

# The Japanese launch an Asian development offensive

by Sophie Tanapura

The nation of Japan is faced with a U.S. ally bent on committing economic suicide, and insisting that the Japanese also commit *hara-kiri* to support the American "recovery." But Japan is following a different path, turning to Southeast Asia to open up new markets for its exports, building up the economies of Asia, to thereby preserve and advance Japan.

Japan's refusal to accept U.S. Agriculture Secretary Richard Lyng's and Special Trade Representative, the Trilateral Mr. Clayton Yeutter's, demands that it eliminate rice subsidies is a case in point.

A comparison of the agriculture sector in Japan (Table 1), by far the most efficient in Asia, with other nations in the region reveals the capital-intensive method that Japan has used to develop rice self-sufficiency. This is what Lyng and Yeutter would destroy.

Whereas the U.S. approach to its Japanese ally is based on the premise that, "to be fair," Japan must drag its own economy down to the same miserable levels the "post-industrial" United States has fallen to, Japan's approach to its neighbors is based on the premise that, to continue Japan's economic development, Japan must help its neighbors to develop.

## A threat to the World Bank

The Japanese have announced a foreign assistance program that is, accordingly, the exact opposite of the approach taken by the World Bank and the International Monetary Fund. Whereas the World Bank and IMF typically demand cancellation of development projects as a condition for loans—loans which are tantamount to debt rollovers and, thus, pure usury—Japan has proposed that the member-countries of the Association of Southeast Asian Nations (ASEAN: Indonesia, Thailand, Philippines, Malaysia, Singapore, and Brunei) identify specific development projects they want undertaken in their countries. In return for specification of such development projects, the projects would be potential recipients of credits from an emergency fund of as much as \$30 billion established by Japan. Japan has promoted the idea as a productive way to recycle its balance of trade surplus, to the benefit of the entire developing sector.

This program was first made official at an ASEAN conference in June in Singapore. In late June, Ambassador Kiuchi called on Thailand, a major recipient of Japanese financing in the past, to act on the program: "I would like Thailand to be able to come up with really concrete projects to make use of this surplus fund, or else it would be a great pity that this country couldn't take advantage of the recycling of Japan's surplus fund."

For years, Japan has been in process of taking over credit extension in East and Southeast Asia from the World Bank, the U.S. Agency for International Development (AID), and the Asian Development Bank (ADB). Contrary to the World Bank, Japan's Overseas Economic Cooperation Fund (OECF), established in 1961, has not demanded that aid recipients devalue their currency, eliminate subsidies, or reduce capital-goods expenditures in order to receive credit. In recent years, according to a study by *Bangkok Post* reporter Boonsong Kositchothana, the OECF has provided about half as much in loans for the region as the World Bank. In 1984, for example, the Japanese extended \$1.6 billion to East and Southeast Asian nations, compared to the World Bank's \$3.3 billion.

Excluding the most recent \$30 billion special fund Japan has proposed, referred to by some as a new Marshall Plan, Japan plans to lend \$40 billion through its Official Development Assistance program, the conduit for OECF money, by 1992.

Asian nations will receive 77% of these credits. The softest loans extended by the OECF charge 1.25% interest, with a 30-year repayment schedule and a 10-year grace period. The most stringent loans carry a 5.75% interest, a 15-year repayment period, and a 5-year grace period. Thailand currently pays 3.5% and is negotiating with Japan to reduce that for a major fertilizer project.

By comparison, the World Bank charges 8.5-9%. The poorest nations, however, do have access to 0.75% interest, but with draconian conditionalities that have led to riots and threatened coups in many parts of the world. Because of the arbitrary classification policy of the World Bank, many countries in Asia have been elevated above the "poorest" nation

TABLE 1

### Inventory per 100 hectares of arable land in selected Asian countries

	Pumps	Power tiller	4-wheel tractor	Sprayer	Hand thresher	Power thresher	Reaper	Corn sheller
Japan	—	50.4	26.9	—	—	55.5	29.6	16.2
Taiwan	19.3	7.3	0.3	334.4	17.9	6.6	0.6	1
Korea	9	11.4	0.1	41.3	13.2	9.7	0.6	0.02
Philippines	1.1	0.9	0.3	3.8	0.03	0.16	—	—
Thailand	2	1.4	0.3	5.9	—	0.03	—	—
Indonesia	0.03	0.02	0.01	2.1	0.01	0.009	—	—

Source: *The Growth and Impact of Small Farm Mechanization in Asia*, by K. Adulavidhaya and B. Duff.

status, and therefore, are not entitled to the lower interest rates.

### Will Thailand act?

Thailand is currently the second largest recipient of OECF loans after Indonesia. From 1966 to March 1986, Thailand received 528 billion yen or 9% of global OECF lending. Over the same period Indonesia received 21.2% of worldwide lending.

The Japanese Ambassador to Thailand, Mr. Akitane Kiuchi, in a May interview with Thai media, was asked about the long-delayed plan to establish a national fertilizer industry in Thailand, 70% of whose population lives by labor-intensive agriculture:

“Personally, I believe that a fertilizer plant is very necessary for Thailand. This is because you are a big country. In 10 years’ time, your population will be more than 65 million, if not 70 million. It would be no use to promote agriculture in arid land such as the Sahara. But here, you have plenty of water and sun, and your farmers are very competent. You already have all the resources to turn Thailand into a major agricultural nation. Agro-industry has started off well here. If you want to boost agricultural productivity, it’s not by expanding the arable land. There are limitations. One option is a better control system on the use of water, and the other is fertilizer.

“You must think about the future—Thailand will be the center geographically to assist the region in agriculture.

“By that time, if Thailand doesn’t have a single fertilizer plant, that would be very strange and unfortunate. The fertilizer project here was conceived in 1981 and decided upon in 1982. This has taken five to six years. And don’t forget that it may take 10 years before you really have the plant. Don’t forget that oil prices have also been on the rise. It was only \$8 per barrel about six months ago. Today, it has hit nearly \$19 per barrel in New York. It may not rise much higher, but in a few years, it could go up to \$25. So, if you leave your agriculture totally dependent on outside factors, you wouldn’t be in a position to really promote agriculture.

“This is again my personal view, but the government must help. No private company can deal with farmers. When farming business has to be dealt with, the state must come in. I don’t care if the money comes from the United States or West Germany or Japan, but I do sincerely believe that Thailand should have a fertilizer plant of its own. This is for the sake of the national interest.”

Unfortunately, lack of decisiveness in the fertilizer project has been typical of Thai Prime Minister Prem’s administration. Likewise, despite recommendations by the Electricity Generating Authority of Thailand (EGAT), the construction of the Nam Choan Dam has been indefinitely postponed since its initial planning in 1981.

The World Bank had originally been involved in financing the dam, but then pulled out when the World Wildlife Fund launched an opposition campaign. Now, only Japan is left as a major outside source of financing.

### Common Market for ASEAN?

These Japanese development initiatives could not be more timely, for at the same time, a debate has broken out among ASEAN members as to whether or not some form of Common Market should be instituted. Although at this point, there is a tremendous amount of trepidation, especially on the part of Indonesia, in forming such an economic security pact, bilateral trade among ASEAN nations, in particular, barter deals, will increase as individual nations are able to diversify out of raw materials-oriented production. This is precisely the point of Japanese intervention, to nurture the development of the skilled and semi-skilled workforce and manufacturing infrastructure necessary for ASEAN to break out of the “Third World.”

The paradox faced by such nations as Thailand is epitomized by the current debate as to whether the country should extend the mandatory years of education from grade six to grade nine. The problem of peasant families who depend upon their children to work their plot of land is very real. A fertilizer industry and labor-saving devices of the sort employed in Japanese agriculture, are the proper subject for

ASEAN-Japanese cooperation. Indeed, Japanese businesses which have begun to relocate in Thailand to escape high costs in Japan due to the overvalued yen and to take advantage of cheap Thai labor, are confronted with the same problem. There is simply not a sufficient proportion of the population with the necessary education and skills (only 1% of the Thai population have a university education and only 5% have finished high school) to provide the manpower to meet the needs of a manufacturing nation.

Compare Thai expenditures for education to debt service. In 1982, debt service appropriations were 18.5% of government revenues; today it is 30.3%. In this fiscal year, only 18.1% of total expenditures have been allocated for education. In relative terms, this is less than in 1986 and 1985.

The most recent Japanese industries to relocate to Thailand provide the best possible opportunities for transforming the workforce. For example, Nippon Steel, the world's largest, will establish a production base in Thailand in partnership with Italthai, Thailand's biggest construction group. The new company will produce oil and gas-drilling and production platforms for domestic use and export. It will also manufacture steel structures for high-rise buildings, bridges, and pressure vessels. With the support of Italthai, which has secured many of the construction contracts in Thailand, the new company will have a substantial impact on the domestic economy.

When this reporter suggested to Ambassador Kiuchi the construction of the Kra Canal through the southern isthmus of Thailand as the kind of concrete proposal Japan was requesting from ASEAN members for the \$30 billion fund, he insisted that there was too much controversy over the project. There is no doubt that Japan is waiting to see more active interest by the Thai government before they promote the project themselves. However, since Japan has become a partner with the United States in the SDI, they certainly are not too concerned about "controversy."

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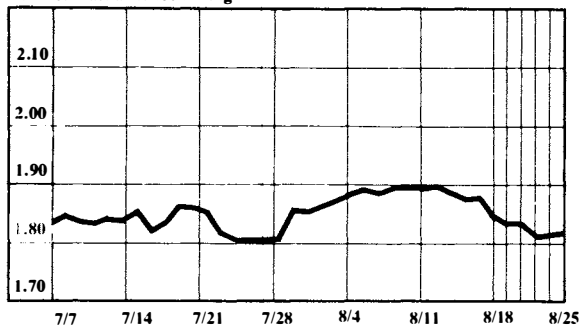
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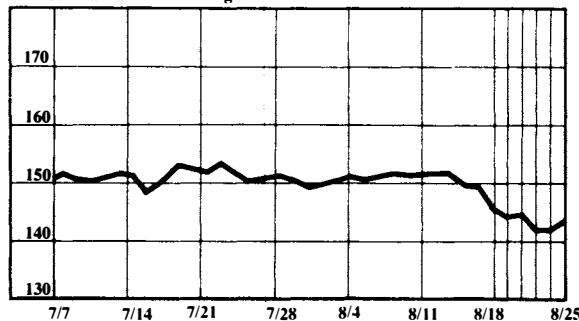
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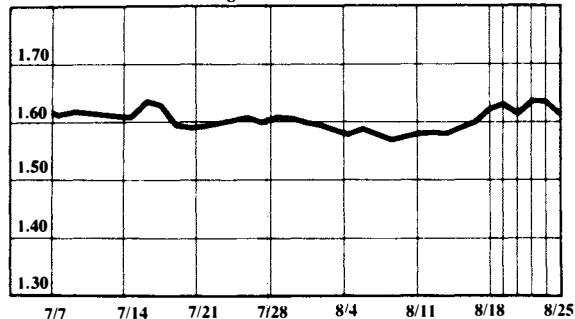
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