contracts for Japanese companies for building such infrastructure. Roughly 70 percent of Thailand's ODA comes from Japan. And since the early 1980s, following OECF funding guidelines, grant and aid loans have been used almost exclusively for heavy infrastructure planning and development (Handley 1990a). With the exception of several irrigation projects in the north, most of these projects are concentrated in and around Bangkok; the northeast, Thailand's poorest region, has received little Japanese ODA (Thaitawat 1991). The new Eastern Seaboard Project, a combination port, railroad, and industrial facility—designed to shift investment away from congested Bangkok—has been the most significant Japanese ODA project. It is financed by soft loans from the OECF and built by Japanese contractors with the assistance of the Japan International Cooperation Agency (JICA; Handley 1988, 69). The project makes use of plentiful supplies of natural gas, recently discovered in the Gulf of Thailand. It will provide cheap energy to those businesses relocating to new industrial parks. Energy-intensive Japanese businesses—particularly those that might produce potentially dangerous environmental waste that would be intolerable in Japan[13]—are being encouraged by both the Japanese and Thai governments to relocate to the new production site. One such project is a rare instance of successful economic cooperation among the ASEAN nations. It involves a potash plant, funded by the ASEAN governments and Japanese ODA, utilizing the facilities of the Eastern Seaboard Project. A second huge industrial project, the Southern Seaboard Development Programme, centers on a plan to create a pipeline system across the Kra Peninsula through which oil could be transported overland instead of being shipped through the Strait of Malacca. The oil would be refined in one of the two ports on either side of the pipeline before being sent to other Asian countries. Proposed by JICA, it is being designed by a consortium of engineering firms with a loan from the World Bank (Bangkok Bank 1991).

After a delay of several months following the February 1991 coup in Thailand, the four government agencies responsible for Japanese ODA, the Ministry of Foreign Affairs, the Ministry of Finance, MITI, and the Economic Planning Agency, approved an OECF funding package worth 84.7 billion yen (US$685 million) for infrastructural development in Thailand for 1992. The bulk of this aid is earmarked for infrastructural projects in and around the Bangkok area, such as viaducts on various trunk roads to alleviate the city's traffic problems ("Tokyo Grants Aid to Thailand" 1991). The Thai government allocated upward of US$7.3 billion for infrastructure in 1991 ("Cracks Begin to Develop" 1990). These numbers show that Japanese funds account for about one-tenth of Thailand's total infrastructure investment.

In recent years there have been major problems with many of the projects in Bangkok, due largely to a lack of coordination among the various roads and mass transit projects as well as interministerial conflicts. In an effort to privatize the provision of infrastructure, many of the contracts were awarded

13. With the unveiling of Japan's "Green Aid Program," to be headquartered in Bangkok, the Japanese have attempted to counter criticism that they are exporting the cost of pollution by setting up multinational operations of energy-intensive production in Southeast Asia. The ODA program will grant aid totaling 750 million yen to Thailand for 1992 to fight industrial pollutants. The five-year program will provide US$15 billion to Japanese ODA recipients. See "Tokyo Grants Aid to Thailand" (1991).

to private firms under the democratically elected Chatchai administration (1988–91). This circumvented the various public agencies charged with infrastructure development as well as the public sector labor unions, which opposed privatization. A political base of the military since the 1976 coup, these unions probably had the support of the military, which feared an erosion in its power because of these privatization schemes. Prime Minister Chatchai was ousted in 1991 by the military on charges that he had received kickbacks from the awarding of large infrastructure contracts to private industry. In the wake of the coup, and with the appointment of former diplomat Anand Panyarchun as prime minister by the military, many contracts for infrastructure development were renegotiated. However, public sector unions were abolished, clearing the way for an even brisker pace for privatization in the provision of infrastructure, in coordination with the government. Apparently even the military has realized the crucial importance of upgrading Thailand's infrastructure for continued economic development.

The lack of coordination arising from Chatchai's rapid privatization of infrastructure, without any government planning and regulation, suggests that the market may not be the best system for upgrading infrastructure. The recent return to greater state supervision over the planning of infrastructure is a hallmark of the new military government's first year in power. Prime Minister Anand has focused much of his energies on coordinating and renegotiating infrastructure contracts and attempting to root out the corruption blamed for the woeful state of Thailand's infrastructure. Japanese willingness to extend huge loans for infrastructure development so soon after the coup—when other countries, notably the United States, have frozen aid contingent on steps toward the restoration of democracy—gives tacit approval to the military government's approach to the alleviation of infrastructural bottlenecks.

Another important issue concerning infrastructural development is the question of who actually provides for its upgrading. There are presently more than seventy-two Japanese contracting companies in Thailand. With the continual opening of the door to foreign investment since the 1960s, Japanese contractors and engineering consultants have gained a reasonable share (2–4 percent) of the construction market, particularly for large projects such as the Eastern Seaboard Project. Japanese firms often form joint ventures with Thai partners, but they also operate on their own. Recently, however, due largely to a report published in 1988 by the Institute for Developing Economies concerning Japanese ODA and the construction industry, local developers and some politicians and bureaucrats have challenged the tying of Japanese aid for infrastructure to Japanese contractors (Chittiwatanapong, Karasudhi, and Itoga 1989). At an international conference on Japan's ODA held in Bangkok in March 1991, Yochi Aki, the OECF chief representative in Bangkok, refuted the notion of tied aid. He noted that the Japanese government-business relationship was no longer that close, and he cited statistics that showed that Japanese companies' worldwide share of projects funded by loans denominated in yen declined from a high of 67 percent in 1986 to 55 percent in 1987, and to 38 percent in 1989 (Thaitawat 1991). In addition, Aki pointed out that by law the Thai government is obligated to accept the lowest bid for government projects, a stipulation that consistently favors Japanese contractors with easier access to low–interest rate financing ("Cracks Begin to Develop" 1990).

Nevertheless, the perception of Japanese dominance in the construction industry, particularly in large and highly visible projects, has sparked attempts to diversify foreign project funding from the Japanese to more multilateral institutions such as the Asian Development Bank (Handley 1988). In a move that suggests an attempt to diversify away from Japanese contractors, the Southern Seaboard Development Programme is being engineered with Japanese, Thai, and American participation (Bangkok Bank 1991). And the awarding of the most recent contracts for infrastructural improvements in Bangkok to firms based in Canada (the Lavellin Skytrain) and Hong Kong (the Hopewell Expressway Expansion) is also a political attempt to diversify away from Japanese sources of capital and technology (*Bangkok Post,* August 8, 1991, 1).

In the case of Indonesia, Japanese aid for the provision of infrastructure is equally important. But participation by Japanese contractors has been less significant, due to Indonesia's generally more nationalistic policy toward foreign participation in the economy. Until recently Japanese aid to Suharto has been intended to buttress the power of his dictatorship, thereby securing Japanese access to oil and investment in Indonesia. From 1988 to 1990 Indonesia received US$13 billion in aid—more than half from Japan. In the category of special assistance—quick disbursing, nontied aid—Japan has provided approximately 70 percent of late (Schwarz 1990). Soft loans from Japan's OECF have financed an estimated 31 percent of Indonesia's power-generating capacity, 11 percent of regional roads, 14 percent of railroads, and 46 percent of Jakarta's water supply ("Indonesia Shows Evidence" 1989). The OECF loans extended to Indonesia since 1968 have reached a cumulative commitment of approximately 1,300 billion yen, or about one-fifth of the total OECF loans granted to developing countries. This makes Indonesia by far the largest recipient of Japanese ODA. The OECF program has covered more than four hundred projects, over one hundred in the transportation sector alone. They include many arterial roads and tollways, rehabilitation of railway track, and improvement of both seaports and airports. Power generation ranks second, with eighty-five projects and a share of 29.5 percent of total OECF project loans ("Indonesia Shows Evidence" 1989). These have included numerous hydroelectric dam projects, some of which have drawn criticism from nongovernmental organizations. Loans for this year will also fund a feasibility study on a proposed nuclear power project in northern Java, awarded to a subsidiary of Kansai Power, the second largest Japanese power company, which is also expected to receive the contracts to build up to twelve plants in the future ("RI Picks Japanese Firm" 1991). Telecommunications, with forty-three projects, ranks third in the number of OECF-funded projects.

The Indonesians have not ventured as far as the Thais in attempting to privatize infrastructure development. Nor have they signed on to the New Aid Plan. But de facto they are following the objectives of the plan, through the loans that Suharto's government requests. The Indonesian government has placed infrastructure improvements at the top of the state's agenda because it is concerned that Indonesia's recent export success could founder without it. Many state-led industrial projects were not funded in FY 1992, in order to support government infrastructural development (Stone 1991). Moreover, since 1988 the government has opened the industrial estate sector to private investors, including foreigners through joint ventures. Two Japanese groups, Marubeni and Sumitomo, as well as South Korea's Hyundai, are currently completing the construction of industrial estates outside of Jakarta. The estates are an attempt to circumvent the slow-paced upgrading of the infrastructure presently provided by the government. They have already leased space to numerous Japanese companies. In addition to these privately owned estates, the Indonesian government, in the hopes of attracting foreign investors to the archipelago, has poured millions of dollars into the Batam Island Industrial Estate over the last several years. It hopes that the land, labor, and infrastructure supplied by the Indonesians, with the aid of Singaporean management and capital, will promote growth and greater regional integration within ASEAN in the Singaporean growth triangle (Batam Industrial Development Authority 1991).

The Indonesian construction market, unlike Thailand's is largely dominated by state corporations. Over 80 percent of the construction companies in Indonesia are owned by the government. This dominance leaves very little room for either private or foreign contractors in gaining market shares in Indonesia. With the exception of the change in industrial estate laws, it is difficult to assess whether the Indonesian market will open up in the future. The Indonesian government seems willing to improve its infrastructure with Japanese aid. But it is considerably more hesitant to give foreign contractors a sizable share of the contracts. One large industrial project near Jakarta, built by Japanese contractors and financed with yen loans, continues to be a source of contention between the two governments.[14] Nationalist backlashes thus have limited Japanese participation in the Indonesian construction market to under 0.5 percent. Approximately twenty Japanese companies are currently working in the Indonesian construction sector (Informasi: Pusat Data Business Indonesia 1991).

Furthermore, foreign contractors are upset with a new law that removes their eligibility for automatic joint venture status. Instead, the government now grants joint venture status to international contractors on a project-by-project

14. The Asahan Project, a US$2.7 billion complex that includes dams, power transmission, and a giant aluminum smelter exporting ingots to Japan, is 59 percent owned by Japanese interests and 41 percent owned by the Indonesian government. When the yen rose sharply in 1985, the government was unable to pay interest due on loans borrowed to build the plant and pay the contractors. Even after further loans were extended by Tokyo, the Indonesian government in 1988 for a period of five months discontinued exports of the ingots to Japan. See Wysocki (1991).

basis. Rules for buying imported construction equipment have been eased but still favor locally made equipment. Imported equipment, according to law, must be sold to either the government or Indonesian contractors when the project is completed ("New Engine of Growth" 1988). According to numerous private sector contractors in Indonesia, the government's insistence on control over infrastructure projects through state-led companies is a major factor impeding the improvement of Indonesia's infrastructure. They maintain that the state is unaware of the needs of industry and often fails to see the links between a sound infrastructure and continued industrial success.[15] The liberalization of other sectors of the Indonesian economy may eventually create pressure to broaden private participation in the construction sector. But for now the political reasons for holding onto the construction industry, often described as one of the government's cash cows, remain intact.

In the area of telecommunications both Thailand and Indonesia have taken steps toward allowing foreign firms to invest. In Thailand private sector operation of telecommunications has expanded enormously since 1988, largely as a result of demand surging far beyond the capabilities of the state-run operators (Westlake 1991). Full privatization of the two state-run communications agencies, the Telephone Authority of Thailand (TOT) and the Communications Authority of Thailand (CAT)—the latter with strong links to the military—has been rejected. But due to a severe shortage of telephone lines and Bangkok's traffic congestion, both have begun to grant concessions to local and foreign business for paging and cellular services. In this area Motorola, Ericsson, and NEC have been major joint partners in the provision of these services. In addition, British Telecom recently won a US$1 billion contract with Charoen Pokphand, its Thai partner, to set up and operate two million new telephone lines for twenty years. In this initiative a British MNE beat out both NEC and Fujitsu for the first major contract. The awarding of this contract to the British was widely interpreted as an attempt of the new military government to diversity investment away from Japan. Thailand already relies heavily upon Japanese telecommunication equipment suppliers (Handley 1990b). The TOT, for example, which handles domestic services, is heavily dependent on Japanese foreign borrowings for development projects and must wait for each year's foreign loan commitments before granting contracts to suppliers. The Japanese are also trying to entice Thailand through OECF loans into joining its Sigma Project, which began in 1989. This is a plan for working with Asian countries to develop a regional, automated software industry to help counter a growing labor shortage in Japan ("Automating Software" 1988).

As in Thailand, Indonesia's state-run telecommunication agencies, Perumtel (which handles domestic calls) and Indosat (which services external communi-

15. The most recent example of this perceived misunderstanding is the tabling of many urgent projects in Indonesia so that government contractors could participate in the reconstruction of Kuwait to earn foreign currency.

cations), have run into major infrastructural bottlenecks. As a consequence, the Indonesian government has stepped up annual spending on telecommunications to US$600 million ("Competing in Indonesia's Telecommunications Market" 1988). Japanese OECF money finances a large portion of this investment. Many of the orders for purchases of telecommunication equipment have gone to Japanese firms as well as their European and American competitors. As in Thailand, Japanese foreign aid has been linked to Japanese telecommunication suppliers. In Indonesia typically 60–65 percent of telecommunication equipment is obtained through local contractors working in cooperation with foreign vendors; the rest is produced through a state monopoly working in conjunction with Siemens (Hukill and Jussawalla 1989). The newly introduced mobile telephone service uses Motorola's Advanced Mobile Telephone System (AMPS), but the mobile phones are supplied equally by Motorola, NEC, JRC, and Ericsson. In January 1991 a major telephone contract to supply digital switching equipment for 350,000 lines was initially awarded to NEC. After intervention by U.S. President Bush and acrimonious debate alleging favoritism by all parties involved, the contract was doubled, allowing for participation by both NEC and AT&T. Significant infighting among the members of Suharto's family over the selection of Indonesian partners to work with these two MNEs also occurred. In the end two companies in the hands of Suharto's sons were chosen after both NEC and AT&T had offered generous finance packages. As in the case of the construction industry, compared to Thailand the Indonesians are keeping a tighter grip on the telecommunication industry. The large share of public ownership and the regime's internal security concerns explain this difference. Nevertheless, the Indonesian government realizes the extent to which poor telecommunications can handicap economic growth. And it has taken significant steps toward improving Indonesia's telecommunications.

6.4 Japan's Future Role in Asia and the Regional World Economy

Japan is at the center of a new Asian regionalism that is complementing rather than replacing the multilateralism that has evolved since 1945. This regionalism differs from Japan's Greater East Asia Co-prosperity Sphere in the 1930s and 1940s. What separates the new from the old regionalism is the difference between autarchy and direct rule on the one hand and interdependence and influence on the other.

Greater Asian regional cooperation appears to be an idea whose time has come—both in terms of the larger public debate and in terms of initiatives such as the New Aid Plan and the ASEAN free trade area. Enhanced regional cooperation is often invoked as a necessary response to the process of European integration as well as the Canada-U.S. Free Trade Agreement, soon to be joined by Mexico. The Asia Pacific Economic Cooperation Conference (APEC) held its first meeting in Canberra in December of 1989. And in 1992 the ASEAN states began to work toward the creation of a common free trade zone by early next century. Like the Asian Development Bank, APEC and the ASEAN initiatives are providing forums for the discussion of economic policy and thus may turn out to be useful for strengthening regional economic cooperation.

Japan's interests in fostering greater Asian cooperation and the responses by Indonesia and Thailand can serve as test cases for how questions of regionalism and multilateralism are being negotiated. If Japanese government and business actions, either intentionally or unintentionally, were fostering a shift away from multilateralism toward the emergence of a closed form of regionalism in Asia, this should be particularly evident in those Asian countries where Japanese trade, aid, and investment power are strong. While Thailand and Indonesia have both opened their economies to extensive economic relationships with Japan, both governments have viewed their involvement with Japanese business largely in multilateral terms. They have welcomed the investment capital, technology, and loans provided by the Japanese as a means of restructuring their own economies and of becoming more important and more diversified participants in the global trading system. Although Indonesia's trade and debt dependence on Japan has risen while Thailand's has decreased over the last decade, Indonesia's movement away from a reliance solely on oil exports—due in part to the investment by Japanese MNEs—bodes well for its attempts to diversify its trade patterns in the future. Oil and gas reserves also provide Indonesia with valuable leverage and access to a wide variety of markets.

Despite the advantages accruing to an open relationship with Japan, the sharp growth in Japanese influence and power in these and other Asian countries has created some unease about the political consequences of intensifying Asian economic relations for an emerging regional political economy.[16] With the total GNP of ASEAN amounting to less than 10 percent of Japan's GNP, a world of self-contained regions in the northern half of the globe would leave the ASEAN members highly dependent on Japan. In the view of Thai and Indonesian leaders as well as other Asian countries, only the United States can act as an indispensable counterweight to Japan's growing power.

This is perhaps one reason why there has, as of yet, been no substantive move toward an Asia-wide free trade agreement similar to those negotiated in North America and Europe. When in the wake of the suspension of the Uruguay Round of GATT negotiations in December 1990 Malaysia's Prime Minister Mahathir proposed that Asian nations form a regional trading bloc that would exclude North America, his suggestion was promptly dismissed by the Japanese government and others within the region (Sanger 1991a). At the ASEAN ministerial meeting in July 1991, Mahathir's continuing attempts to promote his East Asian economic group sparked interest among the ASEAN

16. Rumor has it that the best way for ASEAN academics to get a free trip to Japan these days is to write an article critical of Japan.

partners only when the proposal was watered down by referring to it merely as a "consultative forum." Despite the growth of economic regionalism in Asia, few Asian nations—most notably the Japanese—want to upset their relationship with North America and Europe, on whom they depend so heavily for trade and investment. Asian nations still export well over a third of their products to the North American market. And Asian trade is significantly less interdependent than trade within the European Community. The chapters in this volume written by Frankel, Ito, Petri, and Saxonhouse all reinforce this conclusion. Furthermore, while expanding rapidly during the last few years, Japanese investment to other Asian nations still lags significantly behind Japanese investment in Europe and, especially, North America. To date, the desire to maintain open lines to the United States and Europe is not yet incompatible with a stepped-up economic and increasingly political role for the Japanese in Asia, particularly among the ASEAN nations.

With the American navy firmly committed to retaining a strong position in Asia and with the consolidation of U.S.-Japanese security arrangements in the 1980s, the United States is likely to remain an Asian power. Furthermore, since virtually all Asian countries, including Thailand and Indonesia, run a substantial trade deficit with Japan and a large surplus with the United States, the United States is essential for regional economic integration in Asia. An Asia that includes the United States has several virtues. It can diffuse the economic and political dependencies of the smaller Asian states away from Japan. And it can provide Japan with the national security that makes unnecessary a major arms buildup and the hostile political reaction it would engender among Japan's neighbors.

The case studies of Thai and Indonesian responses to Japanese interests suggest that Asia is not heading toward a Japanese-led autarchic order. Japanese efforts to improve infrastructure under the aegis of the New Aid Plan have encountered major political obstacles in both Thailand and Indonesia. Furthermore, where infrastructure has been built, it is serving to strengthen not only Japanese capital, but domestic, East Asian, and U.S. capital as well.

In addition to the numerous difficulties encountered with the New Aid Plan in Indonesia and Thailand, Japan's increasing power is limited in two further ways. First, the structure of Japanese politics makes the articulation of a clear-cut view of Japan's role in global politics much less compelling than the creation of points of political leverage to counter Japan's numerous vulnerabilities. The criticisms levied against Japan in the wake of the Gulf War and anticipation of the substantial political changes that the end of the Cold War might bring about in Asia are providing a strong impetus for Japan's political leadership to remedy that shortcoming. International crises during the interwar years and the experience of World War II jolted the United States out of its isolationist stance. Crises of similar magnitude may do the same for Japan. But short of cataclysmic changes, Japan's leaders are likely to experience great difficulties in countering the political habit of redefining Japanese interests flexibly and of creating structures that reduce Japan's vulnerability by enhancing the vulnerabilities of others. The investment strategy of Japanese corporations, coupled with their technological dynamism, is very likely to drive political developments in the future, rather than the articulation and implementation of a political vision for Japan's future global role.

Second, political constraints, both domestic and international, militate against a dramatic rise in Japan's military power. Some shrill voices (magnified by American publishers with a good instinct for what it takes to sell books in Tokyo) talk of "the coming war with Japan" (Friedman and Lebard 1991). But hardly anyone in Asia or the United States takes such talk seriously at this time. Public sentiment among Japanese citizens and among the leaders of Japan's neighboring countries will continue to provide a check on the resurgence of the Japanese military.[17] The real change since the late 1970s, however, is rather a gradual Japanese military buildup that is creating technological options for a national strategy that did not exist ten or twenty years ago. But as long as Japan is not developing interballistic missiles, stealth technologies, and offensive, conventional military power in Asia on a large scale, we can be reasonably certain that Japan will operate within the political limits that it has imposed on its exercise of military power since 1945. This is hardly a surprise. Japanese policymakers define national security in comprehensive terms, to include economic, social, and political issues besides military considerations (Langdon 1976; Kurth 1990). They are thus much more attuned to finding an appropriate political role for Japan rather than to seeking to develop national military options in a world marked by decreasing international tensions. Playing a central, perhaps the central, role in an Asia that is defined broadly to encompass also the United States is a far more urgent and appealing task.

Japan's approach to international partners expresses a vision of national security rooted in political harmony, economic prosperity, and social stability rather than military preeminence. This vision is grounded in a notion of economic partnerships constituting an international society of states. According to this view, what holds the world together is not common norms that tie different nations together in common endeavors. Instead the world is governed by interests. International cooperation is made possible by the flexibility of redefining short-term interest into long-term interests. This ability to redefine interests presupposes a willingness to extend the notion of "self" to incorporate at least some relevant portions of the "other," so that the expectation of an ongoing interest-based relationship is met (Hamaguchi 1985). In the 1990s Japan is likely to extend and deepen its traditional approach to its international partners

17. The abortive attempt by the Japanese government to send a peace support group to the Persian Gulf and Japan's refusal to participate in joint military exercises with Thailand at the request of Thai Prime Minister Chatchai Chunhavan are just two of the more recent examples of the power of such sentiment (see Simon 1991, 672). See Haber (1990) for a trenchant discussion of how the power of both China and India will severely curtail any foreseeable Japanese military expansion in Asia.

in Asia. And it may choose to invest in global institutions and policies to help Japan play a larger role in Asia. Asian regionalism is likely to retain strong multilateral and global colors.

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Comment Wing Thye Woo

This is an excellent paper. I agree with its conclusion that the bilateral relationship between Japan and its Asian neighbors will be embedded in a set of multilateral regional and global arrangements that will also include the United States. East and Southeast Asia is definitely not heading toward a Japanese-led autarchic regional order. Japan will not become the regional hegemon because (1) it does not want to do so presently; and (2) most of its Asian neighbors do not want to develop the kind of close bilateral relationship that would allow it to do so.

There are at least two important reasons not mentioned by Peter Katzenstein and Martin Rouse about why Japan does not want to be the regional hegemon. The first is that Japan approximates a country of peaceniks. Skeptics of this claim need only recall the domestic outcry when the prime minister wanted to send a Japanese noncombatant contingent to the Iraq conflict.

The second reason is that the benefits of being the regional hegemon are

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exceeded by the costs of antagonizing the United States and Western Europe. The U.S. and Western European markets are far bigger than the Southeast Asian markets. This fact explains Japan's quick disassociation from the proposal by the Malaysian prime minister to form an exclusively East Asian trading community.

On the other side, there are two major reasons why Japan's neighbors do not want it to be the regional hegemon. The first is that they recognize the benefits of having multiple patrons. The strategy of playing one power against another during the Cold War is a proven winner.

The second reason, which was hinted at by Katzenstein and Rouse but was not developed, is that memories of World War II have created an atmosphere of suspicion toward Japan by its neighbors. These suspicions in the case of China verge on animosity. This is why Hirohito was never invited to China even though he had hinted many times to visiting Chinese officials that he would like to walk on the Great Wall. The Chinese reaction, according to the Beijing grapevine, was that this is exactly what the Great Wall is for—to keep out people like this.

To see how widespread the suspicions about Japan are, we should recall what happened in 1974 when Tanaka visited Southeast Asia. His visit was marred by big riots in Bangkok, Jakarta, and Manila. These riots occurred for domestic reasons, but Japan bashing provided an acceptable excuse to riot. These acts of patriotism were actually shows of defiance to the domestic dictators (Marcos in the Philippines, Soeharto in Indonesia, and Thanom Kittikachorn in Thailand).

The interesting question is why internal dissent was able to masquerade as patriotic acts. The answer is that the governing elite in 1974 in these three countries had in their youth been traumatized by the extreme brutality with which Japan rampaged through Southeast Asia during World War II. For example, General Yamashita earned the title of the Tiger of Malaya when he systematically shot all the people that had anything to do with the propagation of Chinese language or Chinese culture. (Yamashita was later transferred to the Philippines, where he ordered the Bataan Death March.)

Memories of acts like this explain why Lee Kuan Yew (with the implicit agreement of Malaysia and Indonesia) has offered military facilities in Singapore to the United States to replace its loss of the Subic Bay naval facility. This action came from Lee Kuan Yew's and Soeharto's recognition that Japan would immediately rearm if there were any threats to oil tankers traveling through Southeast Asian waters. Both leaders preferred U.S. warships rather than Japanese warships to do the patrolling.

Lee Kuan Yew and Soeharto are just fearful of Japan rearming if it were to become the regional hegemon. To paraphrase Lee Kuan Yew, the Japanese have an obsession with perfection—nothing but the best. The idea of a second-rate military force that is poorly armed just goes against the national grain. A rearmed Japan will be a nuclear Japan, and this, in Lee Kuan Yew's words, "is like giving chocolate liqueur to an alcoholic." Both Lee Kuan Yew and Soeharto want America to have continued strong economic interests in Southeast Asia in the hope of producing the following division of labor: America to continue the management of regional security, and Japan to develop high-definition television to perfection.

So far, I have developed the case that an important impediment to Japan's becoming the regional hegemon is painful historical memories about Japan. The question now is whether this impediment can be removed to speed up the progress of Asian-Japanese bilateral relationships. The answer to this question is the same as the answer Paul Samuelson gave when he was asked how progress is made in economics: progress is always made funeral by funeral.

The other Asians' suspicion of Japan will naturally fade out over time. To give an example, the Japanese embassy in Jakarta, in preparation for the emperor's visit, invited a group of prominent Indonesians for individual conversations. The question the Japanese embassy asked of their guests was whether the emperor should apologize for the World War II atrocities. The responses by the Indonesians coincided very nicely with their age group.

Those above fifty years old gave James Joycean answers: "Apologize, apologize or the eagles will pull out your eyes." Those under fifty years old felt that an apology was not necessary if the emperor would announce a big increase in development aid.

I maintain that the Japanese awareness of this historical memory variable plays a large part in formulating the basic Japanese vision of "national security rooted in political harmony, economic prosperity, and social stability" (section 6.4) rather than in political hegemony.

This excellent paper is unfortunately blemished in several places by poor use of economic theory and an overly suspicious tone. The most prominent examples of faulty theory follow.

In section 6.2.2, the authors attribute the import-substitution industrialization programs of the 1960s to the absence of "private international credit." I do not see the economic reason for this claim. Taiwan hardly borrowed in the 1960s, yet its industrialization program was export-oriented rather than import-substitution-oriented. "The fact that access to international capital could be obtained only through multinational enterprises (MNEs)" does not dictate that industrialization will be import-substituting. The MNEs will come to exploit whatever profit opportunities the government creates. They came in the 1960s when tariffs made it profitable to produce for the domestic markets, and they came in the 1980s when export-promoting policies (actually, industrial deregulation) made it profitable to use these countries as manufacturing bases. Since the authors are well aware of the latter too (see section 6.2.2), I am puzzled by their claim of a link between imperfect credit markets and import-substitution industrialization.

The authors write that in the aftermath of the second oil shock, "the Thai government was pressured by the World Bank and the International Monetary

Fund (IMF) to initiate austerity measures." Shouldn't it be "advised" rather than "pressured"? Why do the authors wish to imply that the IMF's action was detrimental to Thailand's welfare? The only choices the Thai government had were either take the IMF loans and implement the austerity programs, or forgo the IMF loans and still implement the austerity programs. The authors surely cannot be saying that the second choice would have been better than the first.

In section 6.3 the authors conclude from the "lack of coordination arising from Chatchai's rapid privatization of infrastructure, without any government planning and regulation, . . . that the market may not be the best system for upgrading infrastructure." But then, the authors had just noted that in the pre-Chatichai period there had "been major problems with many of the projects . . . , due largely to a lack of coordination among the various road and mass transit projects as well as interministerial conflicts." Since the authors make no claim that the Chatchai period was more chaotic, the only permissible conclusion from both observations is that neither market coordination nor bureaucratic coordination works.

I find the authors too quick to sound suspicious about Japanese investment and infrastructure aid in the following cases.

"But Indonesia's ability to get its economy back on track [since 1983] has come at the price of increased dependence on foreign investment, particularly Japanese" (section 6.2.2). I do not see the negative aspects suggested by the word *price,* because the final outcome was mutually advantageous, as the authors observe in the final sentence of the same paragraph. They also noted earlier that "Japan's increasing economic involvement in the region has been encouraged by almost all governments in Southeast Asia" (section 6.1).

I do not follow how documentation of growing Japanese investment in Thailand and Indonesia could have led to the conclusion that "Japan has indeed been acting as a regional economic hegemon" (section 6.2.2). Up to that point, the authors have presented no examples of how Japan has used its investments to influence public policies in these countries. Being a hegemon is more than simply being the biggest foreign investor. The hegemon conclusion should have been drawn only after the section on infrastructure investment, and even then would still be debatable.

The authors emphasize that the Japanese have not been truly altruistic because "loans for the alleviation of rural poverty . . . are infrequent" (section 6.3). Let us ask ourselves, Has the Japanese (and other foreign donors' and investors') way of getting the Indonesian economy back on track since 1983 been either bad or negligible for Indonesian welfare, particularly for rural poverty? The evidence is a resounding no. The Japanese and other foreigners in the pursuit of their self-interests have created a more export-oriented economy that, throughout the period of structural adjustment, has caused the poverty rate to fall, raised the real wages of rural and urban workers, and increased the caloric intake of the poorest 40 percent of the population.

Let me conclude with what I see to be the biggest flaw in this paper. It is quite remarkable that the possibility of Japan's becoming the hegemon of East Asia was analyzed without any reference to the other East Asian giant, China. Obviously, depending on economic growth in China, Japan may not want to assert itself as the regional hegemon. Moreover, Japan may not be able to assume that role even if it desires to. The recent establishment of diplomatic relations between China and South Korea (or equivalently, the jettisoning of North Korea by China and Taiwan by South Korea) reveals well the moves that are afoot by Japan's neighbors to prevent Japan from assuming such a position. There can be no autarchic regional order without the consent of China, least of all a Japanese-led one.

The authors' neglect of China led to two misstatements in the paper. The first is the claim that "it is difficult to envision a counterweight to Japanese power in Asia" (section 6.1). The second misstatement is the claim that the most important factor behind the decline in Japanese investment (and foreign investment, in general) in Thailand and Indonesia since 1990 is the inadequacy of their infrastructure. At least as important is that Japanese, Taiwanese, and Korean investments have been pouring into the lower-wage alternative, China, instead. President Bush's repeated vetoes of congressional efforts to remove China's most-favored-nation status has restored confidence in China as a suitable manufacturing base.